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DONGFENG MOTOR GROUP COMPANY LIMITED

Corporate Profile

Second Automotive Works (第二汽車製造廠), the predecessor of Dongfeng Motor Corporation, 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.

Currently, the Company has 14 subsidiaries, jointly-controlled entities and other companies in which the Company has direct equity interests, all of which constitute 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.

In 2007, the Dongfeng Motor Group commanded a market share of approximately 10.8% 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. Consequently, the Dongfeng Motor Group has had a solid position in the industry and plays a leading role in certain sectors.

Chairman's Statement

Dear Shareholders,

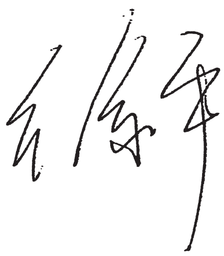
On behalf of the Board of Directors, I hereby present the annual report of the Company for the year ended 31 December 2007 for your review.

In 2007, the annual sales volume of vehicles of automobile manufacturers in China was 8,790,000 units, representing an increase of 21.84% over last year; of which passenger vehicles and commercial vehicles accounted for 6,300,000 units and 2,490,000 units, representing an increase of 21.68% and 22.25% over last year respectively. It is shown that the industry is under rapid growth. Against such a favourable background, Dongfeng Motor Group recorded outstanding operation results. In 2007, the aggregate sales volume of vehicles of Dongfeng Motor Group was 949,500 units, representing an increase of 26.50% over last year, which is even higher than the industry growth rate of 4.66 percentage points. Of the sales volume, passenger vehicles and commercial vehicles accounted for 638,000 units and 311,500 units, representing an increase of approximately 28.89% and 21.58% over last year respectively. The product and sales mix of the Dongfeng Motor Group were more reasonable. In general, Dongfeng Motor Group has been able to secure top rankings in its market segments. During the year, Dongfeng Motor Group has introduced approximately 8 brand new and modified models for its major line of passenger vehicles to the market, posting a strong support to the growth of production and sales of passenger vehicles. Since the launch of New Dongfeng Honda CRV in March 2007, an annual sales of over 40,000 units has been recorded, representing the largest market share of 4WD SUVs. New models of commercial vehicles were also recognised by the market, resulting in an improved production and sales mix. The annual sales volume of new generation Dongfeng Kinland heavy trucks amounted to 21,956 units.

In 2007, the Group's sales revenue and profit attributable to shareholders of the Company was approximately RMB59.318 billion and RMB3.77 billion, representing an increase of approximately 22.9% and 81.2% over last year respectively. The earning per share was approximately RMB43.76 cents, representing an increase of approximately 81.2%. If the one-off write-back of deferred tax for previous years of approximately RMB0.521 billion is excluded, the adjusted profit attributable to shareholders would amount to approximately RMB3.249 billion. The profit margin before interest and taxes and the net profit margin was 7% and 6.4%, representing an increase of approximately 0.7 percentage points and 2.1 percentage points over last year. The inventory turnover in 2007 decreased to 56 days from 65 days of last year. The overall efficiency and quality of the Group's operation were further improved and enhanced accordingly.

In 2007, the investment of the Dongfeng Motor Group was made as planned with the actual investment amount of approximately RMB7.92 billion for the year. The production capacity has been expanded steadily and the total production capacity amounted to approximately 1,117,000 units as of the end of the year. The distribution network was expanded as scheduled with more than 3,900 sales outlets at all levels, including those for passenger and commercial vehicles. In respect of research and development and intellectual property, we have made a significant advancement by improving our capabilities of independent research and development. In addition, the Dongfeng Motor Group places great emphasis on its social responsibilities and significant and effective efforts have been made to recognise the importance of treating clients' interests with respect, energy conservation and environment protection, production safety and protection of staff interests.

While we have made a general advancement in all respects, the Board of Directors recognises that there are still challenges and difficulties ahead. The annual sales volume of Dongfeng Peugeot Citroën Automobiles Company Ltd. and Dongfeng Nissan Passenger Vehicle Company have failed to meet the expected targets, and the growth rate of sales of commercial vehicles, particularly heavy trucks, has been lower than that of the industry. Looking ahead, we believe that 2008 will still be a unprecedented booming year for the PRC automobile industry. With the encouraging growth prospect, the annual sales volume of vehicles in the industry is expected to be above 10,000,000 units. We also realise that, however, the economy of China will see macro-control pressures in 2008. The sales price of vehicles will be lowered due to intensified market competition and it will be more difficult to control the cost because of higher prices of raw materials. The Dongfeng Motor Group will endeavour to address and settle all these issues in a proactive way.



Xu Ping
Chairman

Wuhan, the PRC
16 April 2008

Business Overview

I Major Businesses of the Dongfeng Motor Group

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

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

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

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

In October 2007, the Company and Nissan Motor Co. Ltd. established a joint venture, Dongfeng Nissan Auto Finance Co., Ltd., to operate auto finance business. The Company has 35% shareholding of the joint venture.

1. Commercial vehicles

As at 31 December 2007, the members of the Dongfeng Motor Group produced 33 principal basic series of commercial vehicles, including 27 principal basic series of trucks and 6 principal basic series of buses. Most of the commercial vehicles manufactured by the Dongfeng Motor Group are manufactured by Dongfeng Motor Co., Ltd. The commercial vehicles manufactured by the Dongfeng Motor Group are currently sold mainly through four major sales and service networks devoted exclusively to provision of sales and services for the commercial vehicles manufactured by the Dongfeng Motor Group, which form one of the most extensive commercial vehicle sales and service networks in the PRC.

Members of the Dongfeng Motor Group manufacture commercial vehicle engines mainly for their internal use but also for external sales. The members of the Dongfeng Motor Group which manufacture engines are Dongfeng Motor Co., Ltd, mainly manufacturing Dongfeng series and Cummins series diesel and petrol commercial vehicle engines

In addition to the manufacture of engines, members of the Dongfeng Motor Group also manufacture 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 pressed products) and chassis (mainly comprised of axles, car frames and chassis parts), electronic parts and other parts.

2. Passenger vehicles

As at 31 December 2007, the members of the Dongfeng Motor Group produced 20 series of passenger vehicles, including 14 series of passenger cars, 3 series of MPV and 3 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are currently sold through 7 independently managed sales and service networks throughout the PRC. Each of these networks sells one brand of passenger vehicles with after-sales services.

Members of the Dongfeng Motor Group manufacture passenger engines mainly for their internal use but also for external sales. The members of the Dongfeng Motor Group which manufacture engines are Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobile Company Ltd, Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd. Dongfeng Motor Co., Ltd mainly manufactures Nissan series passenger vehicle engines; Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd manufacture Honda series passenger vehicle engines; and Dongfeng Peugeot Citroën Automobile Company Ltd manufactures Citroën series and Peugeot series passenger vehicle engines.

In addition to the manufacture of engines, members of the Dongfeng Motor Group also manufacture 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 pressed products) and chassis (mainly comprised of axles, car frames and chassis parts), electronic parts and other parts.

3. Other businesses

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

In addition to the businesses described above, the Dongfeng Motor Group is engaged in the import/export of vehicles and equipment, finance, insurance agency and used car businesses and so on.

II Business Operations during the year under review

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

As at 31 December 2007, the production and sales volume for whole vehicles of the Dongfeng Motor Group was 958,873 and 949,526 units respectively. According to the statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group held a market share of 10.8% in terms of the total domestic automobile manufacturers sales volume of commercial and passenger vehicles in 2007. The following table sets out the production and sales volume of the Dongfeng Motor Group for commercial and passenger vehicles, as well as its market share in terms of sales volume in 2007.

		No. of units produced (units)		No. of units sold (units)		Market share in terms of sales volume (%)
Commercial Vehicles		313,742		311,513		12.49
Trucks	270,948		268,435		12.52	
Buses	42,794		43,078		12.32	
Passenger Vehicles		645,131		638,013		10.13
Basic passenger cars	557,786		549,772		11.63	
MPVs	31,328		29,931		13.25	
SUVs	56,017		58,310		16.30	
Total		958,873		949,526		10.80

2. Ranking of the Dongfeng Motor Group's major vehicle lines in the domestic market in 2007

	Number of units sold by the Dongfeng Motor Group (units)	Ranking in the domestic market
Heavy trucks	87,650	3
Medium trucks	64,027	1
Light trucks	116,758	2
Basic passenger cars	549,772	3
MPVs	29,931	4
SUVs	58,310	2

3. Sales revenue

As at 31 December 2007, the annual sales revenue of the Group was RMB59,318 million.

Business	Sales revenue (RMB millions)	Contribution to the Group's sales revenue (%)
Commercial vehicles	16,901	28.5%
Passenger vehicles	41,655	70.2%
Others	762	1.3%
Total	59,318	100%

III Sales and Service Networks

The motor vehicles of the Dongfeng Motor Group are sold together with after-sales services in the PRC through 11 major sales and service networks. Each of these 11 sales and service networks sells vehicles manufactured by a particular joint venture with after-sales services, and is managed by the relevant joint venture independently of the other members of the Dongfeng Motor Group.

Commercial vehicles are mainly distributed with after-sales services through 4 major sales and service networks.

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	Dongfeng (heavy and medium)	262	573	31
Dongfeng Automobile Co., Ltd	Dongfeng (light)	626	631	31
Dongfeng Liuzhou Motor Co., Ltd	Dongfeng (heavy and medium)	186	482	29
Dongfeng Nissan Diesel Motor Co., Ltd	Dongfeng Nissan Diesel	74	88	30

Passenger vehicles are mainly distributed with after-sales services through 7 major sales and service networks.

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Peugeot Citroën Automobiles Company Ltd	Dongfeng Citroën	286	286	31
Dongfeng Peugeot Citroën Automobiles Company Ltd	Dongfeng Peugeot	135	135	29
Dongfeng Motor Co., Ltd (Dongfeng Nissan Passenger Vehicle Company)	Dongfeng Nissan	413	358	31
Dongfeng Liuzhou Motor Co., Ltd	Dongfeng Future	85	205	29
Dongfeng Honda Automobile Co., Ltd	Dongfeng Honda	176	176	30
Zhengzhou Nissan Automobile Co., Ltd	Zhengzhou Nissan	684	345	31
Dongfeng Automobile Co., Ltd	Dongfeng (Pickup)	115	663	31

IV Production Capacity, Production Capacity Distribution and Future Expansion Plans

As at 31 December 2007, the total motor vehicle production capacity of the Dongfeng Motor Group was approximately 1.117 million units. The total production capacity of engines was approximately 1,380,000 units, among which the production capacity of commercial vehicles and commercial vehicle's engines was approximately 337,000 units and 240,000 units respectively; the production capacity of passenger vehicles and passenger vehicle's engines was approximately 780,000 units and approximately 1.14 million units respectively.

The following table shows the production capacity distribution of vehicles and engines of the Dongfeng Motor Group as at 31 December 2007:

1. Production capacity of commercial vehicles

1.1 Whole vehicle:

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	330
Dongfeng Nissan Diesel Motor Co., Ltd	2
Dongfeng Special Commercial Vehicle Co., Ltd	5

1.2 Engines:

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	240

2. Production capacity of passenger vehicles

2.1 Whole vehicle

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	360
Dongfeng Peugeot Citroën Automobiles Company Ltd	300
Dongfeng Honda Automobile Co., Ltd	120

2.2. Engines

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	260
Dongfeng Peugeot Citroën Automobiles Company Ltd	400
Dongfeng Honda Automobile Co., Ltd	120
Dongfeng Honda Engine Co., Ltd	360

According to the automotive market forecast and the business plan of the Dongfeng Motor Group, production capacity will rise gradually so as to meet the needs of manufacturing products, while capacity utilisation will continue to increase. By the year 2008, the production capacity of whole vehicles is expected to reach approximately 1,257,000 units and to reach approximately 1,610,000 units by 2010.

V Investment in 2007 and Future Investment Plan for the next two years

In 2007, Dongfeng Motor Group has managed to invest by adhering to the principle of rational and profitable investment, resulting in significant progress in the following three aspects of project development (1) the introduction of new products and implementing new model specific investment plans; (2) the upgrading of technologies for production capacity, and achieving renovation and expansion as appropriate; and (3) the strengthening of its own innovation capabilities and its research and development capabilities. The actual total investment amount for the year was approximately RMB7,920 million by Dongfeng Motor Group.

In the next two years, the Dongfeng Motor Group will, under its strategies and business plans, continue to invest in its own innovation capabilities, plant renovation and expansion, upgrading its technological level, introducing new products, making new model specific investment, and strengthening energy conservation and emission reduction. For the construction proposals, the Dongfeng Motor Group will focus on effective utilisation and optimised resources allocation, while for the investment arrangements, the Dongfeng Motor Group will put more emphasis on input and output benefit. In the next two years, the total investment amount by the Dongfeng Motor Group is expected to be approximately RMB11 billion in 2008 and approximately RMB12 billion in 2009.

VI Intellectual Property and Research and Development

1. Research and development advancement in 2007

(1) Growth of research and development capabilities

In 2007, construction of the new station site for Dongfeng commercial vehicles tests in Wuhan progressed well. A number of mid-to-large construction projects in respect of testing equipment and research and development infrastructure were completed by Dongfeng Nissan Passenger Vehicle Company, Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd. The localisation of research and development capabilities of joint ventures generally improved.

(2) Technological achievements

In 2007, Dongfeng Motor Group dominated the automobile industry in terms of the numbers and prestige of prizes awarded, receiving 14 scientific and technological advancement awards of the automobile industry in China, among which the development of Dongfeng “Mengshi (猛士)” vehicle model was awarded the only one first prize in the industry.

(3) Certification and standardisation

In 2007, Dongfeng Motor Group had 1,357 new vehicle models successfully filed and published, and 1,472 new models were altered and extended. There were 1,241 vehicle models approved by the relevant state and local authorities to be included in environmental catalogues. The applications for China Compulsory Certification (CCC) for new products were made to 111 units and 427 were changed. Throughout the year, the Dongfeng Motor Group was involved in 586 revisions to second-level technical standards and the formulating of three national standards, and 14 revisions to state and industry standards.

(4) *Matters on intellectual property*

Until now, the Dongfeng Motor Group has formed a relatively established intellectual property management framework comprising more than ten specific management systems. An independent intellectual property management system has also been formed and established across the major joint ventures.

In 2007, the Dongfeng Motor Group made 362 patent applications, representing a year on year increase of 101%, and 33 invention patent applications, representing a year on year increase of 43%, and obtained 179 authorised patents, representing a year on year increase of 44%.

2. New Products Research and Development and New Products to the Market in 2007

(1) *Commercial vehicles*

The Group completed the development of more than 300 models of 11 types of 3 series for Kinland/大力神 on D310 platform. The development of D530 platform for new generation medium trucks was in good progress and its research and development was largely completed, paving the way for a full launch into the market; the research and development of EQ4H engines project of the national standard III on its own achieved great progress. Dongfeng "Mengshi" series were approved by the State Council and the Central Military Commission be used in the armies; EQ2070G off-road vehicles were accredited by General Armament Department and the pre-research of third-generation medium highly flexible off-road vehicles progressed well. The Dongfeng Motor Group developed more than one hundred SOP of the national standard III models throughout the year and was well positioned to accord with the full implementation of the national emission standard III in the PRC.

(2) *Passenger vehicles*

Various new passenger vehicle models including new Dongfeng Peugeot 307, new Picasso, Fukang 2008, Livina and new CRV were introduced into the market, of which new Dongfeng Peugeot 307, Livina and new CRV performed well. New CRV, a sub-segment of SUV, led the market.

(3) *New clean-energy vehicles*

Mixed power buses/sedans, CNG and LNG engines and whole trucks were inspected and accepted by many municipal and provincial governments in the PRC. Currently, 50 mixed power buses have been delivered and put into operation in Wuhan, the city in the world where a large scale mixed power public transit is in operation.

VII Performance of Social Responsibilities

1. Product quality and services

In September 2007, Dongfeng trucks were awarded as the first "China Top Brand Products", the highest honor given by AQSIQ in respect of vehicles quality in the PRC so far. The Dongfeng Motor Group consistently adheres to *Best Quality and Keep First*. Its joint venture entities facilitated the introduction of the advanced quality management measures and facilities, resulting in the coordinated development of the brands of Dongfeng and its joint ventures and offering first-class products and services to the customers.

The quality management philosophy of *Focusing on and Satisfying Every Customer* is fully implemented across the Dongfeng Motor Group, thus converting the needs and expectations from the customers into the management requirements of the Dongfeng Motor Group, enabling the products quality management to meet the customers' requirements instead of the corporate requirements.

The Dongfeng Motor Group put an emphasis on military product quality assurance and is aware of the various quality requirements of clients. In 2007, the Dongfeng Motor Group passed all reviews and was qualified as a military products manufacturer, thus consolidating its leading position in the industry of military products supply.

2. Energy conservation and environment protection

Energy conservation management

In 2007, the Dongfeng Motor Group has been consistently in compliance with the relevant laws and regulations and policies in China. Energy was conserved and the technologies of energy conservation were upgraded. The Group invested more than RMB80 million in upgrading the energy conservation technologies for the whole year with 68 projects involved. In addition, the Dongfeng Motor Group included energy conservation in the development plans of the Dongfeng Motor Group and all entities within it. The plans included specific targets and has resulted in decreasing energy consumption per RMB10,000 in value added.

Environment protection

In 2007, the Dongfeng Motor Group conducted environment protection works in accordance with the laws and regulations regarding environment protection in the PRC. It consistently implements the pollution prevention and remedy policies of *Comprehensive Management with Focusing on Prevention and Combined with Remedies*, with a combination of prevention from the source, controlling in the process and management in the end. The Group invested over RMB40 million in more than 50 technologies upgrading projects throughout the year. All environmental protection targets set at the beginning of the year were achieved: the achievement rate for the emission of various pollutants was above 98%, the safety disposal rate for Three Wastes was 100% and the recycling rate was above 60%. Our high standards for vehicles emission meet the requirements of the laws and regulations, and our coverage rate of ISO14001 reached 80% or above. These represent a major breakthrough in the establishment of an Environment-Friendly Enterprise.

3. **Production safety**

The Dongfeng Motor Group adhered to the concept of safety development throughout the year of 2007. The production safety reached a new stage. All the production safety targets set at the beginning of the year were fully achieved, while the production and sales volume increased. In 2007, there were 70 occupational injuries in total, representing a year on year decrease of 24%. The accident rate was 0.71%, of which the serious injuries rate was 0.092%. Both were below the control indicators.

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

In 2007, with the target of establishing an harmonious enterprise and sharing the corporate achievements with the employees and focusing on establishing a harmonious and steady labor relationship, the trade union of the Company actively made an effort to protect the statutory rights of the employees. The works include: (1) promoting the establishment of harmony mechanism for labor relationship; (2) promoting the establishment of an Employee Representative Meeting system; (3) actively helping the employees with economic difficulties; and (4) improving the production safety and labor protection.

VIII Business Prospect

In the next few years, the domestic vehicle market will continue to grow at a fast pace. It is expected that the total sales volume of domestically manufactured vehicles will be more than 10,000,000 units in 2008, and reach 12,000,000 units in 2010. Against the background of rapid growth in the industry, the Dongfeng Motor Group will make efforts to achieve followings.

1. *Expansion of production capacity*. Following completion of the projects of expanding the production capacity of the Second Factory of Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd as well as the production capacity of the Huadu base of the Dongfeng Motor Co., Ltd. increased to 360,000 units, the aggregate production capacity of passenger vehicles of the Dongfeng Motor Group will rise further.

2. *Structural adjustment of the product mix and launch of the products*. The Dongfeng Motor Group will complete the structural adjustment of medium and heavy commercial vehicles and the upgrade of the products gradually. It will also develop the new light commercial vehicles and engines for medium commercial vehicles, and put them into the market. There will be 5–8 types of passenger vehicles to be put into the market each year.

3. *Profitability*. To avoid the effect of several adverse factors such as the decrease of terminal sales price and the rise of the raw material price and maintain or improve the profitability, the Dongfeng Motor Group will further implement several measures that would expand the size of production and sales, raise the rate of localisation, improve technology and cut costs and expenses, etc.

4. *Position in the industry and market share*. The Dongfeng Motor Group is committed to keep the process of production and sales in line with the expansion of the production in the industry, consolidate the existing position in the industry and achieve steady rise of the market share.

Management Discussion And Analysis

FINANCIAL RESULTS OVERVIEW

During the year, revenue of the Group amounted to approximately RMB59,318 million, representing an increase of approximately RMB11,054 million, or 22.9%, when compared with approximately RMB48,264 million for last year. Profit attributable to shareholders of the Group amounted to approximately RMB3,770 million for the year, representing an increase of approximately RMB1,689 million, or 81.2%, when compared with approximately RMB2,081 million for last year . Earnings per share were approximately RMB43.76 cents, up by approximately RMB19.61 cents, or 81.2%, when compared with approximately RMB24.15 cents for last year.

For the year, after excluding the one-time write-back of deferred tax for previous years of approximately RMB521 million arising from the unification of income tax for domestic and foreign enterprises policy of the PRC (the "Tax Unification Policy"), the adjusted profit attributable to shareholders of the Group amounted to approximately RMB3,249 million. For the previous year, after excluding the one-time expenses of approximately RMB252 million arising from the share reform schemes for Dongfeng Automobile Co., Ltd and Dongfeng Electronics Technology Co., Ltd., whose shares are listed on the A-share market in Mainland China, the adjusted profit attributable to shareholders of the Group for 2006 amounted to approximately RMB2,333 million. The adjusted profit attributable to shareholders of the Group for the year increased by approximately RMB916 million, or 39.3%, over the adjusted profit attributable to shareholders of the Group for the previous year. The adjusted earnings per share for the year was RMB37.71 cents, representing an increase of 39.3% over the adjusted earnings per share for the previous year of RMB27.08 cents.

During the year, net cash inflow from operating activities of the Group was strong. It amounted to approximately RMB5,102 million, representing an increase of approximately RMB541 million, or 11.9%, when compared with approximately RMB4,561 million for the previous year.

REVENUE

During the year, total revenue of the Group reached approximately RMB59,318 million, an increase of approximately RMB11,054 million, or approximately 22.9%, from approximately RMB48,264 million for the previous year.

	2007		2006	
Categories	**Revenue from sales RMB million**	**Units sold**	Revenue from sales RMB million	Units sold
Passenger vehicles	**41,655**	**638,013**	34,219	494,846
Commercial vehicles	**16,901**	**311,513**	13,215	256,242
Others	**762**	**N/A**	830	N/A
Total	**59,318**	**949,526**	48,264	751,088

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

During the year, revenue of the Group from sales of passenger vehicles increased by approximately RMB7,436 million, or 21.7%, from approximately RMB34,219 million for the previous year to approximately RMB41,655 million. Of which, revenue from sales of whole passenger vehicles increased by approximately RMB6,728 million, or 24.9%, from approximately RMB27,014 million in the previous year to approximately RMB33,742 million.

Despite oil price hikes, increase in consumption tax and auto price decline due to intensifying market competition during the year, revenue from sales of whole passenger vehicles recorded a significant increase of 24.9%. That was mainly attributable to a significant increase in the sales volume of vehicles during the year. The total sales volume of whole passenger vehicles increased by 28.9% to 638,013 units from 494,846 units in the previous year, higher than the industry growth rate of 21.7% for whole passenger vehicles. The market share in terms of sales volume of the Dongfeng Motor Group for the year increased to 10.1% from 9.6% in the corresponding year of last year. The launch of the new economical sedan LIVINA in 2007 enhanced the competitiveness of the Dongfeng Motor Group in the economical sedan market and the total sales quantity for the year has exceeded 40,000 units. Other newly launched passenger vehicle models and modified models, including Dongfeng Honda New Generation CR-V and Dongfeng Citroën New 307, drove the sales volume of passenger vehicles to a higher level which was above the industry level. Meanwhile, the sales of 206, CIVIC, C-Triomphe, Sylphy and Geniss which were released by the Dongfeng Motor Group last year maintained the original sales momentum during the year. Of which, the sales volume of CIVIC during the year more than double that of last year, being another driver for the increase in sales volume of passenger vehicles.

Revenue from sales of commercial vehicles increased by approximately RMB3,686 million, or 27.9%, from approximately RMB13,215 million in the previous year to approximately RMB16,901 million. Of which revenue from sales of commercial vehicles for the year increased by approximately RMB3,285 million, or 28.6%, from approximately RMB11,471 million in the previous year to approximately RMB14,756 million. Having experienced a difficult year between 2005 and 2006 when adjustment in product mix and restructuring were implemented, recovery was seen in commercial vehicles with improvements in both operation quality and profitability. During the year, the sales volume of commercial vehicles of the Dongfeng Motor Group increased by 21.6% to 311,513 units from 256,242 units in the previous year, which is basically in line with the industry growth rate of 22.3% for whole commercial vehicles. The market share in terms of commercial vehicle sales volume of the Dongfeng Motor Group for the year is 12.5%, which is basically in line with from 12.6% for the previous year. Since 2007, the sales of Dongfeng Kinland trucks had been outstanding in the market, approximately 22,000 units were sold.

COST OF SALES AND GROSS PROFIT MARGIN

During the year, the total cost of sales of the Group was approximately RMB49,503 million, representing an increase of approximately RMB9,445 million when compared to approximately RMB40,058 million for last year. During the year, the gross profit margin decreased to 16.6% from 17.0% for the previous year.

Against the backdrop of intensifying market competition coupled with ever-changing promotional initiatives launched by manufacturers, the price of different models of passenger vehicles was driven down in different extents. In response to this, the Group implemented a series of cost reduction measures such as acceleration of localisation, controlling expenses in the sourcing, technical and management areas. This, coupled with the benefits from the appreciation of Renminbi, has led to lower the average unit costs comparing with that of last year, mitigating the downward pressure on gross profit margin. The gross profit margin of whole passenger vehicles decreased from 17.9% for last year to 17.5%. As a result, the gross profit margin of passenger vehicles decreased from 18.9% in the previous year to 18.3%.

During the year, the gross profit margin of the Group's commercial vehicles remained at the level of 12.0% of the previous year, and that of whole commercial vehicles remained at the level of 11.5% of the previous year. The lowering of the unit production cost of the products due to the increase of production and sales volume has offset the increase in the drop of product selling prices to a different extent due to the price reduction by major competitors to boost sales, and the impact of the increase in the prices of steel for commercial vehicles over the previous year. This resulted in a corresponding increase in the level of gross profit and sales.

OTHER INCOME

During the year, the total other income of the Group was approximately RMB935 million, representing an increase of approximately RMB199 million when compared with approximately RMB736 million in the previous year. The increase in other income was mainly attributable to an increase of grants received from the government for the purpose of supporting the development of automotive technologies and automobile projects as well as an increase in the sales of raw materials.

SELLING AND DISTRIBUTION COSTS

During the year, the selling and distribution costs amounted to approximately RMB2,642 million, representing an increase of approximately RMB485 million when compared with approximately RMB2,157 million in the previous year. The sales and distribution cost of the Group as a percentage of sales revenue remained at the 2006 level of 4.5%. The increase in the selling and distribution costs was mainly due to higher transportation and warehousing costs resulting from a significant increase in sales volume during the year. In addition, more efforts were put in advertising and exhibition and market expansion for the launch of several new and upgraded models.

ADMINISTRATIVE EXPENSES

During the year, the total administrative expenses of the Group amounted to approximately RMB2,545 million, representing an increase of approximately RMB326 million when compared with approximately RMB2,219 million in the previous year. This was mainly due to higher staff costs, depreciation charges and amortization expenses of intangible assets. During the year, due to an increase in sales volume and the control of administrative expenses by the Group, the administrative expenses as a percentage of sales revenue decreased by 0.3% points to 4.3%, down from 4.6% in the previous year, reflecting that were under control.

OTHER EXPENSES

During the year, other expenses were approximately RMB1,432 million, representing an increase of approximately RMB147 million when compared with approximately RMB1,285 million in the previous year, mainly due to (1) the Group's continual increased investments in research and development, which increased by approximately RMB185 million to approximately RMB1,090 million from approximately RMB905 million in the previous year; and (2) the increase in product warranty by approximately RMB151 million due to increased sales volume. For the year, the Group recorded an exchange gain of approximately RMB217 million when compared with the exchange gain of approximately RMB9 million for the previous year, leading to a decrease of approximately RMB208 million of other expenses was recorded for the year. The exchange gain recorded in the year mainly arose from the Group's US$ bank borrowings of approximately US$422 million (2006: approximately US$275 million) due to the continuous depreciation of the United States dollars.

STAFF COSTS

During the year, the staff costs of the Group amounted to approximately RMB2,986 million, representing an increase of approximately RMB752 million when compared with approximately RMB2,234 million in the previous year. This was due to higher demand for labour and a general rise in salaries brought about by an increase in market demand for automobiles. In addition, the Group granted the second tranche of stock appreciation rights as incentives to its senior management. Amortised expenses of the first and second tranches of stock appreciation rights amounted to approximately RMB111 million during the year, representing an increase of approximately RMB75 million over approximately RMB36 million of last year.

DEPRECIATION CHARGES

In recent years, with a view to expanding its business and increasing its production capability, more investments in plant and equipment were made and the depreciation charges for the year amounted to approximately RMB1,783 million, representing an increase of approximately RMB304 million when compared with approximately RMB1,479 million of last year.

FINANCE COSTS

During the year, the finance costs of the Group amounted to approximately RMB365 million, representing a decrease of approximately RMB46 million when compared with approximately RMB411 million of last year. Such a decrease was mainly attributable to (1) the issue of approximately RMB1,900 million short term debenture in the second half of 2006 for the early repayment of some bank borrowings and the financing costs of the short term debenture were lower than that of the bank loans; and (2) the Group also utilised its strong cash flow generated from operations to repay some of its bank borrowings, resulting in a decrease in finance costs.

INCOME TAX

The income tax written back of the Group during the year amounted to approximately RMB202 million, representing a difference of approximately RMB630 million when compared with approximately RMB428 million of last year. During the year, the one-time write-back of deferred tax for previous years arising from the Tax Unification Policy of the PRC amounted to approximately RMB521 million. Should the one-time expenses be excluded, the effective tax rate for the year would decrease to 8.3% from 14.6% (adjusted for the impact of the one-off share reform schemes) in the previous year.

NET PROFIT

Based on the above reasons, the profit attributable to shareholders of the Group amounted to approximately RMB3,770 million for the year, representing an increase of approximately RMB1,689 million, or 81.2%, when compared with approximately RMB2,081 million for last year . Earnings per share were approximately RMB43.76 cents, up by approximately RMB19.61 cents, or 81.2%, when compared with approximately RMB24.15 cents for last year.

For the year, after excluding the one-time write-back of deferred tax for previous years of approximately RMB521 million arising from the Tax Unification Policy of the PRC, the adjusted profit attributable to shareholders of the Group amounted to approximately RMB3,249 million. For the previous year, after excluding the one-time expenses of approximately RMB252 million arising from the share reform schemes for Dongfeng Automobile Co., Ltd and Dongfeng Electronics Technology Co., Ltd., whose shares are listed on the A-share market in Mainland China, the adjusted profit attributable to shareholders of the Group for 2006 amounted to approximately RMB2,333 million. The adjusted the adjusted profit attributable to shareholders of the Group for the year increased by approximately RMB916 million, or 39.3%, over the adjusted profit attributable to shareholders of the Group for the previous year. The adjusted earnings per share for the year was RMB37.71 cents, representing an increase of 39.3% over the adjusted earnings per share for the previous year of approximately RMB27.08 cents.

During the year, the Group's net profit margin, as a percentage of profit attributable to shareholders to total revenue, was approximately 6.4%, representing an 2.1% points when compared with that of 4.3% for the previous year. Should the one-time write-back of deferred tax for previous years arising from the Tax Unification Policy of the PRC during the year be excluded, the adjusted net profit margin would be approximately 5.5%, representing an increase of 0.7% points when compared with the adjusted net profit margin of 4.8% adjusted for the share reform schemes for the previous year.

During the year, the Group's return on net assets, as a percentage of profit attributable to shareholders to average net assets, was approximately 21.3%, representing an 6.7% points when compared with that of 14.6% for the previous year. Should the one-time write-back of deferred tax for previous years arising from the tax unification policy of the PRC during the year be excluded, the adjusted return on net assets would be approximately 18.3%, representing an increase of 2.0% points when compared with the adjusted return on net assets of 16.3% adjusted for the share reform schemes for the previous year.

LIQUIDITY AND SOURCES OF CAPITAL

	2007 RMB million	2006 RMB million
Net cash inflows from operating activities	**5,102**	4,561
Net cash outflows from investing activities	**(3,280)**	(3,930)
Net cash outflows from financing activities	**(378)**	(558)
Net increase in cash and cash equivalents	**1,444**	73

During the year, net cash inflows from operating activities amounted to approximately RMB5,102 million. This principally represents: (1) profit before tax and non-cash items of depreciation and impairment amounting to approximately RMB5,935 million; (2) an increase of approximately RMB3,723 million in trade receivables, bills receivable and prepayments, deposits and other receivables; and (3) an increase of approximately RMB4,393 million in trade, bills and other payables and accrued liabilities. During the year, cash flows generated from operating activities of the Group were strong.

During the year, net cash used in investing activities of the Group amounted to approximately RMB3,280 million. This principally represents the purchase of plant and equipment of approximately RMB2,751 million for the expansion of production capacity and development of new products.

During the year, net cash outflow from financing activities of the Group amounted to approximately RMB378 million, mainly due to the payment of dividends of approximately RMB345 million to the shareholders.

During the year, the increase in cash and cash equivalents (excluding the time deposits with a maturity of three months or more) of the Group amounted to approximately RMB1,444 million. As at 31 December 2007, cash and cash equivalents amounted to approximately RMB7,103 million, and cash and bank balances (including the time deposits with a maturity of three months or more) amounted to approximately RMB10,473 million. As at 31 December 2007, net cash (cash and bank balances less borrowings) of the Group significantly increased to approximately RMB2,208 million from approximately RMB219 million as at 31 December 2006.

As at 31 December 2007, the Group's gearing ratio, as a percentage of total borrowings to total shareholders' equity, was 46.6%, representing a relatively significant improvement over that of 56.0% as at 31 December 2006.

During the year, the Group's liquidity ratio was 1.08 times, in line with that of 1.01 as at 31 December 2006. During the year, the Group's quick ratio was 0.82 times, representing an improvement over that of 0.72 times as at 31 December 2006.

During the year, the Group strengthened the inventory control and turnover days of inventory were 56 days, representing a reduction from that of 65 days as at 31 December 2006.

The Group's turnover days of account receivable (including bills receivable) increased to 63 days from 55 days of the previous year, and the turnover days of account receivable (excluding bills receivable) increased slightly to 14 days from 12 days of the previous year. The turnover days of bills receivable increased to 49 days from 44 days of the previous year, as a result of the Group using promissory notes from trustworthy banks for facilitating transactions. The Group adopts stringent polices for the management of bills receivable and only accepts applications by clients with credibility, while the credit risks related to bank promissory notes are assumed by the clients' banks.

EXECUTIVE DIRECTORS

Xu Ping (徐平), aged 51, is the Chairman of the Board of Directors of the Company. Mr. Xu is a senior post-graduate engineer, having graduated in 1982 from Hefei Industrial University with a Bachelor's degree in Engineering, specializing in power plant and power systems. Mr. Xu joined Dongfeng Motor Corporation in 1982 and was the president of Dongfeng Motor Corporation's thermo-electricity factory. Mr. Xu has served as the Secretary of the Communist Party and Deputy General Manager of Dongfeng Motor Corporation since 2001. From 2003 to September 2005 Mr. Xu was also a director and a Vice President of Dongfeng Motor Co., Ltd. Mr. Xu has been the General Manager and the Secretary of the Communist Party of Dongfeng Motor Corporation (since June 2005), the Chairman of the Board of Directors of Dongfeng Motor Co., Ltd. (since June 2005), Dongfeng Peugeot Citroën Automobiles Company Ltd. (since June 2005) and Dongfeng Automobile Co., Ltd. (since July 2005). He is now appointed as a representative of the 10th National People's Congress and a representative of the 17th Communist Party Committee. From October 2004 to October 2007, Mr. Xu was a director of first Board of Directors of the Company and has served as the Chairman of the Board of Directors of the Company since August 2005.

Liu Zhangmin (劉章民), aged 58, is a Director and President of the Company. Mr. Liu is a senior accountant and senior auditor, having graduated in industrial corporate finance from the Beijing Mechanical Industry Management College in 1986. Mr. Liu joined Dongfeng Motor Corporation in 1970 and was the Head of the Finance Department of Dongfeng Motor Corporation. Mr. Liu has also served as Deputy General Manager of Dongfeng Motor Corporation since 1995 and the Chief Accountant of Dongfeng Motor Corporation since April 2005. Mr. Liu is also a director of Dongfeng Motor Co., Ltd. and the Chairman of Dongfeng Motor Finance Co., Ltd. He was appointed as the Chairman of Dongfeng Nissan Auto Finance Co., Ltd. since July 2007 and has served as a director of the first Board of Directors of the Company from October 2004 to October 2007.

Zhou Wenjie (周文杰), aged 55, is a Director and an Executive Vice President of the Company. He is also a senior economist. Mr. Zhou joined Dongfeng Motor Corporation in 1972, and from 1995 to 1999 was the Assistant General Manager of Dongfeng Motor Corporation. Since 2001, he has served as the Deputy General Manager of Dongfeng Motor Corporation. In addition, Mr. Zhou is also the Chairman of Dongfeng Honda Automobile Co., Ltd. and Dongfeng Honda Auto Parts Co., Ltd., the Deputy Chairman of Dongfeng Honda Engine Co., Ltd. (January 2006) and Dongfeng Peugeot Citroën Automobiles Company Ltd., and a director of Dongfeng Motor Co., Ltd. From October 2004 to October 2007, he was appointed as a director of the first Board of Directors of the Company.

Li Shaozhu (李紹燭), aged 46, is a Director of the Company. Mr. Li is a senior post-graduate engineer, graduated from Qinghua University in 1983 with a Bachelor's degree in Engineering Science, specializing in Casting Engineering and Equipment. He also studied Business Administration and received a Master's degree in Business Administration from Zhongnan University of Economics and Law from 1993 to 1996. 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 General Manager of Dongfeng Automobile Co., Ltd. Mr. Li has served as Deputy General Manager of Dongfeng Motor Corporation since 1997. From July 2003 to September 2005, Mr. Li was the Vice President of Dongfeng Motor Co., Ltd. From October 2004 to October 2007, he served as a director of the first Board of Directors of the Company.

Fan Zhong (范仲), aged 54, is a Director of the Company. Mr. Fan is a senior post-graduate engineer. He 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 Deputy General Manager of Dongfeng Chaoyang Diesel Engine Corporation. From 1999 to 2001, Mr. Fan was the General Manager 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. From October 2004 to October 2007, he served as a director of the first Board of Directors of the Company.

NON-EXECUTIVE DIRECTORS

Tong Dongcheng (童東城), aged 51, is a Director of the Company. Mr. Tong is a senior economist and 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. In 2003, Mr. Tong became a Vice President of Dongfeng Motor Co., Ltd., and has been the Chairman of Dongfeng Nissan Diesel Motor Co., Ltd. since April 2005 and a director of Dongfeng Motor Co., Ltd. since September 2005. From October 2004 to October 2007, he served as a director of the first Board of Directors of the Company.

Ouyang Jie (歐陽潔), aged 51, is a Director of the Company. Mr. Ouyang is a senior postgraduate engineer, having 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 PRC National University 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 a Vice President of Dongfeng Motor Co., Ltd. From October 2004 to October 2007, he served as a director of the first Board of Directors of the Company.

Liu Weidong (劉衛東), aged 41, is a Director of the Company. Mr. Liu is a senior engineer. He 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 and received a Master's degree in Management from Wuhan Polytechnic University from 2000 to 2003. 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 Citroën Automobiles Company Ltd. since 2001. From October 2004 to October 2007, he served as a director of the first Board of Directors of the Company.

Zhu Fushou (朱福壽), aged 45, is a Director of the Company. Mr. Zhu is a senior engineer. He graduated from Anhui Technical Institute with a Bachelor's degree in Engineering, majoring in Agricultural engineering in 1984. He studied Business Administration and received a Master's degree in Business Administration from Zhongnan Finance University from 1999 to 2001. Mr. Zhu joined Dongfeng Motor Corporation in 1984 and has served as a Standing Committee Member of the Communist Party of Dongfeng Motor Corporation since 2001. He is a director and the General Manager of Dongfeng Automobile Co., Ltd. and has served as a Vice President of Dongfeng Motor Co., Ltd. since September 2005. From October 2004 to October 2007, he served as a director of the first Board of Directors of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Shuyi (孫樹義), aged 67, 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 a member of the National Committee of the 10th Chinese People's Political Consultative Conference; Vice President of the China Enterprise Confederation and the China Enterprise Directors Association; Vice Chairman of the China Federation of Industrial Economics and Vice Chairman of the China Institute for the Study of Multinational Companies. Mr. Sun was formerly Head of the Production System Department of the State Restructuring Commission, Deputy Director of the Office of the Central Financial and Economic Leading Group, Vice Minister of the Ministry of Personnel and Deputy Secretary of the Central Business Affairs Commission of the PRC. Mr. Sun is qualified in the PRC as a certified public accountant and a senior engineer.

Ng Lin-fung (吳連烽), aged 66, is an Independent Non-Executive Director of Dongfeng Motor Group Company Limited. Mr. Ng was Deputy General Manager of Nanyang Commercial Bank and served the bank for over 30 years as head of the bank's credit operations. He is the Chairman and Managing Director of International Po Fung Finance Holdings Ltd., which was founded by him in 1999. Mr. Ng was the adviser to the Hong Kong and Macau Affairs Office of the State Council and Xin Hua News Agency on Hong Kong affairs. He is also a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region and a member of the Delegate Election Committee of the Hong Kong Special Administrative Region to the 9th and 10th National People's Congress.

Yang Xianzu (楊賢足), aged 68, is an Independent Non-Executive Director of the Company. He graduated from Wuhan College of Post and Telecommunications in 1965. Mr. Yang was the Vice Minister and Minister of the Administrative Bureau of Post and Telecommunications in Hubei Province and Heinan Province respectively. He served as the Vice Minister of the Ministry of Post and Telecommunications and the Ministry of Information Industry and the Chairman of China United Telecommunications Corporation.

SENIOR MANAGEMENT

Cai Wei (蔡瑋), aged 49, is a Vice President and the Secretary of the Board of Directors of the Company. Mr. Cai is a senior post-graduate engineer, having 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 autoparts division of the Dongfeng Motor Corporation between November 2001 and July 2003. He was the Head of the Planning Department of Dongfeng Motor Corporation from July 2003 to September 2005 and has been a Vice President and the Secretary of the Board of Directors of the Company since October 2004. Mr. Cai is a director of Dongfeng Honda Automobile Co., Ltd. and Dongfeng Peugeot Citroën Automobiles Company Ltd.

SUPERVISORY COMMITTEE

Independent Supervisors

Wen Shiyang (溫世揚), aged 42, is an Independent Supervisor of the Company. Mr. Wen is the Deputy Dean of College of Law of Wuhan University and holds a Doctor's degree. He is a Professor of Civil and Commercial Law and a tutor to doctorate candidates. Mr. Wen specializes in civil law, company law and insurance law and has a number of published works. Mr. Wen is a General Affairs Officer of the Civil Law Institute of the China Law Association.

Deng Mingran (鄧明然), aged 54, is an Independent Supervisor of the Company. Mr. Deng is the Dean of the Management College of Wuhan Polytechnic University and holds a Doctor's 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 the Vice President of the Tertiary College Committee of Chinese Accounting Association.

Supervisors

Ye Huicheng (葉惠成), aged 57, is the chairman of the supervisory committee of the Company. Mr. Ye is a senior economist, having graduated from the Central Party School in 1988, majoring in Economics and Management. Mr. Ye joined Dongfeng Motor Corporation in 1968 and has served as the Secretary of the Disciplinary Committee of the Communist Party of Dongfeng Motor Corporation since 1997. He also served as the Standing Committee Member of the Communist Party and the Chairman of the Labour Union of Dongfeng Motor Corporation in 2001 and as the Deputy Secretary of the Communist Party, the Secretary of the Disciplinary Committee of the Communist Party and the Chairman of the Labour Union of Dongfeng Motor Co., Ltd. in 2003. From October 2004 to October 2007, Mr. Ye served as a supervisor of the first Supervisory Committee of the Company and appointed as the Chairman thereof.

Zhou Qiang (周強), aged 46, is a Supervisor of the Company. Mr. Zhou is a senior economist, having 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. From July 2003 to September 2005, Mr. Zhou was a Standing Committee Member of Dongfeng Motor Co., Ltd. as well as Secretary of the Communist Party and Deputy General Manager of the Commercial Vehicles Company of Dongfeng Motor Co., Ltd. He is now the Head of Office Affairs of Dongfeng Motor Group Company Limited. From October 2004 to October 2007, Mr. Zhou served as a supervisor of the first Supervisory Committee of the Company.

Ren Yong (任勇), aged 44, is a Supervisor of the Company. Mr. Ren is a senior accountant, having studied Business Administration and received a Master's degree in Business Administration from Huazhong University of Science and Technology from 2005 to 2006. Mr. Ren joined Dongfeng Motor Corporation in 1981. Mr. Ren has been 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 and has been a Vice President of Dongfeng Motor Co., Ltd. since September 2005. From October 2004 to October 2007, Mr. Ren served as a supervisor of the first Supervisory Committee of the Company.

Liu Yuhe (劉裕和), aged 59, is a Supervisor of the Company. Mr. Liu is a senior engineer, having graduated from the Department of Metal Heat Treatment of Tsinghua University in 1992 and obtained a Master's degree in Engineering. Mr. Liu joined Dongfeng Motor Corporation in 1971 and is now the Executive Deputy Manager and a director of Dongfeng Honda Automobile Co., Ltd. Mr. Liu is also a Director of Dongfeng Honda Engine Co. Ltd. and Dongfeng Honda Auto Parts Co., Ltd. From October 2004 to October 2007, Mr. Liu served as a supervisor of the first Supervisory Committee of the Company.

Li Chunrong (李春榮), aged 42, is a Supervisor of the Company. Mr. Li is a senior economist, having graduated with a Bachelor's degree from Huazhong Technical Institute majoring in Vessel and Shipyard Electronic Automation in 1985. He graduated from Huazhong Technical Institute with a postgraduate degree in Management Systems in 1987, and joined Dongfeng Motor Corporation in the same year.

Kang Li (康理), aged 44, is a Supervisor of the Company. Mr. Kang is a senior engineer, graduated from Luoyang Technical Institute in 1984 with a Bachelor's degree specializing in Casting Engineering and Equipment. From 1993 to 1996, he received a Master's degree in Casting from Huazhong Polytechnic University. Mr. Kang joined Dongfeng Motor Corporation in 1987 and is the Secretary of the Communist Party and Chairman of the Labour Union of Dongfeng Peugeot Citroën Automobiles Company Ltd. From October 2004 to October 2007, Mr. Kang served as a supervisor of the first Supervisory Committee of the Company.

Joint Company Secretaries

Hu Xindong (胡信東), aged 40, is Joint Company Secretary of the Company and the Head of Investors Relation Department. Mr. Hu is a senior engineer and graduated from the Department of Political Education of Hubei University in 1990 with a Bachelor of Law degree. He received a Master's degree in Business Administration from Maastricht School of Management, the Netherlands, in 2000 and obtained a Master's degree in Economics from Zhongnan Institute of Economics and Politics in 2001. Mr. Hu joined Dongfeng Motor Corporation in 1990 and was the Head of Office Affairs of Dongfeng Motor Corporation from July 2003 to September 2005.

Lo, Yee Har, Susan (盧綺霞), aged 49, is Joint Company Secretary of the Company. Ms. Lo Yee Har, Susan is a director of Tricor Services Limited. Ms Lo is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Qualified Accountant

Chan Yuk Tong (陳育棠), aged 45, is the Company's qualified accountant pursuant to Rule 3.24 of the Listing Rules. Mr. Chan is employed by the Company basis and is a member of the Company's senior management. Mr. Chan is a professional accountant. He is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Prior to joining the Company on 31 October 2005, Mr. Chan worked as Audit Principal at Ernst & Young and as executive director at Tak Sing Alliance Holdings Limited. Later he worked in G2000 (Apparel) Limited as the finance director and sales director. Mr. Chan graduated from the University of Newcastle in Australia with a Bachelor's degree in Commerce and received a Master's degree in Business Administration from the Chinese University of Hong Kong.

HEADS OF DEPARTMENTS

The head of the Audit Department of the Company is Mr. Wang Shuou.

The head of the Personnel Department of the Company is Mr. Wang Xiangdong.

The head of the Financial Accounting Department of the Company is Mr. Guo Miao.

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. Yang Shaojie.

The head of the President's Office of the Company is Mr. Zhou Qiang.

The head of the Planning and Investment 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. Zhou Shirong.

The head of the Investors Relation Department of the Company is Mr. Hu Xindong.

The representative at Beijing Office of the Company is Mr. Xu Yaosheng.

The Secretary for the Communist Youth League of the Company is Mr. Zhang Kaijun.

The Board of Directors hereby present the report of the directors and its annual report for the year ended 31 December 2007 together with the audited financial statements of the Company and its subsidiaries and jointly-controlled entities prepared in accordance with the International Financial Reporting Standards (the "IFRS").

PRINCIPAL ACTIVITIES

The Dongfeng Motor Group is engaged in the manufacture and sale of commercial vehicles, passenger vehicles, engines and auto parts and also the manufacture of vehicle manufacturing equipment, both are to support the Dongfeng Motor Group's vehicle manufacturing businesses and also for external sales. The Dongfeng Motor Group has also 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 business as well as other businesses are carried out through subsidiaries, JCEs and other companies in which it has direct equity interests. The Company and its subsidiaries, JCEs and the other shareholders in the other companies in which the Company has a direct equity interest, jointly manage branding, strategy, operations, marketing and other areas in accordance with the relevant joint venture agreements.

RESULTS

The Group's results for the year ended 31 December 2007 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 55 to 142 in this annual report.

DIVIDENDS

The Board of Directors recommends distributing a dividend of RMB0.045 per share for the year ended 31 December 2007, subject to consideration and approval at the annual general meeting to be held on 20 June 2008.

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2007, the Company's JCEs, in total, declared and paid aggregate dividends of approximately RMB1,453 million to the Company. Although the exact amounts of dividend distributions are not set each year, pursuant to each of the joint venture agreements, distributions are required to be paid out of the profit made by the relevant JCE (after payments of income tax) in accordance with the relevant PRC law as determined by the directors of each JCE as being appropriate dividend distributions based on the circumstances of each JCE. When determining dividend distributions, the directors of each JCE will offset losses of previous years and deduct from the profit made by the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under PRC laws and regulations and company reserve (including but not limited to amounts allocated to cover the relevant JCE's working capital or to increase capital or expand production), employee bonus and welfare and company development. Pursuant to each of the joint venture agreements, distributions of profit will be made in proportion to the capital contributions paid by the relevant joint venture party and the Company respectively in accordance with the PRC law.

None of the JCEs has any specific dividend policies other than those disclosed above. However, if both the Company and the joint venture partners agree, the JCEs can declare dividends when there are distributable profit. Since dividend distribution is the primary channel for return of investment to the Company and the relevant joint venture partner in respect of each JCE, in the past, the JCEs have fully paid out all profits for each year after offsetting losses of previous years, after deducting applicable legal reserve as required under PRC laws and regulations and after allocations were made by each relevant JCE for company reserve (including but not limited to amounts allocated to cover working capital or to increase capital or expand production). In the future, it is the intention of the Company and the relevant joint venture partner to continue to declare dividends when there 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 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 2007 is set out on pages 143 to 144 in this annual report.

BANK LOANS AND OTHER BORROWINGS

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

INTEREST CAPITALISED

Details of the interest capitalised of the Group for the year ended 31 December 2007 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 2007 are set out in note 15 to the audited financial statements.

DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2007, 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 2007 are set out in note 31 to the audited financial statements and the consolidated statement of changes in equity on page 58 of the audited financial statements, respectively.

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

The Board of Directors recommends allocation of 10% of total profit to the statutory public surplus reserve and no allocation to the discretionary surplus reserve under the law and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 20 June 2008.

DONATIONS

The Group made no donation for the year ended 31 December 2007.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2007, the revenue attributable to the five largest customers accounted for no more than 30% of the Group's total revenue for the year.

During the year ended 31 December 2007, 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 2007, details of the subsidiaries and JCEs as well as other companies in which the Company has direct equity interests are set out in notes 18, 19 and 20 respectively to the audited financial statements for the year.

SHARE CAPITAL

As at 31 December 2007, the aggregate share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 were Domestic Shares representing approximately 66.86% of the aggregate number of shares in issue, and 2,855,732,000 were H Shares representing approximately 33.14% of the aggregate number of shares in issue.

STOCK APPRECIATION RIGHTS

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

In the first round of SARs, 55,665,783 SAR units were granted, and the date of grant was 23 January 2006. The grant price was HK$2.01. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

(a) in the third year following the date of grant, a maximum of 30% of the SARs granted may be exercised;

(b) in the fourth year following the date of grant, a further 35% of the SARs granted may be exercised;

(c) in the fifth year following the date of grant, the remaining 35% of the SARs granted may be exercised.

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

(a) in the third year following the date of grant, a maximum of 40% of the SARs granted may be exercised;

(b) in the fourth year following the date of grant, a further 30% of the SARs granted may be exercised;

(c) in the fifth year following the date of grant, the remaining 30% of the SARs granted may be exercised.

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SIGNIFICANT FINANCING

The Company issued the tranche of its short-term debentures in the inter-bank debenture market of PRC on 28 November 2007. The short-term debentures were issued on a discounted basis for an amount of RMB2,100,000,000 at a face value of RMB100 each. The issue price was RMB94.65 each and the term of maturity was 365 days.

The issue has been approved by the 2007 annual general meeting and approved by the People's Bank of China. The debentures were issued to institutional investors in the PRC inter-bank debenture market (save as those prohibited from purchasing such debentures by State laws and regulations). Dealings in the said debentures in the PRC inter-bank debenture market commenced on 30 November 2007.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the name of the persons (other than directors and supervisors) entitled to exercise 5% or more of the voting rights at any general meeting of the Company and the number of underlying shares, 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 of substantial shareholder	Class of Shares	Number of shares held	Percentage in the class of issued share capital (%)	Percentage in the total share capital (%)
Dongfeng Motor Corporation	Domestic share	5,760,388,000(L)	100	66.86
JPMorgan Chase & Co.	H shares	428,159,160(L)	14.99(L)	4.97
		2,828,000(S)	0.10(S)	0.03
		286,319,160(P)	10.03(P)	3.32
Morgan Stanley	H shares	357,534,324(L)	12.52(L)	4.15
		30,472,981(S)	1.07(S)	0.36
		0(P)	0.00(P)	0
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
UBS AG	H shares	259,698,670(L)	9.09(L)	3.01
		264,555(S)	0.01(S)	0.01
Templeton Asset Management Ltd.	H shares	230,812,000(L)	8.08(L)	2.68
The Northern Trust Company (ALA)	H shares	199,318,535(P)	6.98	2.31

Report of the Directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Directors

Xu Ping	Executive Director and Chairman
Liu Zhangmin	Executive Director and President
Zhou Wenjie	Executive Director and Executive Vice President
Li Shaozhu	Executive Director
Fan Zhong	Executive Director
Tong Dongcheng	Non-executive Director
Ouyang Jie	Non-executive Director
Liu Weidong	Non-executive Director
Zhu Fushou	Non-executive Director
Sun Shuyi	Independent Non-executive Director
Ng Lin-fung	Independent Non-executive Director
Yang Xianzu	Independent Non-executive Director

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 23 in this annual report.

Supervisors

The supervisors of the Company during the year were:

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

Brief biographies of each supervisor are set out on pages 24 to 25 in this annual report.

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

As at 31 December 2007, none of the directors, supervisors or senior management of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), which were required to be entered in the register required to be kept under section 352 of the Securities and Futures Ordinance, or were required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2007, the Company did not grant to any director, or supervisor or senior management of the Company or their respective spouses or children under eighteen years of age any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

CONFIRMATIONS OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The term of the directors of the First Session of the Board of Directors expired on 9 October 2007. They were nominated by Dongfeng Motor Corporation and re-elected at the extraordinary general meeting held on 9 October 2007. The term of current Board of Directors is three years ending 9 October 2010. In accordance with the laws of the PRC, the Board of Directors consists of 12 directors, including 5 executive directors, 4 non-executive directors and 3 independent non-executive directors.

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 2007.

REMUNERATIONS OF DIRECTORS AND SUPERVISORS

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

FIVE HIGHEST-PAID INDIVIDUALS

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

EMPLOYEES

As at 31 December 2007, the Dongfeng Motor Group had a total of 89,227 full-time employees. The numbers of employees in various divisions and their percentage of the total number of employees are as follows:

Division	Employees	Percentage of Total
Manufacturing	53,948	60.46%
Engineering and technology	10,779	12.08%
Management	17,780	19.93%
Services	6,720	7.53%
Total	89,227	100.00%

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

The Dongfeng Motor Group endeavours to provide trainings for its employees. The scope of the completed and on-going training 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 members of the Board of Directors and the supervisory committee (excluding independent non-executive directors and independent supervisors), senior management, heads of business departments of the Company, directors and senior management of the JCEs appointed by the Company, as well as other key employees. The Board of Directors or its remuneration committee is 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 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 2007.

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).

CONNECTED TRANSACTIONS

For the year ended 31 December 2007, the continuing connected transactions between the Dongfeng Motor Group and Dongfeng Motor Corporation and its associates, together with the annual caps exempted subject to the Listing Rules, were as follows:

1. Land Use Rights Leasing Agreement

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

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

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

2. Provision of Ancillary Services

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

(i) Water Supply Agreement: Water is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the "Water Supply Agreement");

(ii) Steam Supply Agreement: Steam is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the "Steam Supply Agreement"); and

(iii) Electricity Supply Agreement: Electricity is produced by the Parent Group and is supplied to Dongfeng Motor Group (the "Electricity Supply Agreement"),

(together the "Ancillary Services Agreements").

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

The annual caps for the above connected transaction of water supply are RMB59 million, RMB64 million and RMB74 million for the three years ending 31 December 2007, respectively. The Dongfeng Motor Group paid RMB51 million of water supply fees to Dongfeng Motor Corporation for the year ended 31 December 2007. The payment for 2006 was RMB53 million.

The annual caps for the above connected transaction of steam supply are RMB111 million, RMB117 million and RMB120 million for the three years ended 31 December 2007, respectively. The Dongfeng Motor Group paid RMB70 million of steam supply fee to Dongfeng Motor Corporation for the year ended 31 December 2007. The payment for 2006 was RMB69 million.

The previous annual caps for the above connected transaction of electricity supply were RMB560 million, RMB545 million and RMB589 million for the three years ending 31 December 2007, respectively. However, these annual caps for the connected transaction of electricity supply were subsequently reviewed and adjusted to RMB734 million and 857 million for the year 2006 and 2007 respectively, at the annual general meeting on 16 June 2006. The electricity supply fee paid by the Dongfeng Motor Group for the year ended 31 December 2007 to Dongfeng Motor Corporation was RMB685 million, the payment for 2006 was RMB634 million.

3. **Agreement for Mutual Supply of Auto Parts ("Mutual Supply Agreement")**

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

The previous annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel were RMB480 million, RMB570 million and RMB740 million for the three years ending 31 December 2007, respectively. However, these annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel were subsequently reviewed and adjusted to RMB830 million and RMB1,017 million for the year 2006 and 2007 respectively, at the annual general meeting on 16 June 2006. The purchase expense paid by the Dongfeng Motor Group for the year ended 31 December 2007 to Chaoyang Diesel was RMB446 million. The payment for 2006 was RMB564 million.

The annual caps for the connected transaction of Chaoyang Diesel purchasing auto parts from the Dongfeng Motor Group are RMB150 million, RMB230 million and RMB270 million for the three years ended 31 December 2007, respectively. Chaoyang Diesel paid RMB13 million to the Dongfeng Motor Group for purchasing auto parts for the year ended 31 December 2007. The payment for 2006 was RMB44 million.

4. **Trademarks Licence Agreement**

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

5. **Social Insurance Funds**

For the year ended 31 December 2007, 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.

6. **For the year ended 31 December 2007, the continuing connected transactions conducted by the Company, its subsidiaries and the JCEs include:**

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

During the year ended 31 December 2007, each of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd (including each of these companies' subsidiaries and associates) regularly purchased auto parts and/or production facilities from the foreign joint venture partners of the Company and such purchases will continue for the duration of the joint venture term.

For the year ended 31 December 2007, the total amount of consideration paid by the JCEs in respect of purchases of auto parts and production facilities from the joint venture partners (including their subsidiaries and associates) was approximately RMB15,849 million. The payment for 2006 was RMB19,384 million.

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

Pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd, Guangzhou Honda Automobile Co., Ltd purchases from Dongfeng Honda Engine Co., Ltd engines and other related auto parts needed by it to manufacture passenger vehicles for the duration of the joint venture term. For the year ended 31 December 2007, Guangzhou Honda Automobile Co., Ltd continued to purchase from Dongfeng Honda Engine Co., Ltd engines and auto parts needed by it.

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

Dongfeng Bus Chassis Co., Ltd manufactures bus chasses and sells them to Dongfeng Motor Co., Ltd. For the year ended 31 December 2007, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis Co., Ltd for purchases of auto parts was approximately RMB674 million. The payment for 2006 was RMB424 million.

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

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

For the year ended 31 December 2007, the total amount of the consideration paid by the JCEs in respect of purchases of technology licences and technical assistance stated above was RMB2,207 million. The payment for 2006 was RMB1,658 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.

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

Pursuant to the agreement between the Company and Yulon Motor Co., Ltd, Guangzhou Aeolus Automobile Co., Ltd continued to provide value-added processing services relating to automobiles to Dongfeng Motor Co., Ltd and its subsidiaries for the year ended 31 December 2007. Dongfeng Motor Co., Ltd paid value-added processing fees to Guangzhou Aeolus Automobile Co., Ltd.

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

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

For the year ended 31 December 2007, the net aggregate consideration arrived at by offsetting the consideration paid by Dongfeng Honda Auto Parts Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for the purchase of auto parts from the consideration paid by Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd to Dongfeng Honda Auto Parts Co., Ltd for the purchase of auto parts was RMB829 million. The net aggregate consideration for 2006 was RMB725 million.

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

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

For the year ended 31 December 2007, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation was RMB145 million.

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

Dongfeng Honda Auto Parts Co., Ltd regularly sells auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd. Such auto parts are then exported by Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd to Honda Motor Co., Ltd. Dongfeng Honda Auto Parts Co., Ltd continued to sell auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd for the year ended 31 December 2007.

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

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

For the year ended 31 December 2007, the total amount of consideration paid by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for purchases of auto parts was RMB583 million. The payment for 2006 was RMB587 million.

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

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

For the year ended 31 December 2007, the total amount of consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. was RMB 79 million. The payment for 2006 was RMB 52 million.

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

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

As of 31 December 2007, the total amount deposited by Dongfeng Motor Corporation and its subsidiaries with Dongfeng Motor Finance Co., Ltd was RMB 41.0 million. Dongfeng Motor Finance Co., Ltd granted loans of approximately RMB 42.0 million to Dongfeng Motor Corporation and its subsidiaries.

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

On 30 August 2006, the Company entered into a joint venture agreement with Nissan Motor Co., Ltd ("Nissan") to establish a joint venture company, Dongfeng Nissan Auto Finance Co., Ltd.（東風日產汽車金融有限公司）in Shanghai, the PRC. The purpose of this joint venture company is to promote the sale, in the PRC, of passenger vehicles manufactured or imported by Dongfeng Motor Co., Ltd. or its subsidiaries using trademarks or brand names owned by Nissan, and other passenger vehicles manufactured by Dongfeng Motor Co., Ltd. or its subsidiaries. The registered capital of this joint venture company is proposed to be RMB500 million, to be contributed by Nissan and the Company in the amount of RMB325 million and RMB175 million, representing 65% and 35% respectively of the registered capital of the joint venture company. Nissan is a connected person of the Company under the Listing Rules and the establishment of the joint venture company between Nissan and the Company constitutes a connected transaction under the Listing Rules.

The Dongfeng Nissan Auto Finance Co., Ltd obtained a Financial License on 17 October 2007 and was granted with the business License on 26 October 2007.

The independent non-executive directors of the Company confirmed that all continuing connected transactions to which Dongfeng Motor Group was a party for the year ended 31 December 2007:

(1) were conducted in the ordinary business of the Dongfeng Motor Group;

(2) were conducted on normal commercial terms, or made on terms no less favourable than terms available to or, as appropriate, from independent third parties, if there do not exist enough comparable transactions to determine whether such transactions are made on normal commercial terms or not;

(3) were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) the values of continuing connected transactions entered into between the Dongfeng Motor Group and connected persons of Dongfeng Motor Group which are subject to annual caps have not exceeded their respective annual cap.

The auditors of the Dongfeng Motor Group have reviewed each continuing connected transaction of Dongfeng Motor Group, and confirmed to the Board that:

(1) each transaction was approved by the Board of Directors;

(2) each transaction was conducted in accordance with the pricing policies of the Dongfeng Motor Group;

(3) each transaction was conducted in accordance with the terms of the agreement governing it; and

(4) the values of continuing connected transactions entered into between the Dongfeng Motor Group and connected persons of the Dongfeng Motor Group which are subject to annual caps have not exceeded their respective annual caps.

MATERIAL LEGAL PROCEEDINGS

As of 31 December 2007, 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 was in compliance with the Code Provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and actively complied with the recommended best practices. The Corporate Governance Report are set out on pages 44 to 52 in this annual report.

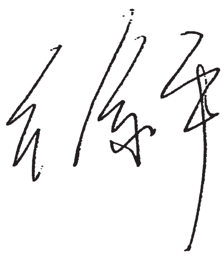
ACCOUNTING PRINCIPLES

During the year of 2007, the Company did not adopt any new accounting principles.

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as the Company's international and domestic auditors respectively for the year ended 31 December 2007. A resolution will be submitted at the annual general meeting to reappoint Ernst & Young and Ernst & Young Hua Ming as the Company's international and domestic auditors respectively for the year ending 31 December 2008, and authorise the directors to fix their remunerations.

By Order of the Board of Directors



Xu Ping
Chairman

Wuhan, the PRC
16 April 2008

Report of the Supervisory Committee

Dear Shareholders,

In 2007, the Supervisory Committee has carried out its duties in accordance with the Company's Articles of Association, safeguarding the interests of the Company and its 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, on the performance by the Board of Directors and the senior management of their statutory duties and their duties under the Company's Articles of Association, and on whether, their acts were beneficial to and in the best interests of the shareholders.

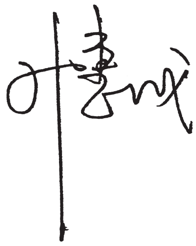
The Supervisory Committee is of the opinion that the decision-making process of the Company is in compliance with the Company's Articles of Association and relevant norms. The directors and the senior management of the Company performed their fiduciary duties and worked diligently and truthfully. And The Supervisory Committee is not aware of any acts by the directors and the senior management of the Company which are 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 obligations in accordance with the requirements of the Listing Rules since its listing on The Stock Exchange of Hong Kong Limited.

The Supervisory Committee has reviewed the Company's 2007 financial statements and considers that the financial statements give a full, true and fair view of the operating results and financial position of the Company and the Group for the year and that the unqualified opinion and auditors' report 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 Company and the 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, the Group and the shareholders.

The Supervisory Committee has seen the operating results and assets position of the Company in 2007 to its satisfaction. It is expected that the Company will continue seeking continuous revenue growth and exercising improved cost control and risk management, so as to consolidate its solid foundation for steady and continuous development.

By Order of the Supervisory Committee



Ye Huicheng
Chairman of the Supervisory Committee

Wuhan, the PRC
16 April 2008

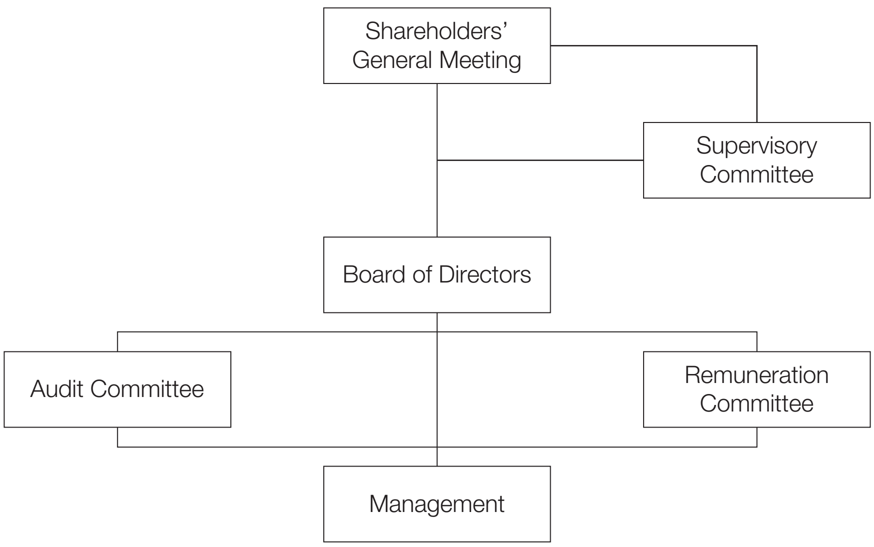
1. OVERVIEW OF CORPORATE GOVERNANCE

The Company has been in compliance with the relevant requirements provided by 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 "Listing Rules") and the Code on Corporate Governance Practices on the Stock Exchange of Hong Kong (the "Corporate Governance Code"). The Company supervises the daily operating activities in strict compliance with each governing regulation and reviews the operations and management of the Company from time to time. The Company is committed to its corporate philosophy of honesty and diligence, and always ensures to fulfill the principles of good corporate governance and improves the transparency in and independence of operations. In addition, the Company is committed to continuously improving the corporate governance, ensuring healthy development of the Company and maximising shareholder value.

During the reporting period, the Company's governance has been in strict compliance with the Provisions of the Corporate Governance Code.

2. STRUCTURE OF CORPORATE GOVERNANCE

The Company's corporate governance is structured with the shareholders' general meetings, the Board of Directors, the Audit Committee, the Remuneration Committee, the Supervisory Committee, the management and the 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 shall exercises its duties and powers in accordance with law to decide on significant matters of the Company. The annual general meetings or extraordinary general meetings held each year provide a channel of direct communication between the directors and the shareholders of the Company. The Company regards the shareholders' general meeting an important event of the Company. The notice of a 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 requested to make their best effort to attend the meeting.

The Company's annual general meeting was held on 18 June 2007 to consider and approve matters in relation to the 2006 Annual Report; and an extraordinary general meeting was held on 9 October 2007 to consider and approve such matters in relation to the re-election of directors and supervisors.

ii. Substantial Shareholder

Dongfeng Motor Corporation is our substantial shareholder, holding 66.86% of shares of the Company. The company has never, whether directly or indirectly, interferred with the Company's decision-making or operations outside the general meetings.

Information on shareholdings of the top substantial shareholders (based on their shareholdings) during the reporting period is set out on page 31 of this annual report.

(2) Directors and the Board of Directors

i. Directors

Appointment of Directors

Directors are elected at shareholders' general meetings and passed by over one-half of the voting rights held by shareholders (including proxies) present at the shareholders' general meetings. Shareholders, the Board of Directors or the supervisory committee of the Company shall have the right to nominate candidates for directorship in writing. The term of office of a director shall be three years and, upon expiry of their terms, their appointment is subject to re-election at a shareholders' general meeting.

As the term of office of the First Session of the Board of Directors of the Company expired on 9 October 2007, members of the First Session of the Board of Directors were re-elected to be members of the Second Session of the Board of Directors as nominated by Dongfeng Motor Corporation at the extraordinary general meeting held on 9 October 2007. The term of office of the Second Session of the Board of Directors shall expire on 9 October 2010. The current Board of Directors of the Company consists of twelve Directors, five of which are executive directors, four of which are non-executive directors and three of which are independent non-executive directors. The size and composition of the Board of Directors are in compliance with the requirements of relevant laws and regulations. Details of members of the Board are set out on page 32 of this annual report.

Independence of Directors

The independent non-executive directors of the Company include Sun Shuyi, Ng Lin-fung and Yang Xianzu. Sun Shuyi is qualified as a PRC certified public accountant and senior engineer. At the time of preparing the annual report, the Company obtained the annual confirmation from all independent non-executive directors in respect of their independence under Rule 3.13 of the Listing Rules. The Company is of the opinion that all independent non-executive directors are independent.

All independent non-executive directors have been able to dutifully perform their fiduciary obligations under the requirements of relevant laws and regulations. Independent directors have participated in the discussion of and decision on significant matters with the Board of Directors and each special committee under the Board of Directors. They have also provide advice on the Company's normal operations based on their professional knowledge and experience, and seriously reviewed the fairness or equality of connected transactions and cash flows between related parties. Independent directors expressed their independent views and carried out duties independently without any interference by substantial shareholders, effective controlling parties or other interested units and individuals of the Company. The independent directors have made active contribution to the Company by upholding the overall interests of the Company, protecting the legal rights of the whole shareholders and promoting the healthy development of the Company.

During the reporting period, the independent non-executive directors of the Company expressed no dissent in respect of any matters of the Company.

Induction Programmers for Directors

Newly appointed directors will be provided with a set of comprehensive introduction materials, covering brief introduction to the Dongfeng Motor Group's business, directors' responsibilities and other legal requirements. On 9 October 2007, the Company organised a special internal training programme for newly appointed directors, with a view to familiarising them with the rules and regulatory provisions and their continuing obligations of being a director before they assumed their duties. In 2007, the Company Secretariat prepared 24 issues of newsletters for directors and supervisors, providing them with the latest market news and the Company's information. In 2007, the Company also arranged annual work reporting, and investment and financing work reporting, and organised site visits to the relevant units and business sectors for directors.

By providing them with information and arranging work reporting, site visits and professional trainings, all directors, especially 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.

Remuneration of Directors

The Board has set up a Remuneration Committee which consists of one executive director and two independent non-executive directors. The duties of the Remuneration Committee include formulating and reviewing the remuneration policies and plans for the directors and members of the senior management of the Company.

Other than the three independent non-executive directors of the Company who are entitled to remuneration, all other directors do not receive remuneration of directors from the Company. The executive directors receive management remuneration from the Company and the remuneration of the independent non-executive directors is determined with reference to the average market level and the actual condition of the Company.

During the year, the remuneration paid to each of the three independent non-executive directors by the Company was RMB120,000 after tax per annum. Apart from the remuneration, the independent non-executive directors have not received any other emoluments from the Company.

Directors' Securities Transactions

After specific enquiry of all directors by the Company, all directors have confirmed that they have fully complied with the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules throughout the year of 2007.

ii. Board Meeting

Six board meetings were held by the Company in 2007 ("Board Meetings") and the major matters covered were as follows:

- to consider and approve the annual and interim reports;
- to consider and approve the annual and interim financial reports and the report of the Board of Directors;
- to amend the Articles of Association;
- to elect the chairman of the Board of Directors and set up a new session of the special Committees of the Board;
- to formulate directors' remuneration proposals;
- to re-appoint the international auditors and domestic auditors;
- to consider and approve the issue of short-term debentures to improve the debt structure and reduce the finance costs of the Company.

Effective discussions and prompt and prudent decisions could be made in the Board Meetings. The attendance at the Board Meeting of 2007 (in person or by proxy of other directors) was 100%. During the year, details of each director attending the Board Meetings are as follows:

Names	**Attendance**	**Attendance Rate**	**Remarks**
Executive Director			*All directors not present in person appointed other directors to attend and vote on their behalf*
Xu Ping	6	100%	
Liu Zhangmin	5	83%	
Zhou Wenjie	6	100%	
Li Shaozhu	6	100%	
Fan Zhong	3	50%	
Non-executive Directors			
Tong Dongcheng	5	83%	
Ouyang Jie	6	100%	
Liu Weidong	5	83%	
Zhu Fushou	6	100%	
Independent Non-executive Directors			
Sun Shuyi	4	66%	
Ng Lin-fung	6	100%	
Yang Xianzu	6	100%	

The management is responsible for providing the relevant information required for considering and approving various resolutions to the Board of Directors, and arranging management staff to make work report, especially the progress of material projects of the Company, at the time of Board Meetings.

iii. Special Committees of the Board

Two special committees, the Audit Committee and the Remuneration Committee ("the Special Committees"), have been set up by the Board of Directors. The Board will fully consider the expertise and experience of each director when appointing members to each committee, so that each committee shall perform their functions effectively. The Audit Committee comprises one non-executive director and two independent non-executive directors while the Remuneration Committee comprises one executive director and two independent non-executive directors.

To specify the powers and duties of each committee and affair handling processes, the Practice Code of Audit Committee and Practice Code of Remuneration Committee have been established by the respective committee and approved by the Board. Each committee convenes regular meetings and reports its progress and outcome of discussions to the Board. The majority of the members actively participated in the affairs of committees. The Secretary to the Board assists the performance of obligations by each committee in all aspects.

For the purpose of financial control, the Audit Committee is responsible for reviewing and monitoring the quality and procedure of the Company's financial statements. According to relevant regulation, the Company's management is responsible for preparing financial statements, including the selection of appropriate accounting policies, while the external auditors are responsible for the audit and examination of the Company's financial statements. Besides, the Audit Committee is responsible for monitoring the work of the management and approving the scope and precautions adopted by the management and the external auditors.

In 2007, the First Session of the Second Board of Directors re-elected the members of the Special Committees. The Audit Committee include Sun Shuyi, Ng Lin-fung and Ouyang Jie, of which Sun Shuyi and Ng Lin-fung are independent non-executive directors with expertise and experience in financial management. The Remuneration Committee include Yang Xianzu, Ng Lin-fung and Li Shaozhu, of which Yang Xianzu and Ng Lin-fung are independent non-executive directors.

Attendance of members of each Special Committee (Attendance/Number of Meetings)

Name	Position	Audit Committee	Remuneration Committee
Li Shaozhu	Executive Director		2/2
Ouyang Jie	Non-executive Director	2/2	
Sun Shuyi	Independent Non-executive Director	2/2	
Ng Lin-fung	Independent Non-executive Director	2/2	2/2
Yang Xianzu	Independent Non-executive Director		2/2

(3) Internal Control Mechanisms

i. *Supervisors and Supervisory Committee*

On 9 October 2007, the members of the Company's Supervisory Committee were re-elected to be members of the Second Session of the Supervisory Committee by shareholders at an extraordinary general meeting, with a term of office expiring on 9 October 2010. The Supervisory Committee of the Company consists of eight supervisors, of which seven of which are shareholders' representatives (including two independent supervisors) and the remaining one is employees' representative. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations.

Two Supervisory Committee meetings were held during 2007 and the attendance rate (in person or by proxy of other supervisors) was 100%. The Supervisory Committee supervised the Company's financial matters and the legality and compliance of rules and regulations by the directors and senior management during their performance of duty. The Supervisory Committee's members attended all Board Meetings and diligently performed their supervisory duties.

ii. *Internal Controls*

The Board of Directors is responsible for establishing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management matters. Review work includes evaluation of internal controls by the Company's audit department and the reports by the external auditors setting out issues identified during their statutory audit.

During the year, the Board of Directors thoroughly reviewed the effectiveness and supervision of the Company's internal control system for 2007 through the Audit Committee and the Company's audit department in the five major areas of internal control: the 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 for 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 continuously maintained a comprehensive internal control system covering the areas of corporate governance, operation, construction, finance, administration and personnel management, and that such internal control system is effective.

The Board of Directors is 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, the Company's 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 replacement 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 this regard. The appointment and replacement of the Company's external auditors as well as the audit fees are proposed by the Board of Directors to the general meetings for approval.

Ernst & Young has been appointed as external auditors since 2005 for three consecutive years. The audit fee of the Company for 2007 was RMB10 million.

The Audit Committee has discussed and assessed the professionalism of Ernst & Young, its performance of audit work for 2007 and the proposed fees for 2008. 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 and will be submitted to the 2007 annual general meeting for shareholders' consideration and approval.

(4) The Management

The Company has clearly defined the respective responsibilities of the Chairman and the Managing Director and the roles and division of work between the Board of Directors and the management, which are set out in detail in the Articles of Association and the Rules and Procedures for Meetings of the Board of Directors. This ensures the independence of the Board of Directors in decision-making and the independence of management in daily operation and management activities.

The Chairman of the Company is Xu Ping and the President of the Company is Liu Zhangmin. The Chairman focuses on the Dongfeng Motor Group's development strategies and issues of the Board of Directors and the President is responsible for actual operation and management activities and developments of the Company.

(5) Information Disclosure

i. Information Disclosure

The Company recognises the importance of performing its statutory obligation of disclosing information. The Company promptly, truthfully, accurately and completely discloses information that may materially affect the decision-making of the public investors strictly in accordance with the preparation and reporting rules and procedures as required for disclosing information, and ensures that all shareholders have rights to be equally and sufficiently informed of the significant information regarding the Company's operation.

During the period under review, the Company published two periodic reports and 26 ad hoc announcements in accordance with the requirements of the Listing Rules. The Company publishes its announcements both on the websites of the Stock Exchange and the Company. For details, please visit the websites www.hkexnews.hk and www.dfmg.com.cn.

ii. Investor Relations and Communication

The core of investor relations is effective communication. The Company strictly complies with the relevant requirements to fully disclose relevant information to investors, including timely disclosures of significant information of the Company and the matters which may affect the interests of investors through periodical and ad hoc announcements, and periodically publish information in which investors have interest, such as that in relation to operational activities, so as to timely and clearly keep investors informed of the latest development of the Company, and enhance the transparency of the Company.

The Company strives to strengthen communication with investors through active investor relations activities and maintain close connection with overseas media and investors through various channels, such as results announcement conferences, news release conferences, road shows, reception of routine visits by the investors and analysts, and telephone conferences 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, in order to making the business development potential and actual value of the Company fully recognised by the market.

iii. Shareholders' Return

The Company always strives to enhance the shareholders' return, and had distributed cash dividend of approximately RMB345 million (RMB0.040 per share) for the year 2006. The Board of Directors proposes to distribute a cash dividend of approximately RMB388 million (RMB0.045 per share) for the year 2007, and will submit the proposal at the shareholders' general meeting of 2007 for consideration.

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 financial statements of Dongfeng Motor Group Company Limited set out on pages 55 to 142, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
16 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	**2007 RMB million**	2006 RMB million
Revenue — Sales of goods	4	**59,318**	48,264
Cost of sales		**(49,503)**	(40,058)
Gross profit		**9,815**	8,206
Other income	5	**935**	736
Selling and distribution costs		**(2,642)**	(2,157)
Administrative expenses		**(2,545)**	(2,219)
Other expenses, net		**(1,432)**	(1,285)
Finance costs	7	**(365)**	(411)
Loss on dilution of interests in jointly-controlled entities	8	**—**	(252)
Share of profits and losses of associates		**69**	61
Profit before tax	6	**3,835**	2,679
Income tax	11	**202**	(428)
Profit for the year		**4,037**	2,251
Attributable to:			
Equity holders of the parent	12	**3,770**	2,081
Minority interests		**267**	170
		4,037	2,251
Dividend	13	**388**	345
Earnings per share attributable to the ordinary equity holders of the parent:	14		
Basic for the year		**43.76 cents**	24.15 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB million	2006 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	15	**16,438**	15,571
Lease prepayments		**475**	340
Intangible assets	16	**1,484**	1,251
Goodwill	17	**477**	434
Interests in associates	20	**677**	486
Available-for-sale financial assets	21	**136**	127
Loan to a jointly-controlled entity	22	**—**	150
Other long term assets		**832**	1,040
Deferred tax assets	11	**333**	214
Total non-current assets		**20,852**	19,613
Current assets			
Inventories	23	**7,573**	7,128
Trade receivables	24	**2,229**	1,562
Bills receivable	25	**7,983**	5,774
Prepayments, deposits and other receivables	26	**2,717**	1,649
Due from jointly-controlled entities	27	**289**	100
Financial assets at fair value through profit or loss	28	**81**	60
Pledged bank balances and time deposits	29	**931**	790
Cash and cash equivalents	29	**9,542**	7,437
Total current assets		**31,345**	24,500
TOTAL ASSETS		**52,197**	44,113

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB million	2006 RMB million
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Issued capital	30	**8,616**	8,616
Reserves	31	**4,155**	3,375
Retained profits	31	**4,554**	1,952
Proposed final dividend	13	**388**	345
		17,713	14,288
Minority interests		**2,686**	2,534
TOTAL EQUITY		**20,399**	16,822
Non-current liabilities			
Interest-bearing borrowings	32	**2,514**	2,087
Other long term liabilities		**44**	40
Provisions	33	**163**	193
Government grants	34	**53**	51
Deferred tax liabilities	11	**24**	745
Total non-current liabilities		**2,798**	3,116
Current liabilities			
Trade payables	35	**9,650**	7,588
Bills payable	36	**4,812**	4,145
Other payables and accruals	37	**7,502**	5,592
Due to jointly-controlled entities	27	**288**	386
Interest-bearing borrowings	32	**5,751**	5,921
Government grants	34	**35**	28
Income tax payable		**417**	103
Provisions	33	**545**	412
Total current liabilities		**29,000**	24,175
TOTAL LIABILITIES		**31,798**	27,291
TOTAL EQUITY AND LIABILITIES		**52,197**	44,113
Net current assets		**2,345**	325
Total assets less current liabilities		**23,197**	19,938

Xu Ping
Director

Liu Zhangmin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to the equity holders of the parent							
		Issued capital	**Capital reserve**	**Statutory reserves**	**Retained profits**	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
	Notes	RMB million	RMB million	RMB million (note 31)	RMB million	RMB million	RMB million	RMB million	RMB million
As at 1 January 2006		8,616	1,363	1,495	733	–	12,207	2,127	14,334
Profit for the year		–	–	–	2,081	–	2,081	170	2,251
Transfer to reserves		–	–	517	(517)	–	–	–	–
Capital contribution from minority shareholders		–	–	–	–	–	–	4	4
Additional investments in jointly-controlled entities		–	–	–	–	–	–	18	18
Dilution of interests in jointly-controlled entities	8	–	–	–	–	–	–	252	252
Dividends paid to minority shareholders		–	–	–	–	–	–	(37)	(37)
Proposed final dividend	13	–	–	–	(345)	345	–	–	–
As at 31 December 2006		8,616	1,363*	2,012*	1,952	345	14,288	2,534	16,822
Profit for the year		–	–	–	3,770	–	3,770	267	4,037
Transfer to reserves		–	–	780	(780)	–	–	–	–
Acquisition of an additional interest in a jointly-controlled entity	19(a)	–	–	–	–	–	–	44	44
Acquisition of an additional interest in a jointly-controlled entity's subsidiary		–	–	–	–	–	–	(74)	(74)
Arising on disposal of interest in a jointly-controlled entity's subsidiary to a jointly-controlled entity	19(b)	–	–	–	–	–	–	(27)	(27)
Partial disposal of an interest in a jointly-controlled entity's subsidiary		–	–	–	–	–	–	80	80
Capital contribution from minority shareholders		–	–	–	–	–	–	9	9
Dividends paid to minority shareholders		–	–	–	–	–	–	(147)	(147)
Final 2006 dividend declared		–	–	–	–	(345)	(345)	–	(345)
Proposed final dividend	13	–	–	–	(388)	388	–	–	–
As at 31 December 2007		8,616	1,363*	2,792*	4,554	388	17,713	2,686	20,399

* These reserve accounts comprise the consolidated reserves of RMB4,155 million (2006: RMB3,375 million) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	**2007** **RMB million**	2006 RMB million
Cash flows from operating activities			
Profit before tax		**3,835**	2,679
Adjustments for:			
Share of profits and losses of associates		**(69)**	(61)
Gain on deemed disposal of a jointly-controlled entity's subsidiaries	6	**(2)**	—
Loss on disposal of items of property, plant and equipment, net	6	**49**	57
Loss on dilution of interests in jointly-controlled entities	8	**—**	252
Gain on disposal of available-for-sale financial assets	6	**(7)**	(4)
Stock appreciation right expense	6	**111**	36
Provision against inventories	6	**42**	59
Reversal of impairment of trade and other receivables	6	**(46)**	(6)
Exchange gains, net	6	**(217)**	(9)
Depreciation	6	**1,783**	1,479
Impairment of property, plant and equipment	6	**26**	48
Impairment of available-for-sale financial assets	6	**12**	8
Reversal of impairment of financial assets at fair value through profit or loss	6	**—**	(4)
Amortisation of intangible assets	6	**243**	155
Finance costs	7	**365**	411
Interest income	5	**(190)**	(162)
		5,935	4,938
Increase in trade and bills receivables and prepayments, deposits and other receivables		**(3,723)**	(2,488)
Increase in inventories		**(272)**	(936)
(Increase)/decrease in other financial assets		**(21)**	53
(Increase)/decrease in amounts due from jointly-controlled entities		**(239)**	26
Increase in trade and bills payables and other payables and accruals		**4,393**	3,991
Increase/(decrease) in amounts due to jointly-controlled entities		**(98)**	20
Increase in provisions		**103**	73
Decrease in government grants		**(195)**	(138)
Increase/(decrease) in other long term liabilities		**4**	(182)
Cash generated from operations		**5,887**	5,357
Interest paid		**(459)**	(452)
Income tax paid		**(326)**	(344)
Net cash flows generated from operating activities		**5,102**	4,561

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	**2007 RMB million**	2006 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(2,751)**	(2,787)
Increase in lease prepayments and other long term assets		**(218)**	(583)
Purchases of intangible assets		**(176)**	(681)
Purchases of available-for-sale financial assets		**(13)**	(12)
Acquisition of an additional interest in a jointly-controlled entity	19(a)	**(17)**	—
Deemed disposal of interests in a jointly-controlled entity's subsidiaries, net of cash acquired	19(b)	**1**	—
Receipt of loan to a jointly-controlled entity		**200**	50
Investments in associates		**(204)**	(36)
Proceeds from disposal of items of property, plant and equipment		**237**	87
Proceeds from disposal of available-for-sale financial assets		**10**	44
Proceeds from disposal of associates		**10**	21
Dividends from associates		**49**	15
Government grants received	34	**204**	132
Interest received	5	**190**	162
Increase in pledged bank balances and time deposits		**(141)**	(367)
Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired		**(661)**	25
Net cash flows used in investing activities		**(3,280)**	(3,930)
Cash flows from financing activities			
Proceeds from borrowings		**6,902**	11,894
Repayment of borrowings		**(6,797)**	(12,041)
Refund of proceeds from sales of Domestic Shares of National Council for Social Security Fund		**—**	(396)
Capital contribution from minority shareholders		**9**	22
Dividends paid to minority shareholders		**(147)**	(37)
Dividends paid		**(345)**	—
Net cash flows generated used in financing activities		**(378)**	(558)
Net increase in cash and cash equivalents		**1,444**	73
Cash and cash equivalents at beginning of year		**5,659**	5,586
Cash and cash equivalents at end of year	29	**7,103**	5,659

Balance Sheet

31 December 2007

	Notes	2007 RMB million	2006 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	15	**589**	575
Lease prepayments		**18**	—
Intangible assets	16	**21**	—
Investments in subsidiaries	18	**140**	140
Investments in jointly-controlled entities	19	**13,037**	13,037
Investments in associates	20	**256**	73
Available-for-sale financial assets	21	**68**	68
Loan to a jointly-controlled entity	22	**—**	300
Deferred tax assets	11	**37**	—
Total non-current assets		**14,166**	14,193
Current assets			
Inventories	23	**81**	55
Trade receivables	24	**135**	211
Bills receivable	25	**7**	6
Prepayments, deposits and other receivables	26	**224**	41
Due from jointly-controlled entities	27	**56**	133
Cash and cash equivalents	29	**1,264**	668
Total current assets		**1,767**	1,114
TOTAL ASSETS		**15,933**	15,307

Balance Sheet

31 December 2007

	Notes	2007 RMB million	2006 RMB million
EQUITY AND LIABILITIES			
Equity			
Issued capital	30	**8,616**	8,616
Reserves	31	**2,553**	2,178
Retained profits	31	**984**	61
Proposed final dividend	13	**388**	345
TOTAL EQUITY		**12,541**	11,200
Non-current liabilities			
Deferred tax liabilities	11	**—**	732
Total non-current liabilities		**—**	732
Current liabilities			
Trade payables	35	**126**	72
Other payables and accruals	37	**776**	526
Due to jointly-controlled entities	27	**106**	596
Income tax payable		**211**	—
Interest-bearing borrowings	32	**2,173**	2,181
Total current liabilities		**3,392**	3,375
TOTAL LIABILITIES		**3,392**	4,107
TOTAL EQUITY AND LIABILITIES		**15,933**	15,307

Xu Ping
Director

Liu Zhangmin
Director

1. CORPORATE INFORMATION

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

During the year, the Company, its subsidiaries and jointly-controlled entities (collectively referred to as the "Group") 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, and International Accounting Standards ("IASs") and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2007.

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

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

All significant intra-group balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The acquisition of subsidiaries and jointly-controlled entities during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the subsidiaries of the Company and its jointly-controlled entities. Acquisition of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The principal accounting policies used in the preparation of these financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2006, except that the Group has adopted the following new and revised IFRSs and International Financial Reporting Interpretations ("IFRICs") during the year. Adoption of these new and revised standards and interpretations did not have any material effect on these financial statements. They did however give rise to additional disclosures.

IAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC–Int 8	Scope of IFRS 2
IFRIC–Int 9	Reassessment of Embedded Derivatives
IFRIC–Int 10	Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

(a) Amendment to IAS 1 *Presentation of Financial Statements — Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 41 to the financial statements.

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

(b) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(c) IFRIC–Int 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) IFRIC–Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

(e) IFRIC–Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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

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

IAS 1 (Revised)	Presentation of Financial Statements
IAS 1 Amendment	Puttable Financial Instruments
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 Amendment	Puttable Financial Instruments
IFRS 2 Amendment	Share-based Payments — Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IFRIC–Int 11	IFRS 2 — Group and Treasury Share Transactions
IFRIC–Int 12	Service Concession Arrangements
IFRIC–Int 13	Customer Loyalty Programmes
IFRIC–Int 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard will affect the presentation of owner changes in equity and comprehensive income. The revised standard will use "statement of financial position" and "statement of cash flows" to replace the titles "balance sheet" and "cash flow statement", and use the new titles in making reference to these two statements within a complete set of financial statements.

IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2009. The amendment requires disclosure of certain information relating to puttable instruments classified as equity.

IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As the Group's current policy for borrowing costs align with the requirement of the revised standard, the adoption of IAS 23 (Revised) is not expected to have any impact on the Group's consolidated financial statements.

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

IAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 32 Amendment shall be applied for annual periods beginning on or after 1 January 2009. The amendment requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met.

IFRS 2 Amendment shall be applied for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

IFRS 3 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosure of information about the Group’s operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance, and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group.

IFRIC–Int 11, IFRIC–Int 12, IFRIC–Int 13, and IFRIC–Int 14 shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008, respectively.

The Group has commenced its assessment of the impact of these standards and interpretation but it is not yet in a position to state whether these standards and interpretation would have a material impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and 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 company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly and indirectly, over the joint venture company;

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

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture'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 Company holds, directly and 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.

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)

Jointly-controlled entities

A joint-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 interests in its jointly-controlled entities are accounted for by proportionate consolidation, 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 interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

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

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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 interests 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 interests in associates.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisition of subsidiaries and jointly-controlled entities is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

The carrying amount of goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

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 forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and jointly-controlled entities, after assessment, is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. 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 group 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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 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, directly or indirectly, through one or more intermediaries, (i) control, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

	Estimated useful life	Residual value
Buildings	Over 10 to 45 years	3%
Plant and equipment	Over 5 to 20 years	3%

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 each balance sheet date.

An item of property, plant and equipment 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 categories of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

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 impairment losses. The expenditure capitalised is amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Lease prepayments

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

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 (net of any incentives from the lessor) 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

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. 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 under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

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. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried 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 and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statements as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities 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 securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

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 transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through 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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and 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. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including trade and bills payables, other payables, amounts due to the jointly-controlled entities and interest-bearing borrowings, are initially stated at fair value less directly attributable transaction costs and 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. The related interest expense is recognised within "finance costs" in the income statement.

Gains or losses are recognised in the income statement when the liability are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

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)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such 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 on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

For the purpose of hedge accounting, hedges are classified as:

— fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

— cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objectives and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivatives is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designed as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedged instrument are also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expenses is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Costs incurred in bringing inventories to their present location and condition are accounted for as follows:

Raw materials	Purchase costs on the weighted average basis
Finished goods and work in progress	Costs of direct materials and labour and a proportion of manufacturing overheads based on normal production capacity

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provision for product warranties granted by the Group for 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

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

Deferred 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where 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 interests in 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 each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

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 balance sheet date.

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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, provided that the Group maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

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 that the expenses incurred are eligible to be reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

Revenue is recognised as interest income on accrual basis, using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through 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.

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 represent payments to housing subsidy plans implemented by the Group in year 2000. Cash housing subsidies related to past services of employees were fully recognised in the income statement upon implementation of such plans in year 2000. Cash housing subsidies related to current services of employees are recognised in the income statement when incurred. Further details of the cash housing subsidy plans are set out in note 6(c) below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Termination and early retirement benefits

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

Share-based payment transactions

The Company operates share option 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 stock appreciation rights ("SARs"), which can only be settled in cash ("cash settled transactions").

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the SARs were granted (note 6(e)). The fair value is expensed over the periods until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All exchange differences are taken to 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The 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 the 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.

Deferred tax assets

As at 31 December 2007, deferred tax assets in relation to unused tax losses and other deductible temporary differences have been recognised in the balance sheets. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits or taxable temporary differences generated are less than expected, a material reversal of the deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Warranty provisions

Provisions for product warranties granted by the Group for 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

The management recognises 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.

4. REVENUE ON SALES OF GOODS AND SEGMENT INFORMATION

Revenue on sales of goods

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

Segment information

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

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

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

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

Segment information (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	16,901	41,655	762	59,318
Other income	288	468	179	935
Total	17,189	42,123	941	60,253
Results				
Segmental results	162	4,678	(709)	4,131
Finance costs				(365)
Share of profits and losses of associates	30	47	(8)	69
Profit before tax				3,835
Income tax credit				202
Profit for the year				4,037
Assets and liabilities				
Segment assets	11,307	27,283	11,449	50,039
Interests in associates	301	171	205	677
Unallocated assets				1,481
Total assets				52,197
Segment liabilities	6,385	11,203	5,504	23,092
Unallocated liabilities				8,706
Total liabilities				31,798

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

Segment information (continued)

Year ended 31 December 2007 (continued)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Other segment information				
Capital expenditure:				
— Property, plant and equipment	**589**	**2,052**	**215**	**2,856**
— Intangible assets	**27**	**373**	**74**	**474**
Depreciation of property, plant and equipment	**477**	**1,227**	**79**	**1,783**
Amortisation of intangible assets	**22**	**176**	**45**	**243**
Impairment losses recognised in the income statement	**19**	**1**	**18**	**38**
Warranty provision	**126**	**342**	**—**	**468**

Year ended 31 December 2006

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	13,215	34,219	830	48,264
Other income	129	376	231	736
Total	13,344	34,595	1,061	49,000
Results				
Segmental results	81	3,814	(614)	3,281
Loss on dilution of interests in jointly-controlled entities				(252)
Finance costs				(411)
Share of profits and losses of associates	26	33	2	61
Profit before tax				2,679
Income tax expense				(428)
Profit for the year				2,251

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

Segment information (continued)

Year ended 31 December 2006 (continued)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Assets and liabilities				
Segment assets	9,542	23,261	9,633	42,436
Interests in associates	300	165	21	486
Unallocated assets				1,191
Total assets				44,113
Segment liabilities	5,074	8,885	4,476	18,435
Unallocated liabilities				8,856
Total liabilities				27,291
Other segment information				
Capital expenditure:				
— Property, plant and equipment	659	1,713	415	2,787
— Intangible assets	22	574	85	681
Depreciation of property, plant and equipment	427	985	67	1,479
Amortisation of intangible assets	20	109	26	155
Impairment losses recognised in the income statement	24	21	7	52
Warranty provision	87	230	—	317

5. OTHER INCOME

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

	Group 2007 RMB million	Group 2006 RMB million
Government grants and subsidies (note 34)	**195**	138
Net income from disposal of other materials	**321**	260
Interest income	**190**	162
Rendering of services	**19**	15
Others	**210**	161
	935	736

Note:

An analysis of government grants and subsidies is as follows:

	Group 2007 RMB million	Group 2006 RMB million
Subsidies for business development	**184**	132
Others	**11**	6
	195	138

6. PROFIT BEFORE TAX

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

	Group 2007 RMB million	Group 2006 RMB million
Cost of inventories recognised as expense	**49,503**	40,058
Provision against inventories	**42**	59
Amortisation of intangible assets*	**243**	155
Depreciation	**1,783**	1,479
Auditors' remuneration	**18**	18
Minimum lease payments under operating leases in respect of land and buildings	**186**	159

6. PROFIT BEFORE TAX (continued)

		Group	
		2007	2006
	Notes	**RMB million**	RMB million
Staff costs (excluding directors' and supervisors' remuneration (note 9)):			
— Wages and salaries		**2,493**	1,857
— Pension scheme costs	(a)	**356**	269
— Medical benefit costs	(b)	**46**	74
— Cash housing subsidy costs	(c)	**10**	9
— Stock appreciation right expense	(e)	**81**	25
		2,986	2,234
Included in other expenses, net:			
Loss on disposal of items of property, plant and equipment, net		**49**	57
Gain on disposal of available-for-sale financial assets		**(7)**	(4)
Impairment of property, plant and equipment		**26**	48
Impairment of available-for-sale financial assets		**12**	8
Reversal of impairment of financial assets at fair value through profit or loss		**—**	(4)
Reversal of impairment of trade and other receivables		**(46)**	(6)
Warranty expenses		**468**	317
Research costs		**1,089**	905
Exchange gains, net		**(217)**	(9)
Gain on deemed disposal of interests in a jointly-controlled entity's subsidiaries		**(2)**	—

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

(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.

6. PROFIT BEFORE TAX (continued)

(a) Retirement benefits (continued)

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 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 percentage 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 Hubei Entities have no further obligation 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 amount of their respective contributions required to be borne.

DMC agreed with the Company that it shall continue to assume the supplemental pension obligations and other pension benefits payable to the employees of the Hubei Entities and the Hubei Entities shall continue to make contributions to the Scheme, on a monthly basis, based on certain percentage of the wages of their employees. DMC also agrees to indemnify the Company against any losses which may arise if the employees of the Hubei Entities claim against the Hubei Entities for their supplemental pension benefits 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 percentage of the wages of their qualified employees to the plan, on a monthly basis, and DMC undertakes to assume the supplemental medical benefit obligations payable to qualified employees of the Hubei Entities. The Hubei Entities have no further obligations for medical benefits and supplemental medical benefits beyond the contributions made. The contributions made by the Hubei Entities are expensed as incurred.

DMC 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 contributions to the supplemental medical benefit plan based on certain percentage of the wages of their qualified employees. DMC also agrees to indemnify the Company against any losses which may arise if the employees of the Hubei Entities claim against the Hubei Entities for their supplemental medical benefits.

6. PROFIT BEFORE TAX (continued)

(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 at all or who had not been allocated housing quarters up to the prescribed standards. Retired employees of the Group existed at the time of the implementation of the cash housing subsidy plan were entitled to the benefits under such plan. Employees who joined the jointly-controlled entity from 1 January 2003 onwards and the retired employees of such jointly-controlled entity were not entitled to any benefits under the cash housing subsidy plan.

For cash housing subsidies related to service periods before 1 January 2000, they were fully recognised as expenses upon the implementation of such 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 but not up to the prescribed standards. The monthly payments are recognised in the income statement when incurred and are in line with the service periods of the employees.

(d) Termination and early retirement benefits

Prior to year 2004, the Group implemented a termination and early retirement plan for certain qualified employees, pursuant to which the Group had the obligation to pay early retirement benefits on a monthly basis to the relevant early retired employees until such employees reach their normal retirement age at which time they can join the government 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.

(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 H shares of the Company. 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.

6. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

(i) On 19 April 2006, the Company's board of directors approved a plan of SARs for the senior management of the Group. 55,665,783 SAR units were granted with a term of six years with effect from 23 January 2006. The rights to the SAR units have an exercise period of six years from the date of grant (i.e. 23 January 2006) and can be exercised in the third, fourth and fifth year following the date of grant and the total number of the rights exercised by an individual shall not in aggregate exceed 30%, 65% 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 19 April 2006 is HK$2.01, being the average share price at the close of trading over the 30 business days preceding the date of grant. The SARs which are not exercised on 22 January 2012 shall not be exercised and shall lapse upon their expiry.

(ii) On 18 April 2007, the Company's board of directors further approved a plan of SARs for the senior management of the Group. 31,417,387 SAR units were granted with a term of six years with effect from 15 January 2007. The rights to the SAR units 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 year 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 is HK$4.09, being the average share price at the close of trading over the 30 business days preceding the date of grant. The SARs which are not exercised on 14 January 2013 shall not be exercised and shall lapse upon their expiry.

Upon exercise of the said rights, the exercising individual will, subject to the restrictions under the plan, receive a payment in RMB, after deducting any applicable withholding tax, which equals to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise.

The carrying amount of the liability relating to the SARs as at 31 December 2007 was RMB147 million (2006: RMB36 million) and the compensation expense recognised for the year ended 31 December 2007 was RMB111 million (2006: RMB36 million). As at the balance sheet date, the Company had 87,083,170 (2006: 55,665,783) SAR units outstanding.

The fair value of SARs is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the SARs, expected volatility (based on weighted average historic volatility), weighted average expected life of the SARs (based on general option holder behaviour), expected dividends, and the risk-free interest rate (based on Hong Kong Exchange Fund Note). Changes in the subjective input assumptions could materially affect the fair value estimate of the SARs.

6. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

The following table lists the inputs to the Black-Scholes option pricing model used for the measurement of the fair value of the SARs for the year ended 31 December 2007:

Dividend yield (%)	0.73
Expected volatility (%)	43.27 to 47.92
Risk-free interest rate (%)	1.878 to 3.100
Expected life of SARs (years)	6
Share price on measurement date (HK$)	5.5

7. FINANCE COSTS

	Group	
	2007	2006
	RMB million	RMB million
Interest on bank and other loans wholly repayable:		
— within five years	**169**	272
— beyond five years	**133**	114
Interest on discounted bills	**88**	59
Interest on short-term debentures	**69**	7
	459	452
Less: Interest capitalised in construction in progress	**(94)**	(41)
Net interest expense	**365**	411

8. LOSS ON DILUTION OF INTERESTS IN JOINTLY-CONTROLLED ENTITIES

In October and December 2006, Dongfeng Automobile Co., Ltd. ("DFAC") and Dongfeng Electronics Technology Co., Ltd. ("DFTC"), subsidiaries of a jointly-controlled entity of the Company with their shares listed on the Shanghai Stock Exchange, have been approved in their respective shareholders' meetings to launch a share reform scheme under the requirement of the relevant PRC government authorities. Pursuant to the schemes which were completed in October and December 2006 respectively, the jointly-controlled entity of the Company was required to grant a certain portion of its shares in DFAC and DFTC to the other shareholders who held the tradeable shares in DFAC and DFTC free of consideration in order to convert the non-tradeable shares in DFAC and DFTC held by the jointly-controlled entity into tradeable shares. Accordingly, the Company's indirect equity interests in DFAC and DFTC were diluted from 35.0% to 30.1% and from 37.5% to 32.5%, respectively, and the dilution loss in aggregate of RMB252 million attributable to the decrease in the shares of net assets of DFAC and DFTC was recognised in the consolidated income statement for the year ended 31 December 2006.

9. 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	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**468**	468	**94**	94
Other emoluments:				
— Salaries, allowances and benefits in kind	**23,605**	9,870	**9,865**	4,273
— Bonuses	**5,456**	3,046	**2,154**	1,774
— Pension scheme costs	**215**	102	**114**	70
	29,744	13,486	**12,227**	6,211

Certain directors 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. The fair value of the rights, which has been recognised in the income statement over the vesting period, was determined at the date of grant and at each reporting date. The amount included in the financial statements for the year is included in the above directors' remuneration disclosure.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and the supervisors and their remuneration for the year are as follows:

2007	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	–	3,000	740	28	3,768
Liu Zhangmin	–	2,958	656	26	3,640
Zhou Wenjie	–	2,521	483	11	3,015
Fan Zhong	–	2,521	597	25	3,143
Li Shaozhu	–	2,521	597	25	3,143
	–	13,521	3,073	115	16,709
Non-executive directors:					
Tong Dongcheng	–	2,521	597	25	3,143
Liu Weidong	–	2,521	558	25	3,104
Ouyang Jie	–	2,521	597	25	3,143
Zhu Fushou	–	2,521	631	25	3,177
	–	10,084	2,383	100	12,567
Independent non-executive directors:					
Sun Shuyi	156	–	–	–	156
Ng Lin-fung	156	–	–	–	156
Yang Xianzu	156	–	–	–	156
	468	–	–	–	468
	468	23,605	5,456	215	29,744
Supervisors:					
Ye Huicheng	–	2,521	597	25	3,143
Zhou Qiang	–	1,518	302	22	1,842
Ren Yong	–	1,792	417	11	2,220
Liu Yuhe	–	1,536	443	18	1,997
Li Chunrong	–	1,138	83	17	1,238
Kang Li	–	1,360	312	21	1,693
	–	9,865	2,154	114	12,133
Independent supervisors:					
Wen Shiyang	47	–	–	–	47
Deng Mingran	47	–	–	–	47
	94	–	–	–	94
	94	9,865	2,154	114	12,227

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and the supervisors and their remuneration for the year are as follows: (continued)

2006	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	—	1,304	410	11	1,725
Liu Zhangmin	—	1,259	370	11	1,640
Zhou Wenjie	—	1,050	330	14	1,394
Fan Zhong	—	1,049	330	11	1,390
Li Shaozhu	—	1,046	330	11	1,387
	—	5,708	1,770	58	7,536
Non-executive directors:					
Tong Dongcheng	—	1,046	330	11	1,387
Liu Weidong	—	1,046	330	11	1,387
Ouyang Jie	—	1,046	330	11	1,387
Zhu Fushou	—	1,024	286	11	1,321
	—	4,162	1,276	44	5,482
Independent non-executive directors:					
Sun Shuyi	156	—	—	—	156
Ng Lin-fung	156	—	—	—	156
Yang Xianzu	156	—	—	—	156
	468	—	—	—	468
	468	9,870	3,046	102	13,486
Supervisors:					
Ye Huicheng	—	1,046	330	11	1,387
Zhou Qiang	—	622	210	11	843
Ren Yong	—	862	386	9	1,257
Liu Yuhe	—	693	444	17	1,154
Li Chunrong	—	475	187	11	673
Kang Li	—	575	217	11	803
	—	4,273	1,774	70	6,117
Independent supervisors:					
Wen Shiyang	47	—	—	—	47
Deng Mingran	47	—	—	—	47
	94	—	—	—	94
	94	4,273	1,774	70	6,211

9. 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 year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2006: five) directors and supervisors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX

	Group	
	2007	2006
	RMB million	RMB million
Current income tax	**642**	388
Deferred income tax	**(844)**	40
Income tax expense/(credit) for the year	**(202)**	428

(a) Corporate income tax

Under the PRC 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 10% to 33%, 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 its jointly-controlled entities are foreign investment enterprises, after obtaining authorisation from the respective tax authorities, these subsidiaries and jointly-controlled entities are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

(b) Hong Kong profits tax

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

11. INCOME TAX (continued)

(c) Deferred income tax

Deferred tax assets were mainly recognised in respect of temporary differences relating to certain future deductible expenses for the purpose of corporate income tax.

Deferred tax liabilities were mainly recognised for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, jointly-controlled entities or associates.

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

According to IAS 12 Income Taxes, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the assets are realised or the liabilities are settled.

11. INCOME TAX (continued)

(c) Deferred income tax (continued)

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

	Group			
	2007		2006	
	RMB million	**%**	RMB million	%
Profit before tax	**3,835**		2,679	
At the PRC statutory corporate income tax rate of 33%	**1,265**	**33.0**	884	33.0
Tax concessions and lower tax rates for specific provinces or locations	**(849)**	**(22.2)**	(456)	(17.0)
Effect on opening deferred income tax due to the enactment of New CIT Law	**(521)**	**(13.6)**	—	—
Income not subject to corporate income tax	**(132)**	**(3.4)**	(145)	(5.4)
Expenses not deductible for corporate income tax	**35**	**0.9**	147	5.5
Others	**—**	**—**	(2)	(0.1)
Income tax expense/(credit) at the Group's effective income tax rate	**(202)**	**(5.3)**	428	16.0

11. INCOME TAX (continued)

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

Group

	As at 31 December		Year ended 31 December	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Deferred tax liabilities:				
Provision for unremitted earnings of certain subsidiaries, jointly-controlled entities and associates that are taxable when paid	**–**	(732)	**(732)**	127
Others	**(24)**	(16)	**4**	(58)
Gross deferred tax liabilities	**(24)**	(748)		
Deferred tax assets:				
Losses available for offsetting against future taxable income	**2**	–	**(2)**	85
Impairment of items of property, plant and equipment	**35**	34	**(1)**	(11)
Provision for stock appreciation right liabilities	**37**	–	**(37)**	–
Others	**259**	183	**(76)**	(103)
Gross deferred tax assets	**333**	217		
Deferred income tax expense/(credit)			**(844)**	40
Net deferred tax liabilities	**(24)**	(745)		
Net deferred tax assets	**333**	214		

11. INCOME TAX (continued)

Company

	As at 31 December	
	2007	2006
	RMB million	RMB million
Deferred tax liabilities:		
Provision for unremitted earnings of certain subsidiaries, jointly-controlled entities and associates that are taxable when paid	**—**	(732)
Gross deferred tax liabilities	**—**	(732)
Deferred tax assets:		
Provision for stock appreciation right liabilities	**37**	—
Gross deferred tax assets	**37**	—
Net deferred tax liabilities	**—**	(732)
Net deferred tax assets	**37**	—

12. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to the equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB1,686 million (2006: RMB721 million) which has been dealt with in the financial statements of the Company (note 31).

13. DIVIDEND

	Group	
	2007	2006
	RMB million	RMB million
Proposed final — RMB0.045 (2006: RMB0.040) per ordinary share	**388**	345

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

13. DIVIDEND (continued)

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 Accounting Standards for Business Enterprises (the "PRC GAAP") and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after allowances have 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 aggregates 50% of the Company's share capital. For the purpose of calculating the transfer to the reserves, 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 fund 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.

The above 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 amount that the Company's subsidiaries and jointly-controlled entities can legally distribute by way of a dividend is determined by reference to the net profits after tax as reflected in their financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the financial statements, which are prepared in accordance with IFRSs.

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

The calculation of basic earnings per share is based on the profit for the year attributable to the 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.

14. EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculation of basic earnings per share is based on:

	2007	2006
	RMB million	RMB million
Earnings:		
Profit for the year attributable to the ordinary equity holders of the parent	**3,770**	2,081

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

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

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2007				
At 31 December 2006 and 1 January 2007:				
Cost	1,076	22,587	1,767	25,430
Accumulated depreciation and impairment	(372)	(9,451)	(36)	(9,859)
Net carrying amount	704	13,136	1,731	15,571
At 1 January 2007, net of accumulated depreciation and impairment	704	13,136	1,731	15,571
Additions	4	147	2,705	2,856
Acquisition of an additional interest in a jointly-controlled entity (note 19(a))	18	131	10	159
Deemed disposal of interests in a jointly-controlled entity's subsidiaries (note 19(b))	(1)	(52)	—	(53)
Disposals	(36)	(231)	(19)	(286)
Reclassifications	31	2,113	(2,144)	—
Impairment	(3)	(18)	(5)	(26)
Depreciation provided during the year	(46)	(1,737)	—	(1,783)
At 31 December 2007, net of accumulated depreciation and impairment	671	13,489	2,278	16,438
At 31 December 2007:				
Cost	1,080	24,390	2,319	27,789
Accumulated depreciation and impairment	(409)	(10,901)	(41)	(11,351)
Net carrying amount	671	13,489	2,278	16,438

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2006				
At 1 January 2006:				
Cost	966	18,819	3,167	22,952
Accumulated depreciation and impairment	(320)	(8,179)	(39)	(8,538)
Net carrying amount	646	10,640	3,128	14,414
At 1 January 2006, net of accumulated depreciation and impairment	646	10,640	3,128	14,414
Additions	34	294	2,500	2,828
Disposals	(2)	(119)	(23)	(144)
Reclassifications	79	3,795	(3,874)	—
Impairment	(4)	(44)	—	(48)
Depreciation provided during the year	(49)	(1,430)	—	(1,479)
At 31 December 2006, net of accumulated depreciation and impairment	704	13,136	1,731	15,571
At 31 December 2006:				
Cost	1,076	22,587	1,767	25,430
Accumulated depreciation and impairment	(372)	(9,451)	(36)	(9,859)
Net carrying amount	704	13,136	1,731	15,571

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2007				
At 31 December 2006 and 1 January 2007:				
Cost	162	610	20	792
Accumulated depreciation and impairment	(107)	(110)	—	(217)
Net carrying amount	55	500	20	575
At 1 January 2007, net of accumulated depreciation and impairment	55	500	20	575
Additions	3	20	51	74
Disposals	(5)	(16)	(12)	(33)
Reclassifications	—	37	(37)	—
Depreciation provided during the year	(7)	(20)	—	(27)
At 31 December 2007, net of accumulated depreciation and impairment	46	521	22	589
At 31 December 2007:				
Cost	160	643	22	825
Accumulated depreciation and impairment	(114)	(122)	—	(236)
Net carrying amount	46	521	22	589

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2006				
At 1 January 2006:				
Cost	162	374	140	676
Accumulated depreciation and impairment	(101)	(96)	—	(197)
Net carrying amount	61	278	140	479
At 1 January 2006, net of accumulated depreciation and impairment	61	278	140	479
Additions	—	3	141	144
Disposals	—	(1)	(22)	(23)
Reclassifications	—	239	(239)	—
Depreciation provided during the year	(6)	(19)	—	(25)
At 31 December 2006, net of accumulated depreciation and impairment	55	500	20	575
At 31 December 2006:				
Cost	162	610	20	792
Accumulated depreciation and impairment	(107)	(110)	—	(217)
Net carrying amount	55	500	20	575

The impairment provided for items of property, plant and equipment of the Group was mainly the full provisions for idle production facilities, which were, in the opinion of the directors, without significant resale values.

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 32 below.

16. INTANGIBLE ASSETS

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Cost:				
At 1 January	**1,793**	1,114	**—**	—
Additions	**474**	681	**21**	—
Acquisition of an additional interest in a jointly-controlled entity (note 19(a))	**2**	—	**—**	—
Disposals	**(36)**	(2)	**—**	—
At 31 December	**2,233**	1,793	**21**	—
Accumulated amortisation:				
At 1 January	**542**	389	**—**	—
Provided during the year	**243**	155	**—**	—
Disposals	**(36)**	(2)	**—**	—
At 31 December	**749**	542	**—**	—
Net book value:				
At 1 January	**1,251**	725	**—**	—
At 31 December	**1,484**	1,251	**21**	—

The detailed of the above items of intangible assets pledged to secure general banking facilities granted to the Group are set out in note 32 below.

17. GOODWILL

Group

	2007	2006
	RMB million	RMB million
At 1 January	**434**	434
Acquisition of an additional interest in a jointly-controlled entity's subsidiary	**10**	—
Acquisition of an additional interest in a jointly-controlled entity (note 19(a))	**33**	—
At 31 December	**477**	434

17. GOODWILL (continued)

The recoverable amount of the cash-generating units, to which the goodwill is allocated, has been determined based on a value in use calculation using cash flow projections based on the financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10%. No growth rate has been projected beyond the five-year period.

18. INVESTMENTS IN SUBSIDIARIES

Company

	2007 **RMB million**	2006 RMB million
Unlisted investments, at cost	**140**	140

Particulars of the principal subsidiaries as at 31 December 2007 were as follows:

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
China Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB100,000,000	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

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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Company

	2007 **RMB million**	2006 RMB million
Unlisted investments, at cost	**13,037**	13,037

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

Particulars of the principal jointly-controlled entities as at 31 December 2007 were as follows:

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
Dongfeng Honda Engine Co., Ltd.#	PRC	US$60,060,000	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$200,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components
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	RMB558,770,000	20.0	40.0	Provision of finance services

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

Particulars of the principal jointly-controlled entities as at 31 December 2007 were as follows:

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
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
Guangzhou Aeolus Automobile Co., Ltd.#	PRC	RMB520,000,000	—	30.0	Manufacture and sale of automobiles, automotive parts and components
Aeolus Xiangfan Motor Co., Ltd.#	PRC	RMB826,000,000	—	39.9	Manufacture and sale of automotive parts and components
Aeolus Automobile Co., Ltd.#	PRC	RMB173,350,000	—	31.5	Manufacture and sale of automobiles, automotive parts and components
Zhengzhou Nissan Automobile Co., Ltd.#	PRC	RMB250,000,000	—	29.7	Manufacture and sale of automobiles

\# Sino-foreign equity joint venture

\## Joint-stock limited liability company

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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

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

	2007 **RMB million**	2006 RMB million
Non-current assets	**19,483**	18,329
Current assets	**29,558**	23,803
Non-current liabilities	**(2,784)**	(2,535)
Current liabilities	**(25,686)**	(21,249)
Minority interests	**(2,853)**	(2,662)
Net assets	**17,718**	15,686
Total revenue	**59,003**	48,087
Total expenses	**(55,272)**	(45,463)
Minority interests	**(300)**	(190)
Profit attributable to equity holders of the parent	**3,431**	2,434

During the year ended 31 December 2007, the Group had the following significant changes in the shareholdings of jointly-controlled entities:

(a) Acquisition of an additional interest in a jointly-controlled entity

In December 2007, Dongfeng Motor Co., Ltd. ("DFL"), a 50%-owned jointly-controlled entity of the Company, acquired a 28.65% equity interest in Zhengzhou Nissan Automobile Co., Ltd, ("Zhengzhou Nissan"), a 51%-owned jointly-controlled entity of a subsidiary of DFL, from certain joint venture partners at a total consideration of RMB188.65 million.

Upon completion of this acquisition, DFL and DFL's subsidiary had 28.65% and 51% direct equity interests in Zhengzhou Nissan, respectively, and Zhengzhou Nissan was thereafter accounted for as a subsidiary of DFL.

Since the date of acquisition, Zhengzhou Nissan had contributed RMB15 million to the Group's profit attributable to the equity holders of the parent and RMB216 million to the Group's revenue for the year ended 31 December 2007.

Had the aforesaid acquisition by DFL taken place alone at the beginning of 2007, the Group's profit attributable to the equity holders of the parent and the revenue of the Group for the year would have been RMB3,792 million and RMB60,283 million, respectively.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(a) Acquisition of an additional interest in a jointly-controlled entity (continued)

The fair values of the additional identified assets and liabilities of Zhengzhou Nissan shared by the Group at the date of acquisition were as follows:

	2007 Fair value recognition on acquisition RMB million	Carrying amount RMB million
Property, plant and equipment	159	122
Lease prepayments	28	11
Intangible assets	2	2
Other long term assets	2	2
Inventories	252	252
Trade and bills receivables	161	161
Prepayments, deposits and other receivables	54	54
Cash and cash equivalents	77	77
Trade and bills payables	(308)	(308)
Other payables and accruals	(109)	(109)
Income tax payable	(10)	(10)
Interest-bearing borrowings	(199)	(199)
Deferred tax liabilities	(4)	(4)
Minority interests	(44)	(22)
	61	29
Goodwill arising on acquisition	33	
	94	
Consideration:		
Cash consideration	94	
Net cash outflow arising from the acquisition is as follows:		
Cash and cash equivalents acquired	77	
Cash paid	(94)	
Net cash outflow	(17)	

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(a) Acquisition of an additional interest in a jointly-controlled entity (continued)

Included in the goodwill of RMB33 million recognised above are certain intangible assets of Zhengzhou Nissan that cannot be individually separated due to their nature. In the opinion of the directors, assets included in this balance consist of customer loyalty, research activities of internal projects and voting power in the board of directors of Zhengzhou Nissan, and they are not separable and therefore do not meet the criteria for recognition as an intangible asset under IAS 38.

(b) Deemed disposal of interests in a jointly-controlled entity's subsidiaries

In September 2007, DFL entered into a joint venture agreement ("JV agreement") with Dongfeng Hong Tai Holdings Company Limited ("DFHT"), an unrelated 40% minority shareholder of Wuhan Stamping Co., Ltd. ("Wuhan Stamping"). Pursuant to the JV agreement, Wuhan Stamping's registered capital would be enlarged from the existing RMB80 million to RMB400 million. DFL injected its existing 98.2% equity interest in Dongfeng Motor Mould Co., Ltd. ("DF Mould") for a consideration of RMB152 million and DFHT injected its assets and liabilities in its stamping and welding branch for a consideration of RMB138 million together with cash of RMB30 million. Thereafter Wuhan Stamping was jointly-controlled by DFL and DFHT at 50% each and was renamed as Dongfeng Moulds and Stamping Technology Co., Ltd..

As a result of the reorganisation of Wuhan Stamping, the Group's interests in Wuhan Stamping and DF Mould were diluted and a deemed disposal gain of RMB2 million was recognised.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(b) Deemed disposal of interests in a jointly-controlled entity's subsidiaries (continued)

Details of net carrying values of the assets and liabilities injected into Wuhan Stamping attributable to DFHT are as follows:

	2007 RMB million
Property, plant and equipment	53
Other long term assets	11
Inventories	37
Trade and bills receivables	23
Prepayments, deposits and other receivables	14
Cash and cash equivalents	7
Trade and bills payables	(12)
Other payables and accruals	(54)
Interest-bearing borrowings	(47)
Minority interests	(27)
Net assets injected into Wuhan Stamping attributable to DFHT	5
The Group's share of cash injected by DFHT	8
Gain on dilution of interests in Wuhan Stamping and DF Mould, net	2
	15
Net cash inflow arising on aforesaid injections by the Group is as follows:	
Net cash injected into Wuhan Stamping attributable to DFHT	(7)
Cash acquired from DFHT attributable to the Group	8
Net cash inflow	1

20. INTERESTS/INVESTMENTS IN ASSOCIATES

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

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

	2007 **RMB million**	2006 RMB million
Unlisted investments, at cost	**256**	73

Particulars of the principal associates as at 31 December 2007 were as follows:

Name	**Place of establishment and operations**	**Paid-up registered capital**	**Percentage of equity interest attributable to the Company**		**Principal activities**
			Direct	**Indirect**	
Shenzhen Hangsheng Electronics Co., Ltd.##	PRC	RMB150,000,000	—	12.5	Manufacture and sale of automotive parts and components
Zhanjiang Deli Carburetor Co., Ltd.#	PRC	US$21,250,000	—	16.0	Manufacture and sale of automotive parts and components
Dongfeng Nissan Auto Finance Co., Ltd.#	PRC	RMB500,000,000	35%	—	Provision of finance services

Sino-foreign equity joint venture

Joint-stock limited liability company

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.

20. INTERESTS/INVESTMENTS IN ASSOCIATES (continued)

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

	2007 **RMB million**	2006 RMB million
Non-current assets	**375**	296
Current assets	**949**	622
Non-current liabilities	**(19)**	(34)
Current liabilities	**(619)**	(390)
Minority interests	**(9)**	(8)
Net assets	**677**	486
Total revenue	**1,214**	989
Total expenses	**(1,157)**	(939)
Minority interests	**–**	1
Profit attributable to the equity holders of the parent	**57**	51

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2007 **RMB million**	2006 RMB million	**2007** **RMB million**	2006 RMB million
Unlisted investments, at fair value	**136**	127	**68**	68

22. LOAN TO A JOINTLY-CONTROLLED ENTITY

	Group		**Company**	
	2007 **RMB million**	2006 RMB million	**2007** **RMB million**	2006 RMB million
Loan to a jointly-controlled entity	**–**	200	**–**	400
Less: Current portion included in amounts due from jointly-controlled entities	**–**	(50)	**–**	(100)
Non-current portion	**–**	150	**–**	300

The loan to a jointly-controlled entity was unsecured and bore interest at a rate of 4.65% per annum and was fully settled by the jointly-controlled entity during the year.

23. INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Raw materials	**2,809**	2,954	**20**	13
Work-in-progress	**623**	635	**21**	20
Finished goods	**4,141**	3,539	**40**	22
	7,573	7,128	**81**	55

The details of the above items of inventories pledged to secure general banking facilities granted to the Group are set out in note 32 below.

24. TRADE RECEIVABLES

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

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**1,939**	1,361	**106**	206
More than three months but within one year	**232**	157	**24**	3
More than one year	**58**	44	**5**	2
	2,229	1,562	**135**	211

24. TRADE RECEIVABLES (continued)

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
At 1 January	**1,003**	1,117	**4**	7
Impairment loss recognised/(reversed)	**(28)**	7	**–**	(2)
Acquisition of an additional interest in a jointly-controlled entity	**83**	–	**–**	–
Deemed disposal of interest in a jointly-controlled entity's subsidiaries	**(1)**	–	**–**	–
Amount written off as uncollectible	**(70)**	(121)	**–**	(1)
At 31 December	**987**	1,003	**4**	4

As at 31 December 2007, accounts receivable with an aggregate nominal value of RMB787 million (2006: RMB729 million) were impaired and fully provided for. The remaining individually impaired accounts receivable 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	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Neither past due nor impaired	**1,905**	1,251	**106**	202
Less than three months pass due	**22**	2	**18**	3
	1,927	1,253	**124**	205

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.

24. TRADE RECEIVABLES (continued)

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Subsidiaries	**—**	—	**—**	2
A joint venture partner	**30**	5	**—**	—
Associates	**9**	6	**3**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**—**	34	**—**	—
	39	45	**3**	2

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

25. BILLS RECEIVABLE

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**4,424**	3,707	**1**	—
More than three months but within one year	**3,559**	2,067	**6**	6
	7,983	5,774	**7**	6

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Prepayments	**807**	559	**28**	26
Deposits and other receivables	**1,910**	1,090	**196**	15
	2,717	1,649	**224**	41

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
At 1 January	**83**	123	**1**	—
Impairment loss recognised/(reversed)	**(18)**	(13)	**(1)**	1
Acquisition of an additional interest in a jointly-controlled entity	**25**	—	**—**	—
Amount written off as uncollectible	**(5)**	(27)	**—**	—
At 31 December	**85**	83	**—**	1

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Joint venture partners and their holding companies	**20**	4	**—**	—
Associates	**3**	15	**—**	5
Fellow subsidiaries	**2**	—	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**62**	69	**—**	—
Subsidiaries	**—**	—	**6**	2
	87	88	**6**	7

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

27. DUE FROM/TO 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 loan to a jointly-controlled entity as disclosed in note 22.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	2007	2006
	RMB million	RMB million
Investments listed in the PRC, at fair value	**26**	31
Unlisted investment fund in the PRC, at fair value	**55**	—
Debt securities listed in the PRC, at fair value	**—**	29
	81	60

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Cash and bank balances	**7,117**	5,785	**1,264**	668
Time deposits	**3,356**	2,442	**—**	—
	10,473	8,227	**1,264**	668
Less: Pledged bank balances and time deposits for securing general banking facilities (note 32)	**(931)**	(790)	**—**	—
Cash and cash equivalents in the consolidated balance sheet	**9,542**	7,437	**1,264**	668
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(2,439)**	(1,778)	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**7,103**	5,659	**1,264**	668

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.

30. SHARE CAPITAL

Group and Company

	2007 RMB million	2006 RMB million
Registered, issued and fully paid:		
— 5,760,388,000 (2006: 5,760,388,000) Domestic Shares of RMB1.00 each	**5,760**	5,760
— 2,855,732,000 (2006: 2,855,732,000) H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

31. 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 58 of the financial statements.

Company

	Capital reserve RMB million	Statutory reserves RMB million (note (a))	Retained profits/ (accumulated losses) RMB million	Proposed final dividend RMB million	Total RMB million
At 1 January 2006	1,363	594	(94)	—	1,863
Profit for the year	—	—	721	—	721
Transfer to reserves	—	221	(221)	—	—
Proposed final dividend	—	—	(345)	345	—
At 31 December 2006 and 1 January 2007	1,363	815	61	345	2,584
Final 2006 dividend declared	—	—	—	(345)	(345)
Profit for the year	—	—	1,686	—	1,686
Transfer to reserves	—	375	(375)	—	—
Proposed final dividend	—	—	(388)	388	—
At 31 December 2007	1,363	1,190	984	388	3,925

31. RESERVES (continued)

Company (continued)

Notes:

(a) *Statutory reserves*

In accordance with the PRC Company Law, the Company and its subsidiaries, jointly-controlled entities and associates are required to allocate 10% of their net profits after tax (determined under PRC GAAP) to the statutory surplus reserve (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 respective companies.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises and the memorandums 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 net 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 13, for dividend distribution purpose, the Company's distributable profit is based on the lower of net profit after tax as determined under the 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 the PRC GAAP. These profits may differ from those dealt with in the 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.

32. INTEREST-BEARING BORROWINGS

	Effective interest rate (%)	Maturity	Group 2007 RMB million	Group 2006 RMB million	Company 2007 RMB million	Company 2006 RMB million
Current						
Bank loans — secured	2–8.75	2008	**529**	1,368	**25**	—
Bank loans — secured	LIBOR+1.2–LIBOR+1.5	2008	**39**	33	**–**	—
Bank loans — unsecured	4.86–7.29	2008	**1,132**	801	**–**	—
Bank loans — unsecured	LIBOR+0.1–LIBOR+2.28	2008	**1,606**	1,475	**–**	—
Debentures — unsecured	3.6055	2008	**1,998**	1,841	**1,998**	1,841
Other loans — unsecured	0.72–5.31	2008	**447**	403	**150**	340
			5,751	5,921	**2,173**	2,181

32. INTEREST-BEARING BORROWINGS (continued)

	Effective interest rate (%)	Maturity	Group 2007 RMB million	Group 2006 RMB million	Company 2007 RMB million	Company 2006 RMB million
Non-current						
Bank loans — secured	1–5.832	2009-2023	**747**	1,208	**–**	–
Bank loans — secured	LIBOR+1.5	2009-2010	**465**	–	**–**	–
Bank loans — unsecured	5.427–6.586	2009-2012	**598**	692	**–**	–
Bank loans — unsecured	LIBOR+2.28–LIBOR+1.2	2009-2013	**704**	185	**–**	–
Bank loans — unsecured	SEBR+6.25	2009	**–**	1	**–**	–
Other loans — unsecured	2.25	2009	**–**	1	**–**	–
			2,514	2,087	**–**	–
			8,265	8,008	**2,173**	2,181

The above secured bank loans were secured by certain assets of the Group. An analysis of the carrying values of these assets consolidated by the Group is as follows:

Group

	2007 RMB million	2006 RMB million
Property, plant and equipment	**1,002**	1,085
Intangible assets	**73**	57
Inventories	**130**	130
Time deposits and bank balances	**931**	790
Other assets	**1,023**	1,439
	3,159	3,501

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

On 28 November 2007, short term debentures with a face value of RMB2,100 million were issued at a discount, in the inter-bank debenture market of the PRC. The issue price was RMB94.65 each and the term of maturity was 365 days. The total proceed from issue of the short term debentures was RMB1,987.65 million.

32. INTEREST-BEARING BORROWINGS (continued)

Group (continued)

On 12 December 2006, short term debentures with a face value of RMB1,900 million were issued at a discount, in the inter-bank debenture market of the PRC. The issue price was RMB96.52 each and the term of maturity was 365 days. The total proceed from issue of the short term debentures was RMB1,833.88 million. The short term debentures issued in year 2006 were fully settled during the year.

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Bank loans repayable:				
Within one year or on demand	**3,306**	3,677	**25**	—
In the second year	**1,059**	65	**—**	—
In the third to fifth years, inclusive	**885**	1,442	**—**	—
Beyond five years	**570**	579	**—**	—
	5,820	5,763	**25**	—
Debentures repayable within one year	**1,998**	1,841	**1,998**	1,841
Other loans repayable:				
Within one year or on demand	**447**	403	**150**	340
In the second year	**—**	1	**—**	—
	447	404	**150**	340
	8,265	8,008	**2,173**	2,181

33. PROVISIONS

The Group's provisions are analysed as follows:

	Environmental restoration costs	Warranty expenses	Reorganisation expenses	Total
	RMB million	RMB million	RMB million	RMB million
At 31 December 2007:				
Current portion	135	410	—	545
Non-current portion	—	—	163	163
	135	410	163	708
At 31 December 2006:				
Current portion	102	310	—	412
Non-current portion	—	—	193	193
	102	310	193	605

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

The movements of the above provisions are analysed as follows:

	Environmental restoration costs	Warranty expenses	Reorganisation expenses	Total
	RMB million	RMB million	RMB million	RMB million
At 1 January 2006	102	225	205	532
Provision during the year	—	317	—	317
Utilised	—	(232)	(12)	(244)
At 31 December 2006 and 1 January 2007	102	310	193	605
Provision during the year	33	468	—	501
Utilised	—	(368)	(30)	(398)
At 31 December 2007	135	410	163	708

Environmental restoration costs

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

33. PROVISIONS (continued)

Warranty expenses

The Group 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 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 year 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.

34. GOVERNMENT GRANTS

The Group's government grants are analysed as follows:

	2007 **RMB million**	2006 RMB million
Current portion	**35**	28
Long term portion	**53**	51
	88	79

The movements of the above government grants are analysed as follows:

	RMB million
At 1 January 2006	85
Received during the year	132
Recognised as other income during the year (note 5)	(138)
At 31 December 2006 and 1 January 2007	79
Received during the year	204
Recognised as other income during the year (note 5)	(195)
At 31 December 2007	88

35. 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	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**7,783**	6,804	**89**	36
More than three months but within one year	**1,684**	589	**28**	25
More than one year	**183**	195	**9**	11
	9,650	7,588	**126**	72

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
DMC	**35**	18	**6**	1
Joint venture partners and their holding companies	**677**	563	**—**	—
Associates	**62**	71	**2**	4
A minority shareholder of a jointly-controlled entity's subsidiary	**22**	2	**—**	—
Fellow subsidiaries	**1**	—	**1**	—
Subsidiaries	**—**	—	**9**	—
	797	654	**18**	5

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

36. BILLS PAYABLE

The maturity profile of the bills payable of the Group is as follows:

	2007 RMB million	2006 RMB million
Within three months	**2,424**	2,049
More than three months but within one year	**2,388**	2,096
	4,812	4,145

37 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 RMB million	2006 RMB million	2007 RMB million	2006 RMB million
Advances from customers	**2,047**	916	**66**	4
Accrued salaries, wages and benefits	**1,248**	973	**379**	235
Other payables	**4,207**	3,703	**331**	287
	7,502	5,592	**776**	526

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

	Group		Company	
	2007 RMB million	2006 RMB million	2007 RMB million	2006 RMB million
DMC	**304**	28	**230**	1
Joint venture partners	**53**	222	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**1**	—	**—**	—
Associates	**7**	4	**1**	1
	365	254	**231**	2

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

38. 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		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Within one year	**113**	97	**9**	2
After one year but not more than five years	**463**	426	**75**	67
More than five years	**1,746**	1,358	**748**	789
	2,322	1,881	**832**	858

(b) Capital commitments

In addition to the operating lease commitments detailed in note 38(a) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Contracted, but not provided for:				
Property, plant and equipment	**3,005**	1,794	**—**	9
Capital contribution to an associate	**10**	175	**—**	175
	3,015	1,969	**—**	184
Authorised, but not contracted for:				
Property, plant and equipment	**1,090**	1,355	**—**	—

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	RMB million	**RMB million**	RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	**—**	—	**163**	116
— Jointly-controlled entities	**724**	742	**1,375**	1,402
— Associates	**53**	53	**—**	—
— Other third parties	**20**	85	**—**	—
Pending litigation	**5**	32	**—**	—
	802	912	**1,538**	1,518

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 2006 and 2007.

40. RELATED PARTY TRANSACTIONS

(a) Transactions with DMC, the Group's jointly-controlled entities, associates, joint venture partners and their holding companies, and minority 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 their related parties:

	Notes	**2007** RMB million	2006 RMB million
Purchases of automotive parts/raw materials from:	(i)		
— DMC		**49**	31
— Joint venture partners and their holding companies		**15,050**	18,522
— Associates		**779**	706
— Jointly-controlled entities		**3,553**	2,270
— Minority shareholders of a jointly-controlled entities' subsidiaries		**190**	213
		19,621	21,742
Purchases of automobiles from:	(i)		
— An associate		**—**	5
— Jointly-controlled entities		**1,244**	1,476
— A minority shareholder of a jointly-controlled entity's subsidiary		**—**	3
		1,244	1,484
Purchases of water, steam and electricity from DMC	(ii)	**806**	749
Purchases of items of property, plant and equipment from:	(i)		
— The holding company of a joint venture partner		**371**	203
— A jointly-controlled entity		**7**	12
— A minority shareholder of a jointly-controlled entity's subsidiary		**14**	—
— An associate		**4**	33
		396	248
Rental expenses to DMC	(i)	**147**	141

40. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2007 RMB million	2006 RMB million
Receiving services from:	(i)		
— DMC		**48**	10
— A joint venture partner		**6**	6
— An associate		**15**	16
— Jointly-controlled entities		**44**	12
		113	44
Purchases of technology know-how from joint venture partners and their holding companies	(i)	**2,260**	1,638
Sales of automotive parts/raw materials to:	(i)		
— DMC		**41**	48
— Fellow subsidiaries		**1**	4
— A joint venture partner		**158**	40
— An associate		**34**	26
— Jointly-controlled entities		**1,031**	752
— A minority shareholder of a jointly-controlled entity's subsidiary		**73**	127
		1,338	997
Sales of automobiles to:	(i)		
— A joint venture partner		**—**	2
— An associate		**200**	197
— Jointly-controlled entities		**52**	197
— A minority shareholder of a jointly-controlled entity’s subsidiary		**14**	4
		266	400
Provision of services to:	(i)		
— An associate		**—**	2
— Jointly-controlled entities		**60**	27
— Joint venture partners and their holding companies		**52**	—
		112	29

40. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

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

(ii) This transaction was conducted according to the prices and conditions agreed between the Group and their related parties.

(b) Outstanding balances with related parties:

(i) Details of the Group's loan to a jointly-controlled entity as at the balance sheet date are included in note 22 to the financial statements.

(ii) Details of the Group's balances with its related parties as at the balance sheet date are disclosed in notes 24, 26, 35 and 37 to the financial statements.

(iii) Details of the Group's balances with jointly-controlled entities as at the balance sheet date are disclosed in note 27 to the financial statements.

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

	2007	2006
	RMB'000	RMB'000
Short term employees benefits	**41,080**	18,963
Post-employment benefits	**329**	172
Total compensation paid to key management personnel	**41,409**	19,135

Further details of directors' emoluments are included in note 9 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing borrowings 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 such derivative transactions on the Group is immaterial.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 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 in percentage	Decrease in profit before tax
	%	RMB million
2007	**1**	**28**
2006	1	17

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 their purchases and borrowings were denominated in other currencies including, amongst others, United States dollars ("USD"), Euro 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 balance sheet date, the fair values of these foreign currency forward and swap contracts were insignificant.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible changes in the USD, 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	
	2007	2006
	RMB million	RMB million
If RMB strengthens against USD by 1%	**31**	22
If RMB weakens against USD by 1%	**(31)**	(22)
If RMB strengthens against Euro by 1%	**9**	10
If RMB weakens against Euro by 1%	**(9)**	(10)
If RMB strengthens against JPY by 1%	**2**	—
If RMB weakens against JPY by 1%	**(2)**	—

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 carrying amount of each financial asset included in the financial statements represents the maximum exposure of the Group to credit risk in relation to that financial assets. In addition, the guarantees given by the Group to banks in favour of banking facilities granted to the Company's fellow subsidiaries, the associates of the Group represent their other exposure to credit risk. Further details of the guarantees are set out in note 39 to the financial statements. The Group has no other financial assets carrying significant exposure to credit risk and have no significant concentration of credit risk.

41. 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 borrowings and other available sources of financing.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	2007				
	Within one year or on demand RMB million	In the second year RMB million	In the third to fifth years RMB million	Beyond 5 years RMB million	Total RMB million
Interest-bearing borrowings	5,751	1,059	885	570	8,265
Trade payables	9,650	—	—	—	9,650
Bills payable	4,812	—	—	—	4,812
Other payables	4,207	—	—	—	4,207
Due to jointly-controlled entities	288	—	—	—	288
	24,708	1,059	885	570	27,222

	2006				
	Within one year or on demand RMB million	In the second year RMB million	In the third to fifth years RMB million	Beyond 5 years RMB million	Total RMB million
Interest-bearing borrowings	5,921	66	1,442	579	8,008
Trade payables	7,588	—	—	—	7,588
Bills payable	4,145	—	—	—	4,145
Other payables	3,703	—	—	—	3,703
Due to jointly-controlled entities	386	—	—	—	386
	21,743	66	1,442	579	23,830

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is 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 shareholder 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 during the years ended 31 December 2007 and 31 December 2006.

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 and pledged bank balances and time deposits. Equity includes equity attributable to the equity holders of the parent. The net debt to equity ratios as at the balance sheet dates were as follows:

Group

	2007 **RMB million**	2006 RMB million
Interest-bearing borrowings	**8,265**	8,008
Less: Cash and cash equivalents	**(9,542)**	(7,437)
Less: Pledged bank balances and time deposits	**(931)**	(790)
Net debt	**(2,208)**	(219)
Equity	**17,713**	14,288
Net debt to equity ratio	**(12.5%)**	(1.5%)

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2008.

Five Year Financial Summary

A summary of the published results and of the assets, liabilities and minority 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				
	2007	2006	2005	2004	2003
	RMB million	RMB million	RMB million	RMB million	RMB million
RESULTS					
Continuing operations:					
Revenue — Sale of goods	**59,318**	48,264	41,735	32,737	36,556
Cost of sales	**(49,503)**	(40,058)	(35,639)	(26,952)	(28,326)
Gross profit	**9,815**	8,206	6,096	5,785	8,230
Other income	**935**	736	1,007	568	570
Gain on acquisition of subsidiaries and an associate	**—**	—	—	—	12
Gain on dilution of interests in certain businesses and investments, net	**—**	—	—	852	1,180
Selling and distribution costs	**(2,642)**	(2,157)	(1,738)	(1,384)	(1,247)
Administrative expenses	**(2,545)**	(2,219)	(1,928)	(1,793)	(1,999)
Other expenses, net	**(1,432)**	(1,285)	(767)	(654)	(1,606)
Finance costs	**(365)**	(411)	(478)	(242)	(402)
Loss on dilution of interests in jointly-controlled entities	**—**	(252)	—	—	—
Share of profits and losses of associates	**69**	61	29	42	49
Profit before tax	**3,835**	2,679	2,221	3,174	4,787
Income tax	**202**	(428)	(474)	(308)	(211)
Profit for the year from continuing operations	**4,037**	2,251	1,747	2,866	4,576
Discontinued operations:					
Loss for the year from discontinued operations	**—**	—	—	—	(363)
Profit for the year	**4,037**	2,251	1,747	2,866	4,213

Five Year Financial Summary

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB million	RMB million	RMB million	RMB million	RMB million
Attributable to:					
Equity holders of the parent	**3,770**	2,081	1,601	2,598	3,339
Minority interests	**267**	170	146	268	874
	4,037	2,251	1,747	2,866	4,213
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**52,197**	44,113	37,980	33,451	28,790
Total liabilities	**(31,798)**	(27,291)	(23,646)	(23,336)	(16,184)
Minority interests	**(2,686)**	(2,534)	(2,127)	(2,078)	(2,554)
	17,713	14,288	12,207	8,037	10,052

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 level, 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)*

QUALIFIED ACCOUNTANT

Chan Yuk Tong
(FCPA of HKICPA and CPA of CPA Australia)

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PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

00489

NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR 2007

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the "AGM") of Dongfeng Motor Group Company Limited (the "Company") for the year 2007 will be held at 9:00 a.m. on Friday, 20 June 2008 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") of the Company for the year ended 31 December 2007.

2. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2007.

3. To consider and approve the report of the international auditors and audited financial statements of the Company for the year ended 31 December 2007.

4. To consider and approve the profit distribution proposal of the Company for the year ended 31 December 2007.

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 2008 at its absolute discretion (including, but not limited to, determining whether to distribute interim dividend for the year 2008).

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 2008 to hold office until the conclusion of the next annual general meeting, and to authorize the Board to fix their remuneration.

7. To consider and approve the Board to fix the remuneration of the directors and the supervisors of the Company for the year 2008.

II. As special resolutions:

8. For the purpose of increasing the flexibility and efficiency in operation, to give a general mandate to the Board to issue, allot and deal with additional Domestic Shares not exceeding 20 per cent. of the Domestic Shares in issue and additional H Shares not exceeding 20 per cent. 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 rights 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 rights 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 per cent. of each of the aggregate nominal amounts of Domestic Shares and H shares in issue 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 the period of 12 months from the date of passing of the special resolution granting the general mandate; or

(iii) the 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 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 issue of shares as provided in sub-paragraph (a) of paragraph (A) of this resolution."

9. For the purpose of improving the debt structure of the Company and reducing its finance costs, to authorize the Board to apply to the relevant regulatory authorities (units or organizations) in the PRC to issue direct debt financing instruments not exceeding RMB6 billion, to authorize the Board to issue direct debt financing instruments not exceeding RMB3 billion in 2008 as it thinks fit, and to authorize the Board to authorize any director to sign any documents and agreements relating to the issuance of direct debt financing instruments.

"**THAT**

(a) the Board is authorized to apply to the relevant regulatory authorities (units or organizations) in the PRC with reference to the financial and operating conditions of the Company, to issue direct debt financing instruments not exceeding RMB6 billion within twelve months from the passing of this resolution;

(b) the Board is authorized to determine the terms and conditions of the issuance of direct debt financing instruments as it thinks fit, and to authorize any director to sign any documents and agreements relating to the issuance of direct debt financing instruments."

By order of the Board
Xu Ping
Chairman

16 April 2008, Wuhan, the PRC

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

Notes:

(1) According to the Articles of Association of the Company, the resolutions will be determined on a show of hands unless a poll is demanded before or after any vote on a show of hands.

(2) In order to determine the list of shareholders who are entitled to attend the AGM, the registers of members of the Company will be closed from Wednesday, 21 May 2008 to Thursday, 19 June 2008, both days inclusive, during which period no 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 or before 4:00 p.m. on Tuesday, 20 May 2008.

(3) 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 need not be a shareholder of the Company. Where a shareholder appoints more than one proxy, his proxies may only vote in a poll.

(4) 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 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.

(5) 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 the holders of the Domestic Shares and at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, for the holders of the H Shares not less than 24 hours before the AGM.

(6) 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 of 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.

(7) 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 Saturday, 31 May 2008 by hand, by post or by fax.

(8) The address and contact details of the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, are as follows:

Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong.
Tel: (852) 2826 8628
Fax: (852) 2865 0990

(9) The address and contact details of the Company's principal place of business in the PRC are as follows:

Special No. 1 Dongfeng Road
Wuhan Economic and Technology Development Zone
Wuhan
Hubei 430056
People's Republic of China
Tel: (8627) 84285041
Fax: (8627) 84285057

(10) In accordance with the Company's Articles of Association, 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.

(11) 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. Shareholders or their proxies attending the AGM shall produce their identity documents.

Fifth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited

Proposal I — To Consider and Approve the Annual Report for 2007

To the annual general meeting of the Company:

Pursuant to Resolution No. 1 — To Consider and Approve the Annual Report for 2007, considered and passed at the fifth meeting of the first board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors decides to submit the following proposals for consideration at the annual general meeting of the Company:

1. to consider and approve the financial report for 2007 as audited by Ernst & Young Hua Ming and the report of the auditor for 2007 prepared by Ernst & Young.

2. to consider and approve the report of the board of directors of the Company for 2007.

3. It is noticed by the board of directors that the audited profits of the Company for 2007 is RMB1,686 million and the undistributed profits as at the beginning of the year is RMB61 million, bringing about distributable profits of RMB1,747 million. Taking RMB375 million to be appropriated to the statutory common reserve fund pursuant to China Accounting Standards into account, profit distributable to investors is RMB1,372 million. The board of directors recommends a payment of dividend of RMB0.045 per ordinary share for 2007 to shareholders, totaling RMB388 million.

4. to authorize the board of directors to deal with all matters in relation to the Company's interim dividend payment for the year 2008 in its discretion (including, but not limited to, the determination of the payment of interim dividend for the year 2008).

5. to agree to re-appoint Ernst & Young as the overseas auditor and Ernst & Young Hua Ming as the PRC auditor of the Company for 2008 to hold office until the conclusion of the 2008 annual general meeting, and to agree to authorize the audit committee under the board of directors to determine their remuneration for 2008.

The above proposal is hereby submitted to the annual general meeting for discussion.

Board of directors of
Dongfeng Motor Group Company Limited

16 April 2008

Fifth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited

Proposal II — To Consider and Approve the Remuneration of Directors and Supervisors

To the annual general meeting of the Company:

Pursuant to Resolution No. 2 — To Consider and Approve the Remuneration of Directors and Supervisors, considered and passed at the fifth meeting of the second board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors has decided to submit the following proposals for the remuneration of directors and supervisors for 2008 as determined by the board of directors at the annual general meeting of the Company:

Items of remuneration	Cash remuneration	Medium- to long-term incentive
Executive directors Non-executive directors	Nil	Implemented according to the Third Grant Proposal for Share Appreciation Right of Dongfeng Motor Group Company Limited
Independent non-executive directors	Administrative subsidy of RMB120,000 (after tax)	Nil
Supervisors	Nil	Nil
Independent supervisors	Administrative subsidy of RMB40,000 (after tax)	Nil

Note:
- Executive and non-executive directors received their remunerations in their capacity of employees of the Company instead of directors;
- Executive and non-executive directors took part in the Scheme of Stock Appreciation Rights in their capacity of directors;
- In accordance with relevant regulations of State-Owned Assets Supervision and Administration Commission, independent directors and independent supervisors were not entitled to the Scheme of Stock Appreciation Rights;
- In-house supervisors received their remunerations in their capacity of employees of the Company instead of supervisors;
- In-house supervisors took part in the Scheme of Stock Appreciation Rights in their capacity of employees instead of supervisors.

The above proposal is hereby submitted to the annual general meeting for discussion.

Board of directors of
Dongfeng Motor Group Company Limited

16 April 2008

Fifth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited

Proposal III — To Consider and Approve the Issue of Direct Debt Instruments

To the annual general meeting of the Company:

Pursuant to Resolution No. 3 — To Consider and Approve the Issue of Direct Debt Instruments, considered and passed at the fifth meeting of the second board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors has decided to submit the following proposals to the annual general meeting of the Company for consideration:

1. to approve the Company to apply to regulatory authorities (units or organizations) to issue direct debt instruments of not exceeding RMB 6 billion for the purpose of improving the debt structure and reducing the financial cost of the Company.

2. to approve and authorize the directors to decide in its discretion, based on the financial and operation positions of the Company, the issuance of direct debt instrument of not exceeding RMB 3 billion in 2008.

3. to approve and authorize any director of the Company to sign any documents and agreements relating to the issue of director financing instrument.

The above proposal is hereby submitted to the annual general meeting for discussion.

Board of directors of
Dongfeng Motor Group Company Limited

16 April 2008

Fifth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited

Proposal IV — To Consider and Approve the Issue of Allot share

To the annual general meeting of the Company:

Pursuant to Resolution No. 4 — To Consider and Approve the Issue of Allot Share, considered and passed at the fifth meeting of the second board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors has decided to submit the following proposals to the annual general meeting of the Company for consideration:

1. to approve and authorize the board of directors to separately or concurrently issue, allot and deal with additional Domestic Shares and/or additional H Shares not exceeding 20% of each of its existing Domestic Shares and H Shares of the Company in issue.

2. to approve and authorize the board of directors to increase the registered capital and make corresponding amendments to the Articles of the Association as it thinks fit so as to reflect the new capital structure of the Company upon the issue, allotment and dealing with the additional Domestic Shares and/or addition H Shares as mentioned above.

The above proposal is hereby submitted to the annual general meeting for discussion.

Board of directors of
Dongfeng Motor Group Company Limited

16 April 2008

Second Meeting of the Second Supervisory Committee of Dongfeng Motor Group Company Limited

Proposal

To the annual general meeting of the Company,

Pursuant to the Resolution considered and passed at the second meeting of the second supervisory committee of Dongfeng Motor Group Company Limited, the supervisory committee decides to submit the 2007 supervisory report for consideration and approval.

The above proposal is hereby submitted to the annual general meeting for discussion.

Supervisory Committee of
Dongfeng Motor Group Company Limited

16 April 2008

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Associates"	has the meaning ascribed thereto under the Listing Rules
"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 2006 and "Dongfeng Joint Venture Company" shall be construed accordingly. Please refer to page 158 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group or the Group
"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. Please refer to further page 158 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group or the Group It should be noted that the financial information in this annual report reflect the proportionate consolidated financial information of the Group. However the corresponding figures of the units of vehicles sold/produced in this annual report represent the actual units sold by the Group, not adjusted on a proportionate consolidation basis.
"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 losses
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time

Definitions

"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 prospectus 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. It should be noted that the Company and its subsidiaries only hold up to 50% of interest in the Dongfeng Joint Venture Companies.