東風汽車集團股份有限公司

# DONGFENG MOTOR GROUP COMPANY LIMITED*

Stock Code: 489

# 2012 ANNUAL REPORT

*For reference only

Dongfeng Motor Group Company Limited
2012 Annual Report

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# Corporate Profile

Second Automotive Works (第二汽車製造廠), the predecessor of Dongfeng Motor Corporation and the parent of the Company, was established in September 1969.

In 2000, Dongfeng Motor Corporation underwent a debt restructuring arrangement, with China Huarong Asset Management Corporation, China Cinda Asset Management Corporation, China Orient Asset Management Corporation, China Great Wall Asset Management Corporation and China Development Bank to jointly form the Company. The Company was incorporated on 18 May 2001.

In 2004, the Company was transformed into a joint stock limited company after repurchasing all equity interests held by shareholders other than Dongfeng Motor Corporation.

The Company initially issued H shares overseas on 6 December 2005 and completed an over-allotment on 13 December 2005. As a result, the aggregate share capital of the Company was enlarged to RMB8,616,120,000, which comprised domestic shares and H shares of RMB5,760,388,000 (approximately 66.86%) and RMB2,855,732,000 (approximately 33.14%), respectively.

As at 31 December 2012, the Company has 16 major subsidiaries, jointly-controlled entities and other companies in which the Company has direct equity interests, all of which constitute the Dongfeng Motor Group. Dongfeng Motor Group is primarily engaged in the manufacture and sale of commercial vehicles, passenger vehicles and auto engines and parts, the manufacture of vehicle manufacturing equipment, finance businesses as well as other automotive related businesses.

On 16 January 2013, the Company established a wholly owned subsidiary, Dongfeng Commercial Vehicles Co., Ltd. On 26 January 2013, the Company entered into an agreement with the relevant parties to acquire the commercial vehicles and other businesses of Dongfeng Motor Co., Ltd. and established a joint venture with AB Volvo through Dongfeng Commercial Vehicles Co., Ltd.

In 2012, the Dongfeng Motor Group commanded a market share of approximately 11.2% in terms of the total sales volume of domestic commercial and passenger vehicle manufacturers in the PRC, according to the statistics published by the China Association of Automobile Manufacturers.

# Chairman's Statement

## Dear Shareholders,

On behalf of the Board of Directors, I hereby present the annual report of the Company for 2012 for your review.

The general PRC auto industry was under a slow growth in 2012. Approximately 19,306,400 vehicles were sold by domestic automobile manufacturers, representing an increase of approximately 4.3% over last year. Sales volume of passenger vehicles and commercial vehicles were approximately 15,495,200 units and 3,811,200 units respectively, representing an increase of approximately 7.1% and a decrease of approximately 5.5% over last year.

In 2012, the auto market in China had the following significant changes. Firstly, passenger vehicles and commercial vehicles had completely different market characteristics. Sales of general passenger vehicles other than mini vans (including sedans, SUVs and MPVs) grew by approximately 7.5% as compared to last year. Due to their general use, the demand of passenger vehicles is less elastic than that of the commercial vehicles. Secondly, the performance of different segments in the passenger vehicle market varied significantly. Sales of SUV and sedan grew by approximately 25.5% and 5.1% respectively. The passenger vehicle market has become mature with very diversified products to meet different demands of customers. Thirdly, the commercial vehicle market remained sluggish as in 2011 due to the unfavourable economic conditions. Lastly, due to the row between China and Japan over Diaoyu Islands broke out in mid September, sales of Japanese-brand passenger vehicles and the auto market as a whole were severely affected.

Aggregate number of vehicles sold by Dongfeng Motor Group in 2012 was approximately 2,155,400 units, representing a decrease of approximately 0.8% over last year. Sales volume of passenger vehicles and commercial vehicles were approximately 1,740,700 units and 414,800 units, representing an increase of approximately 5.7% and a decrease of approximately 21.2% respectively. Dongfeng Motor Group recorded a lower sales growth than the industry average, which was mainly due to (1) the growth in sales for the previous years were exceptionally higher than market average, which limited the significance of growth in the year in terms of percentage; (2) the commercial vehicle market was affected by the prolonged economic downturn and Dongfeng was no exception as its commercial vehicles were mainly used for logistics; and (3) sales of Dongfeng Nissan and Dongfeng Honda fell below the sales targets as sales in Japanese-brand passenger vehicles significantly decreased as a whole since mid-September.

In 2012, the Group's sales revenue was approximately RMB124,036 million, representing a decrease of approximately 5.6% over the last year. The sales revenues of passenger vehicles and commercial vehicles were approximately RMB96,042 million and RMB26,831 million, representing an increase of approximately 1.2% and a decrease of approximately 24.4% respectively. Profit attributable to shareholders of the Company was approximately RMB9,092 million, which was approximately 13.3% lower than that of last year.

# Chairman's Statement

In 2012, despite the challenging business environment, Dongfeng Motor Group actively responded to risks and challenges to ensure smooth implementation of its business strategy. The Group focused on management, product development, brand building, sales network optimization and quality and cost control. On the other hand, Dongfeng Motor Group endeavoured to overcome the difficulties and challenges brought by the Diaoyu Islands dispute. The Group strengthened internal management and control, promptly adjusted production systems, reinforced the coordination between upstream and downstream industries and adjusted marketing strategies. Basically, the supply chain system and sales network were secure and stable, which paved the way for subsequent recovery of the market.

The PRC auto industry, in particular passenger vehicle market, has entered to a new development stage. The growth in general consumption market provided momentum and tremendous room for improvement. Along with the market expansion, different market segments will develop and result in keen competition and more uncertainties. Dongfeng Motor Group will proactively respond to business opportunities and challenges by speeding up transformation and strengthening in-house capacity. It will further enhance the cooperation of joint venture in order to facilitate and expand the development of joint venture business. The Group will pursue its overseas expansion strategies by strengthening its overseas business.

Looking forward, the PRC auto industry will maintain a steady growth and uncertainty in Japanese-brand vehicles will remain in 2013. Dongfeng Motor Group will enhance consciousness of the complicated market trend and implemented various measures to improve risk management. Being market and results-oriented, the Company will implement more flexible and practical marketing policies to foster the overall turnover and growth of product sales and financial results, laying a solid foundation for the long-term development of the Group and sustainable shareholders' return of the Group.

**Xu Ping**
*Chairman*

27 March 2013

# 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, mini trucks and buses, and commercial vehicles engines, auto parts and vehicle manufacturing equipment of commercial vehicles) and passenger vehicles (sedans, MPVs, SUVs and passenger vehicles 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 secured a leading position in the PRC commercial vehicle industry for many years. As at the end of 2012, the Dongfeng Motor Group's commercial vehicle business is principally operated by Dongfeng Motor Co., Ltd., the joint venture between the Company and Nissan Motor Co. Ltd. (through Nissan (China) Investment Co., Ltd.). On 16 January 2013, the Company established a wholly-owned subsidiary, Dongfeng Commercial Vehicles Co., Ltd. According to the agreement signed on 26 January 2013, the Company and Dongfeng Commercial Vehicles Co., Ltd. will acquire businesses, including heavy and medium duty truck business, from Dongfeng Motor Co., Ltd, and the Company and AB Volvo established a joint venture through Dongfeng Commercial Vehicles Co., Ltd.

The Dongfeng Motor Group's passenger vehicle business is principally operated by the Company (through Dongfeng Passenger Vehicle Company) and the following Dongfeng Joint Venture Companies: Dongfeng Motor Co., Ltd., Dongfeng Peugeot Citroen Automobile Company Ltd. (the joint venture between the Company and the PSA Peugeot Citroen), 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 Citroen Automobile 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 new energy vehicle business, which is principally operated by Dongfeng Passenger Vehicles Company, Dongfeng Electric Vehicle Co., Ltd. and Dongfeng Motor Co., Ltd.

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

The Dongfeng Motor Group's 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.), Dongfeng Motor Finance Co., Ltd. (the joint venture company between the Company and Dongfeng Motor Co., Ltd., and will be wholly owned by the Company upon its acquisition of the entire equity interests held by Dongfeng Motor Co., Ltd. pursuant to an agreement entered into on 26 January 2013) and Dongfeng Peugeot Citroen Auto Finance Co., Ltd. (the joint venture company between PSA Finance Netherlands (PFN), Dongfeng Peugeot Citroen Automobile Company Ltd. and the Company).

## 1. Commercial vehicles

As at 31 December 2012, the members of the Dongfeng Motor Group produced 41 series of commercial vehicles in aggregate, including 34 series of trucks and 7 series of buses. The commercial vehicles of the Dongfeng Motor Group are mainly manufactured by Dongfeng Motor Co., Ltd. The commercial vehicles manufactured by the Dongfeng Motor Group are sold mainly through four major sales and after-sales 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., 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 stamping parts) and chassis (mainly comprised of axles, car frames and chassis parts), electronic components and other parts.

## 2. Passenger vehicles

As at 31 December 2012, the members of the Dongfeng Motor Group produced 41 series of passenger vehicles in aggregate, including 28 series of sedan, 6 series of MPV and 7 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are sold through eight independently managed sales and the after-sales service networks throughout the PRC. Each of these networks provides sales and after-sales services for one brand of passenger vehicles and is managed by the relevant joint venture of Dongfeng or the Company.

The passenger vehicle engines manufactured by Dongfeng Motor Co., Ltd., Dongfeng Peugeot Citroen 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 stamping 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 production 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. In addition to the above businesses, the Dongfeng Motor Group is also engaged in the import/export of vehicles and equipment, finance, insurance agency and used car trading businesses.

## II Business Operations during the Reporting Period

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

For the year ended 31 December 2012, the production and sales volumes for whole vehicles of the Dongfeng Motor Group were 2,144,163 units and 2,155,445 units respectively. According to the statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group had a market share of approximately 11.2% in terms of sales volume of commercial and passenger vehicles made by domestic manufacturers in 2012. 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 2012:

| | No. of units produced (units) | No. of units sold (units) | Market share in terms of sales volume (%)[1] |
|---|---|---|---|
| Commercial Vehicles | 403,402 | 414,754 | 10.9 |
| Trucks | 358,439 | 369,560 | 11.2 |
| Buses | 44,963 | 45,194 | 8.9 |
| Passenger Vehicles | 1,740,761 | 1,740,691 | 11.2 |
| Basic passenger cars | 1,245,515 | 1,248,678 | 11.6 |
| MPVs | 191,788 | 186,199 | 37.7 |
| SUVs | 301,331 | 304,622 | 15.2 |
| Cross type | 2,127 | 1,192 | 0.5 |
| Total | 2,144,163 | 2,155,445 | 11.2 |

1. Calculated based on the statistics published by the China Association of Automobile Manufacturers

## 2. Market ranking of the Dongfeng Motor Group's major segments in domestic market in 2012

| | No. of units sold by Dongfeng Motor Group (units) | Ranking in Domestic market[2] |
|---|---|---|
| Heavy trucks | 126,342 | 1 |
| Medium trucks | 58,118 | 1 |
| Light trucks | 171,620 | 3 |
| Basic passenger cars | 1,248,678 | 3 |
| MPVs | 186,199 | 1 |
| SUVs | 304,622 | 1 |

2. Calculated based on the statistics of each manufacturer group published by the China Association of Automobile Manufacturers

## 3. Sales revenue

As of 31 December 2012, the sales revenue of the Group was approximately RMB124,036 million.

| Business | Sales revenue (RMB millions) | Contribution to the Group's sales revenue (%) |
|---|---|---|
| Commercial vehicles | 26,831 | 21.6 |
| Passenger vehicles | 96,042 | 77.4 |
| Others | 1,163 | 1.0 |
| Total | 124,036 | 100 |

## III. Sales and Service Networks

As at the end of 2012, the sales and after-sales services of motor vehicles of the Dongfeng Motor Group are provided through sales and service networks under 12 brands in China. Each of these 12 sales and service networks provides sales and after-sales services of vehicles of a particular whole vehicle manufacturing unit and is independently managed by the relevant whole vehicle manufacturing unit, 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. (Dongfeng Commercial Vehicles Company) | Dongfeng (heavy and medium truck) | 663 | 2,397 | 31 |
| Dongfeng Liuzhou Motor Co., Ltd. | Chenglong (heavy and medium truck) | 320 | 700 | 30 |
| Dongfeng Automobile Co., Ltd. | Dongfeng (high-end light truck, light truck,mini truck, pickup) | 2,342 | 2,589 | 31 |
| Dongfeng Nissan Diesel Motor Co., Ltd. | Dongfeng Nissan Diesel | 48 | 93 | 31 |

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

| | Brand names | No. of sales outlets | No. of after-sales service outlets | No. of provinces covered |
|---|---|---|---|---|
| Dongfeng Peugeot Citroen Automobile Company Ltd. | Dongfeng Citroen | 404 | 556 | 31 |
| Dongfeng Peugeot Citroen Automobile Company Ltd. | Dongfeng Peugeot | 324 | 324 | 31 |
| Dongfeng Motor Co., Ltd. (Dongfeng Nissan Passenger Vehicle Company) | Dongfeng Nissan | 1,039 | 856 | 31 |
| Dongfeng Motor Co., Ltd. (Dongfeng Nissan Passenger Vehicle Company) | Venucia | 405 | 260 | 31 |
| Dongfeng Liuzhou Motor Co., Ltd. | Dongfeng Future | 350 | 573 | 31 |
| Dongfeng Honda Automobile Co., Ltd. | Dongfeng Honda | 354 | 354 | 31 |
| Zhengzhou Nissan Automobile Co., Ltd. | Zhengzhou Nissan | 919 | 442 | 31 |
| Dongfeng Passenger Vehicles Company | Dongfeng Fengshen | 202 | 202 | 31 |

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

As at 31 December 2012, the total whole vehicle production capacity of the Dongfeng Motor Group was approximately 2,690,000 units. The total production capacity of engines was approximately 2,110,000 units, among which the production capacities of whole commercial vehicles and commercial vehicle engines were approximately 680,000 units and 320,000 units respectively; the production capacities of whole passenger vehicles and passenger vehicle engines were approximately 2,010,000 units and approximately 1,800,000 units, respectively.

The following table shows the production capacity distribution of vehicles and engines of the Dongfeng Motor Group as at 31 December 2012.

### 1. Production capacity of commercial vehicles

#### 1.1 Whole vehicle

| Company | Production capacity ('000 units) |
|---|---|
| Dongfeng Motor Co., Ltd. | 670 |
| Dongfeng Nissan Diesel Motor Co., Ltd. | 1 |
| Dongfeng Special Purpose Commercial Vehicle Co., Ltd. | 10 |

#### 1.2 Engines

| Company | Production capacity ('000 units) |
|---|---|
| Dongfeng Motor Co., Ltd. | 320 |

## 2. Production capacity of passenger vehicles

### 2.1 Whole vehicle

| Company | Production capacity ('000 units) |
|---|---|
| Dongfeng Motor Co., Ltd. | 1,120 |
| Dongfeng Peugeot Citroen Automobile Company Ltd. | 450 |
| Dongfeng Honda Automobile Co., Ltd. | 340 |
| Dongfeng Passenger Vehicles Company | 100 |

### 2.2 Engines

| Company | Production capacity ('000 units) |
|---|---|
| Dongfeng Motor Co., Ltd. | 750 |
| Dongfeng Peugeot Citroen Automobile Company Ltd. | 360 |
| Dongfeng Honda Automobile Co., Ltd. | 270 |
| Dongfeng Honda Engine Co., Ltd. | 410 |

According to the automobile market forecast and the business plan of the Dongfeng Motor Group, the Dongfeng Motor Group will expand its production capacity with reasonable utility to meet the demand of its products. By the end of 2013, the production capacity of whole vehicles is expected to reach approximately 2,980,000 units.

## V Investment in 2012 and Investment Plan for the Next Two Years

In 2012, the Dongfeng Motor Group strictly managed its investments by adhering to the principle of rationality and profitability and insisted not to invest in projects which were not consistent with the main development directions, with low returns or beyond its capability. Total investment in fixed assets during the year amounted to approximately RMB16,130 million (not adjusted on a proportionate consolidated basis), resulting in steady progress in the following aspects of investment project development:

1. Introduction of new products and development of new models timely according to the requirements of the relevant regulations and policies of the PRC and the market demand.

2. Prudently managing the investments in production capacity expansion or construction to minimize investment risks in face of the slowing growth of the auto market.

3. Strengthening the building work of its own brand name and 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 models and new products rationally, to expand its production capacity gradually, to further improve and upgrade production technology and to optimize its investment structure. The total investment of the Dongfeng Motor Group is expected to be approximately RMB18,630 million and RMB18,110 million (not adjusted on a proportionate consolidated basis) in 2013 and 2014 respectively.

## VI Research and Development and Intellectual Property

### (1) New Products Development and Research and Development

**1. Commercial Vehicles**

In 2012, Commercial Vehicle Company strived to enhance the market competitiveness of Dongfeng's commercial vehicles by improving the weight, performance, quality and modularity of its products, such as D310 and D530. The development of D760 and D901 have been carrying out smoothly, representing a step towards the high-end market of commercial vehicles. As for light trucks, the Company placed emphasis on the research and development of major strategic models, such as A08, C16A and W03. The two new models, namely Dongfeng Yufeng A08東風禦風A08, a high-end MPV, and Dongfeng Junfeng W03東風俊風W03, a high-end mini bus, were successfully launched and sold, which improved the quality of Dongfeng's light and mini commercial vehicles.

### 2. Passenger Vehicles

Each brand under Dongfeng launched new products in time to meet with market demands. Dongfeng Peugeot Citroen Automobile Company Ltd. introduced the C4L model. Dongfeng Honda launched strategic models, such as new upgraded models of CRV, MPV Elysion and Ciimo, a self-developed model under joint-venture. Dongfeng Nissan launched "Venucia" R50, a self-developed model under joint-venture, in accordance with the multi-brand strategy of Dongfeng and Nissan. Besides, "Sylphy" was upgraded. The A60 model, a new platform of Dongfeng Fengshen, was successfully launched. The announcement and launch of the above new models and brands have strengthened the portfolio of passenger vehicles of the Dongfeng Motor Group and stimulated the growth of sales. In particular, the brands and models with strategic significance helped to lay a solid foundation for the long-term growth of the passenger vehicle business of the Dongfeng Motor Group in terms of technology, product, brand and market.

### 3. New Energy Vehicles

The Company completed the engineering design, trial production and trial run of Fengshen S30 self-development engine model with BSG and ISG technologies. The development of electric sedans of S30 model and Plug-in model were also commenced. The engineering design and trial production of hybrid medium truck were completed and the project has been undergoing as scheduled. The announcement and reporting formalities and the relevant engineering design of EJ02 and EJ04 electric sedans had been accomplished, respectively.

## (2) Product Qualities and Services

### 1. Strengthening Quality Management of Products

The management of the Company understands the significance of quality management to the long-term sustainable development of the Dongfeng Motor Group. As such, the Company implemented quality control on total value chain, stressed on nurturing the awareness of quality control of its staff and strived to achieve quality control targets.

Each segment strengthened the daily supervision and assessment of quality of whole vehicles, formulated feasible rectification measures for quality problems, improved product quality, reduced and resolved quality risks of whole vehicles in order to be well-positioned amid intensive competitions.

### 2. Emphasizing Quality of Sales Services

Each segment of the Dongfeng Motor Group strived to enhance the quality of its before sales services, in sales services and after sales services of products, including whole vehicles, engines and parts and components, establish and improve information system of service quality of product markets in order to provide services to meet the market needs timely.

# VII Fulfilment of Social Responsibilities

## (1) Energy Conservation and Environment Protection

In 2012, the Dongfeng Motor Group focused on "three major indicators" for energy conservation and emission reduction (including energy consumption with RMB10,000 in added value at current price, COD and $SO_2$) in order to push forward environmental protection. The results of major indicators for energy conservation and emission reduction were satisfactory and the annual target was accomplished. When compared with 2011, energy consumption with RMB10,000 in added value at current price dropped by 14.65%, reducing COD and $SO_2$ emission by 12.79% and 29.79%, respectively.

### (2) Production Safety

In 2012, the Dongfeng Motor Group insisted on production safety by strictly following the principle of "integrated management with safety first and precaution as priority" and all targets of production safety were met during the year. In 2012, 51 cases of production safety accidents occurred in total and the accident ratio was 0.40%.

### (3) Safeguard the legal rights of the employees

1. In 2012, all segments of the Dongfeng Motor Group launched the corporate campaigns to establish a harmonious employee relationship. The Company strengthened the protection of labour union and prevention and control of occupational diseases and exerted efforts on the promotion of labour safety and health and supervision of occupational health.

2. In 2012, the Dongfeng Motor Group continued to facilitate the establishment of labour relationship coordination system based on democratic management of meetings of employee's representatives and collective negotiation and contracting system, conducted inspection on the performance of collective contracts and labour contracts, and amended documents, such as Employee Medical Benefits Improvement Plan (職工醫療優化方案) and Special Regulations on Protection of Female Employees (女職工勞動保護特別規定) to further improve the mechanism for protecting employees' interests.

3. The Company endeavoured to provide care and assistance to employees with difficulties. In 2012, the Loving Care Project of the Dongfeng Motor Group assisted a total of 450 employees and contributed approximately RMB1.4 million.

## VIII Business Prospects

The domestic automobile industry will maintain its growth but the growth is expected to slow down in the next few years. It is expected that the total sales volume of domestic automobiles will increase by approximately 7% in 2013. According to the current anticipation of the future market trend and the development plan of the Dongfeng Motor Group, the Dongfeng Motor Group will launch approximately 19 new passenger vehicle models, including medium-high sedans, compact sedans, small sedans, SUVs and MPVs and a new series of heavy duty trucks for commercial vehicles within the next two years.

In terms of operating quality, the Dongfeng Motor Group will strive to improve the efficiency and effectiveness of its operation and resource utilization so as to consolidate its leading position in the industry in terms of cost control, quality and profitability.

The dispute between China and Japan over the sovereignty of Diaoyu Islands in September 2012 has made a material and adverse impact on the sales of Japanese automobile brands in the domestic market. It is anticipated that the sales of Japanese-brand sedans will continue to be affected by the uncertainties of the external environment in the next few years. Nevertheless, as the impact of dispute on the market has weakened, it is expected that the growth of Dongfeng Nissan and Dongfeng Honda will recover gradually and the proprietary brands and Dongfeng Peugeot Citroen Automobile Company Ltd. will maintain their growth momentum. It is anticipated that the growth of production and sales volume of the Dongfeng Motor Group will continue to outpace the industry, which will further consolidate and enhance its market position in the automobile industry in the PRC.

# Management Discussion and Analysis

## FINANCIAL RESULTS OVERVIEW

The revenue of the Group for the year was approximately RMB124,036 million, representing a decrease of approximately RMB7,405 million, or 5.6%, when compared with approximately RMB131,441 million for last year. Profit attributable to shareholders amounted to approximately RMB9,092 million for the year, representing a decrease of approximately RMB1,389 million, or 13.3%, when compared with approximately RMB10,481 million for last year. Earnings per share was approximately RMB105.52 cents, representing a decrease of approximately RMB16.13 cents, or 13.3%, when compared with approximately RMB121.65 cents for last year.

During the year, net decrease in cash and cash equivalents amounted to approximately RMB7,493 million. Net cash inflow from operating activities, net cash outflow from investment activities and net cash outflow from finance activities amounted to approximately RMB307 million, RMB2,918 million and RMB4,882 million respectively.

### Revenue

In 2012, the automobile industry in China saw a moderate growth. A total of approximately 19,306,400 vehicles were sold during the year, representing an increase of approximately 4.3% over last year. Sales volume of passenger vehicles and commercial vehicles were approximately 15,495,200 units and 3,811,200 units respectively, representing an increase of 7.1% and a decrease of 5.5% over last year respectively.

In the face of challenges in the market, the Group managed to overcome various risks and challenges by adhering systematic management approach. The operation of the Group remained healthy. The total sales of the Group for the year were approximately 2,155,400 vehicles, representing a decrease of approximately 0.8% over last year. Sales of passenger vehicles were approximately 1,740,700 units, representing an increase of approximately 5.7% over last year. Sales of commercial vehicles were approximately 414,800 units, representing a decrease of approximately 21.2% over last year. The Group had a market share of approximately 11.2% in terms of sales volume, representing a decrease of approximately 0.5 percentage point over last year. The market share of its passenger vehicles was approximately 11.2%, representing a decrease of approximately 0.2 percentage point over last year. The market share of its commercial vehicles was 10.9%, representing a decrease of approximately 2.2 percentage points over last year.

During the year, the total sales revenue of the Group was approximately RMB124,036 million, representing a decrease of approximately RMB7,405 million, or 5.6%, as compared with approximately RMB131,441 million of last year. The total sum of the sales revenue of jointly controlled entities attributable to the shareholders of the Company for the year amounted to approximately RMB120,961 million, representing a decrease of approximately RMB7,599 million, or approximately 5.9%, when compared with approximately RMB128,560 million of last year.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Sales revenue | | Sales revenue | |
| | RMB million | Unit | RMB million | Unit |
| Passenger vehicle | **96,042** | **1,740,691** | 94,921 | 1,646,410 |
| Commercial vehicle | **26,831** | **414,754** | 35,473 | 526,313 |
| Others | **1,163** | **N/A** | 1,047 | N/A |
| Total | **124,036** | **2,155,445** | 131,441 | 2,172,723 |

Note: The revenue figures were adjusted to reflect the revenue attributable to the Group. However, the corresponding figures of the units of vehicles sold were the actual number of vehicles sold by the Group and were not adjusted on a proportionate consolidated basis.

As for passenger vehicles, the competition in the local market was intense and the market has become more challenging since the second half of the year. In face of challenges and operation risks, all sectors of the Group managed to maintain their healthy operation through management improvement, product development, brand strategy, sales network optimization, quality and cost control. On the other hand, the Group sought to minimize the negative effects brought by the Daioyu Islands dispute by strengthening its internal control, adjusting production schedule, improving the coordination of the supply chain and production chain and re-devising marketing strategies. The measures effectively stabilized the supply chain and sales network.

The revenue from sales of passenger vehicles for the year increased by approximately RMB1,121 million, or 1.2%, to approximately RMB96,042 million from approximately RMB94,921 million of last year. The revenue from sales of whole passenger vehicles for the year increased by approximately RMB799 million, or 1.0%, to approximately RMB84,180 million from approximately RMB83,381 million of last year.

As for commercial vehicle, the domestic market remained stagnant due to unfavourable economic conditions. Facing challenging market conditions, the Group further expanded the overseas markets and also focused on the development of niche markets and enhanced the research and development of new products. While promoting the attractiveness of its products through marketing activities externally, the Group also strengthened its internal management to improve efficiency, which laid a solid foundation for the future development.

The revenue from sales of commercial vehicles decreased by approximately RMB8,642 million, or 24.4%, to approximately RMB26,831 million for the year from approximately RMB35,473 million of last year. The revenue from sales of whole commercial vehicles decreased by approximately RMB7,746 million, or 26.0%, to approximately RMB22,063 million for the year from approximately RMB29,809 million of last year.

## Cost of sales and gross profit

The total costs of sales of the Group for the year was approximately RMB100,160 million, representing a decrease of approximately RMB4,891 million, or 4.7%, when compared with approximately RMB105,051 million for last year. The total gross profit of the Group for the year was approximately RMB23,876 million, representing a decrease of approximately RMB2,514 million, or 9.5%, when compared with approximately RMB26,390 million for last year. The gross margin decreased by 0.9 percentage point to approximately 19.2% for the year from approximately 20.1% for last year.

The gross margin of passenger vehicles of the Group decreased by 1.2 percentage points to approximately 20.8% for the year from approximately 22.0% of last year. The gross margin of whole passenger vehicles decreased by approximately 2.0 percentage points to approximately 20.1% for the year from approximately 22.1% of last year. The gross margin of passenger vehicles during the period was mainly affected by the following factors: (1) the huge impact brought by the Diaoyu Islands dispute on the sales, sales revenue and profitability of the Group; and (2) the average selling price decreased due to intensifying competition in the automobile industry as compared with last year; and was partly offset by (3) the decrease in unit cost due to the effective cost control measures in the entire value chain of the Group.

The gross margin of commercial vehicles of the Group decreased by approximately 1.6 percentage points to approximately 12.7% for the year from approximately 14.3% of last year. The gross margin of whole commercial vehicles of the Group decreased by approximately 1.9 percentage points to approximately 12.3% for the year from approximately 14.2% of last year. The gross margin of commercial vehicles during the period was mainly affected by the following factors: (1) the sales of vehicles with higher profitability decreased due to volatile market conditions as compared with last year; (2) the average selling price decreased due to intensifying competition in the industry as compared with last year; and (3) the increase of material cost. However, the increases were partly offset by the effective procurement strategies and the application of technologies.

## Other incomes

Total other incomes of the Group for the year amounted to approximately RMB3,129 million, representing an increase of approximately RMB276 million when compared with approximately RMB2,853 million of last year. The increase was mainly attributable to the increase in government subsidies and interest income from bank deposits.

## Selling and distribution costs

The selling and distribution costs of the Group for the year amounted to approximately RMB6,716 million, representing an increase of approximately RMB441 million when compared with approximately RMB6,275 million of last year. The percentage of selling and distribution costs to sales revenue for the year increased by approximately 0.6 percentage point to approximately 5.4% from approximately 4.8% of last year, which was mainly due to the increase in investments for market expansion and advertisement expenses.

## Administrative expenses

The total administrative expenses of the Group for the year amounted to approximately RMB3,937 million, representing an increase of approximately RMB296 million when compared with approximately RMB3,641 million of last year. The percentage of administration expenses to sales revenue increased by approximately 0.4 percentage point to approximately 3.2% for the year from approximately 2.8% of last year.

### Other expenses, net

Other net expenses of the Group for the year was approximately RMB3,772 million, representing a decrease of approximately RMB1,171 million when compared with approximately RMB4,943 million of last year. The other expenses included an one-off reversal of provisions for technical support fees to joint venture partners of approximately RMB771 million.

### Staff costs

The staff costs (including directors' and supervisors' emoluments) of the Group for the year amounted to approximately RMB6,248 million, representing an increase of approximately RMB260 million when compared with approximately RMB5,988 million of last year.

### Depreciation charges

The depreciation charges for the year amounted to approximately RMB2,769 million, representing an increase of approximately RMB44 million when compared with approximately RMB2,725 million of last year.

### Finance costs

The finance costs of the Group for the year amounted to approximately RMB288 million, representing a decrease of approximately RMB114 million when compared with approximately RMB402 million of last year. The decrease was mainly attributable to the decrease of interest expenses on loans and debentures of the Group.

### Income tax

The income tax of the Group for the year amounted to approximately RMB2,919 million, representing a decrease of approximately RMB482 million when compared with approximately RMB3,401 million of last year. The effective tax rate was approximately 23.0% for the year, representing a decrease of approximately 0.7 percentage point when compared to approximately 23.7% of last year.

### Profit for the year

As a result of the above reasons, the profit attributable to shareholders of the Company for the year amounted to approximately RMB9,092 million, representing a decrease of approximately RMB1,389 million, or 13.3%, when compared with approximately RMB10,481 million of last year. The total sum of the net profit of jointly controlled entities attributable to the Group for the year amounted to approximately RMB9,760 million, representing a decrease of approximately RMB1,564 million, or approximately 13.8%, when compared with approximately RMB11,324 million of last year. Earnings per share was approximately RMB105.52 cents, representing a decrease of approximately RMB16.13 cents, or 13.3%, when compared with approximately RMB121.65 cents of last year. The net profit margin (a percentage of profit attributable to shareholders of the Company to total revenue) was approximately 7.3%, representing a decrease of approximately 0.7 percentage point when compared with that of approximately 8.0% of last year. The return on net assets (a percentage of profit attributable to shareholders of the Company to average net assets) was approximately 18.1%, representing a decrease of approximately 6.9 percentage points when compared with that of approximately 25.0% of last year.

## Liquidity and sources of capital

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| Net cash flows from operating activities | **307** | 9,642 |
| Net cash flows generated from/(used in) investing activities | **(2,918)** | (961) |
| Net cash flows used in financing activities | **(4,882)** | (3,189) |
| Net increase/(decrease) in cash and cash equivalents | **(7,493)** | 5,492 |

Net cash inflows from operating activities of the Group for the year amounted to approximately RMB307 million, reflecting mainly (1) profit before tax less non-cash items of depreciation and impairment of approximately RMB14,776 million; (2) an increase of approximately RMB1,424 million in trade receivables, bills receivable and prepayments, deposits and other receivables; (3) a decrease of approximately RMB1,176 million in inventory; and (4) a decrease of approximately RMB9,519 million in trade, bills and other payables and accrued liabilities. The net cash flows from operating activities of the Group for the year decreased by approximately RMB9,334 million, when compared with the net cash inflow of approximately RMB9,642 million of last year. The liquidity was mainly affected by the following factors: (1) a decrease of RMB1,327 million in amounts due from distributors due to the improvement of the management of receivables and the speedy collection of payments; and (2) an increase of RMB10,282 million in payments to suppliers due to a satisfactory cash flows of the Group.

Net cash outflows from investing activities of the Group for the year amounted to approximately RMB2,919 million, reflecting mainly (1) the purchase of property, plant and equipment of approximately RMB7,074 million for expansion of production capacity and development of new products; and (2) the decrease of approximately RMB4,223 million in fixed deposits. The net cash used in investing activities for the year increased by approximately RMB1,958 million, when compared with the net cash outflows of approximately RMB961 million of last year. The increase was mainly due to (1) an increase of approximately RMB1,002 million in the investments of property, plant and equipment; (2) an increase of approximately RMB309 million in the purchase of intangible assets; and (3) the payment of approximately RMB168 million for the acquisition of equity interests in an off-road vehicle company.

Net cash outflows from financing activities of the Group for the year amounted to approximately RMB4,882 million, reflecting mainly (1) a decrease in net bank loans of approximately RMB2,965 million; (2) payment of dividends of approximately RMB659 million to minority shareholders; and (3) payment of dividends of approximately RMB1,551 million to shareholders. The net cash outflows from financing activities for the year increased by approximately RMB1,693 million, when compared with the net cash outflows of approximately RMB3,189 million of last year. The increase was mainly due to (1) a decrease of approximately RMB2,274 million in net bank loans and (2) a decrease of approximately RMB434 million in the payment of dividends to minority shareholders.

As a result of the above reasons, the Group's cash and cash equivalents (excluding time deposits with an original maturity of three months or more) amounted to approximately RMB23,888 million as at 31 December 2012, representing a decrease of approximately RMB7,493 million when compared with approximately RMB31,381 million as at 31 December 2011. Cash and bank deposits (including time deposits with an original maturity of three months or more) amounted to approximately RMB33,032 million, representing a decrease of approximately RMB11,715 million when compared with approximately RMB44,747 million as at 31 December 2011. Net cash (cash and bank deposits less borrowings) of the Group as at 31 December 2012 amounted to approximately RMB25,313 million, representing a decrease of approximately RMB10,621 million when compared with approximately RMB35,934 million as at 31 December 2011.

As at 31 December 2012, the Group's equity ratio (percentage of total borrowings to total shareholders' equity) was approximately 14.3%, representing a decrease of approximately 4.7 percentage points as compared with approximately 19.0% as at 31 December 2011.

As at 31 December 2012, the Group's liquidity ratio was approximately 1.35 times, representing an increase of approximately 0.05 time over the level of approximately 1.30 times as at 31 December 2011. The Group's quick ratio for the year was approximately 1.14 times, representing an increase of approximately 0.04 time over the level of approximately 1.10 times as at 31 December 2011.

The Group's inventory turnover days for the year decreased by approximately 2 days to approximately 41 days from approximately 43 days of last year.

The Group's turnover days of receivables (including bills receivable) for the year increased by approximately 6 days to approximately 60 days from approximately 54 days of last year. The turnover days of receivables (excluding bills receivable) for the year remained the same level of approximately 7 days as last year. The turnover days of bills receivable increased by approximately 6 days to approximately 53 days from approximately 47 days of last year. The Group adopts stringent policies for the management of bills receivable and only accepts applications by trustworthy banks and customers with sound credibility, while the credit risks related to bank promissory notes are assumed by bankers of the customers.

# Profiles of Directors, Supervisors and Senior Management

## Executive Directors

**Mr. Xu Ping (徐平先生)**, aged 55, is a senior postgraduate engineer and the Chairman of the Board of Directors of the Company. Mr. Xu graduated in 1982 from Hefei Industrial University with a bachelor's degree in engineering specialising in power plant and power systems. Mr. Xu joined Dongfeng Motor Corporation in 1982 and was the head of Dongfeng Motor Corporation's thermoelectricity factory. Mr. Xu served as the secretary of the Communist Party and deputy general manager of Dongfeng Motor Corporation from July 2001 to June 2005. From 2003 to September 2005, Mr. Xu was a director and a vice president of Dongfeng Motor Co., Ltd., and was also the general manager and the secretary of the Communist Party of Dongfeng Motor Corporation from June 2005 to June 2010. He was appointed as the Chairman and the secretary of the Communist Party of Dongfeng Motor Corporation in June 2010. Mr. Xu has been the Chairman of the board of directors of Dongfeng Motor Co., Ltd. since June 2005, Dongfeng Peugeot Citroen Automobile Company Ltd. since June 2005 and Dongfeng Automobile Co., Ltd. since July 2005. He is a representative of the 11th National People's Congress and a representative of the 17th Communist Party Committee. Mr. Xu has been a director of the Board of Directors of the Company since October 2004, and has been the Chairman of the Board of Directors of the Company since August 2005. Mr. Xu was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Zhu Fushou (朱福壽先生)**, aged 50, is a senior postgraduate engineer and an Executive Director and the President of the Company. Mr. Zhu graduated from Anhui Technical Institute in 1984 with a Bachelor's degree in Engineering, specialising in Agricultural engineering. He studied Business Administration from 1998 to 2001 and received a Master's degree in Business Administration from Zhongnan University of Finance and Economics. Mr. Zhu joined Dongfeng Motor Corporation in 1984 and has served as a Standing Committee Member of the Communist Party of Dongfeng Motor Corporation and also as a director of Dongfeng Automobile Co., Ltd. since 2001. He was the General Manager of Dongfeng Automobile Co., Ltd. from 2001 to 2009. He was also the Vice President of Dongfeng Motor Co., Ltd. since September 2005. In April 2010, he was appointed as the Chairman of Dongfeng Motor Finance Co., Ltd. and Dongfeng Nissan Auto Finance Co., Ltd. In June 2010, he was appointed as the President of the Company. In August 2010, he was appointed as an Executive Director of the Board of Directors of the Company. In April 2011, he was appointed as the Director and General Manager of the Dongfeng Motor Corporation. In June 2011, he was appointed as the Director and Vice Chairman of the Dongfeng Peugeot Citroen Automobile Company Limited. Mr. Zhu has more than 20 years of business and management experience in the automotive industry in the PRC. Mr. Zhu was appointed as a Director of the Third Session of the Board of Directors in October 2010.

**Mr. Zhou Wenjie (周文杰先生)**, aged 60, is a senior economist, an Executive Director and an Executive Vice President of the Company. Mr. Zhou joined Dongfeng Motor Corporation in 1972, and from 1995 to 2001 was the assistant to General Manager of Dongfeng Motor Corporation. Since 2001, he has served as the Deputy General Manager of Dongfeng Motor Corporation. Since 2003, he has served as a Standing Committee Member of the Communist Party of Dongfeng Motor Corporation. In addition, Mr. Zhou has been the Chairman of the board of directors of Dongfeng Honda Automobile Co., Ltd., Dongfeng Honda Auto Parts Co., Ltd. and Dongfeng Honda Engine Co., Ltd., the Vice Chairman of the board of directors of Dongfeng Peugeot Citroen Automobile Company Ltd. and a director of Dongfeng Motor Co., Ltd. In October 2004, he was appointed as an Executive director of the Board of Directors of the Company. Mr. Zhou has over 30 years of business and management experience in the automotive industry in the PRC. On 11 October 2010, Mr. Zhou was re-elected as a Director of the Third Session of the Board of Directors. Mr. Zhou resigned as a Director of the Company on 23 January 2013.

**Mr. Li Shaozhu (李紹燭先生)**, aged 52, is a senior postgraduate engineer and an Executive Director of the Company. Mr. Li graduated from Tsinghua University in 1983 with a Bachelor's degree in Engineering Science, specializing in Casting Engineering and Equipment. He also studied Business Administration as a part-time postgraduate student from 1994 to 1996 and received a Master's degree in Business Administration from Zhongnan University of Finance and Economics. Mr. Li was appointed as a member of the National Master in Engineering Education Committee by the Second Academic Degrees Committee of the State Council in 2004. Mr. Li joined Dongfeng Motor Corporation in 1983 and was the head of No.2 Foundry Plant of Dongfeng Motor Corporation. Mr. Li has served as Deputy General Manager of Dongfeng Motor Corporation since 1997. He served as General Manager of Dongfeng Automobile Co., Ltd. from July 1999 to November 2001 and was the Vice President of Dongfeng Motor Co., Ltd. from July 2003 to September 2005. He was appointed as a Director of the Board of Directors of the Company in October 2004. In August 2011, Mr Li was appointed as the Chairman and Director of the Dongfeng Design Institute Co., Ltd. and Dongfeng Motor City Logistics Co., Ltd. Mr. Li has more than 20 years of business and management experience in the automotive industry. Mr. Li was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Fan Zhong (范仲先生)**, aged 59, is a senior postgraduate engineer and an Executive Director of the Company. Mr. Fan graduated in 1982 from the Department of Machinery Engineering and Equipment of Shenyang Electrical and Mechanical College with a Bachelor's degree in Engineering Science. Prior to joining Dongfeng Motor Corporation, he was the Deputy Mayor of Beipiao City in Liaoning Province. He joined Dongfeng Motor Corporation in 1993 as the Deputy General Manager of Dongfeng Chaoyang Diesel Engine Corporation. From 1999 to 2001, Mr. Fan was the General Manager and the secretary of the Communist Party Committee of Dongfeng Chaoyang Diesel Engine Corporation. Since 2001, Mr. Fan has served as the Deputy Secretary of the Communist Party of Dongfeng Motor Corporation and has been the Chairman of the Board of Directors of Dongfeng Chaoyang Diesel Engine Co., Ltd. He was appointed as a director of the Board of Directors of the Company in October 2004. In October 2011, he was appointed as the director of the Board of Directors of the Dongfeng Chaoyang Diesel Engine Company Limited. Mr. Fan has served as a member and the secretary of the Communist Party Committee of Dongfeng Chaoyang Diesel Engine Company Limited since February 2012. Mr. Fan has more than 20 years of business and management experience in the automotive industry in the PRC. Mr. Fan was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

## Non-executive Directors

**Mr. Tong Dongcheng (童東城先生)**, aged 56, is a senior economist and a Non-executive Director of the Company. Mr. Tong graduated from the Central Party School in 1996, majoring in Economics and management. He joined Dongfeng Motor Corporation in 1971, and has been the Deputy General Manager of Dongfeng Motor Corporation since 1997. Since 2003, Mr. Tong has served as the Vice President of Dongfeng Motor Co., Ltd., and served as the General Manager of Commercial Vehicle Company of Dongfeng Motor Co., Ltd. from July 2003 to December 2009. Mr. Tong has been the chairman of the board of directors of Dongfeng Nissan Diesel Motor Co., Ltd. since April 2005 and a director of Dongfeng Motor Co., Ltd. since September 2005. Since October 2004, he has served as a director of the Board of Directors of the Company. In September 2011, he has served as the Chairman and Director of the board of directors of the Dongfeng Motor Parts and Components Group Co., Ltd. In October 2011, he was appointed as the Chairman and Director of the Dongfeng Nanchong Automobile Co., Ltd. Mr. Tong has more than 30 years of business and management experience in the automotive Industry in the PRC. Mr. Tong was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Ouyang Jie (歐陽潔先生)**, aged 55, is a senior postgraduate engineer and a Non-executive Director of the Company. Mr. Ouyang graduated in 1982 from the Department of Casting of Hunan University with a Bachelor's degree in Engineering Science and received a Bachelor's degree in Economics from the Renmin University of China in 1988. Mr. Ouyang joined Dongfeng Motor Corporation in 1982 and has served as the Deputy General Manager of Dongfeng Motor Corporation since 1997. In 2003, Mr. Ouyang became the Vice President of Dongfeng Motor Co., Ltd. In October 2004, he was appointed as a director of the Board of Directors of the Company. Mr. Ouyang has more than 20 years of business and management experience in the automotive industry in the PRC. Mr. Ouyang was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Liu Weidong (劉衛東先生)**, aged 46, is a senior postgraduate engineer and a Non-executive Director of the Company. Mr. Liu graduated in 1988 from Wuhan Technical Institute with a Bachelor's Degree in Engineering, specializing in the automotive industry. He studied Management Science and Engineering as a part-time postgraduate student from 2000 to 2003 and received a Master's degree in Management from Wuhan Polytechnic University. He was a representative of the 10th National People's Congress. Mr. Liu joined Dongfeng Motor Corporation in 1988 and has been the Deputy General Manager of Dongfeng Motor Corporation and the General Manager of Dongfeng Peugeot Citroen Automobile Company Ltd. since 2001. Mr. Liu has served as a director of the Board of Directors of the Company since October 2004. He served as the secretary of the Community Party Committee of the Dongfeng Passenger Vehicle Company from July 2007 to July 2011. In July 2011, he was appointed as the general manager of Dongfeng Passenger Vehicle Company. From July 2011 to March 2012, he served as the secretary of the Community Party Committee of Technical Center of Dongfeng Motor Corporation. In August 2011, he was appointed as the chairman and director of the Dongfeng Hongtai Wuhan Holdings Group Co., Ltd. Since June 2012, Mr. Liu has served as the Director of the Board of Directors and Chairman of Dongfeng Electric Vehicle Co., Ltd. In November 2012, he was appointed as the Director of the Board of Directors and the Chairman of Dongfeng GETRAG Transmission Co., Ltd. Mr. Liu has 20 years of business and management experience in the automotive industry in the PRC. Mr. Liu was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Zhou Qiang (周強先生)**, aged 51, is a senior economist and a Non-executive Director of the Company. Mr. Zhou graduated from the Central Party School in 1992, specializing in Economics and Management. From 2002 to 2005, he studied business administration in Tsinghua University and received an EMBA degree. Mr. Zhou joined Dongfeng Motor Corporation in 1978. In August 2003, Mr. Zhou was appointed as a Standing Committee Member of Dongfeng Motor Co., Ltd., and was also the Secretary of the Communist Party and Deputy General Manager of the Commercial Vehicle Company, Dongfeng Motor Co., Ltd. from July 2003 to September 2005. He has been the assistant to General Manager of Dongfeng Motor Corporation since September 2005 and a Standing Committee Member of Dongfeng Motor Corporation since March 2009. In May 2011, he served as the director of the Dongfeng Motor Corporation Shiyan Administration Division. In August 2011, Mr Zhou was appointed as the director and chairman of China Dongfeng Motor Industry Import and Export Company. Mr. Zhou has 20 years of business and management experience in the automotive industry in the PRC. Mr. Zhou was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

## Independent Non-executive Directors

**Mr. Sun Shuyi (孫樹義先生)**, aged 72, is an Independent Non-Executive Director of the Company. Mr. Sun graduated from the University of Science and Technology of China in 1963. He is currently an executive vice chairman of the China Industry and Economics Federation. Mr. Sun was formerly the head of the Production System Department of the State System Restructuring Commission, deputy director of the Office of the Central Financial and Economic Leading Group, vice minister of the Ministry of Personnel, deputy secretary of the Central Business Affairs Commission of the PRC and a member of the National Committee of the Tenth Chinese People's Political Consultative Conference. Mr. Sun is qualified in the PRC as a certified public accountant and a senior engineer. Mr. Sun has extensive experience in macro-economic management and an in-depth knowledge of finance. Mr. Sun was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Ng Lin-fung (吳連烽先生)**, aged 71, is an Independent Non-Executive Director of the Company. Mr. Ng was a deputy general manager of Nanyang Commercial Bank in which he served for over 30 years as the head of the bank's credit operations. He is the Chairman and General Manager of International Po Fung Finance Holdings Ltd., which he founded in 1999. Mr. Ng was the adviser to the Hong Kong and Macau Affairs Office of the State Council and the Xinhua News Agency Hong Kong Branch on Hong Kong affairs. He was also a member of the First Selection Committee for the Hong Kong Special Administrative Region and a member of the Delegate Election Committee of the Hong Kong Special Administrative Region to the Ninth, Tenth, Eleventh and Twelfth National People's Congress. Mr. Ng was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Yang Xianzu (楊賢足先生)**, aged 73, is an Independent Non-Executive Director of the Company. He graduated from Wuhan College of Posts and Telecommunications in 1965. Mr. Yang served as the vice minister of the Ministry of Posts and Telecommunications and the Ministry of Information Industry and a member of the Chinese People's Political Consultative Conference. He is currently an independent director of Dongfeng Motor Group Company Limited, China Wireless Technologies Limited, CITIC Telecom International Holdings Limited and 263 Network Communication Co., Ltd. Mr. Yang has over 40 years of experience in the telecommunications industry and is familiar with the management and operations of large enterprises as well as the corporate governance of listed companies. Mr. Yang was re-elected as a Director of the Third Session of the Board of Directors for a term of three years commencing 11 October 2010.

**Mr. Ma Zhigeng (馬之庚先生)**, aged 68, is an Independent Non-Executive Director of the Company. He has served as the external director of Dongfeng Motor Corporation and China Three Gorges Corporation since March 2011. Mr. Ma graduated from Yangzhou Institute of Technology majoring in mechanical manufacturing in 1968. Mr. Ma has worked in various positions since September 1968, including the deputy head of Sichuan Ordnance Bureau of the Ordnance Ministry (兵器部四川兵工局), deputy head of the Southwest regional department of China North Industries Group (中國北方工業 (集團) 總公司), as well as deputy head, chief economist, deputy general manager and deputy party secretary of the Southwest Ordnance Bureau of China North Industries Corporation (中國兵器工業總公司). He served as the general manager and party secretary of China North Industries Group Corporation from June 1999 to June 2007, and as the general manager of China North Industries Group Corporation from June 2007 to October 2008. Mr. Ma has served as the external director of Shanghai Electric Group, China Three Gorges Corporation and Dongfeng Motor Corporation since June 2010, December 2010 and March 2011, respectively. Mr. Ma was appointed as the Independent Non-Executive Director of the Company on 23 January 2013.

## Senior Management

**Mr. Cai Wei (蔡瑋先生)**, aged 53, is the Vice President and the Secretary of the Board of Directors of the Company. Mr. Cai is a senior postgraduate engineer. He graduated from Hefei Industrial University in 1982 with a Bachelor's degree in Engineering Science, specializing in internal combustion engines. Mr. Cai joined Dongfeng Motor Corporation in 1982 and was the General Manager of the auto parts division of the Dongfeng Motor Corporation from November 2001 to July 2003. He was the Head of the Planning Department of Dongfeng Motor Corporation from July 2003 to September 2005 and has been the Vice President and the Secretary of the Board of Directors of Dongfeng Motor Group Company Limited since October 2004. Mr. Cai is a director of Dongfeng Honda Automobile Co., Ltd. (since July 2003), Dongfeng Honda Engine Co., Ltd. (since December 2009) and Dongfeng Peugeot Citroen Automobile Company Ltd. (since November 2006).

## Supervisors

**Mr. Ma Liangjie (馬良杰先生)**, aged 56, is an engineer and the Chairman of the Supervisory Committee of the Company. Mr. Ma graduated from Jilin University of Technology in 1982, specializing in design and manufacturing of internal combustion engine. Prior to joining Dongfeng Motor Corporation, he was an assistant to general manager of China Aerospace Science & Industry Corporation and the Vice Chairman, General Manager of China Aerospace Automobile Co., Ltd. (中國航天汽車有限公司) and the Chairman of Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. Mr. Ma joined Dongfeng Motor Corporation in December 2008, and he served as a standing committee member and the secretary of the disciplinary committee of the Communist Party of Dongfeng Motor Corporation. In March 2011, Mr. Ma was appointed as the Director of Dongfeng Motor Corporation. Mr. Ma was elected as the Chairman of the Third Session of the Supervisory Committee for a term of three years commencing 11 October 2010.

**Mr. Wen Shiyang (溫世揚先生)**, aged 46, is a Supervisor of the Company. Mr. Wen was the deputy dean of College of Law of Wuhan University and holds a doctorate degree. He is a professor of civil and commercial law and a tutor to doctorate candidates. Mr. Wen specializes in property law, company law and insurance law and has a number of published works. Mr. Wen is a vice chairman of the Civil Law Research Institute of the China Law Association. Mr. Wen was re-elected as a Supervisor of the Third Session of the Supervisory Committee for a term of three years commencing 11 October 2010.

**Mr. Deng Mingran (鄧明然先生)**, aged 57, is a Supervisor of the Company. Mr. Deng is the dean of the College of Management of Wuhan University of Technology and holds a doctorate degree. He is a professor of financial management and a tutor to doctorate candidates. Mr. Deng has committed to a number of national science research projects and has a number of published works. Mr. Deng is a vice president of the Tertiary Engineering College Committee of the Chinese Accounting Association. He is also an independent non-executive director of Hubei Chutian Expressway Co., Ltd. Mr. Deng was re-elected as a Supervisor of the Third Session of the Supervisory Committee for a term of three years commencing 11 October 2010.

**Mr. Ren Yong (任勇先生)**, aged 49, is a senior accountant and a Supervisor of the Company. Mr. Ren studied in HuaZhong University of Science and Technology from 2003 to 2006 and received an MBA degree, specializing in business administration. Mr. Ren joined Dongfeng Motor Corporation in 1981. Mr. Ren has been the deputy general manager of the Passenger Vehicle Company of Dongfeng Motor Co., Ltd. since July 2003 and a standing committee member of the Communist Party of Dongfeng Motor Co., Ltd. since August 2003. He has been a vice president of Dongfeng Motor Co., Ltd. since July 2005, an assistant to general manager of Dongfeng Motor Corporation since April 2008, and a Supervisor of the Supervisory Committee of the Company since October 2004. Mr. Ren was re-elected as a Supervisor of the Third Session of the Supervisory Committee for a term of three years commencing 11 October 2010.

**Mr. Li Chunrong (李春榮先生)**, aged 48, is a senior economist and a Supervisor of the Company. Mr. Li graduated with a bachelor's degree in engineering from Huazhong Technical Institute, majoring in vessel and shipyard electronic automation in 1985. He graduated from Huazhong Technical Institute with a postgraduate degree in industrial management engineering in 1987 and joined Dongfeng Motor Corporation in the same year. Mr. Li studied in Massachusetts Institute of Technology of America during 2006 to 2007 and obtained an MBA degree in business administration. He has served as the secretary of the Communist Party Committee and deputy general manager of Dongfeng Passenger Vehicles Company since July 2011 and a Supervisor of the Company since October 2004. Mr. Li was re-elected as a Supervisor of the Third Session of the Supervisory Committee for a term of three years commencing 11 October 2010.

**Mr. Chen Binbo (陳斌波先生)**, aged 48, is a senior economist and a Supervisor of the Company. Mr. Chen graduated from Huazhong Technical Institute with a bachelor's degree in engineering, majoring in internal combustion engine for vessels in 1985 and graduated from Huazhong Technical Institute with a postgraduate degree in economics and management engineering, majoring in industrial management engineering in 1987. He joined Dongfeng Motor Corporation in July 1987 and is the director of the Board Meeting and Executive Deputy General Manager of Dongfeng Honda Automobile Co., Ltd. Mr. Chen was appointed as a Supervisor of the Supervisory Committee of the Company for a term of three years commencing 11 October 2010.

**Mr. Huang Gang (黃剛先生)**, aged 45, is a senior engineer and a Supervisor of the Company. Mr. Huang graduated from Tsinghua University with a bachelor's degree in engineering majoring in internal combustion engine in July 1990. He studied in Tsinghua University from 1995 to 2000 and obtained a master's degree in engineering majoring in power machinery and engineering. He joined Dongfeng Motor Corporation in July 1990 and is the General Manager of Commercial Vehicle Company, Dongfeng Motor Co., Ltd. Mr. Huang was appointed as a Supervisor of the Company in October 2010 for a term of three years commencing 11 October 2010.

**Mr. Kang Li (康理先生)**, aged 49, is a senior engineer and a Supervisor of the Company. Mr. Kang graduated from Luoyang Technical Institute in 1984 with a bachelor's degree specializing in casting technology and equipment. He studied in Huazhong Polytechnic University from 1993 to 1996 and obtained a master's degree in engineering. Mr. Kang joined Dongfeng Motor Corporation in 1984 and is the head of the Audit Department of Dongfeng Motor Corporation and the Audit and Risk Management Committee of the Board Meeting of Dongfeng Motor Corporation. Mr. Kang was appointed as a Supervisor of the Supervisory Committee of the Company in October 2004. Mr. Kang was re-elected as a Supervisor of the Third Session of the Supervisory Committee for a term of three years commencing 11 October 2010.

## JOINT COMPANY SECRETARY

**Hu Xindong (胡信東)**, aged 45, is the Joint Company Secretary of the Company. Mr. Hu is a senior economist and graduated from the Department of Political Education of Hubei University in 1990 with a Bachelor of Law degree. He studied in Zhongnan Institute of Economics and Politics with a major of Economics from 1999 to 2001 and obtained a Master's degree in Economics. Mr. Hu joined Dongfeng Motor Corporation in 1990 and was the Head of Company Office of Dongfeng Motor Corporation (office of the Communist Party Committee) from July 2003 to September 2005. He is currently the person-in-charge of the preparation team for the joint venture of Dongfeng Renault.

**Lo Yee Har, Susan (盧綺霞)**, aged 54, is the Joint Company Secretary of the Company. Ms. Lo is an Executive director of Tricor Services Limited. She is a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

## HEADS OF DEPARTMENTS

The head of the Audit Department of the Company is Mr. Kang Li

The head of the Personnel Department of the Company is Mr. He Wei

The head of the Financial Accounting Department of the Company is Mr. Qiao Yang

The head of the Technical Development Department of the Company is Mr. Hou Yuming

The head of the Operation Management Department of the Company is Mr. Lei Ping

The head of the Organization & Information Department of the Company is Mr. Lv Chuanwen

The head of the International Business Department of the Company is Mr. Pan Chengzheng

The head of the Asset Management Department of the Company is Mr. Lu Feng

The head of the Office of the Company is Mr. Zhao Shuliang

The head of the Strategy & Planning Department of the Company is Mr. Liao Zhenbo

The head of the Corporate Culture Department of the Company is Mr. Chen Yun

The head of the Supervisory Department of the Company is Mr. Zhang Changdong

The head of the Staff Relation Department of the Company is Mr. Zhong Bing

The head of the Legal & Securities Affairs Department of the Company is Mr. Lu Feng

The Secretary for the Communist Youth League of the Company is Mr. Chen Bin

The head of Beijing Office of the Company is Mr. Xu Yaosheng

# 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 2012 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 manufacturing and sales of commercial vehicles, passenger vehicles, engines and auto parts and also the manufacturing of vehicle manufacturing equipment. The Dongfeng Motor Group has also engaged in vehicle and vehicle manufacturing equipment import/export business, finance business, insurance agency business and used car business.

Substantially all of the Dongfeng Motor Group's vehicles, engines and auto parts businesses as well as other businesses are carried out at the major operating entities of the Company and through subsidiaries, JCEs and other companies in which it has direct equity interests. Other than major operating entities of the Company, the Company and the aforesaid subsidiaries, JCEs and the other shareholders having direct equity interests in the above companies jointly manage branding, strategies, operations, marketing and other areas in accordance with the relevant joint venture agreements.

## RESULTS

The Group's results for the year ended 31 December 2012 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 67 to 172 in this annual report.

## DIVIDENDS

The Board of Directors recommends the dividend distribution of RMB0.15 per share in respect of 2012 results, subject to consideration and approval at the annual general meeting to be held on 21 June 2013.

## DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2012, the Company's JCEs, in total, declared and distributed aggregate dividends of approximately RMB8,654 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 at the meetings of the Board of Directors of each JCE as being appropriate dividend distributions on the circumstances of each JCE. When determining dividend distributions, the Board of Directors of each JCE will offset losses of previous years and deduct from the profit made by the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under the 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 laws.

None of the JCEs has any specific dividend policies other than those disclosed above. However, if both the Company and the joint venture partners agree, the JCEs can declare dividends when there are distributable profits. 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 reserves as required under the 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 are 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 the 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 2012 is set out on page 173 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 30 to the audited financial statements.

## INTEREST CAPITALISED

Details of the interest capitalised of the Group for the year ended 31 December 2012 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 2012 are set out in note 14 to the audited financial statements.

## DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2012, 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 2012 are set out in note 29 to the audited financial statements and the consolidated statement of changes in equity on page 72, 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 Financial Reporting Standards or the accounting standards in other 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 surplus reserve and no allocation to the discretionary surplus reserve under the laws and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 21 June 2013.

## DONATIONS

The Group has made total donations of approximately RMB9 million for the year ended 31 December 2012.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the revenue attributable to the five largest customers accounted for no more than 30% of the Group's revenue for the year.

During the year ended 31 December 2012, 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.

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

As at 31 December 2012, details of the subsidiaries and JCEs as well as other companies in which the Company has direct equity interests are set out in notes 17, 18 and 19 to the audited financial statements respectively for the year.

## SHARE CAPITAL

As at 31 December 2012, 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. During the year ended 31 December 2012, there is no change in the aggregate share capital of the Company.

## 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, 55,665,782 SAR units were granted on 23 January 2006, the date of grant. The grant price was HK$2.01. The first 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 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, 31,417,405 SAR units were granted at a grant price of HK$4.09. 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.

As at 30 June 2012, the first and second rounds of SARs were fully expired, including those being exercised, waived and lapsed. Further details were set out in the 2012 interim report.

## 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.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the name of the persons (other than directors and supervisors) entitled to exercise 5% or more (class of shares categorized into domestic shares and H shares) of the voting rights at any general meeting of the Company and the number of underlying shares, as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance are set out below:

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

| Name | 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 | 402,415,627(L) | 14.09% | 4.67% |
| | | 255,000(S) | 0.01% | 0.003% |
| | | 301,848,848(P) | 10.57% | 3.50% |
| 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% |
| Blackrock, Inc. | H Shares | 221,560,792(L) | 7.75% | 2.57% |
| | | 27,919,062(S) | 0.97% | 0.32% |
| Schroders Plc | H Shares | 169,000,000(L) | 5.91% | 1.96% |
| Edinburgh Partners Limited | H Shares | 153,514,000(L) | 5.38% | 1.78% |

## 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 |
| Zhu Fushou | Executive Director and President |
| Zhou Wenjie | Executive Director (Resigned in January 2013) |
| Li Shaozhu | Executive Director |
| Fan Zhong | Executive Director |
| Tong Dongcheng | Non-executive Director |
| Ouyang Jie | Non-executive Director |
| Liu Weidong | Non-executive Director |
| Zhou Qiang | Non-executive Director |
| Sun Shuyi | Independent Non-executive Director |
| Ng Lin-fung | Independent Non-executive Director |
| Yang Xianzu | Independent Non-executive Director |
| Ma Zhigeng | Independent Non-executive Director (Appointed in January 2013) |

### Senior 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 21 to 25 in this annual report.

### Supervisors

The supervisors of the Company during the year were:

| | |
|---|---|
| Ma Liangjie | Chairman of the Supervisory Committee |
| Wen Shiyang | Independent Supervisor |
| Deng Mingran | Independent Supervisor |
| Ren Yong | Supervisor |
| Li Chunrong | Supervisor |
| Chen Binbo | Supervisor |
| Huang Gang | Supervisor |
| Kang Li | Supervisor |

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

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

As at 31 December 2012, 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 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 2012, the Company did not grant to any director, or senior management 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. Mr. Sun Shuyi, Mr. Ng Lin-fung and Mr. Yang Xianzu were appointed as independent directors for 2012. The Company is of the view that they are independent.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of Directors nor supervisors proposed to be re-elected at the forthcoming annual general meeting have entered into a service contract with the Company which is not determinable by the Company 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 material contract to which the Company or any of its subsidiaries and JCEs was a party during the year ended 31 December 2012.

## REMUNERATIONS OF DIRECTORS AND SUPERVISORS

Details of the remunerations of the directors and supervisors of the Company are set out in note 8 to the audited financial statements.

## FIVE HIGHEST-PAID INDIVIDUALS

Information on the five highest-paid individuals of the Company is set out in note 9 to the audited financial statements.

## EMPLOYEES

As at 31 December 2012, the Dongfeng Motor Group had a total of 109,963 full-time employees. The number of employees in various divisions and their percentage of the total number of employees are as follows:

| Division | Employees | Percentage of total |
|---|---|---|
| Manufacturing workers | 62,312 | 56.67% |
| Engineering and technology | 17,450 | 15.87% |
| Management | 23,210 | 21.10% |
| Services | 6,991 | 6.36% |
| Total | 109,963 | 100% |

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 is committed to providing trainings for its employees. The scope of training programmes includes management skills and technology training, overseas exchange programmes and other courses. The Dongfeng Motor Group also encourages its employees to engage in self-learning programmes by awarding scholarships.

The SARs are granted to the Directors and the supervisors (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 authorised to determine which other key employees are eligible for the SARs.

## RETIREMENT BENEFITS

Details of the retirement benefits provided by the 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 2012.

## DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

Competition exists between the businesses of Dongfeng Motor Group and Dongfeng Motor Corporation and its subsidiaries. The Executive Directors (Mr. Xu Ping, Mr. Zhu Fushou, Mr. Zhou Wenjie, Mr. Li Shaozhu and Mr. Fan Zhong) devote most of their time managing the day-to-day operations of the Company. The Company further confirmed that its management has not involved in daily operations of Dongfeng Motor Corporation and its subsidiaries which compete with the businesses of the Company as at 31 December 2012.

Mr. Zhou Wenjie, an Executive Director of the Company, is the Deputy Chairman of Dongfeng Yueda Kia Motors Co., Ltd., which is principally engaged in manufacturing of Kia series of passenger vehicles and competes with the passenger vehicles manufactured and sold by the Dongfeng Motor Group. Dongfeng Yueda Kia Motors Co., Ltd. is a joint venture company of the Dongfeng Motor Corporation and has been managed and operated independently from the Dongfeng Motor Group. In addition, the Company does not have any equity interests in this company. Accordingly, the Dongfeng Motor Group is capable of carrying on, and has carried on, its passenger vehicle manufacturing business independently of, and at arm's length from, the business of Dongfeng Yueda Kia Motors Co., Ltd.

Save as disclosed above, none of the directors nor their associates own any interests in businesses which compete or are likely to compete with the businesses of the Group nor have other interest conflicts with the Group.

## COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company has received from Dongfeng Motor Corporation a written confirmation confirming that during the year ended 31 December 2012 it had complied with Non-competition Agreement signed with the Company.

## 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 Listing Rules of the Stock Exchange).

## CONNECTED TRANSACTIONS

For the year ended 31 December 2012, the continuing connected transactions between the Dongfeng Motor Group and Dongfeng Motor Corporation and its associates (as defined under the Listing Rules), together with the annual caps exempted subject to the Listing Rules, were as follows:

(The following connected transaction amounts of the Group (including jointly-controlled entities) are prepared on a full consolidated basis, before adjustment on a proportionate consolidated basis)

## 1. Provision of Ancillary Services

On 22 December 2010, the Company entered into agreements for the provision of ancillary services with Dongfeng Motor Corporation, pursuant to which, effective from 1 January 2011, Dongfeng Motor Corporation has agreed, or procure other members of the Parent Group, to provide the following services to the Dongfeng Motor Group:

(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 the 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 1 January 2011. Under the Ancillary Services Agreements, the Dongfeng Motor Group has agreed to give priority in using the ancillary services of the Parent Group if the terms offered by it are no less favourable than the terms offered by an independent third party. Moreover, Dongfeng Motor Corporation and the Company have agreed that the Parent Group is entitled to provide ancillary services to third parties provided that it does not affect the provision of services under the Ancillary Services Agreements. If the ancillary services supplied by the Parent Group cannot satisfy the needs of the Dongfeng Motor Group in any respect, the Dongfeng Motor Group may obtain such ancillary services from independent third parties. Dongfeng Motor Corporation will not, and will procure its subsidiaries not to, provide ancillary services to the Dongfeng Motor Group on terms which are less favourable than those offered to independent third parties.

The members of the Parent Group and the members of the Dongfeng Motor Group providing or requiring the relevant ancillary service may enter into specific agreements which set out the terms and conditions under which such products and/or ancillary services are to be provided. Such agreements shall be entered into in accordance with the provisions of the relevant Ancillary Services Agreement.

Each Ancillary Services Agreement provides that the parties of specific agreements may terminate the provision of any products and services by giving three months' prior written notice. However, if the Dongfeng Motor Group cannot conveniently obtain certain ancillary services from an independent third party, Dongfeng Motor Corporation may not terminate the provision of such ancillary services under any circumstances.

The above ancillary services shall be provided at (i) the government prescribed prices; (ii) where there is no government prescribed price but where there is a government guidance price, the government guidance prices; and (iii) where there is neither a government prescribed price nor a government guidance price, the market prices. The market price is defined as the price at which the same or similar type of products or services are provided by independent third parties in their ordinary course of business.

The prices for electricity, water and steam are currently prescribed by the PRC government.

The above ancillary services will be charged at the end of each calendar month by members of the Parent Group based on the actual usage of the ancillary services by members of the Dongfeng Motor Group. The charges of the ancillary services will be satisfied in cash by internal resources of the Dongfeng Motor Group and no payment will be made on a deferred basis.

As approved in the board meeting and disclosed in the announcement on 22 December 2010, the annual cap for the connected transaction of water supply was approximately RMB100 million for 2012. The Group paid approximately RMB48 million of water supply fees to Dongfeng Motor Corporation for the year ended 31 December 2012.

As approved in the board meeting and disclosed in the announcement on 22 December 2010, the annual cap for the connected transaction of steam supply was approximately RMB180 million for 2012. The Group paid approximately RMB100 million of steam supply fee to Dongfeng Motor Corporation for the year ended 31 December 2012.

As approved in the board meeting and disclosed in the announcement on 22 December 2010, the annual cap for the connected transaction of electricity supply is approximately RMB1,800 million for 2012. The Group paid approximately RMB860 million of electricity supply fee to Dongfeng Motor Corporation for the year ended 31 December 2012.

Dongfeng Motor Corporation is a substantial shareholder of the Company. Accordingly, the Ancillary Services Agreements constitute continuing connected transactions of the Company under the Listing Rules.

### 2. Trademarks Licence Agreement

The Company and the Dongfeng Motor Corporation entered into a Trademarks Licence Agreement on 29 October 2005, pursuant to which 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-year term, the agreement automatically renews for another ten years.

### 3. Social Insurance Funds

For the year ended 31 December 2012, the Dongfeng Motor 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.

### 4. For the year ended 31 December 2012, the continuing connected transactions relating to the JCEs include:

The following are additional continuing connected transactions of the Dongfeng Motor Group as a result of the Stock Exchange's requirement that its existing and future JCEs be regulated in a manner consistent with the regulation of subsidiaries of a listed group.

***(i) Purchases of auto parts and production facilities by the Company's JCEs and their subsidiaries and JCEs from their joint venture partners (including their subsidiaries and associates).***

During the year ended 31 December 2012, each of Dongfeng Motor Co., Ltd., Dongfeng Peugeot Citroen Automobile 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 joint venture partners of the Company in the manner described below and such purchases will continue for the duration of the joint venture term.

Once the joint venture partners have agreed that a JCE will commence the manufacturing of a new vehicle model, representatives of the JCE will enter into negotiations with the joint venture partner to determine an agreed price list for each component needed to manufacture that model. Pursuant to the contractual provisions of the applicable joint venture agreement, the negotiations between the relevant representatives of the JCE and the relevant joint venture partners to determine the agreed price list, will always be conducted either directly by the Company, as a joint venture partner, or by the relevant JCE's officers nominated by the Company to do so on behalf of the Company. The Company and its joint venture partners are independent from each other for this purpose; no joint venture partner is in a position to influence the Company to agree to terms which may not be in the JCEs' (and therefore the Company's) interest. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. As such, such negotiations are carried out on arm's length commercial terms.

Unlike normal consumer products, market prices for many vehicle components are not readily available. The Company's representatives therefore rely heavily on their knowledge of industry standards and their experience gained from similar negotiations previously in order to determine whether the agreed price list is appropriate. Once an agreed price list between the representatives of the JCE and the foreign joint venture parties has been determined for all components needed to manufacture the vehicle model, the JCE will obtain quotes for equivalent components that may be available from local PRC suppliers in order to determine whether viable alternatives can be obtained (1) with the highest quality, (2) in a timely manner, and (3) at the most competitive prices. If alternatives are available, the component in question will be struck off the agreed price list between the representatives of the JCE and the joint venture parties, and the JCE will purchase the component from the local supplier. This is a continuing process which extends throughout the life-cycle of a vehicle model. The agreed price list between the representatives of the JCE and the foreign joint venture parties is revised from time to time to reflect raw materials prices, exchange rate fluctuations, inflation and other factors.

The process described above, known as "localisation", is a stated priority of the JCEs' provided in the relevant joint venture contracts.

Once an agreed price list between the representatives of the JCE and the joint venture partners has been determined, purchases of auto parts and production equipment by the JCEs and their subsidiaries and JCEs from the joint venture partners are made on a batch basis to cater the JCE's requirements for different auto parts and production equipment from time to time.

The JCEs (including their subsidiaries, JCEs and associates) may only purchase auto parts and production equipment from the joint venture partners (including their subsidiaries and associates) if it is unable to obtain auto parts of equivalent quality or of the required specifications at a more favourable price (or otherwise on more favourable terms) from a local supplier. The contracts entered into between the JCEs and the joint venture partners of the Company (or the affiliates of such joint venture partners) for the purchases of auto parts and production equipment by the JCEs (including their subsidiaries, JCEs and associates) from the joint venture partners (including their subsidiaries and associates) must be pre-approved by the Company to ensure that the JCE only enters into transactions on normal commercial terms or terms which are more favourable to the JCE. Therefore, purchases of auto parts and production equipment by the JCEs (including their subsidiaries, JCEs and associates) from the joint venture partners (including their subsidiaries and associates) will be on terms which are fair and reasonable to the JCEs. All of these parameters are set out in the joint venture contracts and will remain in place for the duration of the joint venture term.

The purchases of auto parts and production facilities by the JCEs (including their subsidiaries, JCEs and associates) from their joint venture partners constitute continuing connected transactions and were made according to normal commercial terms (or terms which are more favourable to the JCEs), in ordinary and normal business course of the JCEs after arm's length negotiation.

For the year ended 31 December 2012, the total consideration paid by the JCEs and their subsidiaries and JCEs in respect of purchases of auto parts and production facilities from the joint venture partners (including their subsidiaries and associates) was approximately RMB41,646 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.***

The establishment of Dongfeng Honda Engine Co., Ltd. formed part of the arrangements between Dongfeng Motor Corporation, Honda Motor Co., Ltd. and Guangzhou Automobile Group Co., Ltd. The primary reason for the formation of Dongfeng Honda Engine was to manufacture engines and other related auto parts for sale to Guangzhou Honda Automobile Co., Ltd., Honda Motor Co., Ltd.'s other main automotive manufacturing joint ventures in the PRC. Dongfeng Motor Corporation's interests in Dongfeng Honda Engine were subsequently transferred to the Company. Pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd. and Guangzhou Automobile Group Co., Ltd, Guangzhou Honda Automobile Co., Ltd. would only purchase from Dongfeng Honda Engine engines and other related auto parts necessary for manufacturing of passenger vehicles for the duration of the joint venture term at such prices as would enable the respective investment returns on Dongfeng Honda Engine and on Guangzhou Honda Automobile Co., Ltd. to be proportionate to the initial investment in these two companies (US$60,060,000 in the case of Dongfeng Honda Engine and US$139,940,000 in the case of Guangzhou Honda Automobile Co., Ltd.). The equity interests of Guangzhou Honda Automobiles Co., Ltd. are equally held between Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd. As such, Guangzhou Honda Automobile Co., Ltd. is a connected person of the Company under Rule 14A.11(4) of the Listing Rules and the sales of passenger vehicle engines and related auto parts from Dongfeng Honda Engine to Guangzhou Honda Automobile Co., Ltd. constitute continuing connected transactions.

Pursuant to the contractual provisions of the relevant joint venture agreement, the negotiations for the sale of engines and other auto parts between Dongfeng Honda Engine and Guangzhou Honda Automobile Co., Ltd. will always be conducted by the JCE's officers nominated by the Company on behalf of Dongfeng Honda Engine. The Company and its joint venture partner are independent from each other for this purpose, so that no joint venture partner is in a position to influence the Company to agree to terms which may not be in the JCEs' (and therefore the Company's) interests. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. As such, negotiations carried out are on arm's length commercial terms.

For the year ended 31 December 2012, Guangzhou Honda Automobile Co., Ltd. continued to purchase from Dongfeng Honda Engine engines and auto parts needed by it.

*(iii) 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. Technology licence and technical assistance between the JCEs and their subsidiaries on the one hand and their joint venture partners on the other hand constitutes a continuing connected transaction.

The terms of all technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners which are to be entered into by the JCEs are either governed by an umbrella agreement and/or separately entered into prior to the introduction of a new vehicle model. For one of the JCEs, the terms of all technology licence and technical assistance which have been entered into, and which in future will be entered into, between JCE and its foreign joint venture partners are governed by an umbrella agreement, the agreed form of which was negotiated between the Company and the joint venture partner before the parties established the JCE and agreed by the time the joint venture contract relating to the JCE was signed. Therefore, the terms of the umbrella agreement were negotiated on an arm's length basis between independent third parties. The umbrella agreement has a term of 10 years, and contains detailed terms which govern the determination of consideration for each technology licence to be entered into between the Company and the joint venture partners. The umbrella agreement also provides provisions in relation to the consideration for the technology licensed, which is in the form of a royalty determined in accordance with a fixed formula.

The terms of the agreements relating to technology licences and technical assistance are fixed with reference to the expected life cycle of vehicle models.

Pursuant to the contractual provisions of the applicable joint venture agreement, all negotiations relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners will only be either done directly by the Company, as a joint venture partner, or by the relevant JCE's officers nominated by the Company to do so on behalf of the Company. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions in the ordinary course of business of a JCE. However, transactions which are outside the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. Therefore, such technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners were negotiated on arm's length commercial terms.

Generally, the pricing principle for technology licence and technical assistance between the JECs, their subsidiaries and their joint venture partners and their subsidiaries and associates is that the party providing the technology should be fairly reimbursed for its research and development costs incurred in respect of a particular vehicle model. Furthermore, such research and development costs should be spread evenly over the entire operations of the party providing the technology, and the PRC automotive joint venture should only bear its fair share of such costs.

For the year ended 31 December 2012, the total consideration paid by the JCEs in respect of purchases of technology licences and technical assistance stated above was RMB3,680 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.

*(iv) 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. (the "Nissan JV Lease"), Dongfeng Motor Co., Ltd. leased land from Dongfeng Motor Corporation for a term equivalent to the term of Dongfeng Motor Co., Ltd., from 2003 to 2053. As Dongfeng Motor Corporation is a substantial shareholder of the Company, the Nissan JV Lease constitutes a continuing connected transaction.

Under the Nissan JV Lease, Dongfeng Motor Co., Ltd leased from Dongfeng Motor Corporation a total of 247 parcels of land with an aggregate area of approximately 6,193,777.41 sq.m. for industrial use, which was supplemented with industrial infrastructure.

The standard rent (the "Rent") for each parcel of the leased land amounted to an aggregate annual rent of RMB168 million. During the first year of the lease, which extended from the lease commencement date to the end of that calendar year, the rent payable by Dongfeng Motor Co., Ltd. was 10% of the Rent prorated to the actual days in that first year. From the second, third and fourth years of the lease, only 50%, 70% and 90% of the Rent is payable by Dongfeng Motor Co., Ltd. respectively. The full Rent is payable for the fifth year. From the sixth anniversary of the lease commencement date (i.e., 2009) and every three years thereafter, the Rent payable under the Nissan JV Lease may be adjusted as per the guidelines set out in the Nissan JV Lease. The adjusted rent shall not be less than 85% of the Rent for the immediately preceding period and shall not exceed 115% of the rent for the immediately preceding three-year period. Dongfeng Motor Co., Ltd. and Dongfeng Motor Corporation may meet and discuss in good faith on the adjustment to the Rent during the six months prior to the expiration of the sixth anniversary of the lease commencement date and any subsequent three-year period. If the Dongfeng Motor Co., Ltd. and Dongfeng Motor Corporation cannot agree on the fair market value of the leased land, an independent appraiser shall be jointly appointed by Dongfeng Motor Co., Ltd. and Dongfeng Motor Corporation to determine the fair market rate of the leased land, with such appraised value served as the basis for the parties' discussions concerning the adjusted rent.

The rental payable under the land lease contract is determined on a fair basis and reflects the market rates. An independent valuer has confirmed that the rental under the land lease contract is not higher than the prevailing market rates.

On 31 December 2009, Dongfeng Motor Co., Ltd. and Dongfeng Motor Corporation decided not to adjust the rental standard of lands leased by Dongfeng Motor Co., Ltd. from Dongfeng Motor Corporation. However, in respect of lands leased by Dongfeng Motor Co., Ltd. from Dongfeng Motor Corporation, rentals shall be adjusted for the change in areas of lands leased with new agreements signed in accordance with the pricing policy of Nissan JV Lease. The parcels of land leased decreased from the original Nissan JV Lease of 247 to 231, while the area in aggregate increased from the original Nissan JV Lease of approximately 6,193,777.41 square metres to 6,022,680.52 square metres. The changes were mainly attributable to the termination of leases and the new leases resulted from the increasing business needs by Dongfeng Motor Co., Ltd.

For the year ended 31 December 2012, the annual rent payable by Dongfeng Motor Co., Ltd. to Dongfeng Motor Corporation amounted to RMB171 million.

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

Honda Trading (China) Co., Ltd. and Honda Motor (China) Co., Ltd., both of which are based in Hong Kong and engaged primarily in the import and export of Honda products, are both subsidiaries of Honda Motor Co., Ltd.

and the sales of auto parts by Dongfeng Honda Auto Parts Co., Ltd. to Honda Trading (China) Co., Ltd. constitute continuing connected transactions. One of the primary reasons for the formation of Dongfeng Honda Auto Parts Co., Ltd. was to manufacture auto parts for sales within the PRC and for export to the companies of Honda group overseas, with the corresponding benefits to such companies due to the economies of scale. Consequently, 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 2012.

All existing and future negotiations regarding the sales to Honda Trading (China) Co., Ltd. and Honda Motor (China) Co., Ltd. were and will be conducted by a Company representative on behalf of Dongfeng Honda Auto Parts Co., Ltd. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. Therefore, such sales were and will be negotiated on arm's length basis commercial terms and the consideration for sales of auto parts are based on normal market and commercial terms as agreed on a batch basis and without subject to a framework agreement.

The Company and the Stock Exchange have agreed that the abovementioned transactions will comply with the annual reporting requirements under Rule 14A.45 of the Listing Rules, and the Company will only disclose annual total amounts of transactions pursuant to waivers stated in paragraphs (i), (iii). It was due to the fact that disclosure of consideration for each transaction of each jointly controlled entity may constitute a disclosure of commercial sensitive information of the business under common control and is not in the interests of the Company nor the JCEs.

In addition, with respect to transactions mentioned in paragraphs (ii), (v), disclosing total consideration and additional terms in compliance with Rule 14A.45(4) of the Listing Rules will constitute a disclosure of commercial sensitive information of the business under common control and is not in the interests of the Company nor the JCEs. In this regard, the Company has applied to the Stock Exchange for, and has been granted with, a waiver from strict compliance with the requirements under Rule 14A.45(4) of the Listing Rules during each of the transaction periods.

Annual caps of the abovementioned transactions determined in accordance with the requirements stipulated in Rule 14A.35(2) of the Listing Rules will not be in the interests of the Company and relevant JCEs. In this regard, the Company has applied to the Stock Exchange for, and has been granted with, a waiver from strict compliance with the requirements under Rule 14A.35(2) of the Listing Rules during each of the transaction periods.

### 5. Financial Service

As at 31 December 2012, Dongfeng Motor Group holds 20% equity interest in Dongfeng Motor Finance Co., Ltd., while the remaining 80% equity interest is held by Dongfeng Motor Co., Ltd. Dongfeng Motor Finance Co., Ltd. has been regarded as a subsidiary of the Company since 1 January 2006, and its continuing transactions with its Parent Group constitute continuing connected transactions.

With a view to regulating the above transactions by a framework agreement, on 22 December 2010, Dongfeng Motor Finance Co., Ltd. and Parent entered into the Financial Services Master Agreement, which will become effective on 1 January 2011. According to the Financial Services Master Agreement, Dongfeng Motor Finance Co., Ltd. has agreed to provide treasury services (including budget management, settlement, fund allocation and depository), financing services (including lending, discount, acceptance and factoring) and auto financial services (including consumer facilities, buyer facilities and leasing) to the Parent and its subsidiaries.

The Financial Services Master Agreement will be effective for a term of 3 years.

Financial services to be provided under the Financial Services Master Agreement will be charged at market rates (at government fixed rates or government guidance rates, if such rates are available) or at rates determined on an arm's length and reasonable basis and comply with the applicable policies and requirements stipulated by the financial regulatory authorities from time to time and other applicable laws, rules and regulations of the PRC.

Upon the approval and disclosure of the Board Meeting in December 2010, The proposed annual cap for the outstanding loans (excluding entrust loans) to be provided by Dongfeng Motor Finance Co., Ltd. to the Parent and its subsidiaries of the year 2012 is RMB300 million. As at 31 December 2012, the outstanding loans (excluding entrust loans) to be provided by Dongfeng Motor Finance Co., Ltd. to the Parent and its subsidiaries was approximately RMB16 million.

### 6. Mutual Supply Agreement between Dongfeng Motor Group and Dongfeng Hongtai Wuhan Holdings Group Limited

The Company and Dongfeng Hongtai Wuhan Holdings Group Limited ("Dongfeng Hongtai") entered into the Mutual Supply Agreement (the "Mutual Supply Agreement") on 28 November 2006, pursuant to which Dongfeng Motor Group has agreed to purchase and sell vehicles and auto parts from and to Dongfeng Hongtai.

The Mutual Supply Agreement has been effective from 28 November 2006 and is a continuing contract terminable by agreement between the parties on the occurrence of certain events such as the bankruptcy or reorganisation of a party.

Under the Mutual Supply Agreement, the terms and conditions offered by an independent third party being equal, the parties will give priority in sourcing the vehicles and auto parts from each other. Subject to the above and if the vehicles and auto parts supplied by Dongfeng Hongtai cannot satisfy the needs of Dongfeng Motor Group in any respect, Dongfeng Motor Group may obtain such vehicles and auto parts from the third parties. Moreover, under the Mutual Supply Agreement, Dongfeng Motor Group is entitled to provide the relevant products to third parties given that it will not affect the provision of vehicles and auto parts to Dongfeng Hongtai under the Mutual Supply Agreement.

On 22 December 2008, the Company was informed by Dongfeng Motor Corporation that Dongfeng Motor Corporation has acquired a 91.25% interest in Dongfeng Hongtai. Dongfeng Motor Corporation, being a substantial shareholder of the Company, is a connected person of the Company. Dongfeng Hongtai, having become a non wholly-owned subsidiary of Dongfeng Motor Corporation, has also become a connected person and the associate of a connected person of the Company within the meaning of the Listing Rules. As a result, the ongoing transactions contemplated under the Mutual Supply Agreement between Dongfeng Motor Group and Dongfeng Hongtai have become continuing connected transactions of the Company.

The purchases and sales of vehicles and auto parts by Dongfeng Motor Group or Dongfeng Hongtai were made on the basis of the actual needs of either party and were conducted at market price on normal commercial terms in the ordinary course of business of the Company. The Company expects the transactions will continue to be conducted at market price on normal commercial terms.

For the year ended 31 December 2012, the total consideration paid by Dongfeng Motor Group to Dongfeng Hongtai for purchases and sales of vehicle and auto parts from Dongfeng Hongtai was RMB1,490 million and the total consideration paid by Dongfeng Hongtai to Dongfeng Motor Group for purchases of vehicle and auto parts from Dongfeng Motor Group was RMB1,136 million.

### 7. Dongfeng Motor Group sells commodity vehicles to Dongfeng Motor Trade Corporation

Dongfeng Motor Group sells whole vehicles and chassis of commodity vehicles to Dongfeng Motor Trade Corporation.

Dongfeng Motor Trade Corporation, previously an independent third party to the Company, became a wholly-owned subsidiary of the Parent in July 2007 and a connected person of the Company within the meaning of the Listing Rules. As a result, the ongoing transactions above between the Dongfeng Motor Group and Dongfeng Motor Trade Corporation have become continuing connected transactions of the Company.

On 22 December 2010, the Company and Dongfeng Motor Trade Corporation entered into the Commodity Vehicles Master Sales Agreement, which will be effective from 1 January 2011. According to the Commodity Vehicles Master Sales Agreement, the Dongfeng Motor Group has agreed to sell commodity vehicles to Dongfeng Motor Trade Corporation.

The Commodity Vehicles Master Sales Agreement will be effective for a term of 3 years.

According to the Master Sales Agreement, the price of commodity vehicles will be determined with reference to the market price on an arm's length and reasonable basis. Dongfeng Motor Trade Corporation will purchase commodity vehicles by batches pursuant to its actual demands.

Upon the approval and disclosures of the Board in December 2010, the proposed annual caps for Dongfeng Motor Trade Corporation's purchase of commodity vehicles from the Dongfeng Motor Group for the year 2012 is approximately RMB2,200 million. For the year ended 31 December 2012, the actual amount for Dongfeng Motor Trade Corporation's purchase of commodity vehicles from the Dongfeng Motor Group was approximately RMB1,126 million.

### 8. Dongfeng Motorcity Logistics Co., Ltd. provide logistics services to the Dongfeng Motor Group

Dongfeng Motorcity Logistics Co., Ltd. is a subsidiary of the Parent. The Parent holds 70.46% equity interests in Dongfeng Motorcity Logistics Co., Ltd.. The ongoing logistics services provided by Dongfeng Motorcity Logistics Co., Ltd. to Dongfeng Motor Group have become continuing connected transactions of the Company.

On 22 December 2010, the Company entered into the Logistics Services Master Agreement with Dongfeng Motorcity Logistics Co., Ltd., which will become effective from 1 January 2011. According to the Agreement, Dongfeng Motorcity Logistics Co., Ltd. provides logistics services for whole vehicles and auto parts to the Dongfeng Motor Group and its subsidiaries and jointly-controlled entities.

The Logistics Services Master Agreement will be effective for a term of 3 years.

Logistics services to be provided under the Logistics Services Master Agreement will be charged at rates determined or instructed by the government or otherwise at market rates. Market rate means the price determined in accordance with the following order: (1) the prevailing price charged by independent third parties in areas where the logistics services are provided or in nearby areas for providing similar logistics services on normal commercial terms; or (2) the prevailing price charged by independent third parties on normal commercial terms for providing similar logistics services.

Upon the approval and disclosures of the Board in December 2010, the proposed annual caps for the logistics services provided by Dongfeng Motorcity Logistics Co., Ltd. to Dongfeng Motor Group for the year 2012 is approximately RMB1,150 million. For the year ended 31 December 2012, the actual amount for Logistics Service provided by Dongfeng Motorcity Logistics Co., Ltd. to Dongfeng Motor Group was approximately RMB734 million.

### 9. Dongfeng Motor Finance provide financial service to Dongfeng Nissan Auto Finance and the Company place Deposits with Dongfeng Nissan Auto Finance

The equity interests in Dongfeng Nissan Auto Finance are owned as to 65% by Nissan Motor Co., Ltd. As such, Dongfeng Nissan Auto Finance is a connected person of the Company. Accordingly, the ongoing financial services provided by Dongfeng Motor Finance to Dongfeng Nissan Auto Finance and the Company placing deposits with Dongfeng Nissan Auto Finance constitute continuing connected transactions of the Company.

Dongfeng Motor Finance has entered into the Financial Services Master Agreement on 31 March 2011 with Dongfeng Nissan Auto Finance for the provision of financial services by Dongfeng Motor Finance to Dongfeng Nissan Auto Finance. The Company has also entered into the Deposit Agreement on 31 March 2011 with Dongfeng Nissan Auto Finance for placing Deposits from time to time with Dongfeng Nissan Auto Finance.

The Financial Services Master Agreement and Deposit Agreement will be effective from 1 January 2011 for a term of 3 years.

As Dongfeng Nissan Auto Finance mainly provides auto loans to end users and auto dealers for purchase of NISSAN brand vehicles and INIFNITI brand vehicles, the Company considers that providing financial services to, and placing the Deposits with, Dongfeng Nissan Auto Finance will improve the fund utilisation efficiency of the Group and facilitate the sales of Dongfeng Nissan passenger vehicles.

Financial services and deposits to be provided under the Financial Services Master Agreement and Deposit Agreement will be charged at market rates (at government fixed rates or government guidance rates, if such rates are available) or/and at rates determined on an arm's length and reasonable basis and comply with the applicable policies and requirements stipulated by the relevant financial regulatory authorities from time to time and other applicable laws, rules and regulations of the PRC.

Upon the approval and disclosures of the Board in March 2011, the proposed annual cap for the outstanding loans (excluding entrust loans) to be provided by Dongfeng Motor Finance to Dongfeng Nissan Auto Finance for the year 2012 is RMB300 million. The maximum balance of Deposits (including the accrued interests) maintained by the Company with Dongfeng Nissan Auto Finance shall not exceed RMB2,000 million on any given day. As at 31 December 2012, the amount for the outstanding loans to be provided by Dongfeng Motor Finance to Dongfeng Nissan Auto Finance was approximately RMB0 million; the outstanding amount of the deposits placed by the Company with Dongfeng Nissan Auto Finance was RMB2,000 million.

The independent non-executive directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

## MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2012, 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 code of conduct less strict than the Model Code in respect of securities transactions by directors.

## CORPORATE GOVERNANCE

The Company had been in compliance with the Code on Corporate Governance Practices for the three months ended 31 March 2012 and all Code provisions of the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices which is applicable to financial reports from 1 April 2012) as set out in Appendix 14 to the Listing Rules for the nine months ended 31 December 2012. Moreover, under Rule 3.10A of Listing Rules, the independent non-executive directors must represent at least one-third of the board of directors by 31 December 2012. In order to comply with the new Listing Rules, an Extraordinary General Meeting held on 23 January 2013 was convened by the Company and Mr. Ma Zhigeng was appointed as the new independent non-executive director of the Company.

## ACCOUNTING PRINCIPLES

The principal accounting policies used by the Company in the preparation of the financial statements for the year ended 31 December 2012 are consistent with those used in the audited annual financial statements for the year ended 31 December 2011, except that the Group has adopted the new and revised International Financial Reporting Standards and International Financial Reporting Interpretations during the year. Adoption of these new and revised standards and interpretations did not have any material effect on the financial statements of the Group. They did however give rise to additional disclosures. Please refer to Note 2.2 to the audited financial statements for details.

International Accounting Standards Committee issued IFRS 11 — Joint Arrangement in May 2011, which changed the regulation on the measurement of investors' equity in joint ventures by removing the option of proportionate consolidation when accounting for joint ventures and requiring the use of equity method. This standard is effective for annual periods beginning on or after 1 January 2013. As such, the Group will not adopt proportionate consolidation to consolidate the joint ventures when preparing the consolidated financial statement for the year beginning on or after 1 January 2013 and will adopt equity method instead.

## 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 2012. 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 ending 31 December 2013, and authorise the Board to fix their remunerations.

By Order of the Board of Directors

**Xu Ping**
*Chairman*

Wuhan, the PRC
27 March 2013

# Report of the Supervisory Committee

Dear shareholders,

In 2012, the Supervisory Committee has carried out its supervisory and other duties in accordance with the Company's Articles of Association to ensure the sound, stable and sustainable development of the Company as well as to safeguard the legal interests of all shareholders. It has performed effective supervision, through the inspection of relevant documents and information of the Company, and attending meetings of the Board of Directors and the shareholders' general meetings, on the compliance of laws, financial positions, connected transactions and internal control of the Company. The Supervisory Committee expressed the following independent opinion of such matters of the Company during the reporting period.

## 1. PERFORMANCE OF THE SUPERVISORY COMMITTEE

The Supervisory Committee held two meetings in 2012. The number of attended supervisors formed quorums of the meetings as stipulated by the Company Law.

In 2012, the Supervisory Committee has reviewed and approved: the 2011 report of the Supervisory Committee of the Company; the 2011 auditors' report prepared in accordance with accounting standards in the PRC, which was audited by Ernst & Young Hua Ming and the 2011 financial statements prepared in accordance with International Financial Reporting Standards, which was audited by Ernst & Young and reviewed and approved by the Audit Committee; the 2011 annual report and preliminary results announcement; the 2011 profit distribution and payment of dividend proposal; the 2012 interim report and results announcement and the payment of 2012 interim dividend.

## 2. THE INDEPENDENT VIEWS OF THE SUPERVISORY COMMITTEE ON THE OPERATION OF THE COMPANY

During the reporting period, the Supervisory Committee has supervised the convening procedures and resolutions of the meetings of the Board of Directors and shareholders' general meetings, the implementation of the resolutions of the shareholders' general meetings by the Board of Directors, the legality and compliance of rules and regulations by the senior management during their performance of duty, and the performance of all control systems of the Company in accordance with relevant laws and regulations of PRC and listing rules of Stock Exchange and normative documents of the Company for governing legally.

After the supervision on the directors and senior management of the Company, the Supervisory Committee is of the view that the Board of Directors was in compliance with the Company Law, the Securities Law, the Listing Rules of the Stock Exchange of Hong Kong, the Articles of Association of the Company and other relevant laws, rules and regulations and diligently performed their duties in 2012. The Supervisory Committee also considers that through scientific decision-making of the Board of Directors, the internal management and internal control system of the Company have been further improved and a better internal control mechanism was established. The decision of the Company on material matters was reasonable and procedures of decision-marking were in compliance with laws and valid. The Directors and the senior management of the Company complied with the laws, regulations, the Article of Association of the Company and the resolutions passed at the Shareholders' General Meeting and Board Meeting during their performance of duty. They were devoted to performing their duties diligently and precisely and performed their duties cautiously and aggressively.

During the reporting period, the Supervisory Committee was not aware of any acts by the directors and the senior management of the Company which were in breach of any laws and regulations, the Listing Rules of the Stock Exchange and the Articles of Association of the Company or against the interests of the shareholders. The Supervisory Committee is of the opinion that the Company has duly fulfilled its disclosure obligation in accordance with the requirements of the Listing Rules.

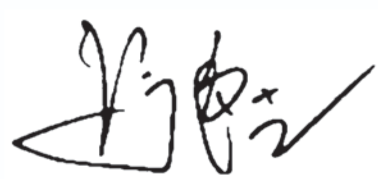
## 3. THE INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE OF THE FINANCIAL POSITION OF THE COMPANY

The Chairman of the Supervisory Committee has attended the meetings of the Audit Committee, examined the financial system, financial position and internal audit of the Company and reviewed the 2011 annual report and 2012 interim report of the Company. The Supervisory Committee considers that the financial statements of the Company were prepared in accordance with relevant provisions, such as Enterprise Accounting System and Accounting Standards for Enterprises. The financial system of the Company was sound and the management measures and internal control system were effective and could ensure the smooth operation and production of the Company. The Supervisory Committee also considers that the 2012 financial statements prepared in accordance with International Financial Reporting Standards give a full, true and fair view of the operating results and financial position of the Dongfeng Motor Group for the year and that the unqualified opinion in the financial report issued by Ernst & Young, the auditors of the Company, are objective and fair.

The Supervisory Committee is of the opinion that the connected transactions between the Dongfeng Motor Group and their connected persons have been conducted at fair market price and on transaction terms, and is not aware of any circumstances prejudicial to the interests of the Company and the shareholders.

The Supervisory Committee has seen the operating results and assets position of the Company in 2012 to its satisfaction. In 2013, the Supervisory Committee will strictly follow the relevant provisions, such as the Company Law, Securities Law and the Articles of Association of the Company and carry out supervision on the Board of Directors and senior management in accordance with laws. The Supervisory Committee will also supervise the Company to refine the corporate governance structure based on the requirements of modern enterprise system, in order to enhance the corporate governance level. In addition, the Supervisory Committee will carry out supervision and perform their duties diligently and attend meetings of the Board of Directors, so as to ensure the decision-making procedures of material matters of the Company to be in compliance with laws and protect the interests of our shareholders. Besides, through supervising on the financial situation of the Company, further enhancing its internal control and operational risk prevention and maintaining the communication with the internal audit department and external audit institution, the Group will further protect the interests of the Company and our shareholders, in order to consolidate its solid foundation for steady and sustainable development.

By Order of the Supervisory Committee



**Ma Liangjie**
*Chairman of the Supervisory Committee*

Wuhan, the PRC
27 March 2013

# Corporate Governance Report

## 1. Overview of Corporate Governance

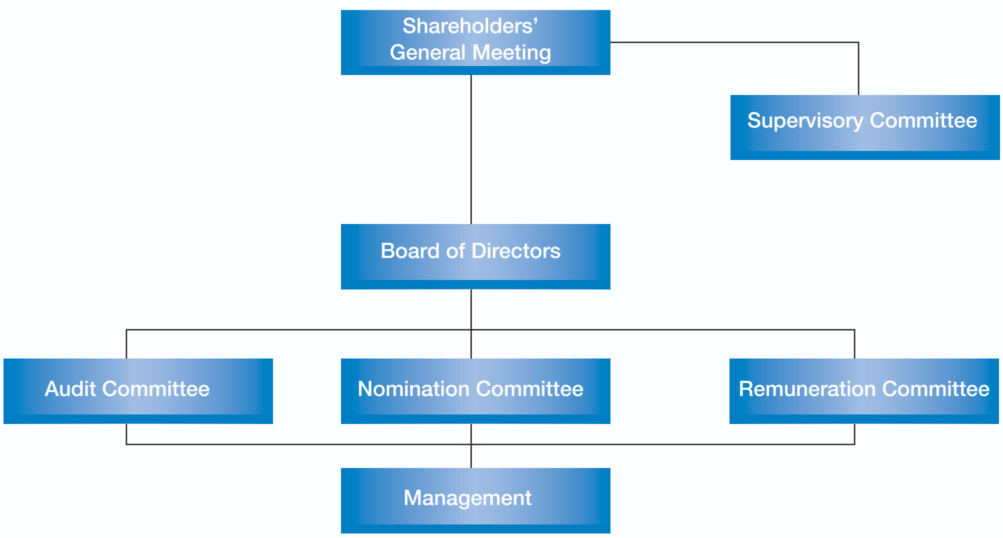
The Company has been in compliance with the Company Law of the People's Republic of China (the "Company Law"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Code of Corporate Governance Practice (the "Former Code") and Corporate Governance Code (the "New Code") of the Stock Exchange of Hong Kong and the Articles of the Association of the Company. The Company is dedicated to maintaining a high level of corporate governance. The Company believes that good corporate governance is significant to maintaining and increasing shareholders' confidence in the Company and is crucial for developing the Company's business as well as securing shareholders' benefits.

The Company regulates its daily operation in strict compliance with various governing regulations, enhances its internal control and risk prevention and management and discloses information in a comprehensive, timely and accurate manner. The Board of Directors convenes meetings regularly to review the operations and management of the Company from time to time. Adhering to the principles of integrity, diligence and healthy corporate governance, the Company improves the transparency and independence of its operations, maintains its healthy development and maximizes shareholders' value by strengthening its corporate governance.

During the reporting period, the Company has been in strict compliance with the Corporate Governance Code. In 2012, the Company was elected as the "Listed Company with Highest Brand Value" by the "Golden Bauhinia" China Securities Award and granted the gold award of "Best Corporate Governance" for 2012 by Treasury China.

## 2. Structure of Corporate Governance

The Company's corporate governance structure involves the shareholders' general meetings, the Board of Directors and special committees, the Supervisory Committee, the management and employees, each of which plays an important role in the governance of the Company.



## (1) Shareholders and Shareholders' General Meeting

### i. Shareholders' General Meeting

The shareholders' general meeting is the highest authority of the Company and has legal power to decide on important matters of the Company. The annual general meetings and extraordinary general meetings provide a channel of direct communication between the Directors and the shareholders of the Company. As such, the Company attaches great importance to the shareholders' general meeting. The notice of shareholders' general meeting will be dispatched 45 days prior to the date of the meeting. All shareholders are encouraged to attend the shareholders' general meeting, and all Directors and members of the senior management are required to attend.

During 2012, the Company held one shareholders' general meeting (or annual general meeting), at which the annual report of 2011 and other related matters of the Company were considered and approved.

In order to comply with the requirements of the Hong Kong Stock Exchange in relation to the composition of the Board, the Company issued the circular of the extraordinary general meeting of the Company on 27 November 2012 and considered and approved, among others, the resolutions regarding the proposed change of Director of the Board of the Company at the extraordinary general meeting on 23 January 2013.

Attendance of Directors at the Shareholders' General Meeting:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| **Members of the Board** | **Shareholders' General Meeting** | **Attendance Rate** | **Remarks** |
| Executive Directors | | | 1. In 2012, the Company held one shareholders' general meeting, namely 2011 Annual General Meeting; |
| Xu Ping | 1/1 | 100% | |
| Zhu Fushou | 1/1 | 100% | |
| Zhou Wenjie | 1/1 | 100% | |
| Li Shaozhu | 0/1 | 0 | 2. Mr. Li Shaozhu, Mr. Fan Zhong, Mr. Tong Dongcheng and Mr. Sun Shuyi were unable to attend the General Meeting due to work reasons. |
| Fan Zhong | 0/1 | 0 | |
| Non-executive Directors | | | |
| Tong Dongcheng | 0/1 | 0 | |
| Ouyang Jie | 1/1 | 100% | |
| Liu Weidong | 1/1 | 100% | |
| Zhou Qiang | 1/1 | 100% | |
| Independent Non-executive Directors | | | |
| Sun Shuyi | 0/1 | 0 | |
| Ng Lin-fung | 1/1 | 100% | |
| Yang Xianzu | 1/1 | 100% | |
| Ma Zhigeng | — | — | |

### ii. Substantial Shareholder

Dongfeng Motor Corporation is our substantial shareholder, holding 66.86% of the shares in the Company. Dongfeng Motor Corporation has never, directly or indirectly, interfered with the Company's decision-making or operations beyond the authorization of the shareholders' general meetings.

Information of other shareholders and persons who are entitled to exercise 5% or more (class of shares classified into domestic shares and H shares) of the voting power at the shareholders' general meeting during the reporting period is set out on page 33 of this annual report.

## (2) Directors and Board of Directors

### i. Directors

Directors are elected at shareholders' general meetings by more than half of the voting rights held by shareholders present at the shareholders' general meetings in person or by proxies. Shareholders, the Board of Directors and the supervisory committee of the Company are entitled to nominate candidates for directorship in writing. A director shall hold office for a term of three years and shall be eligible for re-election.

The Third Session of the Board of Directors of the Company was elected at the extraordinary general meeting held on 11 October 2010, which consists of twelve Directors, five of which are executive directors, including Xu Ping, Zhu Fushou, Zhou Wenjie, Li Shaozhu and Fan Zhong; four of which are non-executive directors, including Tong Dongcheng, Ouyang Jie, Liu Weidong and Zhou Qiang; and three of which are independent non-executive directors, including Sun Shuyi, Yang Xianzu and Ng Lin-fung.

At the extraordinary general meeting held on 23 January 2013, Zhou Wenjie was approved to resign as a director due to his age and Ma Zhigeng was appointed as the independent non-executive director of the Company. After the change of members, the Third Session of the Board of Directors of the Company still consists of twelve Directors, four of which are executive directors, including Xu Ping, Zhu Fushou, Li Shaozhu and Fan Zhong; four of which are non-executive directors, including Tong Dongcheng, Ouyang Jie, Liu Weidong and Zhou Qiang; and four of which are independent non-executive directors, including Sun Shuyi, Yang Xianzu, Ng Lin-fung and Ma Zhigeng. The size and composition of the Board of Directors are in compliance with the requirements of the Stock Exchange and relevant laws and regulations. Details of members of the Board of Directors are set out on page 34 of this annual report.

### 1) Responsibility of Directors

| Name | Position(s) | Responsibilities |
|---|---|---|
| Xu Ping | Executive Director, Chairman of the Board | overall operations of the Board of Directors and the Party Committee, and the general management, significant strategies and senior management team of the Group |
| Zhu Fushou | Executive Director, President | daily operations and operational management of the Group |
| Zhou Wenjie | Executive Director, Executive Vice President | strategies and plans of the Group (resigned on 23 January 2013) |
| Li Shaozhu | Executive Director | human resources, organizational development and information related matters of the Group |
| Fan Zhong | Executive Director | work of Communist Party and Youth League building, propaganda, united front and military vehicles business of the Group |
| Tong Dongcheng | Non-executive Director | businesses of medium and heavy duty trucks, CV parts and components and DFG audit business |
| Ouyang Jie | Non-executive Director | safety and environmental protections, energy conservation and emission reduction of the Group |
| Liu Weidong | Non-executive Director | businesses of passenger vehicles, PV parts and components, as well as DFG R&D |
| Zhou Qiang | Non-executive Director | financial and international businesses, emergency management and social responsibilities of the Group |

### 2) Performance of Duties of the Directors

All directors of the Company attended the meetings of the Board, exercise their rights and fulfil their obligations properly in accordance with the Rules and Procedures for Board Meeting and General Meeting. All directors reviewed the monthly operational analysis reports and the newsletters for directors and supervisors of the Company regularly to fully understand the information and policies of the automobile industry as well as operations of the Company. The directors made independent, professional and objective judgments to related matters within their duties and provided individual opinions and recommendations through legal procedures.

### 3) Independence of Directors

The independent non-executive directors of the Company are Sun Shuyi, Ng Lin-fung, Yang Xianzu and Ma Zhigeng. Sun Shuyi is a certified public accountant and senior engineer in the PRC. Ng Lin-fung is a Hong Kong citizen and ordinary resident, and has extensive knowledge of the relevant policies, laws and regulations of Hong Kong. As at the date of this annual report, in accordance with Rule 3.13 of the Hong Kong Listing Rules, the Company has received the annual confirmation of independence from each of the independent non-executive directors. The Company considers that they remain independent.

All the independent directors have fulfilled their duties with good faith, integrity and diligence according to the laws and regulations. The independent directors participated in the discussion and decision on the material issues of the Board of Directors and Special Committees of the Board, and gave their views on the governance of the Company based on their expertise and experience. They have duly reviewed and expressed their independent views on the fairness and equality of connected transactions as well as the financial transactions of the connected parties. They have performed their duties independently and are independent of the substantial shareholders, beneficial owners and other entities and individuals which are interested in the Company. The independent directors made significant contributions towards the interests of the Company and shareholders as a whole and the health development of the Company.

During the reporting period, the independent directors of the Company did not hold a dissenting view regarding each of the material issues of the Company.

**4) Introduction Program for Directors**

In 2012, to promptly inform all directors of the most updated rules and regulations for compliance and their on-going obligations, the Company Secretariat released 12 issues of newsletters for directors and supervisors, providing them with the latest market news and information of the Company. In addition, the Company also provided interim and annual operational analysis reports, reports on implementation of significant investment projects and annual financial analysis and forecasts of the Company to the Board.

By providing them with information and reports and professional trainings, all directors, in particular the independent non-executive directors, will be kept informed of the business development, competition and regulatory environments as well as the industry in which the Company operates, which will help the directors to understand their responsibilities, make correct decisions and carry out effective supervision.

**5) Remuneration of Directors**

The first meeting of the Third Board has set up a Remuneration Committee which consists of Yang Xianzu, Li Shaozhu and Ng Lin-fung, and Yang Xianzu was appointed as the Chairman of the Remuneration Committee. The Remuneration Committee is responsible for the formulation and review of the remuneration policies and proposals for directors and senior management of the Company.

In 2012, other than the three independent non-executive directors of the Company who received remuneration of directors, all other directors did not receive any remuneration of directors from the Company. The executive directors receive remuneration for their management function from the Company. The remuneration of the independent non-executive directors is determined with reference to the average market level and the actual condition of the Company.

In 2012, the remuneration paid to each of the three independent non-executive directors by the Company was RMB120,000 after tax.

**6) Insurances for Directors**

The Company purchased insurances for its Directors, Supervisors and senior management.

**7) Securities Transactions by Directors**

After specific enquiry made by the Company, all directors confirmed that they had fully complied with the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules of the Hong Kong Stock Exchange throughout the year of 2012.

**8) Directors' responsibility for the financial statements**

The Board of Directors has acknowledged their responsibility for the preparation of the financial statements of the Group for the year ended 31 December 2012.

The Board of Directors is responsible for presenting a clear and understandable assessment in connection with the annual and interim reports, insider information and disclosures as required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the informed assessment and approval of the Board on the financial information and position of the Group.

The Group is not exposed to any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

**ii. Board Meeting**

Five board meetings were held by the Company in 2012 and the major matters covered were as follows:

- To consider and approve the annual and interim results announcements;
- To consider and approve the annual and interim financial reports and the reports of the Board of Directors;
- To determine directors' and supervisors' remuneration for the year;
- To consider and approve the profit distribution proposal of the previous year;
- To re-appoint the international auditors and domestic auditors;
- To consider and approve the third phase of the SAR plan of the Company;
- To deal with all issues in relation to guarantees provided to third parties by the Company and distribution of interim dividends pursuant to the authorization granted by the general meeting;
- To issue, allot and deal with additional Domestic Shares not exceeding 20 percent of the Domestic Shares in issue and additional H Shares not exceeding 20 percent of the H Shares in issue pursuant to the authorization granted by the general meeting;
- To adjust the organizational structure of the Company;
- To approve continuing connected transactions in relation to land leasing and connected transactions of asset transfer.
- To approve capital injection in Dongfeng Electric Vehicle Co., Ltd. (東風電動車輛股份有限公司) and Nissan Auto Finance;
- To adjust the acquisition price of equity in Dongfeng off-road vehicle company;
- To approve the establishment of nomination committee under the Board of Directors and the terms of reference of the nomination committee;

- To approve the establishment of a joint venture engaging in the business of gear box and trailer;
- To consider and approve the proposed changes in the composition of the Board of Directors;
- To approve the work plan of the Board of Directors for 2013;
- To consider and approve the matters relating to issue of super short-term debentures.

Meetings of Board of Directors may facilitate effective discussion and prompt and prudent decision. As at 31 January 2013, the attendance of directors in person and by proxy at meetings of Board of Directors is as follows:

| Members of the Board | Personal Attendance/ Number of Meetings Board Meetings | Attendance Rate | Remarks |
|---|---|---|---|
| *Executive Directors* | | | *1. The term of office of Zhou Wenjie as a director ended on 23 January 2013;* |
| Xu Ping | 8/8 | 100% | *2. The term of office of Ma Zhigeng as a director commenced on 23 January 2013.* |
| Zhu Fushou | 8/8 | 100% | |
| Zhou Wenjie | 6/6 | 100% | |
| Li Shaozhu | 8/8 | 100% | |
| Fan Zhong | 8/8 | 100% | |
| *Non-executive Directors* | | | |
| Tong Dongcheng | 8/8 | 100% | |
| Ouyang Jie | 8/8 | 100% | |
| Liu Weidong | 8/8 | 100% | |
| Zhou Qiang | 8/8 | 100% | |
| *Independent Non-executive Directors* | | | |
| Sun Shuyi | 8/8 | 100% | |
| Ng Lin-fung | 8/8 | 100% | |
| Yang Xianzu | 8/8 | 100% | |
| Ma Zhigeng | 2/2 | 100% | |

The management is responsible for providing the relevant materials and information required for considering and approving the resolutions of the Board of Directors, and present work reports, especially the progress of major projects of the Company at Board Meetings.

### iii. Special Committees of the Board

#### 1) Audit Committee

The Audit Committee was established by the Board of Directors and consists of one Non-executive Director and two Independent Non-executive Directors, of which one Independent Non-executive Director acts as the chairman of the Audit Committee.

At the first meeting of the Third Session of the Board of Directors, Sun Shuyi, Ouyang Jie and Ng Lin-fung were appointed as the members of the Audit Committee and Sun Shuyi was appointed as the chairman of the Audit Committee. The Audit Committee will perform its functions in accordance with the Terms of Reference of the Audit Committee. In 2012, the Audit Committee convened two meetings and held two meetings with the external auditors in respect of the audit result for the year 2011 and interim audit result for the year 2012.

#### 2) Remuneration Committee

The Remuneration Committee was established by the Board of Directors and consists of one Executive Director and two Independent Non-executive Directors, of which one Independent Non-executive Director acts as the chairman of the Remuneration Committee.

At the first meeting of the Third Session of the Board of Directors, Yang Xianzu, Li Shaozhu and Ng Lin-fung were appointed as the members of the Remuneration Committee and Yang Xianzu was appointed as the chairman of the Remuneration Committee.

The Remuneration Committee will perform its functions in accordance with the Terms of Reference of the Remuneration Committee. In 2012, the Remuneration Committee convened one meeting.

#### 3) Nomination Committee

The Nomination Committee was established by the Board of Directors and consists of one Executive Director and two Independent Non-executive Directors. Xu Ping, the Chairman, acts as the chairman of the Nomination Committee.

At the ninth meeting of the Third Session of the Board of Directors, Xu Ping, Sun Shuyi and Yang Xianzu were appointed as the members of the Nomination Committee and Xu Ping was appointed as the chairman of the Nomination Committee.

The Nomination Committee will perform its functions in accordance with the Terms of Reference of the Nomination Committee. In 2012, the Nomination Committee convened one meeting.

4) **Attendance of each Special Committee (including attendance by proxy) (Attendance/Number of Meetings):**

| Name | Position | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Xu Ping *(Chairman)* | Executive Director | | | 1/1 |
| Sun Shuyi *(Chairman)* | Independent Non-executive Director | 2/2 | | 1/1 |
| Yang Xianzu *(Chairman)* | Independent Non-executive Director | | 1/1 | 1/1 |
| Ng Lin-fung | Independent Non-executive Director | 2/2 | 1/1 | |
| Ouyang Jie | Non-executive Director | 2/2 | | |
| Li Shaozhu | Executive Director | | 1/1 | |

## (3) Internal Control System

### i. Supervisors and Supervisory Committee

The current session of the Supervisory Committee was elected by the Extraordinary General Meeting held on 11 October 2010, Ma Liangjie, Wen Shiyang, Deng Mingran, Ren Yong, Li Chunrong, Chen Binbo, Huang Gang and Kang Li were appointed as the supervisors. Ma Liangjie is the Chairman of the Third Session of the Supervisory Committee and Kang Li is the employees' Supervisor.

In 2012, the Supervisory Committee has supervised the Company's financial matters and the legality and compliance of rules and regulations by the directors and senior management during the performance of their duties. Two Supervisory Committee meetings were held in the year. All members of the Supervisory Committee have diligently performed their supervisory duties and attended the two Meetings in person or by appointing other supervisors to attend on their behalf and observe all Board Meetings.

### ii. Internal Controls

The Board of Directors shall formulate and maintain the internal control system of the Company and review the effectiveness of the key control procedures for financial, operational, and compliance control and risk management so as to safeguard the interests of the shareholders and the assets of the Group. The review comprises the assessment of the Audit Department of the Company on the internal control and the report of issues identified during the statutory audit by external auditors.

During the year, the Board of Directors thoroughly reviewed the effectiveness of the Company's internal control system for 2012 through the Audit Committee and the Company's audit department in five major areas of internal control, namely control environment, risk assessment, control activities, information and communication and supervision. Based on the reviews in previous years and the assessment of the internal control system in the year, the Board of Directors is of the opinion that during the year and as at the date of this annual report, the Company has maintained a comprehensive internal control system covering the areas of corporate governance, operation, investment, finance, administration and personnel management, and the internal control system is effective.

The Board of Directors is also of the opinion that the Company's internal control system is established for the purpose of managing potential risks instead of completely eliminating all risks. Accordingly, internal control system can only render reasonable, rather than absolute, assurance for the achievement of the Company's operating objectives.

**iii. Auditors and Auditors' Remuneration**

The Audit Committee is responsible for reviewing the appointment, resignation or removal of external auditors, as well as assessing their qualifications for providing services to the Company and the reasonableness of the audit fees, and making recommendations to the Board of Directors in these regards. The appointment and removal of the Company's external auditors as well as the audit fees shall be proposed by the Board of Directors to the general meetings for approval.

For the year ended 31 December 2012, the Company has appointed Ernst & Young and Ernst & Young Hua Ming as its international and domestic auditors, respectively. The audit fee of the Company for 2012 was RMB12.90 million.

The Audit Committee has discussed and assessed the expertise of Ernst & Young, its performance of audit work for 2012 and the proposed fees for 2013. The Audit Committee proposed to re-appoint Ernst & Young as the Company's external auditors and the proposal has been approved by the Board of Directors. The proposal to re-appoint Ernst & Young and Ernst & Young Hua Ming as the international and domestic auditors, respectively, of the Company for the year ending 31 December 2013 will be submitted to the 2012 annual general meeting for shareholders' consideration and approval and the Board of Directors will be authorized to determine their remunerations.

The statement of Ernst & Young, the Company's external auditor, about its reporting responsibilities on the financial statements are set out on pages 65 to 66 of this annual report.

## (4) Chairman and President

The Company has clearly defined the respective responsibilities of the Chairman and the President with details set out in the Articles of Association and the Rules and Procedures for Meetings of the Board of Directors.

The Chairman of the Company is Xu Ping. Zhu Fushou has been appointed by the Board of Directors as the President of the Company.

The Chairman focuses on the Group's development strategies and issues of the Board of Directors while the President is responsible for operation and management activities and development of the Company.

## (5) Information Disclosure

**i. Information Disclosure**

The Company recognizes the importance of performing its statutory obligation of disclosing information and strictly complies with the information disclosure regulations of the Listing Rules of the Hong Kong Stock Exchange. The Company promptly, accurately and completely discloses information that may materially affect the decision-making of investors strictly in accordance with the preparation and reporting rules and procedures as required for disclosing information, and ensures that all shareholders have equal and sufficient access to all information regarding the Company. Documents including the Articles of Association and the Rules and Procedures for General Meeting have been uploaded to the website of the Company.

During the reporting period, the Company published 35 announcements in accordance with the Listing Rules of The Stock Exchange of Hong Kong Limited. The Company published its announcements both on the websites of the Stock Exchange and the Company. For details, please visit th websites (www.hkex.com.hk) and (www.dfmg.com.cn).

Mr. Hu Xindong is the Company's Secretary and his contact details are as follows:

| | |
|---|---|
| Address: | Special No 1, Dongtang Road, Wuhan<br>Economic & Technologic Development Zone<br>Hubei Province PRC |
| Tel: | 86-27-84285274 |

**ii. Investor Relations and Communication**

The Company strives to strengthen communication with investors through active investor relations activities so as to enhance the investors' understanding and trust in the Company, build the investors' confidence for the future development of the Company, promote market recognition of the Company and enable the business development potential and actual value of the Company to be fully recognised by the market.

During the year, the Company has maintained close communication with overseas media and investors through various channels, such as results announcement conferences, news release conferences, overseas and domestic road shows, reception of routine visits by the investors and analysts, and telephone conferences. The Company has organized 11 road shows and reverse road shows, over 50 receptions of routine visits by the investors and analysts, and over 60 telephone conferences during the year.

**iii. Shareholders' Return**

The Company continues to strive to enhance the shareholders' return, and has totally distributed cash dividend of approximately RMB5,000 million since its listing. The Board of Directors proposed to distribute a cash dividend of approximately RMB1,292 million, or RMB0.15 per share for annual results in 2012 and will submit the proposal at the annual general meeting of 2012 for approval.

# Independent Auditors' Report

ERNST & YOUNG

## To the shareholders of Dongfeng Motor Group Company Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Dongfeng Motor Group Company Limited (the "Company") and its subsidiaries and jointly-controlled entities (together, the "Group") set out on pages 67 to 172, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditors' Report

## Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

27 March 2013

# Consolidated Income Statement

Year ended 31 December 2012

| | Notes | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| Revenue | 4 | **124,036** | 131,441 |
| Cost of sales | | **(100,160)** | (105,051) |
| Gross profit | | **23,876** | 26,390 |
| Other income | 5 | **3,129** | 2,853 |
| Selling and distribution expenses | | **(6,716)** | (6,275) |
| Administrative expenses | | **(3,937)** | (3,641) |
| Other expenses, net | | **(3,772)** | (4,943) |
| Finance costs | 7 | **(288)** | (402) |
| Share of profits and losses of associates | | **406** | 379 |
| PROFIT BEFORE TAX | 6 | **12,698** | 14,361 |
| Income tax expense | 10 | **(2,919)** | (3,401) |
| PROFIT FOR THE YEAR | | **9,779** | 10,960 |
| Profit attributable to: | | | |
| Equity holders of the parent | 11 | **9,092** | 10,481 |
| Non-controlling interests | | **687** | 479 |
| | | **9,779** | 10,960 |
| Earnings per share attributable to ordinary equity holders of the parent: | 13 | | |
| Basic for the year | | **105.52 cents** | 121.65 cents |
| Diluted for the year | | **N/A** | N/A |

Details of dividends proposed for the year are disclosed in note 12 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

| | Note | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| PROFIT FOR THE YEAR | | **9,779** | 10,960 |
| OTHER COMPREHENSIVE INCOME | | | |
| Available-for-sale financial assets: | | | |
| Changes in fair value | | **28** | (52) |
| Income tax effect | | **(7)** | 11 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | **21** | (41) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **9,800** | 10,919 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | 11 | **9,103** | 10,452 |
| Non-controlling interests | | **697** | 467 |
| | | **9,800** | 10,919 |

# Consolidated Statement of Financial Position

31 December 2012

| | Notes | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **25,823** | 21,578 |
| Prepaid land lease prepayments | | **2,468** | 1,685 |
| Intangible assets | 15 | **2,727** | 2,361 |
| Goodwill | 16 | **875** | 640 |
| Investments in associates | 19 | **1,578** | 1,526 |
| Available-for-sale financial assets | 26 | **338** | 306 |
| Other non-current assets | 20 | **4,167** | 2,749 |
| Deferred tax assets | 10 | **2,443** | 2,672 |
| Total non-current assets | | **40,419** | 33,517 |
| **Current assets** | | | |
| Inventories | 21 | **11,386** | 12,511 |
| Trade receivables | 22 | **2,441** | 2,623 |
| Bills receivable | 23 | **18,113** | 16,977 |
| Prepayments, deposits and other receivables | 24 | **7,899** | 5,706 |
| Due from jointly-controlled entities | 25 | **1,403** | 1,452 |
| Pledged bank balances and time deposits | 27 | **931** | 1,848 |
| Cash and cash equivalents | 27 | **32,101** | 42,899 |
| | | **74,274** | 84,016 |
| Assets classified as held for sale | 17 | **117** | — |
| Total current assets | | **74,391** | 84,016 |
| **TOTAL ASSETS** | | **114,810** | 117,533 |

# Consolidated Statement of Financial Position

31 December 2012

| | Notes | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | 28 | **8,616** | 8,616 |
| Reserves | 29 | **13,323** | 11,315 |
| Retained profits | 29 | **30,687** | 24,912 |
| Proposed final dividend | 12 | **1,292** | 1,551 |
| | | **53,918** | 46,394 |
| Non-controlling interests | | **3,715** | 3,190 |
| **Total equity** | | **57,633** | 49,584 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 30 | **1,328** | 2,820 |
| Other non-current liabilities | | **129** | 57 |
| Provisions | 31 | **16** | 37 |
| Government grants | 32 | **546** | 271 |
| Deferred tax liabilities | 10 | **94** | 49 |
| Total non-current liabilities | | **2,113** | 3,234 |

| | Notes | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | 33 | **19,609** | 23,055 |
| Bills payable | 34 | **8,694** | 9,978 |
| Other payables and accruals | 35 | **15,553** | 20,112 |
| Due to jointly-controlled entities | 25 | **1,810** | 1,551 |
| Interest-bearing borrowings | 30 | **6,391** | 5,993 |
| Income tax payable | | **1,253** | 2,610 |
| Provisions | 31 | **1,738** | 1,416 |
| | | **55,048** | 64,715 |
| Liabilities directly associated with the assets classified as held for sale | 17 | **16** | — |
| Total current liabilities | | **55,064** | 64,715 |
| **TOTAL LIABILITIES** | | **57,177** | 67,949 |
| **TOTAL EQUITY AND LIABILITIES** | | **114,810** | 117,533 |
| Net current assets | | **19,327** | 19,301 |
| Total assets less current liabilities | | **59,746** | 52,818 |

**Xu Ping**
*Director*

**Zhou Qiang**
*Director*

# Consolidated Statement of Changes In Equity

Year ended 31 December 2012

| | Notes | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | Capital reserve | Statutory reserves | Retained profits | Proposed final dividend | Total | Non-controlling interests | Total equity |
| | | RMB million | RMB million | RMB million (note 29) | RMB million | RMB million | RMB million | RMB million | RMB million |
| As at 1 January 2011 | | 8,616 | 1,535 | 7,133 | 18,659 | 1,551 | 37,494 | 3,842 | 41,336 |
| Profit for the year | | – | – | – | 10,481 | – | 10,481 | 479 | 10,960 |
| Other comprehensive income for the year: | | | | | | | | | |
| Changes in fair value of available-for-sale financial assets, net of tax | | – | (29) | – | – | – | (29) | (12) | (41) |
| Total comprehensive income for the year | | – | (29) | – | 10,481 | – | 10,452 | 467 | 10,919 |
| Transfer to reserves | | – | – | 2,677 | (2,677) | – | – | – | – |
| Loss of joint control in a jointly-controlled entity's subsidiary | 18 | – | (1) | – | – | – | (1) | (114) | (115) |
| Gain of joint control in a jointly-controlled entity's subsidiary | 18 | – | – | – | – | – | – | 60 | 60 |
| Capital contributions from non-controlling shareholders | | – | – | – | – | – | – | 28 | 28 |
| Dividends paid to non-controlling shareholders | | – | – | – | – | – | – | (1,093) | (1,093) |
| Final 2010 dividend declared and paid | | – | – | – | – | (1,551) | (1,551) | – | (1,551) |
| Proposed final dividend | 12 | – | – | – | (1,551) | 1,551 | – | – | – |
| As at 31 December 2011 | | 8,616 | 1,505* | 9,810* | 24,912 | 1,551 | 46,394 | 3,190 | 49,584 |
| **As at 1 January 2012** | | **8,616** | **1,505** | **9,810** | **24,912** | **1,551** | **46,394** | **3,190** | **49,584** |
| Profit for the year | | **–** | **–** | **–** | **9,092** | **–** | **9,092** | **687** | **9,779** |
| Other comprehensive income for the year: | | | | | | | | | |
| Changes in fair value of available-for-sale financial assets, net of tax | | **–** | **11** | **–** | **–** | **–** | **11** | **10** | **21** |
| Total comprehensive income for the year | | **–** | **11** | **–** | **9,092** | **–** | **9,103** | **697** | **9,800** |
| Transfer to reserves | | **–** | **–** | **2,001** | **(2,001)** | **–** | **–** | **–** | **–** |
| Gain of control in subsidiaries | 17 | **–** | | **–** | **–** | **–** | **–** | **37** | **37** |
| Capital contributions from non-controlling shareholders | | **–** | **(4)** | **–** | **(24)** | **–** | **(28)** | **48** | **20** |
| Dividends paid to non-controlling shareholders | | **–** | **–** | **–** | **–** | **–** | **–** | **(257)** | **(257)** |
| Final 2011 dividend declared and paid | | **–** | **–** | **–** | **–** | **(1,551)** | **(1,551)** | **–** | **(1,551)** |
| Proposed final dividend | 12 | **–** | **–** | **–** | **(1,292)** | **1,292** | **–** | **–** | **–** |
| As at 31 December 2012 | | **8,616** | **1,512*** | **11,811*** | **30,687** | **1,292** | **53,918** | **3,715** | **57,633** |

* These reserve accounts comprise the consolidated reserves of RMB13,323 million (2011: RMB11,315 million) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | Notes | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **12,698** | 14,361 |
| Adjustments for: | | | |
| Share of profits and losses of associates | | **(406)** | (379) |
| Loss on disposal of items of property, plant and equipment, net | 6 | **44** | 9 |
| Loss on disposal of intangible assets | 6 | **2** | 11 |
| Gain of remeasurement of previously held interests in the acquirees | 5 | **(121)** | (9) |
| Gain on loss of control in a jointly-controlled entity's subsidiary | 5 | **—** | (292) |
| Provision against inventories | 6 | **223** | 250 |
| Impairment of trade and other receivables | 6 | **35** | 25 |
| Exchange gains, net | 6 | **(17)** | (214) |
| Depreciation | 6 | **2,769** | 2,725 |
| Impairment of items of property, plant and equipment | 6 | **6** | 182 |
| Impairment of intangible assets | 6 | **—** | 2 |
| Amortisation of intangible assets | 6 | **428** | 389 |
| Finance costs | 7 | **288** | 402 |
| Interest income | 5 | **(1,154)** | (1,054) |
| | | **14,795** | 16,408 |
| Increase in trade and bills receivables and prepayments, deposits and other receivables | | **(1,424)** | (2,751) |
| Decrease in inventories | | **1,176** | 1,176 |
| Decrease/(increase) in amounts due from jointly-controlled entities | | **(23)** | 12 |
| Decrease/(increase) in trade and bills payables, and other payables and accruals | | **(9,520)** | 763 |
| Increase in loans and receivables from financing services | | **(926)** | (1,342) |
| Increase in cash deposits received from financing services | | **82** | 68 |
| Increase in mandatory reserve with the People's Bank of China | | **(175)** | (46) |
| Increase/(decrease) in amounts due to jointly-controlled entities | | **259** | (185) |
| Increase in provisions | | **304** | 264 |
| Decrease/(increase) in other non-current liabilities | | **23** | (7) |
| Decrease in government grants | | **(19)** | (31) |
| Cash generated from operations | | **4,552** | 14,329 |
| Interest paid | | **(316)** | (372) |
| Income tax paid | | **(3,929)** | (4,315) |
| **Net cash flows from operating activities** | | **307** | 9,642 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | Notes | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of items of property, plant and equipment | | **(7,074)** | (6,072) |
| Increase in prepaid land lease prepayments and other non-current assets | | **(704)** | (477) |
| Purchases of intangible assets | | **(779)** | (470) |
| Purchases of available-for-sale financial assets | | **(17)** | (63) |
| Acquisition of control in subsidiaries | 17 | **(149)** | — |
| Acquisition of joint control in jointly-controlled entities | 18 | **(83)** | (16) |
| Investments in associates | | **(28)** | (274) |
| Proceeds from disposal of items of property, plant and equipment | | **64** | 80 |
| Proceeds from disposal of available-for-sale financial assets | | **7** | 1,313 |
| Proceeds from loss of control in a jointly-controlled entity's subsidiary | 18 | **—** | 70 |
| Proceeds from disposal of associates | | **25** | — |
| Dividends from associates | | **102** | 115 |
| Government grants received | | **292** | 145 |
| Interest received | | **1,203** | 993 |
| Decrease/(increase) in pledged bank balances and time deposits | | **917** | (302) |
| Decrease in non-pledged time deposits with original maturity of three months or more when acquired | | **3,306** | 3,997 |
| **Net cash flows used in investing activities** | | **(2,918)** | (961) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **10,241** | 15,581 |
| Repayment of borrowings | | **(13,216)** | (16,282) |
| Decrease in advances to a jointly-controlled entity engaged in financing services | | **72** | 281 |
| Increase/(decrease) in cash deposits received from DMC by a jointly-controlled entity engaged in financing services | | **211** | (153) |
| Capital contribution from non-controlling shareholders | | **20** | 28 |
| Dividends paid to non-controlling shareholders | | **(659)** | (1,093) |
| Dividends paid | | **(1,551)** | (1,551) |
| **Net cash flows used in financing activities** | | **(4,882)** | (3,189) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(7,493)** | 5,492 |
| Cash and cash equivalents at beginning of year | | **31,381** | 25,889 |
| **Cash and cash equivalents at end of year** | 27 | **23,888** | 31,381 |

# Statement of Financial Position

31 December 2012

| | Notes | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **2,148** | 2,043 |
| Prepaid land lease prepayments | | **304** | 310 |
| Intangible assets | 15 | **193** | 33 |
| Investments in subsidiaries | 17 | **865** | 140 |
| Investments in jointly-controlled entities | 18 | **13,212** | 13,037 |
| Investments in associates | 19 | **420** | 511 |
| Available-for-sale financial assets | 26 | **68** | 68 |
| Total non-current assets | | **17,210** | 16,142 |
| **Current assets** | | | |
| Inventories | 21 | **837** | 423 |
| Trade receivables | 22 | **471** | 433 |
| Bills receivable | 23 | **2,619** | 396 |
| Prepayments, deposits and other receivables | 24 | **3,936** | 2,938 |
| Due from jointly-controlled entities | 25 | **3,199** | 3,409 |
| Cash and cash equivalents | 27 | **13,458** | 14,019 |
| Total current assets | | **24,520** | 21,618 |
| **TOTAL ASSETS** | | **41,730** | 37,760 |

# Statement of Financial Position

31 December 2012

| | Notes | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Issued capital | 28 | **8,616** | 8,616 |
| Reserves | 29 | **6,531** | 5,654 |
| Retained profits | 29 | **18,345** | 13,044 |
| Proposed final dividend | 12 | **1,292** | 1,551 |
| Total equity | | **34,784** | 28,865 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 30 | **—** | 1,994 |
| Other non-current liabilities | | **57** | 57 |
| Total non-current liabilities | | **57** | 2,051 |
| **Current liabilities** | | | |
| Trade payables | 33 | **1,676** | 1,183 |
| Bills payable | 34 | **287** | 147 |
| Other payables and accruals | 35 | **1,253** | 1,358 |
| Due to jointly-controlled entities | 25 | **1,282** | 855 |
| Interest-bearing borrowings | 30 | **2,088** | 3,052 |
| Income tax payable | | **211** | 211 |
| Provisions | 31 | **92** | 38 |
| Total current liabilities | | **6,889** | 6,844 |
| **TOTAL LIABILITIES** | | **6,946** | 8,895 |
| **TOTAL EQUITY AND LIABILITIES** | | **41,730** | 37,760 |

**Xu Ping**
*Director*

**Zhou Qiang**
*Director*

## 1. CORPORATE INFORMATION

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

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

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations 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.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly-controlled entities for the year ended 31 December 2012. The financial statements of the subsidiaries and jointly-controlled entities are prepared for the same reporting period as the Company, using consistent accounting policies.

The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

For the business combination under common control, the financial information of the Group and that of the acquired businesses have been combined, as if the Group acquired such businesses from the beginning of the earliest financial period presented. The net assets of the Group and the acquired business are combined using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of the Group's interest in the net fair value of the acquired business's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of common control combination. The difference between the consolidation and book value of the acquired business at the time of common control combination is deducted into the reserves of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* |
| IAS 12 Amendments | Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets* |

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

## 2.3 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 Amendments | Amendments to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2] |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2] |
| IFRS 9 | *Financial Instruments*[4] |
| IFRS 10 | *Consolidated Financial Statements*[2] |
| IFRS 11 | *Joint Arrangements*[2] |
| IFRS 12 | *Disclosures of Interests in Other Entities*[2] |
| IFRS 10, IFRS 11 and IFRS 12 Amendments | Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*[2] |
| IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments | Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[3] |
| IFRS 13 | *Fair Value Measurement*[2] |
| IAS 1 Amendments | Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1] |
| IAS 19 Amendments | *Employee Benefits*[2] |
| IAS 27 (Revised) | *Separate Financial Statements*[2] |
| IAS 28 (Revised) | *Investments in Associates and Joint Ventures*[2] |
| IAS 32 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3] |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine*[2] |
| *Annual Improvements 2009 — 2011 Cycle* | Amendments to a number of IFRSs issued in May 2012[2] |

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRS that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

The initial adoption of IFRS 11 will impact the financial position of the Group by eliminating proportionate consolidation of joint ventures (see note 18). With the application of IFRS 11, the investments in joint ventures will be accounted for using the equity method of accounting. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application. The impact of IFRS 11 on the current year (which will be the comparative period in the financial statements as of 31 December 2013), of certain line items, is estimated to be a reduction of revenue by about 90%. Total assets and total liabilities will be reduced by about 50% and 80%, respectively. It will not have an impact on the Group's profit and equity attributable to the equity holders of the parent.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or IFRIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27(Revised), IAS 28(Revised) and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 Amendments includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 Amendments from 1 January 2013.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The *Annual Improvements to IFRSs 2009–2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

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

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

(d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

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

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

# 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Jointly-controlled entities (continued)

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

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

## Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange of control of the acquiree. For each business combination, the Group elects whether to measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after assessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured on the basis of the relative value of the disposed operation and the portion of the cash-generating unit retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).



### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

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

| | Estimated useful life |
|---|---|
| Buildings | Over 10 to 45 years |
| Plant and equipment | Over 5 to 20 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

### Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

**Patents and licences**

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 15 years.

**Research and development costs**

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment arises during the year.

### Prepaid land lease prepayments

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

### Operating leases

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

# 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Investments and other financial assets

**Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

**Financial assets at fair value through profit or loss (continued)**

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

**Available-for-sale financial investments**

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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

# 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Investments and other financial assets (continued)

**Available-for-sale financial investments (continued)**

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

## Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

# 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Impairment of financial assets (continued)

**Financial assets carried at amortised cost (continued)**

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

**Assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

**Available-for-sale financial instruments**

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increase in their fair value after impairment are recognised directly in other comprehensive income.

## Financial liabilities

**Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

**Initial recognition and measurement (continued)**
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to jointly-controlled entities and interest-bearing loans and borrowings.

**Subsequent measurement**
The subsequent measurement of financial liabilities depends on their classification as follows:

**Loans and borrowings**
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

**Financial guarantee contracts**
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### Derecognition of financial liabilities

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### Derivative financial instruments

**Initial recognition and measurement**

The Group uses derivative financial instruments such as foreign currency forward and swap contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

### Inventories

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Trade and other receivables

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

### Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in “Finance costs” in the income statement.

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

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

# 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Income tax (continued)

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

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

## Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

## Revenue recognition

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

**Sale of goods**

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

**Rendering of services**

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

**Interest income**

Revenue is recognised as interest income on an accrual basis, using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

**Dividend income**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

**Retirement benefits**

The Group's contributions to various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC and a supplemental pension scheme regulated by DMC are expensed as incurred. Further details of the defined contribution pension schemes and the supplemental pension scheme are set out in note 6(a) below.

**Medical benefits**

The Group's contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC and a supplemental medical benefit plan organised by DMC are expensed as incurred. Further details of the defined contribution medical benefit plans and the supplemental medical benefit plan are set out in note 6(b) below.

**Cash housing subsidies**

Cash housing subsidies represented payments to the housing subsidy plans implemented by the Group in 2000. Cash housing subsidies related to past services of employees were fully recognised in the income statement on a one-off basis in the year of implementation of 2000. Cash housing subsidies related to present services of employees are recognised in the income statement when incurred. Further details of the housing subsidy plans are set out in note 6(c) below.

**Termination and early retirement benefits**

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed either to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Further details of the termination and early retirement benefit plan are set out in note 6(d) below.

**Share-based payments**

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

# 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Employee benefits (continued)

**Share-based payments (continued)**

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

## Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## Dividends

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

## Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Group. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

# 3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

## Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

**Impairment of goodwill**

Management determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are set out in note 16.

**Impairment of long-lived assets**

Management determines whether long-lived assets are impaired at least on an annual basis. This requires an estimation of the value in use of the assets. Estimating the value in use requires the management to make estimates of the level of sales volume, sales revenue and operating costs for the preparation of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

**Warranty provisions**

Provisions for product warranties granted by the Group to certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

**Impairment of receivables**

Management recognises bad debt provision based on its estimates of recovery of trade and other receivables. Bad debt provision is recognised when there are indicators that the receivables cannot be recovered. If the actual situation deviates from the current estimates, any differences arising from the deviation will affect the carrying value of receivables and the results of operations in the future periods.

**Deferred tax assets**

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

### Revenue on sale of goods

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

### Segment information

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

— The commercial vehicles segment manufactures and sells commercial vehicles, and the related engines and other automotive parts

— The passenger vehicles segment manufactures and sells passenger vehicles, and the related engines and other automotive parts

— The corporate and others segment manufactures and sells other automobile related products and provides of financing services associated with the sales of vehicles.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating segment profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group's financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

As the chief operating decision maker of the Group considers that most of the Group's consolidated revenue and results are attributable to the market in the PRC, and the Group's consolidated assets are substantially located inside the PRC, no geographical information is presented.

During the years ended 31 December 2012 and 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

## Segment information (continued)

**Year ended 31 December 2012**

| | Commercial vehicles RMB million | Passenger vehicles RMB million | Corporate and others RMB million | Total RMB million |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 26,831 | 96,042 | 715 | 123,588 |
| Interest income from financing services | — | — | 448 | 448 |
| | 26,831 | 96,042 | 1,163 | 124,036 |
| **Results** | | | | |
| Segment results | 1,058 | 11,548 | (1,247) | 11,359 |
| Interest income | 103 | 511 | 607 | 1,221 |
| Finance costs | | | | (288) |
| Share of profits and losses of associates | 146 | 78 | 182 | 406 |
| Profit before tax | | | | 12,698 |
| Income tax expense | | | | (2,919) |
| Profit for the year | | | | 9,779 |
| **Other segment information** | | | | |
| Capital expenditure: | | | | |
| — Property, plant and equipment | 1,204 | 5,198 | 672 | 7,074 |
| — Intangible assets | 57 | 669 | 53 | 779 |
| — Prepaid land lease prepayments | 212 | 622 | 40 | 874 |
| Depreciation of items of property, plant and equipment | 616 | 2,037 | 116 | 2,769 |
| Amortisation of intangible assets | 43 | 299 | 86 | 428 |
| Provision against inventories | 142 | 81 | — | 223 |
| Impairment losses recognised in the income statement | 4 | 9 | 11 | 24 |
| Warranty provisions | 296 | 892 | — | 1,188 |

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

### Segment information (continued)

**Year ended 31 December 2011**

| | Commercial vehicles RMB million | Passenger vehicles RMB million | Corporate and others RMB million | Total RMB million |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 35,473 | 94,921 | 640 | 131,034 |
| Interest income from financing services | — | — | 407 | 407 |
| | 35,473 | 94,921 | 1,047 | 131,441 |
| **Results** | | | | |
| Segment results | 1,960 | 12,248 | (878) | 13,330 |
| Interest income | 87 | 576 | 391 | 1,054 |
| Finance costs | | | | (402) |
| Share of profits and losses of associates | 199 | 92 | 88 | 379 |
| Profit before tax | | | | 14,361 |
| Income tax expense | | | | (3,401) |
| Profit for the year | | | | 10,960 |
| **Other segment information** | | | | |
| Capital expenditure: | | | | |
| — Property, plant and equipment | 947 | 4,524 | 601 | 6,072 |
| — Intangible assets | 64 | 372 | 34 | 470 |
| — Prepaid land lease prepayments | 249 | 207 | — | 456 |
| Depreciation of items of property, plant and equipment | 653 | 2,039 | 33 | 2,725 |
| Amortisation of intangible assets | 22 | 292 | 75 | 389 |
| Provision against inventories | 154 | 99 | (3) | 250 |
| Impairment losses recognised in the income statement | 7 | 175 | 27 | 209 |
| Warranty provisions | 217 | 809 | — | 1,026 |

# 5. OTHER INCOME

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

| | | Group | |
|---|---|---|---|
| | | 2012 | 2011 |
| | Notes | RMB million | RMB million |
| Government grants and subsidies | 32 | 745 | 457 |
| Net income from disposal of other materials | | 556 | 624 |
| Interest income | | 1,154 | 1,054 |
| Rendering of services | | 116 | 40 |
| Gain on remeasurement of previously held interests in the acquirees | 17, 18 | 121 | 9 |
| Gain on loss of control in a jointly-controlled entity's subsidiary | 18 | — | 292 |
| Others | | 437 | 377 |
| | | 3,129 | 2,853 |

## 6. PROFIT BEFORE TAX

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

| | | Group | |
|---|---|---|---|
| | | **2012** | 2011 |
| | Notes | **RMB million** | RMB million |
| Cost of inventories recognised as expense | | **100,130** | 104,998 |
| Interest expense for financing services (included in cost of sales) | | **30** | 53 |
| Provision against inventories | | **223** | 250 |
| Depreciation | 14 | **2,769** | 2,725 |
| Amortisation of intangible assets * | 15 | **428** | 389 |
| Amortisation of prepaid land lease prepayments | | **59** | 37 |
| Auditors' remuneration | | **18** | 18 |
| Minimum lease payments under operating leases in respect of land and buildings | | **339** | 238 |
| Reversal of provision for sales rebates | | **(152)** | (416) |
| Staff costs (excluding directors' and supervisors' remuneration (note 8)): | | | |
| — Wages and salaries | | **5,130** | 5,050 |
| — Pension scheme costs | (a) | **807** | 671 |
| — Medical benefit costs | (b) | **282** | 237 |
| — Cash housing subsidy costs | (c) | **16** | 14 |
| — Stock appreciation rights expense | (e) | **—** | — |
| | | **6,235** | 5,972 |
| Included in other expenses, net | | | |
| Loss on disposal of items of property, plant and equipment, net | | **44** | 9 |
| Loss on disposal of intangible assets | | **2** | 11 |
| Impairment of items of property, plant and equipment | 14 | **6** | 182 |
| Impairment of intangible assets | 15 | **—** | 2 |
| Impairment of trade and other receivables | | **35** | 25 |
| Reversal of provision for royalty fee | | **(771)** | — |
| Warranty provisions | 31 | **1,188** | 1,026 |
| Research costs | | **3,395** | 3,459 |
| Exchange gains, net | | **(17)** | (214) |

* The amortisation of intangible assets is included in "Cost of sales" in the consolidated income statement.

# 6. PROFIT BEFORE TAX (continued)

## (a) Retirement benefits

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

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

In accordance with the arrangement in place and for administrative reasons, the contributions to the Scheme are settled directly by each of the Hubei Entities based on the amounts of their respective contributions required to be borne.

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

## (b) Medical benefits

The Group contributes on a monthly basis to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the medical benefit obligations of all existing and retired employees under these plans.

In addition, the Hubei Entities also participate in a supplemental medical benefit plan regulated by DMC pursuant to which the Hubei Entities are required to contribute certain percentages of the wages of their qualified employees to the plan, on a monthly basis, and DMC undertakes to assume the supplemental medical benefit obligations payable to the qualified employees of the Hubei Entities. The Group has no further obligations for supplemental medical benefits beyond the contributions made. The contributions made by the Hubei Entities are expensed as incurred.

# 6. PROFIT BEFORE TAX (continued)

## (b) Medical benefits (continued)

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

## (c) Cash housing subsidies

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

For cash housing subsidies related to service periods before 1 January 2000, they were fully recognised as expenses upon implementation of the plans in year 2000. For cash housing subsidies related to service periods starting from 1 January 2000, the payments are made on a monthly basis commencing from January 2000 for a period of up to 20 years for employees without being allocated housing quarters and for a period of 15 years for employees being allocated housing quarters which are not up to the prescribed standards. The monthly payments are recognised in the income statement when incurred and are in line with the service periods of these employees.

## (d) Termination and early retirement benefits

The Group implemented termination and early retirement plans for certain qualified employees, pursuant to which the Group has the obligations to pay early retirement benefits on a monthly basis to the relevant early retired employees until these employees reach their normal retirement age at which time they can draw their pension from the governmental regulated pension schemes and the DMC regulated supplemental pension scheme.

The early retirement benefit obligations estimated by the directors were fully accrued and recognised in the respective years' income statements when the formal early retirement plan was demonstrably committed.

# 6. PROFIT BEFORE TAX (continued)

### (e) Stock appreciation rights

The shareholders of the Company have adopted a plan of stock appreciation rights ("SARs") for the senior management of the Group. The plan is designed to link the financial interests of the Group's senior management with the Group's future results of operations and the performance of the Company's 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.

On 18 April 2007, the Company's board of directors approved a plan of SARs for the senior management of the Group. 31,417,405 SAR units were granted with a term of six years with effect from 15 January 2007 (the "SAR"). The rights to the SAR units will have an exercise period of six years from the date of grant (i.e., 15 January 2007) and can be exercised in the third, fourth and fifth years following the date of grant and the total number of the rights exercised by an individual shall not in aggregate exceed 40%, 70% and 100%, respectively, of the total rights granted to the individual. The exercise price of the SARs as approved by the board of directors on 18 April 2007 was HK$4.09 per unit, being the average share price at the close of trading over the 30 business days preceding the date of grant. The SARs which have not been exercised on 14 January 2013 shall not be exercised and shall lapse upon their expiry. The SARs was fully exercised or forfeited as at 31 December 2012.

# 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| Interest on bank loans and other borrowings wholly repayable: | | |
| — within five years | **110** | 123 |
| — beyond five years | **19** | 24 |
| Interest on discounted bills | **44** | 100 |
| Interest on medium term notes | **151** | 184 |
| | **324** | 431 |
| Less: Amount capitalised in construction in progress | **(36)** | (29) |
| Net interest expense | **288** | 402 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

| | Group | | | |
|---|---|---|---|---|
| | Directors | | Supervisors | |
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Fees | **441** | 441 | **96** | 96 |
| Other emoluments: | | | | |
| — Salaries, allowances and benefits in kind | **2,770** | 2,029 | **1,732** | 1,545 |
| — Bonuses | **3,443** | 7,565 | **3,954** | 4,091 |
| — Pension scheme costs | **508** | 438 | **390** | 288 |
| | **7,162** | 10,473 | **6,172** | 6,020 |

Certain directors and supervisors were granted stock appreciation rights, in respect of their services to the Group, further details of which are set out in note 6(e) to the financial statements.

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and the supervisors and their remuneration for the year ended 31 December 2012 are as follows:

| 2012 | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Bonuses RMB'000 | Pension scheme costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Xu Ping | – | 337 | 414 | 62 | 813 |
| Zhu Fushou | – | 336 | 357 | 56 | 749 |
| Zhou Wenjie | – | 303 | 383 | 49 | 735 |
| Fan Zhong | – | 300 | 383 | 57 | 740 |
| Li Shaozhu | – | 300 | 383 | 57 | 740 |
| | – | 1,576 | 1,920 | 281 | 3,777 |
| **Non-executive directors:** | | | | | |
| Tong Dongcheng | – | 300 | 383 | 57 | 740 |
| Liu Weidong | – | 300 | 383 | 57 | 740 |
| Ouyang Jie | – | 300 | 383 | 57 | 740 |
| Zhou Qiang | – | 294 | 374 | 56 | 724 |
| | – | 1,194 | 1,523 | 227 | 2,944 |
| **Independent non-executive directors:** | | | | | |
| Sun Shuyi | 147 | – | – | – | 147 |
| Ng Lin-fung | 147 | – | – | – | 147 |
| Yang Xianzu | 147 | – | – | – | 147 |
| | 441 | – | – | – | 441 |
| | 441 | 2,770 | 3,443 | 508 | 7,162 |
| **Supervisors:** | | | | | |
| Ren Yong | – | 740 | 1,358 | 101 | 2,199 |
| Li Chunrong | – | 172 | 391 | 43 | 606 |
| Kang Li | – | 184 | 563 | 47 | 794 |
| Ma Liangjie | – | 302 | 374 | 112 | 788 |
| Chen Binbo | – | 164 | 763 | 43 | 970 |
| Huang Gang | – | 170 | 505 | 44 | 719 |
| | – | 1,732 | 3,954 | 390 | 6,076 |
| **Independent supervisors:** | | | | | |
| Wen Shiyang | 48 | – | – | – | 48 |
| Deng Mingran | 48 | – | – | – | 48 |
| | 96 | – | – | – | 96 |
| | 96 | 1,732 | 3,954 | 390 | 6,172 |

# 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and the supervisors and their remuneration for the year ended 31 December 2011 are as follows:

| 2011 | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Bonuses RMB'000 | Pension scheme costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Xu Ping | — | 247 | 1,096 | 54 | 1,397 |
| Zhu Fushou | — | 241 | 249 | 49 | 539 |
| Zhou Wenjie | — | 220 | 942 | 44 | 1,206 |
| Fan Zhong | — | 221 | 942 | 49 | 1,212 |
| Li Shaozhu | — | 221 | 942 | 49 | 1,212 |
| | — | 1,150 | 4,171 | 245 | 5,566 |
| **Non-executive directors:** | | | | | |
| Tong Dongcheng | — | 221 | 942 | 49 | 1,212 |
| Liu Weidong | — | 221 | 942 | 49 | 1,212 |
| Ouyang Jie | — | 221 | 942 | 49 | 1,212 |
| Zhou Qiang | — | 216 | 569 | 46 | 831 |
| | — | 879 | 3,395 | 193 | 4,467 |
| **Independent non-executive directors:** | | | | | |
| Sun Shuyi | 147 | — | — | — | 147 |
| Ng Lin-fung | 147 | — | — | — | 147 |
| Yang Xianzu | 147 | — | — | — | 147 |
| | 441 | — | — | — | 441 |
| | 441 | 2,029 | 7,566 | 438 | 10,474 |
| **Supervisors:** | | | | | |
| Ren Yong | — | 657 | 1,654 | 86 | 2,397 |
| Li Chunrong | — | 164 | 313 | 37 | 514 |
| Kang Li | — | 176 | 469 | 37 | 682 |
| Ma Liangjie | — | 228 | 568 | 35 | 831 |
| Chen Binbo | — | 157 | 671 | 57 | 885 |
| Huang Gang | — | 163 | 416 | 36 | 615 |
| | — | 1,545 | 4,091 | 288 | 5,924 |
| **Independent supervisors:** | | | | | |
| Wen Shiyang | 48 | — | — | — | 48 |
| Deng Mingran | 48 | — | — | — | 48 |
| | 96 | — | — | — | 96 |
| | 96 | 1,545 | 4,091 | 288 | 6,020 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

During the year, no emoluments were paid by the Group to any directors or supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the years ended 31 December 2012 and 2011.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one supervisors (2011: two directors and supervisors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2011: three) highest paid employees who are neither a director nor a supervisor of the Company are as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **1,954** | 1,356 |
| Bonuses | **3,537** | 3,235 |
| Pension scheme contributions | **278** | 185 |
| | **5,769** | 4,776 |

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

| | Number of employees | |
|---|---|---|
| | **2012** | 2011 |
| Nil–RMB1,000,000 | **—** | — |
| RMB1,000,001–RMB1,500,000 | **3** | — |
| RMB1,500,001–RMB2,000,000 | **1** | 3 |
| | **4** | 3 |

In prior years, the SARs were granted to four (2011: three) of the non-director and non-supervisor, highest paid employees in respect of their services to the Group, further details of which are included in note 6(e) to the financial statements.

# 10. INCOME TAX EXPENSE

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| Current income tax | **2,648** | 3,896 |
| Deferred income tax | **271** | (495) |
| Income tax expense for the year | **2,919** | 3,401 |

## (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 12% 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. After the implementation of the New Enterprise Income Tax Law from 1 January 2008, these subsidiaries and jointly-controlled entities will continue to enjoy the preferential income tax rate up to the end of the transition period, after which, the 25% standard rate applies.

## (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 are mainly recognised in respect of temporary differences relating to certain future deductible expenses for the purpose of corporate income tax.

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 assets are realised or the liabilities are settled.

# 10. INCOME TAX EXPENSE (continued)

A reconciliation of the income tax expense applicable to profit before tax at the statutory corporate income tax rate in the PRC in which the Group is domiciled to the income tax expense 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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **RMB million** | **%** | RMB million | % |
| Profit before tax | **12,698** | | 14,361 | |
| At the PRC statutory corporate income tax rate of 25% (2011: 25%) | **3,175** | **25.0** | 3,590 | 25.0 |
| Tax concessions and lower tax rates for specific provinces or locations | **(536)** | **(4.2)** | (544) | (3.8) |
| Income not subject to corporate income tax | **(106)** | **(0.8)** | (96) | (0.7) |
| Expenses not deductible for corporate income tax | **41** | **0.3** | 18 | 0.1 |
| Tax losses not recognised | **345** | **2.7** | 433 | 3.1 |
| Income tax expense at the Group's effective income tax rate | **2,919** | **23.0** | 3,401 | 23.7 |

# 10. INCOME TAX EXPENSE (continued)

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

**Group**

| | As at 31 December | | Year ended 31 December | | | |
|---|---|---|---|---|---|---|
| | | | Charged to the income statement | Charged to the statement of comprehensive income | Credited to the income statement | Credited to the statement of comprehensive income |
| | 2012 | 2011 | 2012 | 2012 | 2011 | 2011 |
| | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million |
| Deferred tax liabilities: | | | | | | |
| Capitalisation of development costs | (5) | (10) | (5) | – | (7) | – |
| Estimated useful life differences | (8) | (7) | 1 | – | 7 | – |
| Others | (81) | (32) | 42 | 7 | (5) | (11) |
| Gross deferred tax liabilities | (94) | (49) | | | | |
| Deferred tax assets: | | | | | | |
| Impairment of items of property, plant and equipment | 62 | 65 | 3 | – | (11) | – |
| Provision for stock appreciation right liabilities | – | – | – | – | 19 | – |
| Accrual expenses | 1,617 | 1,938 | 325 | – | (216) | – |
| Warranty provisions | 292 | 234 | (58) | – | (51) | – |
| Others | 472 | 435 | (37) | – | (231) | – |
| Gross deferred tax assets | 2,443 | 2,672 | | | | |
| Deferred income tax charge/(credit) | | | 271 | 7 | (495) | (11) |
| Net deferred tax liabilities | (94) | (49) | | | | |
| Net deferred tax assets | 2,443 | 2,672 | | | | |

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2012 includes a profit of RMB7,470 million (2011: RMB8,683 million) which has been dealt with in the financial statements of the Company (note 29).

## 12. DIVIDEND

### Group

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| Proposed final — RMB0.15 (2011: RMB0.18) per ordinary share | **1,292** | 1,551 |

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

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the Accounting Standards for Business Enterprises ("PRC GAAP") and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, the net profit after tax can only be distributed as dividends after an allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve of at least 10% of after-tax profit, until the reserve reaches 50% of the Company's share capital in aggregate. For the purpose of calculating the transfer to the reserve, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

## 12. DIVIDEND (continued)

The abovementioned reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend distribution purposes, the amounts that the Company's subsidiaries and jointly-controlled entities can legally distribute by way of a dividend are determined by reference to the profits as reflected in their financial statements prepared in accordance with PRC GAAP. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

## 13. 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:

| | **2012** | 2011 |
|---|---|---|
| | **RMB million** | RMB million |
| Earnings: | | |
| Profit for the year attributable to ordinary equity holders of the parent | **9,092** | 10,481 |

| | **Number of shares** | |
|---|---|---|
| | **million** | million |
| Shares: | | |
| Weighted average number of ordinary shares in issue during the year | **8,616** | 8,616 |

The Group has no potentially dilutive ordinary shares in issue during these years.

# 14. PROPERTY, PLANT AND EQUIPMENT

## Group

| | Buildings RMB million | Plant and equipment RMB million | Construction in progress RMB million | Total RMB million |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| At 31 December 2011 and 1 January 2012: | | | | |
| Cost | 1,323 | 34,873 | 5,857 | 42,053 |
| Accumulated depreciation and impairment | (541) | (19,892) | (42) | (20,475) |
| Net carrying amount | 782 | 14,981 | 5,815 | 21,578 |
| At 1 January 2012, net of accumulated depreciation and impairment | 782 | 14,981 | 5,815 | 21,578 |
| Additions | 151 | 466 | 6,457 | 7,074 |
| Disposals | (16) | (92) | — | (108) |
| Gain of control in subsidiaries | 12 | 39 | 1 | 52 |
| Gain of joint control in jointly-controlled entities | — | 2 | — | 2 |
| Reclassifications | 128 | 4,825 | (4,953) | — |
| Impairment | — | (6) | — | (6) |
| Depreciation provided during the year | (118) | (2,651) | — | (2,769) |
| At 31 December 2012, net of accumulated depreciation and impairment | 939 | 17,564 | 7,320 | 25,823 |
| At 31 December 2012: | | | | |
| Cost | 1,596 | 39,701 | 7,351 | 48,648 |
| Accumulated depreciation and impairment | (657) | (22,137) | (31) | (22,825) |
| Net carrying amount | 939 | 17,564 | 7,320 | 25,823 |

# 14. PROPERTY, PLANT AND EQUIPMENT (continued)

## Group

| | Buildings RMB million | Plant and equipment RMB million | Construction in progress RMB million | Total RMB million |
|---|---|---|---|---|
| 31 December 2011 | | | | |
| At 1 January 2011: | | | | |
| Cost | 1,261 | 32,628 | 3,006 | 36,895 |
| Accumulated depreciation and impairment | (494) | (17,819) | (31) | (18,344) |
| Net carrying amount | 767 | 14,809 | 2,975 | 18,551 |
| At 1 January 2011, net of accumulated depreciation and impairment | 767 | 14,809 | 2,975 | 18,551 |
| Additions | 22 | 603 | 5,447 | 6,072 |
| Disposals | (5) | (84) | — | (89) |
| Loss of control in a jointly-controlled entity's subsidiary | (6) | (110) | (6) | (122) |
| Gain of joint control in a jointly-controlled entity | 23 | 44 | 6 | 73 |
| Reclassifications | 42 | 2,554 | (2,596) | — |
| Impairment | (1) | (170) | (11) | (182) |
| Depreciation provided during the year | (60) | (2,665) | — | (2,725) |
| At 31 December 2011, net of accumulated depreciation and impairment | 782 | 14,981 | 5,815 | 21,578 |
| At 31 December 2011: | | | | |
| Cost | 1,323 | 34,873 | 5,857 | 42,053 |
| Accumulated depreciation and impairment | (541) | (19,892) | (42) | (20,475) |
| Net carrying amount | 782 | 14,981 | 5,815 | 21,578 |

# 14. PROPERTY, PLANT AND EQUIPMENT (continued)

## Company

| | Buildings RMB million | Plant and equipment RMB million | Construction in progress RMB million | Total RMB million |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| At 31 December 2011 and 1 January 2012: | | | | |
| Cost | 284 | 2,117 | 505 | 2,906 |
| Accumulated depreciation and impairment | (99) | (753) | (11) | (863) |
| Net carrying amount | 185 | 1,364 | 494 | 2,043 |
| At 1 January 2012, net of accumulated depreciation and impairment | 185 | 1,364 | 494 | 2,043 |
| Additions | 2 | 7 | 275 | 284 |
| Disposals | — | (6) | — | (6) |
| Reclassifications | 3 | 284 | (287) | — |
| Depreciation provided during the year | (11) | (162) | — | (173) |
| At 31 December 2012, net of accumulated depreciation and impairment | 179 | 1,487 | 482 | 2,148 |
| At 31 December 2012: | | | | |
| Cost | 288 | 2,413 | 483 | 3,184 |
| Accumulated depreciation and impairment | (109) | (926) | (1) | (1,036) |
| Net carrying amount | 179 | 1,487 | 482 | 2,148 |

# 14. PROPERTY, PLANT AND EQUIPMENT (continued)

## Company

| | Buildings RMB million | Plant and equipment RMB million | Construction in progress RMB million | Total RMB million |
|---|---|---|---|---|
| 31 December 2011 | | | | |
| At 1 January 2011: | | | | |
| Cost | 276 | 1,866 | 348 | 2,490 |
| Accumulated depreciation and impairment | (88) | (514) | — | (602) |
| Net carrying amount | 188 | 1,352 | 348 | 1,888 |
| At 1 January 2011, net of accumulated depreciation and impairment | 188 | 1,352 | 348 | 1,888 |
| Additions | 2 | 1 | 418 | 421 |
| Disposals | — | (2) | — | (2) |
| Reclassifications | 6 | 255 | (261) | — |
| Impairment | — | (75) | (11) | (86) |
| Depreciation provided during the year | (11) | (167) | — | (178) |
| At 31 December 2011, net of accumulated depreciation and impairment | 185 | 1,364 | 494 | 2,043 |
| At 31 December 2011: | | | | |
| Cost | 284 | 2,117 | 505 | 2,906 |
| Accumulated depreciation and impairment | (99) | (753) | (11) | (863) |
| Net carrying amount | 185 | 1,364 | 494 | 2,043 |

The impairment provided for the items of property, plant and equipment of the Group mainly represents a full provision for idle production facilities which were, in the opinion of the directors, without significant resale value.

The details of the above items of property, plant and equipment pledged to secure general banking facilities granted to the Group are set out in note 30 below.

# 15. INTANGIBLE ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Cost: | | | | |
| At 1 January | **4,530** | 4,081 | **219** | 218 |
| Additions | **779** | 470 | **168** | 1 |
| Gain of control in subsidiaries | **16** | — | **—** | — |
| Gain of joint control in jointly-controlled entities | **6** | — | **—** | — |
| Loss of control in a jointly-controlled entity's subsidiary | **—** | (5) | **—** | — |
| Disposals | **(68)** | (16) | **—** | — |
| At 31 December | **5,263** | 4,530 | **387** | 219 |
| Accumulated amortisation: | | | | |
| At 1 January | **2,024** | 1,644 | **74** | 67 |
| Amortisation | **428** | 389 | **8** | 7 |
| Gain of control in subsidiaries | **5** | — | **—** | — |
| Loss of control in a jointly-controlled entity's subsidiary | **—** | (4) | **—** | — |
| Disposals | **(66)** | (5) | **—** | — |
| At 31 December | **2,391** | 2,024 | **82** | 74 |
| Impairment: | | | | |
| At 1 January | **145** | 143 | **112** | 112 |
| Additions | **—** | 2 | **—** | — |
| At 31 December | **145** | 145 | **112** | 112 |
| Net book value: | | | | |
| At 1 January | **2,361** | 2,294 | **33** | 39 |
| At 31 December | **2,727** | 2,361 | **193** | 33 |

The details of the above items of intangible assets pledged to secure general banking facilities granted to the Group are set out in note 30 below.

# 16. GOODWILL

## Group

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| At 1 January | **640** | 479 |
| Additions | **235** | 161 |
| At 31 December | **875** | 640 |

The recoverable amounts of the cash-generating units, to which the goodwill is allocated, have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 12%. No growth rate has been projected beyond the five-year period.

# 17. INVESTMENTS IN SUBSIDIARIES

## Company

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| Unlisted investments, at cost | **865** | 140 |

## 17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 December 2012 were as follows:

| Name | Place of establishment and operations | Paid-up and registered capital | Percentage of equity interest attributable to the Company Direct | Percentage of equity interest attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| China Dongfeng Motor Industry Import and Export Co., Ltd. | PRC | RMB200,000,000 | 95.0 | 2.6 | Marketing and sale of automobiles |
| Shanghai Dongfeng Motor Industry Import and Export Co., Ltd. | PRC | RMB30,000,000 | — | 97.6 | Marketing and sale of automobiles |
| Dongfeng Electric Vehicle Co., Ltd. | PRC | RMB90,580,000 | 90.07 | — | Manufacturing and sale of electric vehicles, parts and components |
| Dongfeng Off-road Vehicle Co., Ltd. | PRC | RMB155,000,000 | 100 | — | Manufacturing and sale of off-road vehicles, parts and components |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# 17. INVESTMENTS IN SUBSIDIARIES (continued)

## Gain of control in subsidiaries

During the year ended 31 December 2012, the Group had the following significant change in the holdings of subsidiaries:

**(a) Dongfeng Electric Vehicle Co., Ltd. ("Dongfeng EV")**

In December 2010, the Company entered into an agreement with non-controlling shareholders of Dongfeng EV for the acquisition of a 17.31% equity interest in Dongfeng EV, a then 48.08%-owned associate of the Company, at a total cash consideration of RMB13.5 million. The Group acquired Dongfeng EV to enlarge the range of products in the passenger vehicles segment.

Upon the completion of the aforesaid acquisition in June 2012, the Company owns a 65.39% equity interest in Dongfeng EV which is thereafter accounted for as a subsidiary of the Company.

Since the acquisition, Dongfeng EV contributed RMB20 million to the Group's turnover and contributed a loss of RMB1 million to the Group for the year ended 31 December 2012.

Had the combination taken place alone at the beginning of 2012, the revenue and profit of the Group for the year would have been RMB124,052 million and RMB9,094 million, respectively.

**(b) Dongfeng Off-road Vehicle Co., Ltd. ("Dongfeng OV")**

In May 2012, the Company entered into an agreement with controlling shareholders of Dongfeng OV for the acquisition of a 60% equity interest in Dongfeng OV, a then 40%-owned associate of the Company, at a total consideration of RMB270 million. The Group acquired Dongfeng OV to enlarge the range of products in the passenger vehicles segment.

Upon the completion of the aforesaid acquisition in August 2012, the Company owns a 100% equity interest in Dongfeng OV which is thereafter accounted for as a subsidiary of the Company.

Since the acquisition, Dongfeng OV contributed RMB362 million to the Group's turnover and contributed a profit of RMB52 million to the Group for the year ended 31 December 2012.

Had the combination taken place alone at the beginning of 2012, the revenue and profit of the Group for the year would have been RMB124,432 million and RMB9,136 million, respectively.

# 17. INVESTMENTS IN SUBSIDIARIES (continued)

## Gain of control in subsidiaries (continued)

The Group's share of fair value of identifiable assets and liabilities of Dongfeng EV and Dongfeng OV acquired of at the respective dates of acquisitions were summarised as follows:

| | 2012<br>RMB million |
|---|---|
| Property, plant and equipment | 52 |
| Intangible assets | 11 |
| Assets classified as held for sale* | 117 |
| Deferred tax assets | 1 |
| Investment in associates | 8 |
| Other non-current assets | 31 |
| Inventories | 266 |
| Trade and bills receivables | 206 |
| Prepayment, deposits and other receivables | 25 |
| Cash and cash equivalents | 135 |
| Trade and bills payables | (372) |
| Other payables and accrued liabilities | (72) |
| Income tax payable | 7 |
| Liabilities directly associated with the assets classified as held for sale* | (16) |
| Other non-current liabilities | (50) |
| Provisions | (1) |
| Government grant | (2) |
| Non-controlling interests | (37) |
| | 309 |
| Goodwill on acquisition | 212 |
| Gain on remeasurement of previously held interests in the acquirees | (113) |
| | 408 |
| Represented by: | |
| Fair value of the consideration — cash | 284 |
| Investments in associates | 124 |
| | 408 |

An analysis of the cash flows in respect of the gain of control in subsidiaries is as follows:

| | |
|---|---|
| Cash consideration | (284) |
| Cash and cash equivalents acquired | 135 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | (149) |

* Assets classified as held for sale and liabilities directly associated with the assets classified as held for sale represented Dongfeng EV's investment in a 50%-owned jointly-control entity, investment property, prepaid land lease prepayments and balance due from its 50%-owned jointly-controlled entity which will be disposed to DMC's subsidiary according to the Asset transfer agreement signed on 15 June 2012.

# 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

## Company

| | 2012 RMB million | 2011 RMB million |
|---|---|---|
| Unlisted investments, at cost | **13,212** | 13,037 |

Particulars of the principal jointly-controlled entities as at 31 December 2012 were as follows:

| Name | Place of establishment and operations | Paid-up registered capital | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Dongfeng Honda Engine Co., Ltd.# | PRC | US$121,583,517 | 50.0 | — | Manufacture and sale of automotive parts and components |
| Dongfeng Honda Auto Parts Co., Ltd.# | PRC | US$37,500,000 | 44.0 | — | Manufacture and sale of automotive parts and components |
| Dongfeng Motor Co., Ltd.# | PRC | RMB16,700,000,000 | 50.0 | — | Manufacture and sale of automobiles, automotive parts and components |
| Dongfeng Honda Automobile Co., Ltd.# | PRC | US$560,000,000 | 50.0 | — | Manufacture and sale of automobiles, automotive parts and components |

## 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the principal jointly-controlled entities as at 31 December 2012 were as follows: (continued)

| Name | Place of establishment and operations | Paid-up registered capital | Percentage of equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Dongfeng Peugeot Citroen Automobile Company Ltd.# | PRC | RMB7,000,000,000 | 50.0 | — | Manufacture and sale of automobiles, automotive parts and components |
| Dongfeng Nissan Diesel Motor Co., Ltd.# | PRC | RMB289,900,700 | 50.0 | — | Manufacture and sale of automobiles, automotive parts and components |
| Dongfeng Motor Finance Co., Ltd.# | PRC | RMB1,319,000,000 | 20.0 | 40.0 | Provision of finance services |
| Dongfeng Automobile Co., Ltd.## | PRC | RMB2,000,000,000 | — | 30.1 | Manufacture and sale of automobiles, automotive parts and components |
| Dongfeng Electronics Technology Co., Ltd.## | PRC | RMB313,560,000 | — | 32.5 | Manufacture and sale of automotive parts and components |
| Dongfeng Cummins Engines Co., Ltd.# | PRC | US$100,620,000 | — | 15.0 | Manufacture and sale of automotive parts and components |

## 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the principal jointly-controlled entities as at 31 December 2012 were as follows: (continued)

| Name | Place of establishment and operations | Paid-up registered capital | Percentage of equity interest attributable to the Company Direct | Percentage of equity interest attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Guangzhou Aeolus Automobile Co., Ltd.# | PRC | RMB2,200,000,000 | – | 30.0 | Manufacture and sale of automobiles, automotive parts and components |
| Aeolus Xiangyang Motor Co., Ltd.# | PRC | RMB826,000,000 | – | 41.7 | Manufacture and sale of automotive parts and components |
| Aeolus Automobile Co., Ltd.# | PRC | RMB194,400,000 | – | 33.4 | Manufacture and sale of automobiles, automotive parts and components |
| Zhengzhou Nissan Automobile Co., Ltd.# | PRC | RMB1,290,000,000 | – | 39.8 | Manufacture and sale of automobiles |
| Dongfeng Peugeot Citroen Auto Finance Co., Ltd.# | PRC | RMB500,000,000 | 25 | 12.5 | Provision of finance services |

# Sino-foreign equity joint ventures

## Joint stock limited liability companies

# 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

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

| | **2012** **RMB million** | 2011 RMB million |
|---|---|---|
| Non-current assets | **34,321** | 29,252 |
| Current assets | **50,707** | 63,950 |
| Non-current liabilities | **(1,888)** | (1,315) |
| Current liabilities | **(49,862)** | (60,047) |
| Non-controlling interests | **(3,422)** | (3,140) |
| Net assets | **29,856** | 28,700 |
| Total revenue | **120,961** | 128,560 |
| Total expenses | **(110,565)** | (116,805) |
| Non-controlling interests | **(636)** | (431) |
| Profit attributable to equity holders of the parent | **9,760** | 11,324 |

# 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

During the years ended 31 December 2012 and 2011, the Group had the following significant change in the holdings of jointly-controlled entities:

## Gain of joint control in jointly-controlled entities

(a) **Dongfeng Peugeot Citroen Auto Finance Co., Ltd. ("Dongfeng PCF")**
In November 2011, the Company, entered into an agreement with the controlling shareholder of Dongfeng PCF for the acquisition of a 25% equity interest in Dongfeng PCF, a then 12.5% owned associate of the Group at a total cash consideration of RMB175 million.

Upon the completion of the aforesaid acquisition in December 2012, the Group owns a 37.5% equity interest in Dongfeng PCF which is thereafter accounted for as a jointly-controlled entity of the Group.

Since the acquisition, Dongfeng PCF did not contributed any turnover or profit to the Group for the year ended 31 December 2012.

Had the combination taken place alone at the beginning of 2012, the revenue and profit of the Group for the year would have been RMB124,210 million and RMB9,121 million, respectively.

(b) **Hefeng Guang Yuan Auto Sales Services Co., Ltd., Jining Xingyuan Auto Sales Services Co., Ltd., and Zoucheng Baofeng Yuan Auto Sales Auto Sales Services Co., Ltd. (the "4S Shops")**
In August 2012, Dongfeng Motor Limited ("DFL"), a 50%-owned jointly-controlled entity of the Company, entered into an agreement for the acquisition of a 100% equity interest in the 4S Shops at a total cash consideration of RMB22 million.

Upon the completion of the aforesaid acquisition in December 2012, DFL owns a 100% equity interest in the 4S Shops which are thereafter accounted for as subsidiaries of DFL.

Since the acquisition, the 4S Shops contributed RMB19 million to the group's turnover and contributed a loss of RMB3 million to the Group for the year ended 31 December 2012.

Had the combination taken place alone at the beginning of 2012, the revenue and profit of the Group for the year would have been RMB124,048 million and RMB9,094 million, respectively.

(c) **Zhanjiang Deli Carburetor Co., Ltd. ("Zhanjiang Deli")**
In February 2011, DFL entered into an agreement with a non-controlling shareholder of Zhanjiang Deli for the acquisition of an additional 20% equity interest in Zhanjiang Deli, a then 32%-owned associate of DFL for a total consideration of RMB52 million.

Upon the completion of the aforesaid acquisition in July 2011, DFL owns a 52% equity interest in Zhanjiang Deli which is thereafter accounted for as a subsidiary of DFL.

# 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

## Gain of joint control in jointly-controlled entities (continued)

The Group's share of identifiable assets and liabilities acquired of as at the respective date of acquisition were as follows:

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| Property, plant and equipment | 2 | 73 |
| Intangible assets | 6 | — |
| Prepaid land lease prepayments | — | 14 |
| Deferred tax assets | 3 | 2 |
| Other non-current assets | 10 | — |
| Inventories | 8 | 57 |
| Trade and bills receivables | 1 | 70 |
| Prepayments, deposits and other receivables | 1,941 | 29 |
| Cash and cash equivalents | 103 | 10 |
| Trade and bills payables | — | (35) |
| Other payables and accruals | (229) | (50) |
| Interest-bearing borrowings | (1,595) | (39) |
| Income tax payable | — | (4) |
| Deferred tax liabilities | — | (2) |
| Non-controlling interests | — | (60) |
| | 250 | 65 |
| Goodwill on acquisition | 23 | 3 |
| Gain on remeasurement of previously held interests in the acquirees | (8) | (9) |
| | 265 | 59 |
| Represented by: | | |
| Fair value of the consideration — cash | 186 | 26 |
| Investment in associates | 79 | 33 |
| | 265 | 59 |
| An analysis of the cash flows in respect of the gain of joint control in jointly-controlled entities is as follows: | | |
| Cash consideration | (186) | (26) |
| Cash and cash equivalents acquired | 103 | 10 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (83) | (16) |

# 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

## Loss of control in a jointly-controlled entity's subsidiary

In February 2011, Dongfeng Motor Limited ("DFL"), a 50%-owned jointly-controlled entity of the Company, entered into an agreement with a non-controlling shareholder of Dongfeng Dana Axle Co., Ltd. ("Dongfeng Dana") for the disposal of a 25.23% equity interest in Dongfeng Dana, a then 75.23%-owned subsidiary of DFL for a total consideration of RMB438 million.

Upon the completion of the aforesaid disposal in June 2011, DFL owns a 50% equity interest in Dongfeng Dana which is thereafter accounted for as a jointly-controlled entity of DFL.

The Group's share of identifiable assets and liabilities of Dongfeng Dana disposed of as at the date of disposal were as follows:

| | 2011<br>RMB million |
|---|---|
| Property, plant and equipment | 337 |
| Intangible assets | 8 |
| Deferred tax assets | 19 |
| Inventories | 110 |
| Trade and bills receivables | 1,592 |
| Prepayments, deposits and other receivables | 342 |
| Cash and cash equivalents | 299 |
| Trade and bills payables | (1,695) |
| Other payables and accruals | (494) |
| Income tax payable | (16) |
| Provisions | (24) |
| Non-controlling interests | (116) |
| | 362 |
| Gain on loss of control in a jointly-controlled entity's subsidiary | 292 |
| | 654 |
| Represented by: | |
| Fair value of the consideration — cash | 219 |
| Fair value of the retained investment in a jointly-controlled entity's former subsidiary | 435 |
| | 654 |

# 18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

## Loss of control in a jointly-controlled entity's subsidiary (continued)

Upon the completion of the disposal, the retained 50% equity interests in Dongfeng Dana held by DFL has been remeasured at fair value. The Group's share of fair value of identifiable assets and liabilities of Dongfeng Dana upon the completion of the disposal are as follows:

| | 2011<br>RMB million |
|---|---|
| Property, plant and equipment | 215 |
| Intangible assets | 7 |
| Deferred tax assets | 9 |
| Inventories | 55 |
| Trade and bills receivables | 796 |
| Prepayments, deposits and other receivables | 171 |
| Cash and cash equivalents | 150 |
| Trade and bills payables | (847) |
| Other payables and accrued liabilities | (244) |
| Income tax payable | (8) |
| Provisions | (12) |
| Deferred tax liabilities | (12) |
| Non-controlling interests | (2) |
| | 278 |
| Goodwill arising from the retained equity interests in Dongfeng Dana held by DFL attributable to the Group | 157 |
| Fair value of the retained investment in a jointly-controlled entity's former subsidiary | 435 |
| An analysis of the cash flows in respect of the loss of control in a jointly-controlled entity's subsidiary is as follows: | |
| Cash consideration | 219 |
| Cash and cash equivalents disposed of | (299) |
| Cash and cash equivalents proportionate consolidated for the retained investment in a jointly-controlled entity's former subsidiary | 150 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 70 |

## 19. INVESTMENTS IN ASSOCIATES

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

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

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| Unlisted investments, at cost | 420 | 511 |

Particulars of the principal associates as at 31 December 2012 were as follows:

| Name | Place of establishment and operations | Paid-up registered capital | Percentage of equity interest attributable to the Company<br>Direct | <br>Indirect | Principal activities |
|---|---|---|---|---|---|
| Shenzhen Hangsheng Electronics Co., Ltd.## | PRC | RMB210,000,000 | — | 12.5 | Manufacture and sale of automotive parts and components |
| Dongfeng Nissan Auto Finance Co., Ltd.# | PRC | RMB1,200,000,000 | 35% | — | Provision of finance services |

# Sino-foreign equity joint venture

## Joint stock limited liability company

## 19. INVESTMENTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The aggregate amounts of the assets, liabilities, revenue, expenses and non-controlling interests of the associates of the Group attributable to the Group are as follows:

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| Non-current assets | 4,662 | 4,834 |
| Current assets | 2,122 | 2,836 |
| Non-current liabilities | (925) | (766) |
| Current liabilities | (4,276) | (5,373) |
| Non-controlling interests | (5) | (5) |
| Net assets | 1,578 | 1,526 |
| Total revenue | 3,495 | 3,317 |
| Total expenses | (3,089) | (3,006) |
| Profit attributable to equity holders of the parent | 406 | 311 |

## 20. OTHER NON-CURRENT ASSETS

| | | Group | |
|---|---|---|---|
| | Note | 2012<br>RMB million | 2011<br>RMB million |
| Loans and receivables from financing services | 24(ii) | 2,467 | 1,127 |
| Mandatory reserve with the People's Bank of China (the "PBOC")* | | 1,129 | 954 |
| Others | | 571 | 668 |
| | | 4,167 | 2,749 |

* The Group's jointly-controlled entities involved in the provision of financing services are required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the PBOC are not available for use in the Group's daily operations.

## 21. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Raw materials | **4,558** | 4,067 | **179** | 89 |
| Work in progress | **936** | 852 | **125** | 61 |
| Finished goods | **5,892** | 7,592 | **533** | 273 |
| | **11,386** | 12,511 | **837** | 423 |

The details of the above items of inventories pledged to secure general banking facilities granted to the Group are set out in note 30 below.

## 22. 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 offers its customers credit terms that are generally between 30 and 180 days. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Within three months | **1,603** | 1,974 | **380** | 291 |
| More than three months but within one year | **625** | 611 | **90** | 135 |
| More than one year | **213** | 38 | **1** | 7 |
| | **2,441** | 2,623 | **471** | 433 |

## 22. TRADE RECEIVABLES (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| At 1 January | **767** | 784 | **6** | 4 |
| Net impairment loss recognised/(reversed) | **13** | (10) | **3** | 2 |
| Amount written off as uncollectible | **(38)** | (7) | **—** | — |
| At 31 December | **742** | 767 | **9** | 6 |

As at 31 December 2012, trade receivables of the Group with an aggregate nominal value of RMB676 million (2011: RMB687 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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Neither past due nor impaired | **1,036** | 1,929 | **383** | 293 |
| Less than three months past due | **361** | 217 | **90** | 135 |
| | **1,397** | 2,146 | **473** | 428 |

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

## 22. TRADE RECEIVABLES (continued)

Included in the trade receivables are the following balances with related parties:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| DMC's subsidiaries and associates | **147** | 89 | **2** | — |
| Joint venture partners and their holding companies, subsidiaries, jointly-controlled entities | **243** | 327 | **—** | — |
| Associates | **17** | 32 | **—** | 9 |
| Subsidiaries | **—** | — | **225** | 3 |
| | **407** | 448 | **227** | 12 |

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

## 23. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group and the Company are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Within three months | **10,395** | 9,553 | **340** | 319 |
| More than three months but within one year | **7,718** | 7,424 | **2,279** | 77 |
| | **18,113** | 16,977 | **2,619** | 396 |

# 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | Notes | RMB million | RMB million | RMB million | RMB million |
| Prepayments | | 2,189 | 1,865 | 427 | 402 |
| Deposits and other receivables | (i) | 2,029 | 1,577 | 3,509 | 2,536 |
| Loans and receivables from financing services | (ii) | 3,681 | 2,264 | — | — |
| | | 7,899 | 5,706 | 3,936 | 2,938 |

Notes:

(i) The movements in the provision for impairment of other receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB million | RMB million | RMB million | RMB million |
| At 1 January | 88 | 79 | — | — |
| Net impairment loss recognised | 2 | 16 | — | — |
| Amount written off as uncollectible | (8) | (7) | — | — |
| At 31 December | 82 | 88 | — | — |

(ii) Loans and receivables from financing services represented loans granted by the Group's jointly-controlled entities, which is involved in the provision of financing services, to individuals and entities when they purchased commercial vehicles from dealers at an interest rate of 4.86-9.81% per annum. These loans and receivables from financing services were secured by the vehicle licences together with guarantees provided by these dealers.

The loans and receivables from financing services are analysed as follows:

| | 2012 | 2011 |
|---|---|---|
| | RMB million | RMB million |
| Gross loans and receivables from financing services | 6,231 | 3,454 |
| Less: impairment allowances | (83) | (63) |
| | 6,148 | 3,391 |
| Less: current portion | (3,681) | (2,264) |
| Non-current portion | 2,467 | 1,127 |

# 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes: (continued)

(ii) (continued)

Movements of impairment allowances are as follows:

| | 2012<br>RMB million | 2011<br>RMB million |
|---|---|---|
| At 1 January | 63 | 44 |
| Impairment allowances charged | 20 | 19 |
| At 31 December | 83 | 63 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2012<br>RMB million | 2011<br>RMB million | 2012<br>RMB million | 2011<br>RMB million |
| DMC's subsidiaries, jointly-controlled entities and associates | 264 | 210 | 232 | 200 |
| Joint venture partners and their holding companies, subsidiaries | 263 | 156 | — | — |
| Associates | 36 | 33 | — | 1 |
| Subsidiaries | — | — | 153 | 139 |
| Dividends receivable from jointly-controlled entities | — | — | 3,272 | 2,338 |
| | 563 | 399 | 3,657 | 2,678 |

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

# 25. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

The Group's and the Company's balances with its jointly-controlled entities are unsecured, have no fixed terms of repayment and are interest-free except for the cash deposits due from/to a jointly-controlled entity, which is involved in the provision of financing services, and bear interest at the prevailing savings interest rate published by the PBOC.

Included in the balances with jointly-controlled entities are the following interest-bearing cash deposits:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Due from a joint-controlled entity | **1,309** | 1,320 | **3,119** | 1,656 |
| Due to a jointly-controlled entity | **717** | 831 | **—** | — |

# 26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Unlisted investments at cost less impairment: | | | | |
| Non-current | **338** | 306 | **68** | 68 |

The unlisted investments of the Group and the Company are not stated at fair value but at cost less accumulated impairment losses because they do not have a quoted market price in an active market and the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

## 27. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Cash and bank balances | **29,988** | 24,460 | **8,942** | 7,819 |
| Time deposits* | **3,044** | 20,287 | **4,516** | 6,200 |
| | **33,032** | 44,747 | **13,458** | 14,019 |
| Less: Pledged bank balances and time deposits for securing general banking facilities | **(931)** | (1,848) | **—** | — |
| Cash and cash equivalents as stated in the consolidated statement of financial position | **32,101** | 42,899 | **13,458** | 14,019 |
| Less: Non-pledged time deposits with original maturity of three months or more when acquired | **(8,213)** | (11,518) | **—** | — |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | **23,888** | 31,381 | **13,458** | 14,019 |

* Time deposits included a cash deposit of RMB2,000 million (2011: RMB1,000 million) placed by the Company in an associate which is involved in the provision of financing services.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

# 28. SHARE CAPITAL

## Group and Company

| | 2012 RMB million | 2011 RMB million |
|---|---|---|
| Registered, issued and fully paid: | | |
| — 5,760,388,000 (2011: 5,760,388,000) Domestic Shares of RMB1.00 each | **5,760** | 5,760 |
| — 2,855,732,000 (2011: 2,855,732,000) H shares of RMB1.00 each | **2,856** | 2,856 |
| | **8,616** | 8,616 |

# 29. RESERVES

## Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 72 of the financial statements.

## Company

| | Capital reserve RMB million | Statutory reserves RMB million (note (a)) | Retained profits RMB million | Proposed final dividend RMB million | Total RMB million |
|---|---|---|---|---|---|
| At 1 January 2011 | 1,363 | 3,270 | 6,933 | 1,551 | 13,117 |
| Final 2010 dividend declared | — | — | — | (1,551) | (1,551) |
| Total comprehensive income for the year | — | — | 8,683 | — | 8,683 |
| Transfer to reserves | — | 1,021 | (1,021) | — | — |
| Proposed final dividend | — | — | (1,551) | 1,551 | — |
| At 31 December 2011 and 1 January 2012 | 1,363 | 4,291 | 13,044 | 1,551 | 20,249 |
| Final 2011 dividend declared | — | — | — | (1,551) | (1,551) |
| Total comprehensive income for the year | — | — | 7,470 | — | 7,470 |
| Transfer to reserves | — | 877 | (877) | — | — |
| Proposed final dividend | — | — | (1,292) | 1,292 | — |
| At 31 December 2012 | 1,363 | 5,168 | 18,345 | 1,292 | 26,168 |

# 29. RESERVES (continued)

## Company (continued)

Notes:

(a) *Statutory reserves*

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

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

(b) *Distributable reserves*

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

In accordance with the PRC Company Law, the net profits after transfers to the SSR can be distributed as dividends by the companies comprising the Group as set out above.

Under the relevant laws and regulatory requirements, the net profits of the Group's Sino-foreign jointly-controlled entities after transfers to the enterprise expansion fund and the reserve funds can be distributed as dividends by the Group's Sino-foreign jointly-controlled entities.

# 30. INTEREST-BEARING BORROWINGS

## Group

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB million | Effective interest rate (%) | Maturity | RMB million |
| **Current** | | | | | | |
| Bank loans — secured | 0.3–10.8 | 2013 | 288 | 0.3–11.81 | 2012 | 802 |
| Bank loans — unsecured | 3.9–9.6 | 2013 | 1,707 | 1.5–9.6 | 2012 | 152 |
| Bank loans — unsecured | LIBOR +1.5 -LIBOR +3.0 | 2013 | 1,086 | LIBOR +0.8 -LIBOR +3.0 | 2012 | 1,026 |
| Medium term notes — unsecured | 3.49 | 2013 | 1,998 | 3.8 | 2012 | 2,994 |
| Other loans — unsecured * | | 2013 | 1,312 | | 2012 | 1,019 |
| | | | 6,391 | | | 5,993 |
| **Non-current** | | | | | | |
| Bank loans — secured | 0.3–2.0 | 2030 | 348 | 0.3–2.0 | 2030 | 236 |
| Bank loans — unsecured | LIBOR +1.0 -LIBOR +1.2 | 2015 | 485 | LIBOR +1.0 -LIBOR +1.2 | 2015 | 590 |
| Medium term notes — unsecured | 5.2 | 2015 | 495 | 3.49 | 2013 | 1,994 |
| | | | 1,328 | | | 2,820 |
| | | | 7,719 | | | 8,813 |

* Other loans represented cash deposits placed by DMC amounting to RMB374 million (2011: RMB163 million) and other unrelated third parties with a jointly-controlled entitiy of the Group which is involved in the provision of financing services. These loans bear interest at the prevailing savings interest rate published by the PBOC.

# 30. INTEREST-BEARING BORROWINGS (continued)

## Company

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB million | Effective interest rate (%) | Maturity | RMB million |
| **Current** | | | | | | |
| Bank loans — unsecured | 5-6 | 2013 | 90 | 4.8 | 2012 | 58 |
| Medium term notes — unsecured | 3.49 | 2013 | 1,998 | 3.8 | 2012 | 2,994 |
| | | | 2,088 | | | 3,052 |
| **Non-current** | | | | | | |
| Medium term notes — unsecured | | | — | 3.49 | 2013 | 1,994 |
| | | | 2,088 | | | 5,046 |

The above secured bank loans and certain general facilities granted by the banks were secured by certain assets of the Group. An analysis of the carrying values of these assets included in the financial statements is as follows:

## Group

| | 2012 RMB million | 2011 RMB million |
|---|---|---|
| Property, plant and equipment | 119 | 141 |
| Intangible assets | 61 | 4 |
| Time deposits and bank balances | 975 | 1,896 |
| Inventories | 47 | 425 |
| Other assets | 2,889 | 3,247 |
| | 4,089 | 5,713 |

The other assets represent other long term assets, trade and bills receivables and prepayments, deposits and other receivables.

## 30. INTEREST-BEARING BORROWINGS (continued)

On 21 September 2009, medium term notes with a principal amount of RMB3,000 million were issued to investors. The medium term notes were issued at a face value of RMB100 each and will mature on 21 September 2012. The medium term notes carries a fixed interest rate of 3.8% per annum and is payable annually on 21 September each year. The medium term notes was fully settled during the year ended 31 December 2012.

On 15 July 2010, medium term notes with a principal amount of RMB2,000 million were issued to investors. The medium term notes were issued at a face value of RMB100 each and will mature on 15 July 2013. The medium term notes carries a fixed interest rate of 3.49% per annum and is payable annually on 15 July each year.

On 24 December 2012, Dongfeng Automobile Co., Ltd., a jointly-controlled entity of the Group, issued medium term notes with a principal amount of RMB1,000 million (RMB500 million attributable to the Group) to investors. The medium term notes were issued at a face value of RMB100 each and will mature on 24 December 2015. The medium term notes carries a fixed interest rate of 5.2% per annum.

Details of the medium term notes at 31 December 2012 are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **RMB million** | RMB million |
| Principal amount | **2,500** | 5,000 |
| Notes issuance cost | **(17)** | (39) |
| Proceeds received | **2,483** | 4,961 |
| Accumulated amortised amounts of notes issuance cost | **10** | 27 |
| | **2,493** | 4,988 |

## 30. INTEREST-BEARING BORROWINGS (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Bank loans repayable: | | | | |
| Within one year or on demand | **3,081** | 1,980 | **90** | 58 |
| In the second year | **150** | 202 | **—** | — |
| In the third to fifth years, inclusive | **435** | 600 | **—** | — |
| Beyond five years | **248** | 24 | **—** | — |
| | **3,914** | 2,806 | **90** | 58 |
| Medium term notes repayable: | | | | |
| Within one year | **1,998** | 2,994 | **1,998** | 2,994 |
| In the third year | **495** | 1,994 | **—** | 1,994 |
| | **2,493** | 4,988 | **1,998** | 4,988 |
| Other loans repayable: | | | | |
| Within one year or on demand | **1,312** | 1,019 | **—** | — |
| | **7,719** | 8,813 | **2,088** | 5,046 |

The carrying amounts of the interest-bearing borrowings approximate to their fair values.

# 31. PROVISIONS

The Group's and the Company's provisions are analysed as follows:

| | Group | | | | Company |
|---|---|---|---|---|---|
| | Environmental restoration costs | Warranty expenses | Reorganisation expenses | Total | Warranty expenses |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| At 31 December 2012: | | | | | |
| Current portion | 122 | 1,616 | — | 1,738 | 92 |
| Non-current portion | — | — | 16 | 16 | — |
| | 122 | 1,616 | 16 | 1,754 | 92 |
| At 31 December 2011: | | | | | |
| Current portion | 123 | 1,293 | — | 1,416 | 38 |
| Non-current portion | — | — | 37 | 37 | — |
| | 123 | 1,293 | 37 | 1,453 | 38 |

The carrying amounts of the Group's and the Company's provisions approximate to their fair values.

The movements of the above provisions are analysed as follows:

| | Group | | | | Company |
|---|---|---|---|---|---|
| | Environmental restoration costs | Warranty expenses | Reorganisation expenses | Total | Warranty expenses |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| At 1 January 2011 | 135 | 997 | 69 | 1,201 | 26 |
| Provision during the year | — | 1,026 | — | 1,026 | 24 |
| Utilised | (12) | (718) | (32) | (762) | (12) |
| Loss of control in a jointly-controlled entity's subsidiary | — | (12) | — | (12) | — |
| At 31 December 2011 and 1 January 2012 | 123 | 1,293 | 37 | 1,453 | 38 |
| Gain of control in subsidiaries | — | 1 | — | 1 | — |
| Provision during the year | — | 1,188 | — | 1,188 | 75 |
| Utilised | (1) | (866) | (21) | (888) | (21) |
| At 31 December 2012 | 122 | 1,616 | 16 | 1,754 | 92 |

## 31. PROVISIONS (continued)

### Environmental restoration costs

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

### Warranty expenses

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

### Reorganisation expenses

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

## 32. GOVERNMENT GRANTS

The movements of the government grants are analysed as follows:

| | RMB million |
|---|---|
| At 1 January 2011 | 157 |
| Received during the year | 571 |
| Recognised as other income during the year (note 5) | (457) |
| At 31 December 2011 and 1 January 2012 | 271 |
| Received during the year | 1,018 |
| Gain of control in subsidiaries | 2 |
| Recognised as other income during the year (note 5) | (745) |
| At 31 December 2012 | 546 |

## 33. TRADE PAYABLES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Within three months | **17,250** | 21,503 | **1,373** | 1,021 |
| More than three months but within one year | **1,583** | 1,132 | **284** | 156 |
| More than one year | **776** | 420 | **19** | 6 |
| | **19,609** | 23,055 | **1,676** | 1,183 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| DMC and its subsidiaries, and associates | **359** | 351 | **75** | 24 |
| Joint venture partners and their holding companies, subsidiaries, jointly-controlled entities and associates | **1,885** | 3,187 | **—** | — |
| Associates | **248** | 672 | **48** | 352 |
| A non-controlling shareholder of a jointly-controlled entity's subsidiary | **5** | 9 | **—** | — |
| Subsidiaries | **—** | — | **392** | — |
| | **2,497** | 4,219 | **515** | 376 |

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

## 34. BILLS PAYABLE

The maturity profile of the bills payable is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Within three months | **4,799** | 5,533 | **187** | 95 |
| More than three months but within one year | **3,895** | 4,445 | **100** | 52 |
| | **8,694** | 9,978 | **287** | 147 |

## 35. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Advances from customers | **3,304** | 5,310 | **652** | 404 |
| Accrued salaries, wages and benefits | **2,267** | 2,447 | **223** | 152 |
| Other payables | **9,982** | 12,355 | **378** | 802 |
| | **15,553** | 20,112 | **1,253** | 1,358 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| DMC and its subsidiaries, jointly-controlled entities and associates | **237** | 349 | **—** | 7 |
| Joint venture partners and their holding companies, subsidiaries | **1,834** | 2,727 | **—** | — |
| A non-controlling shareholder of a jointly-controlled entity's subsidiary | **4** | 2 | **—** | — |
| Associates | **31** | 58 | **—** | — |
| Subsidiaries | **—** | — | **1** | — |
| | **2,106** | 3,136 | **1** | 7 |

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

# 36. COMMITMENTS

## (a) Operating lease commitments as lessee

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

| | Group 2012 RMB million | Group 2011 RMB million | Company 2012 RMB million | Company 2011 RMB million |
|---|---|---|---|---|
| Within one year | **155** | 149 | **26** | 26 |
| After one year but not more than five years | **403** | 326 | **105** | 105 |
| More than five years | **1,784** | 1,834 | **921** | 947 |
| | **2,342** | 2,309 | **1,052** | 1,078 |

## (b) Capital commitments

In addition to the operating lease commitments detailed in note 36(a) above, the Group and the Company had the following capital commitments at the end of the reporting period:

| | Group 2012 RMB million | Group 2011 RMB million | Company 2012 RMB million | Company 2011 RMB million |
|---|---|---|---|---|
| Contracted, but not provided for: | | | | |
| Property, plant and equipment | **4,521** | 3,821 | **107** | 15 |
| Authorised, but not contracted for: | | | | |
| Property, plant and equipment | **3,462** | 1,509 | **–** | – |

The Group's share of jointly-controlled entities' own capital commitments, which are included in the above, is as follows:

| | Group 2012 RMB million | Group 2011 RMB million |
|---|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | **4,414** | 3,806 |
| Authorised, but not provided for: | | |
| Property, plant and equipment | **3,462** | 1,509 |

# 37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | RMB million | RMB million | RMB million | RMB million |
| Bank acceptance bills discounted with recourse | 2,107 | 4,522 | — | — |
| Bank acceptance bills endorsed with recourse | 5,375 | 6,157 | 177 | — |
| Guarantees given to banks in connection with facilities granted to the following parties at nil consideration: | | | | |
| — Subsidiaries | — | — | — | 375 |
| — Jointly-controlled entities | 392 | 471 | 784 | 897 |
| — Associates | 30 | 15 | — | — |
| | 7,904 | 11,165 | 961 | 1,272 |

The Group's share of the jointly-controlled entities' own contingent liabilities, which are included in the above, is as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | RMB million | RMB million |
| Bank acceptance bills discounted with recourse | 2,107 | 4,522 |
| Bank acceptance bills endorsed with recourse | 5,198 | 6,157 |
| Guarantees given to banks in connection with facilities granted to the following parties at nil consideration: | | |
| — Associates | 30 | 15 |
| | 7,335 | 10,694 |

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 2012 and 2011.

As at 31 December 2012, the banking facilities granted to the subsidiaries and jointly-controlled entities subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB784 million (2011: RMB1,272 million), and the banking facilities guaranteed by the Group to the jointly-controlled entities, associates and other third parties were utilised to the extent of approximately RMB422 million (2011: RMB486 million).

# 38. RELATED PARTY TRANSACTIONS

(a) Transactions with DMC, fellow subsidiaries, the Group's jointly-controlled entities, associates, joint venture partners and their holding companies, and non-controlling shareholders of jointly-controlled entities' subsidiaries.

During the year, in addition to those disclosed elsewhere in these financial statements, the Group had the following significant transactions with its related parties:

| | Note | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| Purchases of automotive parts/raw materials from: | (i) | | |
| — DMC and its subsidiaries and associates | | 2,136 | 2,780 |
| — Joint venture partners and their holding companies, fellow companies, subsidiaries, jointly-controlled entities and associates | | 41,222 | 33,560 |
| — Associates | | 2,440 | 2,636 |
| — Jointly-controlled entities | | 8,604 | 8,638 |
| — Non-controlling shareholders of jointly-controlled entities' subsidiaries | | 28 | 54 |
| | | 54,430 | 47,668 |
| Purchases of automobiles from: | (i) | | |
| — Associates of DMC | | 394 | 389 |
| — Joint venture partners and their holdings companies, jointly-controlled entities and associates | | 511 | 90 |
| — Associates | | 307 | 644 |
| — Jointly-controlled entities | | 739 | 824 |
| | | 1,951 | 1,947 |
| Purchases of water, steam and electricity from: | (i) | | |
| — DMC | | 1,008 | 1,091 |
| — Joint venture partner's jointly-controlled entity | | — | 34 |
| | | 1,008 | 1,125 |

# 38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

| | Note | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| Purchases of items of property, plant and equipment from: | (i) | | |
| — DMC and its subsidiaries and associates | | **105** | 106 |
| — Joint venture partners and their holding companies | | **443** | 685 |
| — Jointly-controlled entities | | **104** | 115 |
| — Associates | | **—** | 74 |
| | | **652** | 980 |
| Rental expenses to DMC and its subsidiaries | | **217** | 232 |
| Purchases of services from: | (i) | | |
| — DMC and its subsidiaries | | **860** | 684 |
| — Joint venture partners and their holding companies and subsidiaries | | **149** | 124 |
| — Jointly-controlled entities | | **4** | 1 |
| — Associates | | **1,203** | 1,087 |
| — Non-controlling shareholders of jointly-controlled entities' subsidiaries | | **—** | 1 |
| | | **2,216** | 1,897 |
| Payment of royalty fee and other expenses to: | (i) | | |
| — Joint venture partners and their holding companies and subsidiaries | | **3,675** | 4,483 |
| — Non-controlling shareholders of jointly-controlled entities' subsidiaries | | **—** | 80 |
| — DMC's subsidiaries | | **28** | — |
| | | **3,703** | 4,563 |

# 38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

| | Note | 2012 RMB million | 2011 RMB million |
|---|---|---|---|
| Sales of automotive parts/raw materials to: | (i) | | |
| — DMC and its subsidiaries, jointly-controlled entities and associates | | **264** | 393 |
| — Joint venture partners and their holding companies, fellow companies | | **13,667** | 15,833 |
| — Jointly-controlled entities | | **1,910** | 2,280 |
| — Associates | | **127** | 226 |
| | | **15,968** | 18,732 |
| Sales of automobiles to: | (i) | | |
| — DMC's subsidiaries | | **2,218** | 1,585 |
| — Joint venture partners and their holding companies | | **1** | 147 |
| — Jointly-controlled entities | | **17** | 8 |
| — A minority shareholder of a jointly-controlled entity's subsidiary | | **412** | — |
| — Associates | | **—** | 778 |
| | | **2,648** | 2,518 |
| Provision of services to: | (i) | | |
| — DMC's associate | | **38** | 2 |
| — Joint venture partners and their holding companies | | **111** | 17 |
| — Jointly-controlled entities | | **42** | 34 |
| — An associate | | **—** | 3 |
| | | **191** | 56 |
| Rental income from: | (i) | | |
| — DMC's subsidiary | | **12** | 12 |
| — Joint venture partners and their fellow companies | | **107** | 20 |
| — Jointly-controlled entities | | **3** | 3 |
| | | **122** | 35 |
| Sales of fixed assets to DMC's subsidiary | | **—** | 40 |

## 38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Note:

(i) These transactions were conducted in accordance with the terms and conditions agreed between the Group and its related parties.

(b) Outstanding balances with related parties:

(i) Details of the Group's balances with its related parties as at the end of the reporting period are disclosed in notes 22, 24, 27, 30, 33 and 35 to the financial statements.

(ii) Details of the Group's balances with jointly-controlled entities as at the end of the reporting period are disclosed in note 25 to the financial statements.

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Short term employee benefits | **12,436** | 15,768 |
| Post-employment benefits | **898** | 726 |
| Total compensation paid to key management personnel | **13,334** | 16,494 |

Further details of the directors' emoluments are included in note 8 to the financial statements.

# 39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

**2012**

## Group

**Financial assets**

| | Loans and receivables RMB million | Available-for-sale financial assets RMB million | Total RMB million |
|---|---|---|---|
| Available-for-sale financial assets | — | 338 | 338 |
| Trade receivables | 2,441 | — | 2,441 |
| Bills receivable | 18,113 | — | 18,113 |
| Financial assets included in prepayments, deposits and other receivables | 5,710 | — | 5,710 |
| Due from jointly-controlled entities | 1,403 | — | 1,403 |
| Pledged bank balances and time deposits | 931 | — | 931 |
| Cash and cash equivalents | 32,101 | — | 32,101 |
| | 60,699 | 338 | 61,037 |

**Financial liabilities**

| | Financial liabilities at amortised cost RMB million |
|---|---|
| Trade payables | 19,609 |
| Bills payable | 8,694 |
| Financial liabilities included in other payables and accruals | 9,982 |
| Due to jointly-controlled entities | 1,810 |
| Interest-bearing borrowings | 7,719 |
| | 47,814 |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

**2011**

### Group

**Financial assets**

| | Loans and receivables RMB million | Available-for-sale financial assets RMB million | Total RMB million |
|---|---|---|---|
| Available-for-sale financial assets | — | 306 | 306 |
| Trade receivables | 2,623 | — | 2,623 |
| Bills receivable | 16,977 | — | 16,977 |
| Financial assets included in prepayments, deposits and other receivables | 3,841 | — | 3,841 |
| Due from jointly-controlled entities | 1,452 | — | 1,452 |
| Pledged bank balances and time deposits | 1,848 | — | 1,848 |
| Cash and cash equivalents | 42,899 | — | 42,899 |
| | 69,640 | 306 | 69,946 |

**Financial liabilities**

| | Financial liabilities at amortised cost RMB million |
|---|---|
| Trade payables | 23,055 |
| Bills payable | 9,978 |
| Financial liabilities included in other payables and accruals | 12,355 |
| Due to jointly-controlled entities | 1,551 |
| Interest-bearing borrowings | 8,813 |
| | 55,752 |

# 39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2012

## Company

**Financial assets**

| | Loans and receivables RMB million | Available-for-sale financial assets RMB million | Total RMB million |
|---|---|---|---|
| Available-for-sale financial assets | — | 68 | 68 |
| Trade receivables | 471 | — | 471 |
| Bills receivable | 2,619 | — | 2,619 |
| Financial assets included in prepayments, deposits and other receivables | 3,509 | — | 3,509 |
| Due from jointly-controlled entities | 3,199 | — | 3,199 |
| Cash and cash equivalents | 13,458 | — | 13,458 |
| | 23,256 | 68 | 23,324 |

**Financial liabilities**

| | Financial liabilities at amortised cost RMB million |
|---|---|
| Trade payables | 1,676 |
| Bills payable | 287 |
| Financial liabilities included in other payables and accruals | 378 |
| Due to jointly-controlled entities | 1,282 |
| Interest-bearing borrowings | 2,088 |
| | 5,711 |

# 39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

**2011**

## Company

**Financial assets**

| | Loans and receivables RMB million | Available-for-sale financial assets RMB million | Total RMB million |
|---|---|---|---|
| Available-for-sale financial assets | — | 68 | 68 |
| Trade receivables | 423 | — | 423 |
| Bills receivable | 396 | — | 396 |
| Financial assets included in prepayments, deposits and other receivables | 2,536 | — | 2,536 |
| Due from jointly-controlled entities | 3,409 | — | 3,409 |
| Cash and cash equivalents | 14,019 | — | 14,019 |
| | 20,783 | 68 | 20,851 |

**Financial liabilities**

| | Financial liabilities at amortised cost RMB million |
|---|---|
| Trade payables | 1,183 |
| Bills payable | 147 |
| Financial liabilities included in other payables and accruals | 802 |
| Due to jointly-controlled entities | 855 |
| Interest-bearing borrowings | 5,046 |
| | 8,033 |

# 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign currency forward and swap contracts. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance. The impact of these derivative transactions on the Group is not material.

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

## Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its non-current interest-bearing borrowings with the floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | Increase/ (decrease) in percentage % | Decrease/ (increase) in profit before tax RMB million |
|---|---|---|
| **2012** | **1** | **56** |
| 2011 | 1 | 49 |

# 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Foreign currency risk

The businesses of the Group are principally located in the PRC. While most of the sales of the Group are conducted in RMB, certain of the Group's purchases and borrowings were denominated in other currencies including, amongst others, United States dollars ("US$"), Euros and Japanese yen ("JPY"). Fluctuations in the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

During the year, the Group entered into certain foreign currency forward and swap contracts, which do not qualify for hedge accounting, to manage its risks associated with foreign currency fluctuations.

As at the end of the reporting period, the fair values of these foreign currency forward and swap contracts were insignificant.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, Euro and JPY exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). There is no impact on the Group's equity.

| | Increase/(decrease) in profit before tax | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB million** | RMB million |
| If RMB strengthens against US$ by 1% | **19** | 35 |
| If RMB weakens against US$ by 1% | **(19)** | (35) |
| If RMB strengthens against Euro by 1% | **11** | 7 |
| If RMB weakens against Euro by 1% | **(11)** | (7) |
| If RMB strengthens against JPY by 1% | **3** | 2 |
| If RMB weakens against JPY by 1% | **(3)** | (2) |

# 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Credit risk

The cash and bank balances and time deposits of the Group are mainly deposited with state-owned banks in the PRC.

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

The Group's financing services are primarily focused on supporting the sale of the commercial vehicles of the Group. As a consequence of these activities, the Group is exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as vehicle licences. Scoring systems are applied for the assessment of the default risk of individual customers. All loans and receivables from financing services are reviewed for objective evidence of impairment and classified based on a ten-tier classification system. Customers' loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

The carrying amount of each financial asset included in these financial statements represents the maximum exposure of the Group to credit risk in relation to its financial assets. In addition, the guarantees given by the Group to banks in favour of banking facilities granted to the Group's jointly-controlled entities and associates represent the Group's other exposure to credit risk. The Group has no other financial assets carrying significant exposure to credit risk and has no significant concentration of credit risk.

# 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, and other available sources of financing.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**Group**

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Within one year or on demand RMB million | In the second year RMB million | In the third to fifth years RMB million | Beyond five years RMB million | Total RMB million |
| Interest-bearing borrowings | 6,391 | 150 | 930 | 248 | 7,719 |
| Trade payables | 19,609 | — | — | — | 19,609 |
| Bills payable | 8,694 | — | — | — | 8,694 |
| Other payables | 9,982 | — | — | — | 9,982 |
| Due to jointly-controlled entities | 1,810 | — | — | — | 1,810 |
| Guarantees given to banks in connection with facilities granted to jointly-controlled entities, associates and other third parties | 422 | — | — | — | 422 |
| | 46,908 | 150 | 930 | 248 | 48,236 |

# 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Liquidity risk (continued)

**Group (continued)**

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Within one year or on demand RMB million | In the second year RMB million | In the third to fifth years RMB million | Beyond five years RMB million | Total RMB million |
| Interest-bearing borrowings | 5,993 | 2,196 | 600 | 24 | 8,813 |
| Trade payables | 23,055 | — | — | — | 23,055 |
| Bills payable | 9,978 | — | — | — | 9,978 |
| Other payables | 12,355 | — | — | — | 12,355 |
| Due to jointly-controlled entities | 1,551 | — | — | — | 1,551 |
| Guarantees given to banks in connection with facilities granted to jointly-controlled entities, associates and other third parties | 486 | — | — | — | 486 |
| | 53,418 | 2,196 | 600 | 24 | 56,238 |

## Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by equity. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Equity represents equity attributable to equity holders of the parent. The net debt to equity ratio as at the end of the reporting period was as follows:

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management (continued)

**Group**

| | 2012 RMB million | 2011 RMB million |
|---|---|---|
| Interest-bearing borrowings | **7,719** | 8,813 |
| Less: Cash and cash equivalents | **(32,101)** | (42,899) |
| Net debt | **(24,382)** | (34,086) |
| Equity attributable to equity holders of parent | **53,918** | 46,394 |
| Net debt to equity ratio | **(45.22%)** | (73.47%) |

## 41. EVENTS AFTER THE REPORTING PERIOD

(a) On 26 January 2013, the Company has entered into a Framework Agreement with Nissan Motor Co., Ltd., Nissan (China) Investment Co., Ltd. and Dongfeng Motor Co. Ltd., a 50%-owned jointly-controlled entity of the Company. Under the Framework Agreement, the Company and/or its subsidiary, Dongfeng Commercial Vehicles Co., Ltd ("Commercial Vehicles Co")/China Dongfeng Motor Industry Imp. & Exp. Co., Ltd ("Dongfeng Imp. & Exp."), have entered into various agreements with Dongfeng Motor Co., Ltd., pursuant to which the Company and/or Commercial Vehicles Co/Dongfeng Imp. & Exp. will acquire the Commercial Vehicle And Other Businesses from Dongfeng Motor Co., Ltd. at a total consideration of approximately RMB11,712,837,000.

(b) On 26 January 2013, the Company entered into a Cooperation Master Agreement with Volvo (AB Volvo) for the establishment and operation of the Commercial Vehicles Co, a capital joint venture with Volvo. Pursuant to the Equity Transfer Agreement under the Cooperation Master Agreement, the Company has agreed to dispose to Volvo 45% of the Company's equity interest in Commercial Vehicles Co for a consideration of approximately RMB5,608,000,000.

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

# Five Year Financial Summary

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **RMB million** | RMB million | RMB million | RMB million | RMB million |
| **RESULTS** | | | | | |
| **Revenue** | **124,036** | 131,441 | 122,395 | 91,758 | 70,569 |
| Cost of sales | **(100,160)** | (105,051) | (96,033) | (74,274) | (58,688) |
| Gross profit | **23,876** | 26,390 | 26,362 | 17,484 | 11,881 |
| Other income | **3,129** | 2,853 | 2,322 | 1,520 | 1,228 |
| Selling and distribution costs | **(6,716)** | (6,275) | (6,417) | (4,297) | (3,379) |
| Administrative expenses | **(3,937)** | (3,641) | (3,580) | (3,138) | (2,655) |
| Other expenses, net | **(3,772)** | (4,943) | (4,171) | (3,110) | (1,970) |
| Finance costs | **(288)** | (402) | (229) | (245) | (393) |
| Share of profits and losses of associates | **406** | 379 | 296 | 195 | 95 |
| **Profit before tax** | **12,698** | 14,361 | 14,583 | 8,409 | 4,807 |
| Income tax | **(2,919)** | (3,401) | (3,006) | (1,671) | (647) |
| Profit for the year | **9,779** | 10,960 | 11,577 | 6,738 | 4,160 |
| **Attributable to:** | | | | | |
| Equity holders of the parent | **9,092** | 10,481 | 10,981 | 6,250 | 3,955 |
| Non-controlling interests | **687** | 479 | 596 | 488 | 205 |
| | **9,779** | 10,960 | 11,577 | 6,738 | 4,160 |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **RMB million** | RMB million | RMB million | RMB million | RMB million |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| **Total assets** | **114,810** | 117,533 | 110,622 | 85,689 | 60,449 |
| **Total liabilities** | **(57,177)** | (67,949) | (69,286) | (55,134) | (35,557) |
| **Non-controlling interests** | **(3,715)** | (3,190) | (3,842) | (3,271) | (2,837) |
| | **53,918** | 46,394 | 37,494 | 27,284 | 22,055 |

# Corporate Information

## REGISTERED NAME

Dongfeng Motor Group Company Limited

## REGISTERED ADDRESS

Special No. 1 Dongfeng Road
Wuhan Economic and Technology Development Zone
Wuhan,
Hubei 430056 PRC

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

Special No. 1 Dongfeng Road
Wuhan Economic and Technology Development Zone
Wuhan,
Hubei 430056,
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F., Three Pacific Place,
1 Queen's Road East,
Hong Kong SAR

## COMPANY WEBSITE

www.dfmg.com.cn

## COMPANY SECRETARIES

Hu Xindong
Lo Yee Har Susan *(FCS, FCIS)*

## HONG KONG H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre,
183 Queen's Road East
Wan Chai,
Hong Kong SAR

## PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

## STOCK CODE

00489

# Notice of Annual General Meeting and Relating Information

## NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR 2012

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting (the "AGM") of Dongfeng Motor Group Company Limited (the "Company") for the year 2012 will be held at 9:00 a.m. on Friday, 21 June 2013 at Special No.1 Dongfeng Road, Wuhan Economic and Technology Development Zone, Wuhan, Hubei 430056, the People's Republic of China (the "PRC") for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions:

### I. As ordinary resolutions:

1. To consider and approve the report of the board of directors (the "Board") for the year ended 31 December 2012.

2. To consider and approve the report of the supervisory committee for the year ended 31 December 2012.

3. To consider and approve the international auditors' report and audited financial statements for the year ended 31 December 2012.

4. To consider and approve the profit distribution proposal of the Company for the year ended 31 December 2012, and authorize the Board to deal with all issues in relation to the Company's distribution of final dividend for the year 2012.

5. To consider and approve the authorization to the Board to deal with all issues in relation to the Company's distribution of interim dividend for the year 2013 at its sole discretion (including, but not limited to, determining whether to distribute interim dividend for the year 2013).

6. To consider and approve the re-appointment of Ernst & Young as the international auditors of the Company, and Ernst & Young Hua Ming as the domestic auditors of the Company for the year 2013 to hold office until the conclusion of annual general meeting for the year 2013, and to authorize the Board to determine their remunerations.

7. To consider and approve the remuneration of the directors and the supervisors of the Company determined by the Board for the year 2013.

## II. As special resolutions:

8. For the purpose of increasing the flexibility and efficiency of operation, to grant a general mandate to the Board to issue, allot and deal with additional Domestic Shares not exceeding 20 percent of the Domestic Shares in issue and additional H Shares not exceeding 20 percent of the H Shares in issue, and authorize the Board to make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares.

"**THAT**

(A) (a) subject to paragraph (c) and in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and the applicable laws and regulations of the PRC, the exercise by the Board during the Relevant Period of all the powers of the Company to allot, issue and deal with, either separately or concurrently, additional Domestic Shares and H shares and to make or grant offers, agreements, options and powers of exchange or conversion which might require the exercise of such powers be hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements, options and powers of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;

(c) each of the aggregate nominal amounts of Domestic Shares and H shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Board pursuant to the approval granted in paragraph (a) shall not exceed 20 percent of each of the aggregate nominal amounts of Domestic Shares and H shares in issue as at the date of passing this resolution, otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; and

(d) for the purposes of this resolution:

"**Relevant Period**" means the period from (and including) the date of passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of a period of 12 months from the date of passing of the special resolution granting the general mandate; or

(iii) the date of revocation or variation of the authority given under this resolution by a special resolution of the Company in a general meeting.

"**Rights Issue**" means an offer of shares open for a period fixed by the directors to the holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws, or the requirements, of any recognized regulatory body or any stock exchange in any territory outside Hong Kong) and an offer, allotment or issue of shares by way of rights shall be construed accordingly.

(B) The Board shall be authorized to make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares as provided in subparagraph (a) of paragraph (A) of this resolution."

By order of the Board
**Xu Ping**
*Chairman*

25 April 2013, Wuhan, the PRC

As at the date of this notice, Mr. Xu Ping, Mr. Zhu Fushou, 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. Zhou Qiang are the non-executive directors of the Company and Mr. Sun Shuyi, Mr. Ng Lin-fung, Mr. Yang Xianzu and Mr. Ma Zhigeng are the independent non-executive directors of the Company.

Notes:

1. Eligibility for attending the general meeting and closure of register of members for H shares

   In order to determine the shareholders who are entitled to attend the AGM, the register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday 21 June 2013, both days inclusive, during which period no registration of shareholders and transfer of shares will be effected. In order to attend and vote at the AGM, 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, Wanchai, Hong Kong, at or before 4:30 p.m. on Tuesday, 21 May 2013.

2. Eligibility for receiving final dividend and closure of register of members for H shares

   The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 8 July 2013. The Register of Members will be closed from Tuesday, 2 July 2013 to Monday, 8 July 2013 (both days inclusive). In order to be entitled to the final dividend, H shares shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Friday, 28 June 2013.

3. Proxy

   (1) A shareholder entitled to attend and vote at the AGM may appoint one or more proxies to attend and vote on his behalf. A proxy needs not be a shareholder of the Company. Where a shareholder appoints more than one proxy, his proxies may vote in a poll.

   (2) The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorized in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand(s) of its director(s) or duly authorized attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorizing that attorney to sign or other authorization document must be notarized.

   (3) In order to be valid, the form of proxy together with the power of attorney or other authorization document (if any) must be deposited at the Secretariat of the Board at the Company's principal place of business in the PRC for holders of the Domestic Shares and at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, for holders of the H Shares not later than 9:00 a.m. on 20 June 2013.

   (4) A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer, or the revocation of the proxy or the authority under which the proxy was executed, or the transfer of shares in respect of which the proxy is given, provided that no notice in writing of these matters shall have been received by the Company prior to the commencement of the AGM.

4. Registration for attending the AGM

   (1) A shareholder or his proxy shall produce proof of identity when attending the AGM. If a shareholder is a corporation, its legal representative or other person authorized by the board of directors or other competent body of such shareholder may attend the AGM by producing a copy of the resolution of the board of directors or other competent body of such shareholder appointing such person to attend the meeting.

   (2) In accordance with the Articles of Association of the Company, where two or more persons are registered as the joint holders of any share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting rights attached to such share at the AGM, and this notice shall be deemed to be given to all joint holders of such share.

   (3) For information purpose only, shareholders who intend to attend the AGM in person or by proxy shall return the reply slip to the Secretariat of the Board at the Company's principal place of business in the PRC for the holders of the domestic shares or to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, for the holders of the H shares on or before Friday, 31 May 2013 by hand, by post or by fax.

5. Miscellaneous

   (1) The AGM is expected to be concluded within half a day. Shareholders (in person or by proxy) attending the AGM are responsible for their own transportation and accommodation expenses.

   (2) The address and contact details of the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, are as follows:

       Address: Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
       Tel: (852) 2862 8628
       Fax: (852) 2865 0990

   (3) The address and contact details of the Company's principle place of business in the PRC are as follows:

       Address: Special No. 1 Dongfeng Road, Wuhan Economic and Technology Development Zone, Wuhan, Hubei 430056, the People's Republic of China
       Tel: (8627) 84285041
       Fax: (8627) 84285057

## The 15th Meeting of the Third Session of the Board of Directors of Dongfeng Motor Group Company Limited

## Resolutions on the Remuneration of Directors and Supervisors

To: Annual general Meeting

According to the resolution on the remuneration of Directors and Supervisors passed by the 15th Meeting of the Third Session of the Board of Directors of Dongfeng Motor Group Company Limited (the "Company"), the Board of Directors has decided to propose the resolution on the remuneration of Directors and Supervisors for 2013 to the Annual General Meeting of the Company:

| Remuneration | Cash | Medium to Long Term Incentives |
|---|---|---|
| Executive Directors<br>Non Executive Directors | Nil | Shares appreciation rights granted under the Share Appreciation Scheme of Dongfeng Motor Group Company Limited |
| Independent Non-executive Directors | Allowance of RMB120,000, net of tax | Nil |
| Supervisors | Nil | Nil |
| Independent Supervisors | Allowance of RMB40,000, net of tax | Nil |

Note:

- The Executive Directors and Non Executive Directors receive salaries in their capacities of employee of the Company rather than director.
- Executive Directors and the Non Executive Directors participate in the Stock Appreciation Scheme in their capacities of director.
- Independent Directors and Independent Supervisors are not entitled to participate in the Stock Appreciation Scheme according to the applicable regulations of the SASAC.
- Internal Supervisors receive salaries in their capacities of employee of the Company rather than supervisor.
- Internal Supervisors participate in the Stock Appreciation Scheme in their capacities of employee of the Company rather than supervisor.
- The remunerations of Independent Non-executive Directors acting as external directors of Dongfeng Motor Corporation are subject to the approval of SASAC.

The above resolutions will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
**Dongfeng Motor Group Company Limited**

27 March 2013

## The 15th Meeting of the Third Session of the Board of Directors of Dongfeng Motor Group Company Limited

## Resolutions in relation to Annual Report

To: Annual general Meeting

The following resolutions in relation to annual report have been approved at the 15th meeting of the third session of the board of directors of Dongfeng Motor Group Company Limited ("Company") and will be proposed at the annual general meeting of the Company for consideration:

1. To consider and approve the 2012 financial report audited by Ernst & Young Hua Ming and the 2012 auditors' report audited by Ernst & Young.

2. To consider and approve the report of the board of directors of the Company of 2012.

3. To consider and approve the results announcement of the Company of 2012.

4. To approve a dividend of RMB1,292 million, or RMB0.15 per ordinary share, for 2012 to shareholders of the Company.

5. To authorized the board of directors to deal with any matters in relation to the distribution of the interim dividends for 2013 as they thing fit, including but not limited to the determination of distribution of interim dividends for 2012.

6. To approve the reappointment of Ernst & Young as the Company's overseas auditors and Ernst & Young Hua Ming as the Company's PRC auditors for 2013 for a term until the conclusion of the 2013 annual general meeting, and the authorisation to the audit committee of the board of directors to fix their remunerations.

The above resolutions will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
**Dongfeng Motor Group Company Limited**

27 March 2013

## The 15th Meeting of the Third Session of the Board of Directors of Dongfeng Motor Group Company Limited

## Resolutions on the Issuance and Allotment of Shares

To: Annual general Meeting

According to the resolutions on the issuance and allotment of Shares passed by the 15th Meeting of the Third Session of the Board of Directors of Dongfeng Motor Group Company Limited (the "Company"), the Board of Directors has decided to propose the following resolutions to the Annual General Meeting of the Company:

1. To approve and authorize the Board of Directors to issue, allot and deal with, either separately or concurrently, additional domestic shares not exceeding 20 per cent of the domestic shares in issue and/or additional H shares not exceeding 20 per cent of H shares in issue.

2. To approve and authorize the Board of Directors to make corresponding amendments to the Articles of Association of the Company to reflect the new capital structure upon the allotment, issue and dealing of the additional domestic shares and/or additional H shares and the increase of registered capital of the Company.

The above resolutions will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
**Dongfeng Motor Group Company Limited**

27 March 2013

## The 6th Meeting of the Third Session of the Supervisory Committee
## Dongfeng Motor Group Company Limited

## Resolution

To: Annual General Meeting of the Company

According to the resolution passed by the 6th Meeting of the Third Session of Supervisory Committee of Dongfeng Motor Group Company Limited (the "Company"), the Supervisory Committee has decided to submit the supervisory report for 2012 to the Annual General Meeting for consideration and approval.

The above resolution will be submitted to the Annual General Meeting for shareholders' consideration.

Supervisory Committee
**Dongfeng Motor Group Company Limited**

27 March 2013

# Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

| | |
|---|---|
| "Company" | 東風汽車集團股份有限公司 (Dongfeng Motor Group Company Limited), a joint stock limited company registered in the PRC on 12 October 2004 in accordance with the laws of the PRC or where the context refers to any time prior to the date of incorporation, those entities and businesses which were contributed to and conducted by the Company upon its establishment |
| "Dongfeng Joint Venture Companies" | Jointly-controlled Entities in which the Company, its subsidiaries or Jointly-controlled Entities (including their respective subsidiaries and Jointly-controlled Entities) have equity interests as at 31 December 2012 |
| "Dongfeng Motor Corporation" or "DMC" | 東風汽車公司 (Dongfeng Motor Corporation), a state-owned enterprise incorporated under the laws of the PRC |
| "Dongfeng Motor Group" or "Group" | the Company and its subsidiaries, the Dongfeng Joint Venture Companies and their respective subsidiaries and associates |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Joint Venture Company" | a joint venture company is a company set up by contractual agreement, whereby joint venture parties undertake an economic activity. A joint venture company operates as a separate entity in which each party has an interest |

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

A joint venture company is treated by a joint venture party as:

(a) a subsidiary, if the joint venture party has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the joint venture party does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

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

| | |
|---|---|
| | (d) an investment, if the joint venture party holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company |
| "Jointly-controlled Entity"or "JCE" | a jointly-controlled entity is a Joint Venture Company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. A joint venture party's investments in its Jointly-controlled Entities can be accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements of the joint venture party on a line-by-line basis. When the profit sharing ratio is different to the joint venture party's equity interests in the Jointly-controlled Entities, the joint venture party's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio. The results of Jointly-controlled Entities are included in the joint venture party's profit and loss account to the extent of dividends received and receivable. The joint venture party's investments in Jointly-controlled Entities are treated as long term assets and are stated at cost less impairment loss |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time |
| "Macau" | the Macau Special Administrative Region of the PRC |
| "Parent Group" | Dongfeng Motor Corporation and its subsidiaries (excluding the Group) |
| "PRC" or "China" | the People's Republic of China. Except where the context requires, geographical references in this annual report to the PRC or China exclude Hong Kong, Macau or Taiwan |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |

**In this annual report, unless otherwise specified, all references to revenues, profits and other financial information of the Group include those of the relevant Dongfeng Joint Venture Companies to the extent that such information has been proportionately consolidated or otherwise reflected in the financial information set out in this annual report. Subject to the above and unless otherwise specified, all information in this annual report relating to the Dongfeng Motor Group includes information of the Group and all companies (including Dongfeng Joint Venture Companies 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.**