東風汽車集團股份有限公司

DONGFENG MOTOR GROUP COMPANY LIMITED*

Stock Code: 489

*For reference only

Care for everybody Care for every vehicle

2008

Annual Report

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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 2008, the Dongfeng Motor Group commanded a market share of approximately 11.3% 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.


START
Engine

Chairman's Statement

Dear Shareholders,

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

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

Despite a number of unfavourable factors, the Dongfeng Motor Group recorded satisfactory sales. In 2008, the aggregate sales volume of vehicles of the Dongfeng Motor Group was approximately 1,058,000 units, representing an increase of approximately 11.4% over last year, which is approximately 4.7 percentage points higher than the industry average. Of the sales volume, passenger vehicles and commercial vehicles accounted for approximately 727,000 units and approximately 331,000 units, representing an increase of approximately 14.0% and approximately 6.1% over last year, which is approximately 6.7 percentage points and approximately 0.9 percentage points higher than the industry averages, respectively. Leveraging on its diversified product mix to expand in different market segments, the Dongfeng Motor Group successfully mitigated its exposure to the downturn of automobile industry in the PRC. In 2008, the Dongfeng Motor Group commanded a market share of approximately 11.3%, representing an increase of approximately 0.5 percentage points over 2007.

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

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

Looking forward, despite the uncertainties in the automobile industry in the PRC, we consider this just a temporary turbulence faced by the industry, which is still in its fast-growth phase in 2009. Furthermore, at the end of 2008 and the beginning of 2009, with the introduction of various stimulus policies and measures for the automobile industry by the PRC government, we are confident that the long term development of the industry would be promising. The Dongfeng Motor Group has made appropriate business arrangements for 2009. In spite of the difficult situation ahead, the Dongfeng Motor Group will continue to improve its operations and turn challenges into opportunities so as to achieve a general improvement in its operation and results.

Xu Ping
Chairman

Wuhan, the PRC
14 April 2009

Business Overview

I Major Businesses of the Dongfeng Motor Group

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

The Dongfeng Motor Group's commercial vehicle business, which was established in 1969, has

commanded a leading position in the PRC commercial vehicle industry for many years. Currently, the Dongfeng Motor Group's commercial vehicle business is principally operated by Dongfeng Motor Co., Ltd (the joint venture company between the Company and Nissan Motor Co. Ltd. (through Nissan (China) Investment Co. Ltd).

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

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

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

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

1. Commercial vehicles

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

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

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

2. Passenger vehicles

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

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

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

3. Other businesses

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

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

II Business Operations during the year under Review

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

As at 31 December 2008, the production and sales volumes for whole vehicles of the Dongfeng Motor Group were 1,060,937 units and 1,057,922 units respectively. According to statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor

Group had a market share of 11.3% in terms of sales volume of commercial and passenger vehicles made by domestic manufacturers in 2008. The following table sets out the production and sales volumes of commercial and passenger vehicles of the Dongfeng Motor Group as well as their respective market shares in terms of sales volume in 2008:

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

[1] *Calculated based on the statistics published by the China Association of Automobile Manufacturers*

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

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

[2] *Calculated based on the statistics published by the China Association of Automobile Manufacturers*

3. Sales revenue

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

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

III Sales and Service Networks

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

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

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

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

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

IV Production Capacity, Production Capacity Distribution and Future Expansion Plans

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

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

1. Production capacity of commercial vehicles

1.1 Whole vehicle:

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	394
Dongfeng Nissan Diesel Motor Co., Ltd	2
Dongfeng Special Commercial Vehicle Co., Ltd	6

1.2 Engines:

Company	Production capacity ('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	450
Dongfeng Peugeot Citroën Automobiles Company Ltd	300
Dongfeng Honda Automobile Co., Ltd	160

2.2. Engines:

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

According to the market forecast and the business plan of the Dongfeng Motor Group, the Dongfeng Motor Group is expected to expand its production capacity and improve its utility to meet the demand of its products. By 2009, the production capacity of whole vehicles is expected to reach approximately 1,378,000 units.

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

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

1. Introduction of new products and development of new models in order to cope with the increasingly competitive market. Maintain and expand the market share despite the slowdown of the growth of the domestic automobile market.

2. Upgrading technology and production capacity to meet the rapid growth of sales and the need of product development. On the other hand, investment in production capacity and recurring investment are reduced or deferred to minimise investment risks.

3. Strengthen its research and development capabilities to improve the core competitiveness and sustainability of the Dongfeng Motor Group.

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

VI Intellectual Property and Research and Development

1. New Products Development and Research and Development

(1) Commercial vehicles: The development of more than 70 models of the "Kingrun" series was completed on the D530 platform and was successfully launched in 2008. Dongfeng Automobile Co., Ltd completed the development and industrialisation of the third generation Dongfeng light trucks series based on the designs of Dongfeng Xiao Bawang (東風小霸王), Dongfeng Jin Ba (東風金霸) and Dongfeng Duolika (東風多利卡). Development of more than 300 models of 11 types of 3 series was carried out. The Dongfeng Motor Group is amongst one of the first batch to complete the upgrading and replacement of heavy, medium and light commercial vehicles which meet the national emission standard III of the PRC. The quality and technology of the products command a leading position in domestic market. Expansion of the Dongfeng Kinland/T-LIFT series gains significant market acceptability and significant shares in both domestic and overseas markets.

(2) Passenger vehicles: A number of new passenger vehicle models including the new Dongfeng Peugeot 307 hatchback, 207 sedan, Dongfeng Citroën New c-Elysèe, C-Quatre, Dongfeng Nissan New Teana and X-trail were introduced into the market and commenced production during 2008. The sales of New c-Elysèe exceeded 55,000 units in the year, proving another success of the joint venture's self-developed products.

(3) Alternative fuel green vehicles: The Dongfeng Motor Group continued to participate in two national projects under the "863 Program (High Technology Research and Development Program)" and completed the development of 15 hybrid electric urban buses complying with the National IV Emission Standard which were used in the Beijing Olympic Games.

The development of hybrid power MPV by Dongfeng Liuzhou Motor Co., Ltd was completed and published in the national product list in 2008. Significant progress has been made in the development of alternative fuel high power compressed natural gas ("CNG") and liquid natural gas ("LNG") engines, establishing two series of CNG and LNG vehicles.

2. Further enhancement of R&D capability

(1) Significant improvement in R&D capability

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

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

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

VII Performance of Social Responsibilities

1. Product quality and services

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

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

2. Energy conservation and environment protection

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

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

3. Production safety

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

4. Protection of statutory rights of the employees

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

VIII Business Prospects

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

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

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

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

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


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Management Discussion and Analysis

FINANCIAL RESULTS OVERVIEW

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

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

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

REVENUE

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

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

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

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

Despite the impact of the global financial crisis and the changes in the domestic marco-economic and policies and regulations of the PRC, the revenue from sales of whole passenger vehicles still recorded a substantial growth of approximately 18.0%. This is mainly due to the increase of approximately 14.0% in the total sales volume of whole passenger vehicles to 727,392 units from 638,013 units in the previous year, notably higher than the industry growth rate of approximately 7.3% for whole passenger vehicles. The market share in terms of sales volume of the Dongfeng Motor Group for the year increased to approximately 10.8% from approximately 10.1% in 2007. In order to cater for changes and demand of the market, meeting the market demand by its rich product lines, the Dongfeng Motor Group has successively launched new products, including models such as Dongfeng Nissan Qashqai, Dongfeng Nissan LIVINA C-GEAR, Dongfeng Nissan 2008 Sylphy, Dongfeng

Nissan New Teana, Dongfeng Nissan X-trail, Dongfeng Nissan Tiida, Dongfeng Peugeot 307 hatchback, Dongfeng Citroen C-Quatre and Dongfeng Citroen New c-Elysee. The sales of Dongfeng Honda SUV remained strong during the year. According to the latest data published by the China

Association of Automobile Manufacturers, the sales of SUVs grew the fastest amongst passenger vehicles, which attained a growth of approximately 25.3% over the same period last year and was more than 3.7 times faster than that growth of sedan. Sales volume of Dongfeng Honda New Generation CR-V, continuously ranking top of SUVs, exceeded 80,000 units for the year, a significant increase of over 34,000 units over last year, representing a growth of approximately 74.7%, which is much higher than the growth in the industry. The sales of Dongfeng Honda CIVIC also continued to be strong during the year.

During the year, the revenue from sales of commercial vehicles for the year was approximately RMB20,980 million, representing an increase of approximately RMB4,079 million or approximately 24.1% when compared with approximately RMB16,901 million for the previous year. Of which, the revenue from sales of whole commercial vehicles was approximately RMB18,002 million, representing an increase of approximately RMB3,246 million or approximately 22.0% when compared with approximately RMB14,756 million for the previous year. Benefited from the rapid growth of the national economies and the automobile industry, the higher growth rate in the commercial vehicles market for the first half of 2008 remained. However, stepping into the second half of the year, the sales of commercial vehicles of the Dongfeng Motor Group shrank rapidly due to the economic impact at home and aboard. Despite these unfavorable factors, the sales volume in whole commercial vehicles of the Dongfeng Motor Group increased from 311,513 units for the previous year to 330,530 units for the year, representing a growth of approximately 6.1%, which exceeded the growth rate of approximately 5.2% of the whole commercial vehicles industry by approximately 0.9 percentage points. The overall market shares of commercial vehicles of the Dongfeng Motor Group in terms of sales volume still recorded a slight increase from approximately 12.5% for the corresponding period last year to approximately 12.6% for the year. The Dongfeng Motor Group continued to improve and upgrade its commercial vehicles business. The sales of Dongfeng Kinland and Dongfeng T-LIFT heavy duty trucks series remained robust.

COST OF SALES AND GROSS PROFIT

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

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

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

OTHER INCOME

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

SELLING AND DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES, NET

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

STAFF COSTS

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

DEPRECIATION CHARGES

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

FINANCE COSTS

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

INCOME TAX

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

PROFIT FOR THE YEAR

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

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

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

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

LIQUIDITY AND SOURCES OF CAPITAL

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

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

During the year, net cash used in investing activities of the Group amounted to approximately RMB7,780 million. This principally represents (1) the purchase of property, plant and equipment of approximately RMB3,983 million for the expansion of production capacity and development of new products; and (2) the increase of approximately RMB3,549 million in pledged bank balances and time deposits and unpledged time deposits with an original maturity of three months or more.

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

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

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

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

Inventory turnover days amounted to 58 days, representing a slight increase from 56 days in 2007.

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

Profiles of Directors, Supervisors and Senior Management

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 11th National People's Congress and a representative of the 17th Communist Party Committee. Since October 2004, Mr. Xu has served as a director of the 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 59, 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 Board of Directors of the Company since October 2004.

Zhou Wenjie (周文杰), aged 56, 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. Since October 2004, he has served as a director of the Board of Directors of the Company.

Li Shaozhu (李紹燭), aged 48, 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. Since October 2004, he has served as a director of the Board of Directors of the company.

Fan Zhong (范仲), aged 55, 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. Since October 2004, he has served as a director of the Board of Directors of the Company.

NON-EXECUTIVE DIRECTORS

Tong Dongcheng (**童東城**), aged 52, 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. Since October 2004, he has served as a director of the Board of Directors of the Company.

Ouyang Jie (**歐陽潔**), aged 52, 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. Since October 2004, he has served as a director of the Board of Directors of the Company.

Liu Weidong (**劉衛東**), aged 42, is a Director of the Company. Mr. Liu is a senior engineer at researcher level. 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. Since October 2004, he has served as a director of the Board of Directors of the Company.

Zhu Fushou (**朱福壽**), aged 46, 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. Since October 2004, he has served as a director of the Board of Directors of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Shuyi (**孫樹義**), aged 68, 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 67, is an Independent Non-Executive Director of the Company. 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 69, 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 Dongfeng Motor Group Company Limited 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 44, 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 55, 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.

Profiles of Directors, Supervisors and Senior Management

Supervisors

Ye Huicheng (葉惠成), aged 58, 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 from 1997 to 2008. He also served as the Standing Committee Member of the Communist Party from 2001 to 2008 and the Chairman of the Labour Union of Dongfeng Motor Corporation since 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. Since October 2004, Mr. Ye has served as a member and Chairman of the Supervisory Committee of the Company for the first and second sessions.

Zhou Qiang (周強), aged 47, 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. Since August 2003, Mr. Zhou has served as a member of the Party Standing Committee 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. from July 2003 to September 2005. He is now the Head of Office Affairs of Dongfeng Motor Group Company Limited. Since October 2004, Mr. Zhou has served as a supervisor of the Supervisory Committee of the Company.

Ren Yong (任勇), aged 45, 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 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. Since October 2004, Mr. Liu has served as a supervisor of the Supervisory Committee of the Company.

Li Chunrong (李春榮), aged 44, 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. From 2006 to 2007, Mr. Li studied in Massachusetts Institute of Technology, the United States, and obtained a Master's degree in Business Administration. He has served as a Supervisor of the Company since October 2004.

Kang Li (康理), aged 45, 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. Since October 2004, Mr. Kang served as a supervisor of the Supervisory Committee of the Company.

Joint Company Secretaries

Hu Xindong (胡信東), aged 41, is Joint Company Secretary of the Company and the Head of Securities Affairs 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 50, 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 46, is the Company's qualified accountant. Mr. Chan 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 member 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. Qiao Yang.

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

The head of the Operation Management Department of the Company is Mr. Yang Shaojie.

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

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. Zhao Shuliang.

The head of the Securities Affairs 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.

Report of the Directors

The Board of Directors hereby present the report of the directors and its annual report for the year ended 31 December 2008 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. 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 the other shareholders of the above companies jointly manage branding, strategies, operations, marketing and other areas in accordance with the relevant joint venture agreements.

RESULTS

The Group's results for the year ended 31 December 2008 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 69 to 160 in this annual report.

DIVIDENDS

The Board of Directors recommends distributing a dividend of RMB0.045 per share for the year 2008, subject to consideration and approval at the annual general meeting to be held on 18 June 2009.

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2008, the Company's JCEs, in total, distributed aggregate dividends of approximately RMB2,202 million to the Company. Although the exact amounts of dividend distributions are not set each year, pursuant to each of the joint venture agreements, distributions are required to be paid out of the profit made by the relevant JCE (after payments of income tax) in accordance with the relevant PRC law as determined at the meetings of the Board of Directors of each JCE as being appropriate dividend distributions on the circumstances of each JCE. When determining dividend distributions, the Board of Directors of each JCE will offset losses of previous years and deduct from the profit made by the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under the PRC laws and regulations and company reserve (including but not limited to amounts allocated to cover the relevant JCE's working capital or to increase capital or expand production), employee bonus and welfare and company development. Pursuant to each of the joint venture agreements, distributions of profit will be made in proportion to the capital contributions paid by the relevant joint venture party and the Company respectively in accordance with the PRC laws.

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

FINANCIAL SUMMARY

A summary of the operating results, assets and liabilities of the Group for the last five years ended 31 December 2008 is set out on pages 161 to 162 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 28 to the audited financial statements.

INTEREST CAPITALISED

Details of the interest capitalised of the Group for the year ended 31 December 2008 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 2008 are set out in note 14 to the audited financial statements.

DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2008, 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 2008 are set out in note 27 to the audited financial statements and the consolidated statement of changes in equity on page 72, respectively.

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

The Board of Directors recommends allocation of 10% of total profit to the statutory surplus reserve and no allocation to the discretionary surplus reserve under the PRC laws and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 18 June 2009.

DONATIONS

The Group has made total donations of RMB12 million for the year ended 31 December 2008.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2008, the revenue attributable to the five largest customers accounted for no more than 30% of the Group's revenue for the year.

During the year ended 31 December 2008, 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 2008, details of the subsidiaries and JCEs as well as other companies in which the Company has direct equity interests are set out in notes 17, 18 and 19 respectively to the audited financial statements for the year.

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

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

SHARE CAPITAL

As at 31 December 2008, the aggregate share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 were Domestic Shares representing approximately 66.86% of the aggregate number of shares in issue, and 2,855,732,000 were H Shares representing approximately 33.14% of the aggregate number of shares in issue. During the year ended 31 December 2008, there is no change in the aggregate share capital of the Company.

STOCK APPRECIATION RIGHTS

The shareholders of the Company adopted a plan of stock appreciation rights, or SARs, for the senior management of the 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 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; and

(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 and the grant price was HK$4.09. 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; and

(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.

In respect of the first round of SARs, 16,699,735 SAR units became effective during the year, representing 30% of the total SAR units granted. During the year, 40,200 SAR units were exercised, representing 0.072% of the total SAR units granted. The SAR units granted in the second round had not become effective.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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	Class of Shares	Number of shares held	Percentage in the class of issued share capital (%)	Percentage in the total share capital (%)
Dongfeng Motor Corporation	Domestic shares	5,760,388,000(L)	100	66.86
UBS AG	H shares	428,237,953(L)	15.00	4.97
		5,001,759(S)	0.18	0.06
Morgan Stanley	H shares	344,011,275(L)	12.05	3.99
		306,000(S)	0.01	0.004
JP Morgan Chase & Co.	H shares	289,954,920(L)	10.15	3.37
		3,534,000(S)	0.12	0.04
		264,547,385(P)	9.26	3.07
Standard Chartered Holding Limited	H shares	242,282,000(L)	9.76	2.81
Platinum Investment Management Limited	H shares	200,978,570(L)	7.04	2.33
Matthews International Capital Management, LLC	H shares	170,432,000(L)	5.97	1.98
FIL Limited	H shares	145,580,000(L)	5.10	1.69
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 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
The Northern Trust Company (ALA)	H shares	245,793,903(P)	8.61	2.85

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 25 to 27 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 27 to 28 in this annual report.

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

As at 31 December 2008, none of the directors, supervisors or senior management of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), which were required to be entered in the register required to be kept under section 352 of the Securities and Futures Ordinance, or were required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2008, 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

None of Directors nor supervisors proposed to be re-elected at the forthcoming annual general meeting have entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Except for service contracts, no director or supervisor of the Company has a material interest, whether directly or indirectly, in any material contract to which the Company or any of its subsidiaries and JCEs was a party during the year ended 31 December 2008.

REMUNERATIONS OF DIRECTORS AND SUPERVISORS

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

FIVE HIGHEST-PAID INDIVIDUALS

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

EMPLOYEES

As at 31 December 2008, the Dongfeng Motor Group had a total of 92,783 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	57,310	61.7%
Engineering and technology	11,388	12.2%
Management	18,066	19.5%
Services	6,109	6.6%
Total	92,783	100.0%

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 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

Other than a contract of service with any director or any person engaged in the full-time employment of the Company, 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 2008.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Competition exists between the businesses of Dongfeng Motor Group and Dongfeng Motor Corporation and its subsidiaries. The Company's Executive Directors (Mr. Xu Ping, Mr. Liu Zhangmin, Mr. Zhou Wenjie, Mr. Li Shaozhu and Mr. Fan Zhong) devotes most of their time managing the day-to-day operations of the Company. The Company further confirmed that its management has not involved in daily operations of Dongfeng Motor Corporation and its subsidiaries which compete with the businesses of the Company during the year ended 31 December 2008.

Mr. Fan Zhong, an Executive Director of the Company, is the Chairman of Dongfeng Chaoyang Diesel Engine Corporation ("Chaoyang Diesel Engine"), which is engaged in the manufacture of diesel engines and competes with the business of Dongfeng Motor Co., Ltd. The Dongfeng Motor Group is capable of and has carried on its diesel engine manufacturing business independent of, and at arm's length from, the business of Chaoyang Diesel Engine.

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

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

COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company has received from Dongfeng Motor Corporation a written confirmation confirming that during the year ended 31 December 2008 it had complied with Non-competition Agreement signed with the Company.

To develop passenger car business with its own brand, Dongfeng Motor Corporation had issued a written notice to the Company in 2006 stating that Dongfeng Motor Corporation planned to develop "Dongfeng" brand passenger vehicles. The Company had replied in writing to confirm and was guaranteed the option to purchase, and the first refusal right to purchase such business and relevant assets at any time. In 2008, Dongfeng Motor Corporation commenced the trial manufacturing of self-branded passenger cars. It is expected that "Dongfeng" brand passenger vehicles will be launched to the market in 2009.

PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2008, the continuing connected transactions between the Dongfeng Motor Group and Dongfeng Motor Corporation and its associates (as defined under the Listing Rules), together with the annual caps exempted subject to the Listing Rules, were as follows:

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") in relation to the lease of: (i) three parcels of land in Xiangfan used as the Vehicle Testing Site (which cover an aggregate area of 1,892,684 square metres); (ii) four parcels of land for use by the Professional Equipment Plant of the Company (which cover an aggregate area of 114,447 square metres); (iii) nine parcels of land for use by the Power Equipment Plant of the Company (which cover an aggregate area of 112,924 square metres); and (iv) five parcels of land for use by Dongfeng (Shiyan) Special Purpose Commercial Vehicle Co., Ltd （東風（十堰）特種商用車有限公司） (which cover an aggregate area of 54,679 square metres) (collectively the "Leased Properties"). The term of the lease commenced on 1 January 2006 and will expire on 31 August 2052.

The annual rent payable under the Land Use Rights Leasing Agreement for the three years from 1 January 2006 to 31 December 2008 will be approximately RMB19.29 million payable every six months in arrears. The rents payable are determined on a fair basis and reflect market rates, and the independent valuer has confirmed that the rent payable is not higher than the prevailing market rates. The annual rent payable of the leased property will be reviewed every three years and the new amount of rent payable will not be higher than the then prevailing market rent as confirmed by an independent valuer.

The Dongfeng Motor Group may require Dongfeng Motor Corporation to renew the term of the lease by giving notice to it twelve months before the expiry of the lease. The Dongfeng Motor Group may, by giving six months' written notice, terminate the lease of all or some of the Leased Properties. If the lease of some of the lands is terminated, the rent payable by the Dongfeng Motor Group shall be reduced accordingly. According to the Land Use Rights Leasing Agreement, Dongfeng Motor Corporation cannot terminate the lease unilaterally without the Dongfeng Motor Group's consent unless the Dongfeng Motor Group has changed the use of the Leased Properties without the consent of Dongfeng Motor Corporation.

The Dongfeng Motor Group has agreed to use the Leased Properties within the scope of the rights granted to Dongfeng Motor Corporation by the PRC government. Should the Dongfeng Motor Group wish to modify the manner in which it uses some or all of the Leased Properties, the Dongfeng Motor Group may notify Dongfeng Motor Corporation. Dongfeng Motor Corporation shall determine within 30 days whether it agrees to such modification, and if so, seek the necessary regulatory approvals. Dongfeng Motor Corporation has agreed to pay land taxes, fees and other statutory charges relating to the Lease Properties.

During the year, the amount payable for land use rights leased by Dongfeng Motor Group is RMB19.29 million.

Dongfeng Motor Corporation is a substantial shareholder of the Company. Accordingly, the Land Use Rights Leasing Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

2. Provision of Ancillary Services

On 16 April 2008, the Company entered into agreements for the provision of ancillary services with Dongfeng Motor Corporation, pursuant to which, effective from 1 January 2008, Dongfeng Motor Corporation has agreed, or procure other members of the Parent Group, to provide the following services to the Dongfeng Motor Group:

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

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

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

The above Ancillary Services Agreements each have a term of three years commencing on 1 January 2008.

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

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

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

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

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

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

As approved in the board meeting and disclosed in the announcement on 16 April 2008, the annual cap for the connected transaction of water supply is approximately RMB80 million[1] for 2008. The Group paid approximately RMB50 millions[1] of water supply fees to Dongfeng Motor Corporation for the year ended 31 December 2008.

As approved in the board meeting and disclosed in the announcement on 16 April 2008, the annual cap for the connected transaction of steam supply is approximately RMB120 million[1] for 2008. The Group paid approximately RMB77 million[1] of steam supply fee to Dongfeng Motor Corporation for the year ended 31 December 2008.

As approved in the board meeting and disclosed in the announcement on 16 April 2008, the annual cap for the connected transaction of electricity supply is approximately RMB857 million[1] for 2008. The Group paid approximately RMB739 million[1] of electricity supply fee to Dongfeng Motor Corporation for the year ended 31 December 2008.

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

1 These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

On 16 April 2008, Dongfeng Chaoyang Diesel Co., Ltd. ("Chaoyang Diesel") and the Company entered into the Mutual Supply Agreement ("Mutual Supply Agreement") effective from 1 January 2008 and with a term of three years, pursuant to which Chaoyang Diesel will supply diesel engines to the Dongfeng Motor Group and Dongfeng Motor Group will supply other auto parts to Chaoyang Diesel.

According to the Mutual Supply Agreement, Chaoyang Diesel will not (i) provide diesel engines to Dongfeng Motor Group with terms less favourable than those provided to third parties; or (ii) purchase auto parts from Dongfeng Motor Group on conditions more favourable than those Dongfeng Motor Group offers to third parties or third parties offer to Chaoyang Diesel.

Under the Mutual Supply Agreement, the terms and conditions offered by an independent third party being equal, the parties shall give priority in sourcing the auto parts from each other. Subject to the above and if the auto parts supplied by Chaoyang Diesel cannot satisfy the needs of the Dongfeng Motor Group in any respect, the Dongfeng Motor Group may obtain such auto parts from third parties.

Moreover, under the Mutual Supply Agreement the Dongfeng Motor Group is entitled to provide the relevant products to third parties provided that it will not affect the provision of auto parts to Chaoyang Diesel under the Mutual Supply Agreement. Chaoyang Diesel will give priority in the purchase of auto parts from the Dongfeng Motor Group.

The purchases of diesel engines by the Dongfeng Motor Group will be made on a batch basis based on the actual needs of the Dongfeng Motor Group. The consideration of the diesel engines will be satisfied in cash by internal resources of the Dongfeng Motor Group and no payment will be made on a deferred basis.

As approved in the board meeting and disclosed in the announcement on 16 April 2008, for the year ended 31 December 2008, (i) the annual cap for the connected transaction of Chaoyang Diesel purchasing auto parts from the Group is approximately RMB70 million[1]. Chaoyang Diesel actually paid RMB22 million[1] to the Dongfeng Motor Group for purchasing auto parts; (ii) the annual cap for the connected transaction of Chaoyang Diesel supplying diesel engines to Dongfeng Motor Group is approximately RMB750 million[1]. The Dongfeng Motor Group actually paid Chaoyang Diesel RMB536 million[1] for purchasing diesel engines.

Dongfeng Motor Corporation is a substantial shareholder of the Company and Chaoyang Diesel is a subsidiary of Dongfeng Motor Corporation. Therefore, Chaoyang Diesel is regarded as a connected person of the Company under the Listing Rules and the Mutual Supply Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

1 These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

4. Trademarks Licence Agreement

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

5. Social Insurance Funds

For the year ended 31 December 2008, 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 2008, the continuing connected transactions relating to the JCEs include:

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

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

During the year ended 31 December 2008, 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 joint venture partners of the Company in the manner described below and such purchases will continue for the duration of the joint venture term.

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

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

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

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

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

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

For the year ended 31 December 2008, the total consideration paid by the JCEs and their subsidiaries and JCEs in respect of purchases of auto parts and production facilities from the joint venture partners (including their subsidiaries and associates) was approximately RMB19,054 million[1].

[1] These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

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

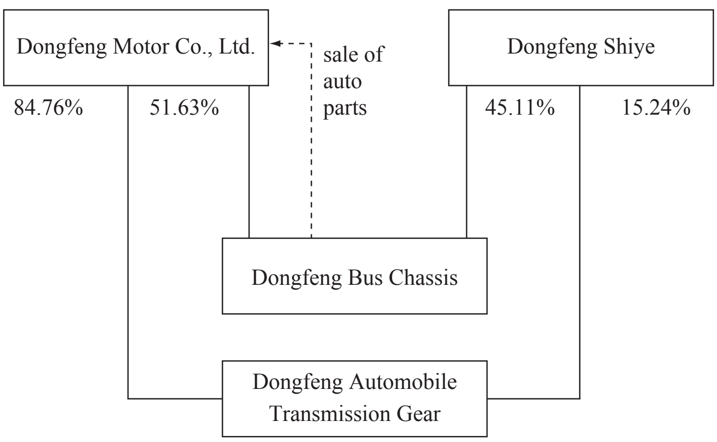
Pursuant to the contractual provisions of the relevant joint venture agreement, the negotiations for the sale of engines and other auto parts between Dongfeng Honda Engine and Guangzhou Honda Automobile Co., Ltd will always be conducted by the JCE's officers nominated by the Company on behalf of Dongfeng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

The sale of Honda passenger vehicle engines and other related parts by Dongfeng Honda Engine to Guangzhou Honda Automobile Co., Ltd will continue to have effect until Dongfeng Honda Engine and Guangzhou Honda Automobile Co., Ltd are merged into a single entity, and may only be otherwise terminated in circumstances permitted under PRC law.

For the year ended 31 December 2008, Guangzhou Honda Automobile Co., Ltd continued to purchase from Dongfeng Honda Engine engines and auto parts needed by it.

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

The equity interests in Dongfeng Bus Chassis Co., Ltd ("Dongfeng Bus Chassis") are owned as to 51.63% by Dongfeng Motor Co., Ltd, as to 45.11% by Dongfeng Shiye Co., Ltd（東風實業有限公司）("Dongfeng Shiye"), and as to 3.26% by Paien Co., Ltd (派恩有限公司). Dongfeng Shiye also owns a 15.24% equity interest in another subsidiary of Dongfeng Motor Co., Ltd — Dongfeng Automobile Transmission Gear Co., Ltd（東風汽車變速箱有限公司）(in which Dongfeng Motor Co., Ltd has an equity interest of 84.76%).



Dongfeng Shiye is a substantial shareholder in a subsidiary of Dongfeng Motor Co., Ltd (Dongfeng Automobile Transmission Gear Co., Ltd) and Dongfeng Shiye owns 45.11% of the equity interests in Dongfeng Bus Chassis. Dongfeng Bus Chassis is therefore a connected person of the Company under Rule 14A.11(4) of the Listing Rules and the sales of auto parts by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd constitute continuing connected transactions.

Dongfeng Shiye holds no equity interest in either the Company or Dongfeng Motor Corporation, and neither the Company nor Dongfeng Motor Corporation holds any equity interest in Dongfeng Shiye.

Dongfeng Bus Chassis Co., Ltd manufactures bus chasses and sells them to Dongfeng Motor Co., Ltd as well as to external customers. Sales of bus chasses manufactured by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd are carried out in the ordinary course of business of both companies, and are made on a batch basis and without subject to a framework agreement in accordance with the requirements of Dongfeng Motor Co., Ltd.

The consideration of bus chasses is determined in accordance with normal market and commercial terms on a batch basis.

The Dongfeng Motor Co., Ltd's bus chassis purchases are a fundamental part of the ordinary course of operations of the commercial vehicle manufacturing businesses of Dongfeng Motor Co., Ltd. Since Dongfeng Bus Chassis is a subsidiary of Dongfeng Motor Co., Ltd, all negotiations between the parties are controlled by Dongfeng Motor Co., Ltd. As such, Dongfeng Bus Chassis is not in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest. Further, with respect to transactions undertaken by Dongfeng Motor Co., Ltd, including the sales of auto parts by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd, internal control mechanisms and internal reporting lines have been implemented to enable material transactions, based on the monetary value of each transaction, to be reported to its board. Operating procedures are adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd with a view to require the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to report transactions that would have implications under the Listing Rules to the relevant department of Dongfeng Motor Co., Ltd which in turn would discuss with the Company and its joint venture partner in relation to the steps necessary for compliance with the Listing Rules. As such, these reporting lines would enable Dongfeng Motor Co., Ltd and, hence the Company, to consent to the sales of auto parts by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd.

For the year ended 31 December 2008, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis Co., Ltd for purchases of auto parts was approximately RMB189 million[1].

[1] These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

The JCEs make periodic payments of royalties to the foreign joint venture partners pursuant to the technology licence and technical assistance agreements entered into with the foreign joint venture partners of the Company in respect of existing vehicle models manufactured by the JCEs. Technology licence and technical assistance between the JCEs and their subsidiaries on the one hand and their joint venture partners on the other hand constitutes a continuing connected transaction.

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

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

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

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

For the year ended 31 December 2008, the total consideration paid by the JCEs in respect of purchases of technology licences and technical assistance stated above was RMB1,865 million[1].

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.

1 These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

Pursuant to the agreement between the Company and Yulon Motor Co., Ltd, Guangzhou Aeolus Automobile Co., Ltd ("Guangzhou Aeolus") and certain other Jetford Inc. affiliated companies, including but not limited to Aeolus Automobile Co., Ltd ("Aeolus Motor") and Dongfeng Yulong Motor Sales Co., Ltd ("Dongfeng Yulong Motor Sales") continued to provide value-added processing services relating to automobiles to Dongfeng Motor Co., Ltd and its subsidiaries for the year ended 31 December 2008. The provision of these services are entered into in the performance of, and the consideration for the services is determined by, pre-existing contractual obligations between the Company and Yulon Motor Co., Ltd as part of a commercial arrangement to facilitate the formation of Dongfeng Motor Co., Ltd., whereby the Company, Nissan Motor Co., Ltd, Yulon Nissan Motor Co., Ltd agreed that the various joint venture companies in which Yulon Nissan Motor Co., Ltd has equity interests (including Guangzhou Aeolus Automobile Co., Ltd) would, starting from 1 January 2004 and for the duration of the joint venture term of Dongfeng Motor Co., Ltd, provide to Dongfeng Motor Co., Ltd certain value added services in return for payment of such service fees as would enable an indirect subsidiary of Yulon Nissan Motor Co., Ltd to receive, through whose direct and indirect equity interests in these joint venture companies, a variable annual amount (adjusted each year in accordance with the value of services rendered by Yulon Nissan Motor Co., Ltd, its subsidiaries and these joint venture companies in the course of the year).

Since Guangzhou Aeolus Automobile Co., Ltd and the other Jetford Inc. affiliated companies are subsidiaries of Dongfeng Motor Co., Ltd, all negotiations between the parties will be controlled by Dongfeng Motor Co., Ltd. As such, Guangzhou Aeolus Automobile Co., Ltd and the other Jetford Inc. affiliated companies will not be in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest. Further, with respect to transactions undertaken by Dongfeng Motor Co., Ltd and its subsidiaries, including the Aeolus Services, internal control mechanisms and internal reporting lines have been implemented to enable material transactions, based on the monetary value of each transaction, to be reported to the board of Dongfeng Motor Co., Ltd. Operating procedures are adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd with a view to require the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to report certain transactions that would have implications under the Listing Rules to the relevant department of Dongfeng Motor Co., Ltd which in turn would discuss with the Company and its joint venture partner in relation to the steps necessary for compliance with the Listing Rules. As such, these reporting lines would enable Dongfeng Motor Co., Ltd and, hence the Company, to consent to the Aeolus Services.

The equity interests in Guangzhou Aeolus are owned as to 60% by Dongfeng Motor Co., Ltd and as to 40% by Jetford Inc. The equity interests in Aeolus Motor are owned as to 45% by Dongfeng Motor Co., Ltd, 30% by Guangzhou Aeolus and 25% by Jetford Inc. The equity interests in Dongfeng Yulong Motor Sales are owned as to 51% by Dongfeng Automobile Co., Ltd and 49% by Jetford Inc.

Jetford Inc. is a substantial shareholder in each of the following subsidiary of Dongfeng Motor Co., Ltd, namely Guangzhou Aeolus, Aeolus Motor and Dongfeng Yulong Motor Sales. Each of Guangzhou Aeolus, Aeolus Motor and Dongfeng Yulong Motor Sales are therefore connected persons of the Company under Rule 14A.11(4) of the Listing Rules and the provision of value-added processing services by Guangzhou Aeolus, Aeolus Motor and Dongfeng Yulong Motor Sales to Dongfeng Motor., Ltd constitutes a continuing connected transaction.

Dongfeng Motor Co., Ltd paid value-added processing fees to Guangzhou Aeolus, Aeolus Motor and Dongfeng Yulong Motor Sales.

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

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

Pursuant to the contractual provisions of the joint venture agreements, the negotiations for the purchase of the auto parts between Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd or Dongfeng Honda Engine Co., Ltd will always be conducted by the JCE's officers nominated by the Company on the one hand and the JCE officers nominated by the relevant joint venture partner on the other hand. The Company and its joint venture partners are independent of each other for this purpose, no joint venture partner is therefore in a position to influence the Company to agree to terms which may not be in the JCEs (and therefore the Company's) interest. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. Also, in relation to the sale of auto parts by Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Motor Co., Ltd, pursuant to the contractual provisions of the relevant joint venture agreements, the negotiations in relation to such sales will be conducted out by the JCE officers nominated by the relevant joint venture partners. Since the joint venture partners in Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Motor Co., Ltd are independent from each other, they will not be in a position to influence the other JCE to agree to terms which may not be in that JCE's (and therefore the Company's) interest. As such, such negotiations are carried out on arm's length commercial terms and the consideration for purchase of auto parts and raw materials are based on normal market and commercial terms as agreed on batch basis and without subject to a framework agreement.

Honda Motor Co., Ltd is a substantial shareholder of each of Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Honda Engine Co., Ltd. At the same time, Honda Motor Co., Ltd holds more than 30% of equity interests of Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Honda Engine Co., Ltd respectively. Each of Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Honda Engine Co., Ltd are therefore connected persons of the Company under Rule 14A.11(4) of the Listing Rules. Therefore, the purchase of auto parts by Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd from Dongfeng Honda Auto Parts Co., Ltd and the purchase of raw materials by Dongfeng Hongda Auto Parts Co., Ltd from the auto parts manufacturing businesses of Dongfeng Motor Co., Ltd and its subsidiaries constitute continuing connected transactions.

For the year ended 31 December 2008, 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 RMB1,044 million[1].

1 These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

Pursuant to the land lease contract entered into between Dongfeng Motor Corporation and Nissan Motor Co., Ltd (the "Nissan JV Lease"), Dongfeng Motor Co., Ltd leased land from Dongfeng Motor Corporation for a term equivalent to the term of Dongfeng Motor Co., Ltd, from 2003 to 2053. As Dongfeng Motor Corporation is a substantial shareholder of the Company, the Nissan JV Lease constitutes a continuing connected transaction.

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

The standard rent (the "Rent") for each parcel of the leased land amounts to an aggregate annual rent of RMB156,644,300. During the first year of the lease, which extended from the lease commencement date to the end of that calendar year, the rent payable by Dongfeng Motor Co., Ltd was 10% of the Rent prorated to the actual days in that first year. From the second, third and fourth years of the lease, only 50%, 70%, and 90% of the Rent is payable by Dongfeng Motor Co., Ltd respectively. The full Rent is payable for the fifth year. From the sixth anniversary of the lease commencement date (i.e., 2009) and every three years thereafter, the Rent payable under the Nissan JV Lease may be adjusted as per the guidelines set out in the Nissan JV Lease, The adjusted rent shall not be less than 85% of the Rent for the immediately preceding period and shall not exceed 115% of the rent for the immediately preceding three year period. Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation may meet and discuss in good faith adjustments to the Rent during the six months prior to the expiration of the sixth anniversary of the lease commencement date and any subsequent three year period. If the Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation cannot agree on the fair market value of the leased land, an independent appraiser shall be jointly appointed by Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation to determine the fair market rate of the leased land, with such appraised value then to serve as the basis for the parties' discussions concerning the adjusted rent.

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

For the year ended 31 December 2008, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation was RMB145 million[1].

[1] These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd, which are both based in Hong Kong and engaged primarily in the import and export of Honda products, are both subsidiaries of Honda Motor Co., Ltd and the sales of auto parts by Dongfeng Honda Auto Parts Co., Ltd to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd constitute continuing connected transactions. One of the primary reasons for the formation of Dongfeng Honda Auto Parts Co., Ltd was for the manufacture of auto parts both for sales within the PRC and for export to the Honda group of companies overseas, with the corresponding benefits to such companies due to the economies of scale. Consequently, Dongfeng Honda Auto Parts Co., Ltd regularly sells auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd. Such auto parts are then exported by Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd to Honda Motor Co., Ltd. Dongfeng Honda Auto Parts Co., Ltd continued to sell auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd for the year ended 31 December 2008.

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

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

The principal business of Dongfeng Bus Chassis Co., Ltd ("Dongfeng Bus Chassis") 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 regularly purchases auto parts from Dongfeng Motor Co., Ltd and its subsidiaries.

To ensure that Dongfeng Bus Chassis can purchase auto parts at the most favourable price, Dongfeng Bus Chassis selects supplier of each batch of auto parts through a tender. During the tendering process, Dongfeng Motor Co., Ltd and its subsidiaries do not have any privileges over other third party suppliers.

Dongfeng Bus Chassis' need to purchase auto parts depends on expected demand for its products, which fluctuates frequently and is difficult to predict with any degree of accuracy over a long period of time. In the interests of efficient inventory planning, auto parts manufacturers like Dongfeng Bus Chassis usually enter into auto parts purchase contracts on a batch basis depending on expected short term demand for auto parts manufactured by it and without subject to a framework agreement.

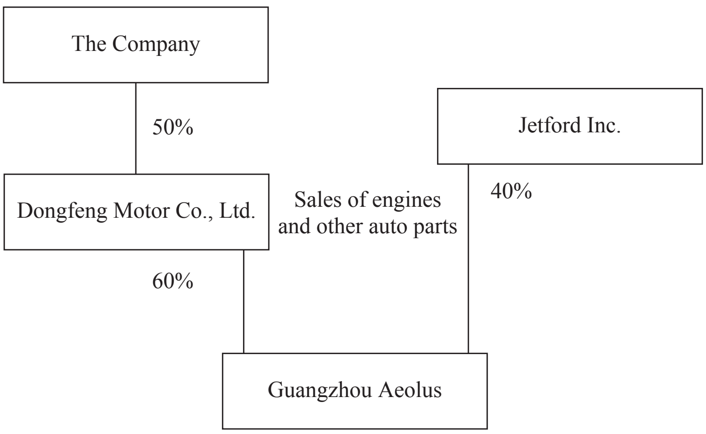
Since Dongfeng Bus Chassis is a subsidiary of Dongfeng Motor Co., Ltd, all negotiations between the parties are controlled by Dongfeng Motor Co., Ltd. As such, Dongfeng Bus Chassis is not in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest.

Amongst these purchases, transactions entered into with Dongfeng Motor Co., Ltd and the certain subsidiaries of Dongfeng Motor Co., Ltd (being Dana Axle Co., Ltd（東風德納車橋有限公司）, Dongfeng Motor Wheel Rim Co., Ltd（東風汽車車輪有限公司）, Dongfeng Motor Propeller Shaft Co., Ltd（東風汽車傳動軸有限公司）, Dongfeng Automobile Co., Ltd（東風汽車股份有限公司）and Dongfeng Automobile Suspension Co., Ltd（東風汽車懸架彈簧有限公司） constitute continuing connected transactions under Listing Rules.

For the year ended 31 December 2008, the total consideration paid by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd and its subsidiaries listed above for purchases of auto parts was RMB482 million[1].

[1] These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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



40% of the equity interests in Guangzhou Aeolus (a 60% subsidiary of Dongfeng Motor Co., Ltd) is owned by Jetford Inc. Jetford Inc. is therefore a connected person of the Company and the sales of engines and other auto parts by Jetford Inc. to Dongfeng Motor Co., Ltd constitute continuing connected transactions.

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 "Jetford Purchases"). The auto parts and engines purchased from Jetford Inc. are tailor-made for Dongfeng Motor Co., Ltd with unique technologies 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.

These purchases are made by Dongfeng Motor Co., Ltd pursuant to the production and sales plan of Dongfeng Motor Co., Ltd and the price quoted by Jetford Inc. on a batch basis from time to time. The Company will continue to purchase from Jetford Inc. on a batch basis. No fixed time period has been proposed in respect of the Jetford Purchases.

Since Guangzhou Aeolus Automobile Co., Ltd is a subsidiary of Dongfeng Motor Co., Ltd, all negotiations between the parties are controlled by Dongfeng Motor Co., Ltd. As such, Guangzhou Aeolus Automobile Co., Ltd is not in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest. Further, with respect to transactions undertaken by Dongfeng Motor Co., Ltd, including the Jetford Purchases, internal control mechanisms and internal reporting lines have been implemented to enable material transactions, based on the monetary value of each transaction, to be reported to its board. Operating procedures have been adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd with a view to require the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to report transactions that would have implications under the Listing Rules to the relevant department of Dongfeng Motor Co., Ltd which in turn would discuss with the Company and its joint venture partner in relation to the steps necessary for compliance with the Listing Rules. As such, these reporting lines would enable Dongfeng Motor Co., Ltd and, hence, the Company, to consent to the Jetford Purchases.

For the year ended 31 December 2008, the total consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. was RMB22 million[1].

The Company and the Stock Exchange has agreed that the abovementioned transactions will comply with the annual reporting requirements under Rule 14A.45 of the Listing Rules, and the Company will only disclose annual total amounts of transactions pursuant to waivers stated in paragraphs (i), (iv), (vi) (the disclosure of the net annual total amount of transactions between Dongfeng Honda Auto Parts Co., Ltd. and other JCEs) and (ix). It was due to the fact that disclosure of consideration of each transaction of each jointly controlled entity may constitute a disclosure of commercial sensitive information of the business under common control and is not in the interests of the Company nor the JCEs.

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

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

[1] These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

7. 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 shall constitute continuing connected transactions.

As of 31 December 2008, the total amount deposited by Dongfeng Motor Corporation and its subsidiaries with Dongfeng Motor Finance Co., Ltd was RMB2 million[1]. Dongfeng Motor Finance Co., Ltd granted loans of approximately RMB32 million[1] to Dongfeng Motor Corporation and its subsidiaries.

[1] These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

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

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

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

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

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

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

For the year ended 31 December 2008, the total consideration paid by Dongfeng Motor Group to Dongfeng Hongtai for purchases of vehicle and auto parts from Dongfeng Hongtai was RMB411 million[1] and the total consideration paid by Dongfeng Hongtai to Dongfeng Motor Group for purchases of vehicle and auto parts from Dongfeng Motor Group was RMB236 million[1].

1 These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.

The independent non-executive directors of the Company confirmed that all continuing connected transactions to which the Dongfeng Motor Group was a party for the year ended 31 December 2008:

(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 those available to or, as appropriate, from independent third parties, if there were not enough comparable transactions to determine whether such transactions were made on normal commercial terms;

(3) were conducted in accordance with the terms of the agreements governing them and the terms of the transactions were 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 its connected persons which are subject to annual caps have not exceeded their respective annual cap.

Subject to applicable waivers granted by the Stock Exchange which are otherwise disclosed in this Annual Report, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

(1) the transactions have been approved by the Board of Directors;

(2) the transactions involving provision of goods or services provided by the Dongfeng Motor Group were conducted in accordance with the pricing policies of the Dongfeng Motor Group;

(3) the transactions were 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 its connected persons which are subject to annual caps have not exceeded their respective annual cap.

MATERIAL LEGAL PROCEEDINGS

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

MODEL CODE

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

CORPORATE GOVERNANCE

The Company 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 58 to 65 in this annual report.

CLOSURE OF REGISTER OF MEMBERS

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

ACCOUNTING PRINCIPLES

The principal accounting policies used by the Company in the preparation of the financial statements for the year ended 31 December 2008 are consistent with those used in the audited annual financial statements for the year ended 31 December 2007, except that the Group has adopted the new and revised International Financial Reporting Standards 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 the financial statements of the Group. They did however give rise to additional disclosures. Please refer to Note 2.2 to the audited financial statements for the details.

REVIEW OF THE ACCOUNTS

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

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors respectively for the year ended 31 December 2008. 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 2009, and authorise the directors to fix their remunerations.

By Order of the Board of Directors

Xu Ping
Chairman

Wuhan, the PRC
14 April 2009

Report of the Supervisory Committee

Dear Shareholders,

In 2008, 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.

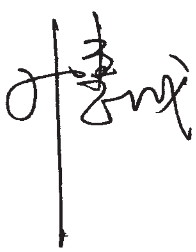
The Supervisory Committee is of the opinion that the decision-making process of the Company is in compliance with the Company's Articles of Association and relevant norms. The directors and the senior management of the Company performed their fiduciary duties and worked diligently and truthfully. And 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 2008 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 2008 to its satisfaction. Facing the difficulty and uncertainty of the macro economy and auto industry of 2009, 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
14 April 2009

Corporate Governance Report

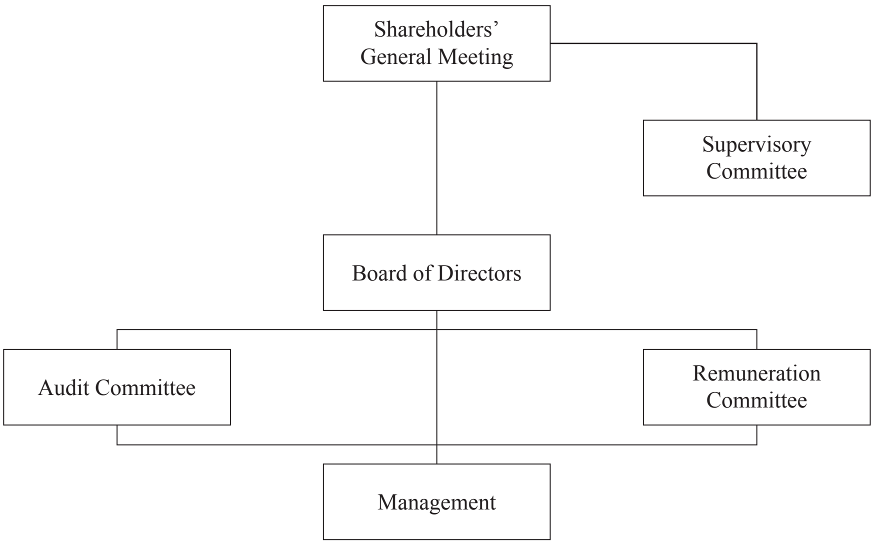
1. OVERVIEW OF CORPORATE GOVERNANCE

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 fulfil 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. The Company was ranked the seventh of the "Triple A Corporate Governance Awards 2008" by the Asset Magazine. The performance of the audit committee and the remuneration committee was ranked the second and the fourth respectively.

2. STRUCTURE OF CORPORATE GOVERNANCE

The Company's corporate governance is structured with the shareholders' general meetings, the Board of Directors and special committees, 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 exercise 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 20 June 2008 to consider and approve matters in relation to the 2007 Annual Report.

ii. Substantial Shareholder

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

Information on shareholdings of the substantial shareholders (based on their shareholdings) during the reporting period is set out on page 34 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.

The term of office of the First Session of the Board of Directors of the Company expired on 9 October 2007, and the election of the Second Session of the Board of Directors was held 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 35 of this annual report.

Functions of the Board of Directors

Under the Articles of Association, the Board has the following responsibilities: to decide the Company's operation plans and investment plans; to set up the Company's annual financial budgets, final accounts plans; to set up the Company's profit distribution plans and plans to offset losses; to structure the Company's internal management and other functions granted by the shareholders meeting and the Articles of Association. The management is responsible for the day to day management of the Company.

The Board is responsible for preparing the financial statements for each financial year to give a true and fair view of the Company's financial position, its results and cash flow for the relevant period. In preparing the financial statements, the Board has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgments and estimates, and has prepared the financial statements on a going concern basis.

Independence of Directors

The independent non-executive directors of the Company comprise Sun Shuyi, Ng Lin-fung and Yang Xianzu. Among which, Sun Shuyi possesses the qualifications of Certified Public Accountant in the PRC and senior engineer. As at the date of this annual report, in accordance with Rule 3.13 of the Hong Kong Listing Rules, the Company has received the annual confirmation from each of the independent non-executive directors in respect of his independence. The Company considers they remain independent.

Each of the independent directors can discharge his duties with good faith, integrity and diligence according to the requirements of the laws and regulations. The independent directors participate in the discussion and decision on the material issues of the board of directors and the specific Board committees and express opinions on the regulated operations of the Company based on their expertise and experience. They shall duly review and express their view on the independence and fairness of the connected transactions as well as the fund transfers with the connected parties. They shall act independently, and shall not be influenced by the substantial shareholders, de facto controller, or other stakeholders or individuals of the Company. The independent directors shall secure the interests of the Company as a whole and safeguard the legal interests of all the shareholders so as to actively contribute to the health development of the Company.

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

Induction Programmes for Directors

In 2008, the Company has dispatched the "Explanations and Guidelines for information disclosure requirements of Stock Exchange" and "Highlights of revised Listing Rules" to all directors, with a view to familiarising them with the most updated rules and regulatory provisions and their continuing obligations of being a director of a listing company. In 2008, the Company Secretariat prepared 21 issues of newsletters for directors and supervisors, providing them with the latest market news and the Company's information. In 2008, 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, Li Shaozhu, and two independent non-executive directors, Yang Xianzu and Ng Lin-fung. 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. Yang Xianzu is the chairman of Remuneration Committee.

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. 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.

Securities Transactions by Directors and Supervisors

The Company has not adopted a code of conduct less strict than the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 to the Listing Rules. After specific enquiry of all directors and supervisors by the Company, all directors and supervisors have confirmed that they have fully complied with the Model Code throughout the year of 2008.

ii. Board Meeting

Six board meetings ("Board Meetings") were held by the Company in 2008 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 formulate directors' remuneration proposals; and
- to re-appoint the international auditors and domestic auditors.

Effective discussions and prompt and prudent decisions could be made in the Board Meetings. During the year, details of each director attending the Board Meetings are as follows:

Members of the Board	Personal Attendance/ Number of Meetings	Attendance Rate	Remarks
Executive Director			*All directors not present in person have appointed other directors to attend and vote on their behalf*
Xu Ping	6/6	100%	
Liu Zhangmin	5/6	83%	
Zhou Wenjie	4/6	67%	
Li Shaozhu	6/6	100%	
Fan Zhong	6/6	100%	
Non-executive Directors			
Tong Dongcheng	6/6	100%	
Ouyang Jie	6/6	100%	
Liu Weidong	6/6	100%	
Zhu Fushou	6/6	100%	
Independent Non-executive Directors			
Sun Shuyi	6/6	100%	
Ng Lin-fung	6/6	100%	
Yang Xianzu	6/6	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, 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 the committees, so that each committee shall perform their functions effectively. The Remuneration Committee comprises one executive director, and two independent non-executive directors. The Audit Committee comprises one non-executive director and two independent non-executive directors.

The Audit Committee and the Remuneration Committee conducted works according to the Practice Code of Audit Committee and Practice Code of Remuneration Committee, respectively. In 2008, the Audit Committee has held two meetings while the Remuneration Committee has held one meeting.

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

Name	Position	Audit Committee	Remuneration Committee
Li Shaozhu	Executive Director		1/1
Ouyang Jie	Non-executive Director	2/2	
Sun Shuyi	Independent Non-executive Director	2/2	
Ng Lin-fung	Independent Non-executive Director	2/2	1/1
Yang Xianzu	Independent Non-executive Director		1/1

(3) Internal Control Mechanisms

i. *Supervisors and Supervisory Committee*

In 2008, the Supervisory Committee has supervised the Company's financial matters and the legality and compliance of rules and regulations by the directors and senior management during their performance of duty, and two Supervisory Committee meetings were held. Members of the Supervisory Committee have attended all Board Meetings in person or by appointing other supervisors to attend on their behalf and diligently performed their supervisory duties.

ii. *Internal Controls*

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

During the year, the Board of Directors thoroughly reviewed the effectiveness of the Dongfeng Motor Group's internal control system for 2008 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. The review covered all material controls, including financial, operational and compliance controls and risk management functions. 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 Dongfeng Motor Group has continuously maintained a comprehensive internal control system covering the areas of corporate governance, operation, investment, finance, administration and personnel management, and such internal control system is effective.

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

As at 31 December 2008, the Company has appointed Ernst & Young and Ernst & Young Hua Ming as its international and domestic auditors, respectively. The audit fee of the Company for 2008 was RMB10.0 million, and the fees paid for their non-audit services for 2008 amounted to RMB2.6 million.

The Audit Committee has discussed and assessed the professionalism of Ernst & Young and Ernst & Young Hua Ming, its performance of audit work for 2008 and the proposed fees for 2009. The Audit Committee proposed to re-appoint Ernst & Young and Ernst & Young Hua Ming as the Company's external auditors and the proposal has been approved by the Board of Directors. The proposal to reappoint Ernst & Young and Ernst & Young Hua Ming as the international and domestic auditors, respectively, of the Company as at 31 December 2009 and authorise the Board of Directors to determine their remunerations will be submitted to the 2008 annual general meeting for shareholders' consideration and approval.

(4) The Management

The Company has clearly defined the respective responsibilities of the Chairman and the Chief Executive Officer and the roles and division of work between the Board of Directors and the management, details of which are set out 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 Chief Executive Officer of the Company is Liu Zhangmin. The Chairman focuses on the Dongfeng Motor Group's development strategies and issues of the Board of Directors while the Chief Executive Officer is responsible for operation and management activities and developments of the Dongfeng Motor Group.

(5) Information Disclosure

i. Information Disclosure

The Company recognises the importance of performing its statutory obligation of disclosing information and strictly complies with the information disclosure regulations of The Stock Exchange of Hong Kong Limited. 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 equal and sufficient access to all information regarding the Company.

During the period under review, the Company published 14 announcements in accordance with the Listing Rules. The Company published its announcements both on the websites of the Stock Exchange and the Company. For details, please visit the websites www.hkex.com.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 or irregularly publish information of the Company and the industry through our company website, so as to timely and clearly keep investors informed of the latest development of the Company, and enhance the transparency of the Company.

During the year, the Company has maintained 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. The Company has organised 6 road shows and conferences and over 60 receptions of routine visits by the investors and analysts, and telephone conferences, under which the Company has held meetings and conferences with more than 180 investors and analysts during the year.

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

iii. Shareholders' Return

The Company always strives to enhance the shareholders' return, and had distributed cash dividend of approximately RMB388 million, or RMB0.045 per share, for the year 2007. The Board of Directors proposed to distribute a cash dividend of approximately RMB388 million, or RMB0.045 per share for the year 2008, and will submit the proposal at the shareholders' general meeting of 2008 for consideration.

Independent Auditors' Report

ERNST & YOUNG

To the shareholders of Dongfeng Motor Group Company Limited

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

We have audited the financial statements of Dongfeng Motor Group Company Limited set out on pages 69 to 160, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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

14 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB million	2007 RMB million
Revenue — Sale of goods	4	**70,569**	59,318
Cost of sales		**(58,688)**	(49,503)
Gross profit		**11,881**	9,815
Other income	5	**1,228**	935
Selling and distribution costs		**(3,359)**	(2,642)
Administrative expenses		**(2,591)**	(2,545)
Other expenses, net		**(1,969)**	(1,432)
Finance costs	7	**(393)**	(365)
Share of profits and losses of associates		**95**	69
Profit before tax	6	**4,892**	3,835
Income tax	10	**(647)**	202
Profit for the year		**4,245**	4,037
Attributable to:			
Equity holders of the parent	11	**4,040**	3,770
Minority interests		**205**	267
		4,245	4,037
Dividend	12	**388**	388
Earnings per share attributable to ordinary equity holders of the parent:	13		
Basic for the year		**46.89 cents**	43.76 cents
Diluted for the year		**N/A**	N/A

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB million	2007 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	14	**18,189**	16,438
Lease prepayments		**671**	475
Intangible assets	15	**1,627**	1,484
Goodwill	16	**483**	477
Interests in associates	19	**787**	677
Available-for-sale financial assets		**137**	136
Other long term assets		**1,128**	832
Deferred tax assets	10	**795**	333
Total non-current assets		**23,817**	20,852
Current assets			
Inventories	20	**9,356**	7,573
Trade receivables	21	**2,101**	2,229
Bills receivable	22	**6,516**	7,983
Prepayments, deposits and other receivables	23	**3,470**	2,717
Due from jointly-controlled entities	24	**386**	289
Financial assets at fair value through profit or loss		**6**	81
Pledged bank balances and time deposits	25	**1,697**	931
Cash and cash equivalents	25	**12,416**	9,542
Total current assets		**35,948**	31,345
TOTAL ASSETS		**59,765**	52,197

	Notes	2008 RMB million	2007 RMB million
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Issued capital	26	**8,616**	8,616
Reserves	27	**4,903**	4,155
Retained profits	27	**7,458**	4,554
Proposed final dividend	12	**388**	388
		21,365	17,713
Minority interests		**2,837**	2,686
Total equity		**24,202**	20,399
Non-current liabilities			
Interest-bearing borrowings	28	**1,781**	2,514
Other long term liabilities		**27**	44
Provisions	29	**129**	163
Government grants	30	**83**	53
Deferred tax liabilities	10	**80**	24
Total non-current liabilities		**2,100**	2,798
Current liabilities			
Trade payables	31	**10,259**	9,650
Bills payable	32	**6,308**	4,812
Other payables and accruals	33	**8,305**	7,502
Due to jointly-controlled entities	24	**333**	288
Interest-bearing borrowings	28	**6,919**	5,751
Government grants	30	**23**	35
Income tax payable		**779**	417
Provisions	29	**537**	545
Total current liabilities		**33,463**	29,000
TOTAL LIABILITIES		**35,563**	31,798
TOTAL EQUITY AND LIABILITIES		**59,765**	52,197
Net current assets		**2,485**	2,345
Total assets less current liabilities		**26,302**	23,197

Xu Ping
Director

Liu Zhangmin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to the equity holders of the parent							
	Notes	Issued capital RMB million	Capital reserve RMB million	Statutory reserves RMB million (note 27)	Retained profits RMB million	Proposed final dividend RMB million	Total RMB million	Minority interests RMB million	Total equity RMB million
As at 1 January 2007		8,616	1,363	2,012	1,952	345	14,288	2,534	16,822
Profit for the year		—	—	—	3,770		3,770	267	4,037
Transfer to reserves		—	—	780	(780)		—	—	—
Acquisition of an additional interest in a jointly-controlled entity	18(b)	—	—	—	—	—	—	44	44
Acquisition of an additional interest in a jointly-controlled entity's subsidiary		—	—	—	—	—	—	(74)	(74)
Deemed disposal of interests in jointly-controlled entity's subsidiaries to jointly-controlled entities	18(c)	—	—	—	—	—	—	(27)	(27)
Partial disposal of an interest in a jointly-controlled entity's subsidiary		—	—	—	—	—	—	80	80
Capital contribution from minority shareholders		—	—	—	—	—	—	9	9
Dividends paid to minority shareholders		—	—	—	—	—	—	(147)	(147)
Final 2006 dividend declared and paid		—	—	—	—	(345)	(345)	—	(345)
Proposed final dividend	12	—	—	—	(388)	388	—	—	—
As at 31 December 2007		8,616	1,363*	2,792*	4,554	388	17,713	2,686	20,399
Profit for the year		—	—	—	4,040	—	4,040	205	4,245
Transfer to reserves		—	—	748	(748)	—	—	—	—
Acquisition of an additional interest in a jointly-controlled entity's subsidiary		—	—	—	—	—	—	(2)	(2)
Acquisition of a subsidiary by a jointly-controlled entity	18(a)	—	—	—	—	—	—	7	7
Capital contributions from minority shareholders		—	—	—	—	—	—	38	38
Dividends paid to minority shareholders		—	—	—	—	—	—	(97)	(97)
Final 2007 dividend declared and paid		—	—	—	—	(388)	(388)	—	(388)
Proposed final dividend	12	—	—	—	(388)	388	—	—	—
As at 31 December 2008		8,616	1,363*	3,540*	7,458	388	21,365	2,837	24,202

* These reserve accounts comprise the consolidated reserves of RMB4,903 million (2007: RMB4,155 million) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB million	2007 RMB million
Cash flows from operating activities			
Profit before tax		**4,892**	3,835
Adjustments for:			
Share of profits and losses of associates		**(95)**	(69)
Gain on deemed disposal of an interest in a jointly-controlled entity's subsidiaries to a jointly-controlled entity	6	**—**	(2)
Loss on disposal of items of property, plant and equipment, net	6	**44**	49
Gain on disposal of available-for-sale financial assets	6	**—**	(7)
Loss on disposal of financial assets at fair value through profit or loss	6	**2**	—
Stock appreciation right expense/(credit)	6	**(91)**	111
Provision against inventories	6	**201**	42
Impairment/(reversal of impairment) of trade and other receivables	6	**66**	(46)
Exchange gains, net	6	**(229)**	(217)
Depreciation	6	**2,025**	1,783
Impairment of property, plant and equipment	6	**177**	26
Impairment of intangible assets	6	**30**	—
Impairment of available-for-sale financial assets	6	**19**	12
Amortisation of intangible assets	6	**252**	243
Finance costs	7	**393**	365
Interest income	5	**(301)**	(190)
		7,385	5,935
Decrease/(increase) in trade and bills receivables and prepayments, deposits and other receivables		**796**	(3,723)
Increase in inventories		**(1,960)**	(272)
Decrease/(increase) in financial assets at fair value through profit or loss		**73**	(21)
Increase in amounts due from jointly-controlled entities		**(97)**	(239)
Increase in trade and bills payables, and other payables and accruals		**3,013**	4,393
Increase/(decrease) in amounts due to jointly-controlled entities		**45**	(98)
Increase/(decrease) in provisions		**(42)**	103
Decrease in government grants		**(260)**	(195)
Increase/(decrease) in other long term liabilities		**(22)**	4
Cash generated from operations		**8,931**	5,887
Interest paid		**(490)**	(459)
Income tax paid		**(693)**	(326)
Net cash flows generated from operating activities		**7,748**	5,102

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2008

	Notes	2008 RMB million	2007 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(3,983)**	(2,751)
Increase in lease prepayments and other long term assets		**(484)**	(218)
Purchases of intangible assets		**(425)**	(176)
Purchases of available-for-sale financial assets		**(11)**	(13)
Acquisition of a subsidiary by a jointly-controlled entity	18(a)	**20**	—
Acquisition of an additional interests in a jointly-controlled entity	18(b)	**—**	(17)
Deemed disposal of interests in a jointly-controlled entity's subsidiaries to jointly-controlled entities, net of cash acquired	18(c)	**—**	1
Acquisition of an additional interest in a jointly-controlled entity's subsidiary		**(6)**	—
Receipt of loan to a jointly-controlled entity		**—**	200
Investments in associates		**(145)**	(204)
Proceeds from disposal of items of property, plant and equipment		**103**	237
Proceeds from disposal of available-for-sale financial assets		**2**	10
Proceeds from disposal of associates		**33**	10
Dividends from associates		**86**	49
Government grants received	30	**278**	204
Interest received	5	**301**	190
Increase in pledged bank balances and time deposits		**(766)**	(141)
Increase in non-pledged time deposits with original maturity of three months or more when acquired		**(2,783)**	(661)
Net cash flows used in investing activities		**(7,780)**	(3,280)
Cash flows from financing activities			
Proceeds from borrowings		**12,632**	6,902
Repayment of borrowings		**(12,062)**	(6,797)
Capital contribution from minority shareholders		**38**	9
Dividends paid to minority shareholders		**(97)**	(147)
Dividends paid		**(388)**	(345)
Net cash flows generated from/(used in) financing activities		**123**	(378)
Net increase in cash and cash equivalents		**91**	1,444
Cash and cash equivalents at beginning of year		**7,103**	5,659
Cash and cash equivalents at end of year	25	**7,194**	7,103

Balance Sheet

31 December 2008

	Notes	**2008 RMB million**	2007 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	14	**584**	589
Lease prepayments		**72**	18
Intangible assets	15	**22**	21
Investments in subsidiaries	17	**140**	140
Investments in jointly-controlled entities	18	**13,037**	13,037
Investments in associates	19	**326**	256
Available-for-sale financial assets		**68**	68
Deferred tax assets	10	**14**	37
Total non-current assets		**14,263**	14,166
Current assets			
Inventories	20	**111**	81
Trade receivables	21	**171**	135
Bills receivable	22	**3**	7
Prepayments, deposits and other receivables	23	**1,292**	224
Due from jointly-controlled entities	24	**57**	56
Cash and cash equivalents	25	**1,177**	1,264
Total current assets		**2,811**	1,767
TOTAL ASSETS		**17,074**	15,933

Balance Sheet (Continued)

31 December 2008

	Notes	2008 RMB million	2007 RMB million
EQUITY AND LIABILITIES			
Equity			
Issued capital	26	**8,616**	8,616
Reserves	27	**2,956**	2,553
Retained profits	27	**2,081**	984
Proposed final dividend	12	**388**	388
Total equity		**14,041**	12,541
Current liabilities			
Trade payables	31	**191**	126
Other payables and accruals	33	**516**	776
Due to jointly-controlled entities	24	**150**	106
Interest-bearing borrowings	28	**1,965**	2,173
Income tax payable		**211**	211
Total current liabilities		**3,033**	3,392
TOTAL LIABILITIES		**3,033**	3,392
TOTAL EQUITY AND LIABILITIES		**17,074**	15,933

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") were principally engaged in the manufacture and sale of automobiles, engines and other automotive parts.

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly-controlled entities for the year ended 31 December 2008.

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

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 to the date on which such joint control ceases, which includes recognising in the consolidated financial statements a proportionate share of each of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 combination 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 AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) IFRIC 12 — *Service Concession Arrangements*

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

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits 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 or indirectly, over the joint venture company;

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

(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 or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

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.

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

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

The Group's 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.

Goodwill

Goodwill arising on acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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. 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 on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or 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 an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each 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.

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 accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are recognised as an expense in the income statement on the straight-line basis over the lease terms.

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 and 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 assess 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 derivative 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. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognized in the income statement does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for “Revenue recognition” below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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 unrealized gains or losses 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. Dividends earned are reported as dividend income and are recognized in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognized 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 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 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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Financial liabilities including trade and other payables, due to jointly-controlled entities and interest-bearing loans and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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.

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency forward and swap 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 foreign currency forward and swap contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

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

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

Trade and other receivables

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

Cash and cash equivalents

For the purpose of the consolidated 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 and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the cash management of the Group.

For the purpose of the 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 value 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 interests in 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 utilised, 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 and the amount of revenue can be measured reliably.

Rendering of services

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

Interest income

Revenue is recognised as interest income on 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefits

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

Medical benefits

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

Cash housing subsidies

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

Termination and early retirement benefits

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions

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

The cost of cash-settlement transactions is measured initially at fair value at the grant date using the Binomial model, taking into account the terms and conditions upon which the instruments were granted (note 6(e)). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at 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.

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 of exchange 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 profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair value was determined.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and 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. More details are set out in note 16.

Impairment of long-lived assets

The management assesses whether there are any indicatiors of impairment of long-lived assets at each reporting date. Long-lived assets are tested for impairment when there are indicators that the carrying amounts may not be recovered. This requires an estimation of the value in use of the assets. Estimating the value in use requires the management to make estimates of level of sales volume, sales revenue and operating costs for the preparation of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Warranty provisions

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

Impairment of receivables

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

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

Segment information

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

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

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

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

Segment information (continued)

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

Year ended 31 December 2008

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	20,980	48,660	929	70,569
Results				
Segmental results	173	5,689	(672)	5,190
Finance costs				(393)
Share of profits and losses of associates	61	36	(2)	95
Profit before tax				4,892
Income tax expense				(647)
Profit for the year				4,245
Assets and liabilities				
Segment assets	11,816	34,376	10,151	56,343
Interests in associates	364	168	255	787
Unallocated assets				2,635
Total assets				59,765
Segment liabilities	6,484	14,573	4,947	26,004
Unallocated liabilities				9,559
Total liabilities				35,563

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

Segment information (continued)

Year ended 31 December 2008 (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	**815**	**3,059**	**206**	**4,080**
— Intangible assets	**50**	**301**	**74**	**425**
— Lease prepayments	**121**	**30**	**49**	**200**
Depreciation of property, plant and equipment	**524**	**1,416**	**85**	**2,025**
Amortisation of intangible assets	**30**	**160**	**62**	**252**
Provision against inventories	**147**	**54**	**—**	**201**
Impairment losses recognised in the income statement	**198**	**65**	**29**	**292**
Warranty expenses	**139**	**275**	**—**	**414**

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
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

4. REVENUE ON SALE 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
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
Other segment information				
Capital expenditure:				
— Property, plant and equipment	589	2,052	215	2,856
— Intangible assets	27	373	74	474
— Lease prepayments	1	12	22	35
Depreciation of property, plant and equipment	477	1,227	79	1,783
Amortisation of intangible assets	22	176	45	243
Provision against inventories	17	23	2	42
Impairment losses recognised in the income statement	19	1	18	38
Impairment losses reversed in the income statement	(15)	(24)	(7)	(46)
Warranty expenses	126	342	—	468

5. OTHER INCOME

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

		Group	
		2008	2007
	Note	**RMB million**	RMB million
Government grants and subsidies	30	**260**	195
Net income from disposal of other materials		**455**	321
Interest income		**301**	190
Rendering of services		**28**	19
Others		**184**	210
		1,228	935

6. PROFIT BEFORE TAX

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

		Group	
		2008	2007
	Notes	**RMB million**	RMB million
Cost of inventories recognised as expense		**58,688**	49,503
Provision against inventories		**201**	42
Amortisation of intangible assets*		**252**	243
Depreciation		**2,025**	1,783
Auditors' remuneration		**18**	18
Minimum lease payments under operating leases in respect of land and buildings		**195**	186
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
— Wages and salaries		**2,695**	2,493
— Pension scheme costs	(a)	**441**	356
— Medical benefit costs	(b)	**140**	46
— Cash housing subsidy costs	(c)	**15**	10
— Stock appreciation rights expense/(credit)	(e)	**(65)**	81
		3,226	2,986

6. PROFIT BEFORE TAX (continued)

	Group 2008 RMB million	Group 2007 RMB million
Included in other expenses, net		
Loss on disposal of items of property, plant and equipment, net	**44**	49
Gain on disposal of available-for-sale financial assets	**—**	(7)
Loss on disposal of financial assets at fair value through profit or loss	**2**	—
Impairment of property, plant and equipment	**177**	26
Impairment of intangible assets	**30**	—
Impairment of available-for-sale financial assets	**19**	12
Impairment/(reversal of impairment) of trade and other receivables	**66**	(46)
Warranty expenses	**414**	468
Research costs	**1,450**	1,089
Exchange gains, net	**(229)**	(217)
Gain on deemed disposal of interests in jointly-controlled entity's subsidiaries to a jointly-controlled entity	**—**	(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.

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 their 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 contribution required to be borne.

6. PROFIT BEFORE TAX (continued)

(a) Retirement benefits (continued)

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 obligations and other pension benefits under the Scheme.

(b) Medical benefits

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

In addition, the Hubei Entities also participate in a supplemental medical benefit plan regulated by DMC pursuant to which the Hubei Entities are required to contribute certain 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 the qualified employees of the Hubei Entities. The Hubei Entities have no further obligations for 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 monthly 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.

(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 plans were entitled to the benefits under such plans. Employees who joined the jointly-controlled entities from 1 January 2003 onwards and the retired employees of such jointly-controlled entities were not entitled to any benefits under the cash housing subsidy plans.

For cash housing subsidies related to service periods before 1 January 2000, they were fully recognised as expenses upon implementation of 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 such employees.

6. PROFIT BEFORE TAX (continued)

(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 a 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 governmental regulated pension schemes and the DMC regulated supplemental pension scheme.

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

(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. 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.

(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 will 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. 31,417,349 SAR units were granted with a term of six years with effect from 15 January 2007. The rights to the SAR units will have an exercise period of six years from the date of grant (i.e 15 January 2007) and can be exercised in the third, fourth and fifth 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.

6. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

Upon exercise of the rights, the exercising individual will, subject to the restrictions under the plan, receive a payment in RMB, after deducting any applicable withholding tax, equal 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 2008 was RMB56 million (2007: RMB147 million) and the compensation credit recognised for the year ended 31 December 2008 was RMB91 million (2007: expense of RMB111 million). As at 31 December 2008, the intrinsic value of vested SARs was RMB27 million (no SARs had vested as at 31 December 2007).

The following SARs were outstanding during the year:

	2008		2007	
	Weighted average exercise price HK$ per share	**Number of SAR units '000**	Weighted average exercise price HK$ per share	Number of SAR units '000
At 1 January	**2.76**	**87,083**	2.01	55,666
Granted during the year	**—**	**—**	4.09	31,417
Exercised during the year	**2.01**	**40**	—	—
Lapsed during the year	**—**	**—**	—	—
At 31 December	**2.76**	**87,043**	2.76	87,083

The weighted average share price at the date of exercise of SARs exercised during the year was HK$3.30.

6. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

The exercise price and exercise periods of SARs outstanding as at the balance sheet date are as follows:

2008

Number of SAR units '000	Exercise price HK$ per share	Exercise period
55,626	**2.01**	**23-1-2008 to 22-1-2012**
31,417	**4.09**	**15-1-2009 to 14-1-2013**
87,043		

2007

Number of SAR units '000	Exercise price HK$ per share	Exercise period
55,666	2.01	23-1-2008 to 22-1-2012
31,417	4.09	15-1-2009 to 14-1-2013
87,083		

The fair value of SARs is measured using the binomial option pricing model. Measurement inputs include share price on measurement date, exercise price of the SARs, expected volatility (based on weighted average historical volatility), weighted average expected life of the SARs (based on general SAR holders 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.

The following table lists the inputs to the binomial option pricing model used for the measurement of the fair value of SARs for the year ended 31 December 2008:

Dividend yield (%)	1.95
Expected volatility (%)	64.465–116.236
Risk-free interest rate (%)	0.027–1.060
Expected life of SARs (years)	4
Share price on measurement date (HK$)	2.5

7. FINANCE COSTS

	Group	
	2008	2007
	RMB million	RMB million
Interest on bank loans and other borrowings wholly repayable:		
— within five years	**205**	169
— beyond five years	**121**	133
Interest on discounted bills	**62**	88
Interest on short-term debentures	**102**	69
	490	459
Less: Amount capitalised in construction in progress	**(97)**	(94)
Net interest expense	**393**	365

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group			
	Directors		Supervisors	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**441**	468	**96**	94
Other emoluments:				
— Salaries, allowances and benefits in kind	**1,712**	1,707	**1,395**	1,342
— Bonuses	**2,410**	5,456	**1,765**	2,154
— Pension scheme costs	**303**	215	**184**	114
	4,866	7,846	**3,440**	3,704
Stock appreciation right expenses/(credit) recognised in the income statement	**(18,425)**	21,898	**(7,037)**	8,523
Total charged/(credited) to the income statement	**(13,559)**	29,744	**(3,597)**	12,227

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

Certain directors and supervisors were granted stock appreciation rights, in respect of their services to the Group, further details of which are set out in note 6(e) to the financial statements. The fair value of the rights, which has been recognised in the income statement over the vesting periods, was determined at the date of grant and at each reporting date.

The names of the directors and the supervisors and their remuneration (the SAR expenses/(credit) are disclosed in the last column) for the year are as follows:

2008	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme costs RMB'000	Total RMB'000	Stock appreciation right credit recognized in the income statement RMB'000
Executive directors:						
Xu Ping	—	228	311	38	577	(2,328)
Liu Zhangmin	—	185	272	34	491	(2,328)
Zhou Wenjie	—	185	247	33	465	(1,967)
Fan Zhong	—	185	247	33	465	(1,967)
Li Shaozhu	—	185	247	33	465	(1,967)
	—	968	1,324	171	2,463	(10,557)
Non-executive directors:						
Tong Dongcheng	—	185	247	33	465	(1,967)
Liu Weidong	—	185	247	33	465	(1,967)
Ouyang Jie	—	185	247	33	465	(1,967)
Zhu Fushou	—	189	345	33	567	(1,967)
	—	744	1,086	132	1,962	(7,868)
Independent non-executive directors:						
Sun Shuyi	147	—	—	—	147	—
Ng Lin-fung	147	—	—	—	147	—
Yang Xianzu	147	—	—	—	147	—
	441	—	—	—	441	—
	441	1,712	2,410	303	4,425	(18,425)
Supervisors:						
Ye Huicheng	—	185	247	33	465	(1,967)
Zhou Qiang	—	160	269	25	454	(1,108)
Ren Yong	—	469	451	52	972	(1,108)
Liu Yuhe	—	293	440	26	759	(1,029)
Li Chunrong	—	139	108	23	270	(823)
Kang Li	—	149	250	25	424	(1,002)
	—	1,395	1,765	184	3,344	(7,037)
Independent supervisors:						
Wen Shiyang	48	—	—	—	48	—
Deng Mingran	48	—	—	—	48	—
	96	—	—	—	96	—
	96	1,395	1,765	184	3,440	(7,037)

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

2007	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme costs RMB'000	Total RMB'000	Stock appreciation right expenses recognized in the income statement RMB'000
Executive directors:						
Xu Ping	—	227	740	28	995	2,773
Liu Zhangmin	—	185	656	26	867	2,773
Zhou Wenjie	—	185	483	11	679	2,336
Fan Zhong	—	185	597	25	807	2,336
Li Shaozhu	—	185	597	25	807	2,336
	—	967	3,073	115	4,155	12,554
Non-executive directors:						
Tong Dongcheng	—	185	597	25	807	2,336
Liu Weidong	—	185	558	25	768	2,336
Ouyang Jie	—	185	597	25	807	2,336
Zhu Fushou	—	185	631	25	841	2,336
	—	740	2,383	100	3,223	9,344
Independent non-executive directors:						
Sun Shuyi	156	—	—	—	156	—
Ng Lin-fung	156	—	—	—	156	—
Yang Xianzu	156	—	—	—	156	—
	468	—	—	—	468	—
	468	1,707	5,456	215	7,846	21,898
Supervisors:						
Ye Huicheng	—	185	597	25	807	2,336
Zhou Qiang	—	160	302	22	484	1,358
Ren Yong	—	434	417	11	862	1,358
Liu Yuhe	—	275	443	18	736	1,261
Li Chunrong	—	139	83	17	239	999
Kang Li	—	149	312	21	482	1,211
	—	1,342	2,154	114	3,610	8,523
Independent supervisors:						
Wen Shiyang	47	—	—	—	47	—
Deng Mingran	47	—	—	—	47	—
	94	—	—	—	94	—
	94	1,342	2,154	114	3,704	8,523

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.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: five) directors or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2007: nil) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,829**	—
Bonuses	**618**	—
Pension scheme contributions	**79**	—
	2,526	—

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

	Number of employees	
	2008	2007
Nil–RMB500,000	**—**	—
RMB500,001–RMB1,000,000	**2**	—
RMB1,000,001–RMB1,500,000	**1**	—
	3	—

In prior years, SARs were granted to 2 of the non-director, non-supervisor, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 6(e) to the financial statements.

10. INCOME TAX

	Group	
	2008	2007
	RMB million	RMB million
Current income tax	**1,055**	642
Deferred income tax	**(408)**	(844)
Income tax expense/(credit) for the year	**647**	(202)

(a) Corporate income tax

Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the Company, its subsidiaries and jointly-controlled entities is calculated at the rates ranging from 7.5% to 25%, on their estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof. As certain of the Company's subsidiaries and jointly-controlled entities are foreign investment enterprises, after obtaining authorisation from the respective tax authorities, these subsidiaries and jointly-controlled entities are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

(b) Hong Kong profits tax

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

(c) Deferred income tax

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

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

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

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

10. 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	
	2008	2007	**2008**	2007
	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)
Capitalisation of development cost	**(31)**	—	**31**	—
Arising from acquisition of a subsidiary by a jointly-controlled entity (note 18(a))	**(2)**	—	**—**	—
Others	**(47)**	(24)	**23**	4
Gross deferred tax liabilities	**(80)**	(24)		
Deferred tax assets:				
Losses available for offsetting against future taxable income	**—**	2	**2**	(2)
Impairment of items of property, plant and equipment	**40**	35	**(5)**	(1)
Provision for stock appreciation right liabilities	**14**	37	**23**	(37)
Accrual expenses	**559**	180	**(379)**	(52)
Warranty provision	**68**	33	**(35)**	(19)
Others	**114**	46	**(68)**	(5)
Gross deferred tax assets	**795**	333		
Deferred income tax credit			**(408)**	(844)
Net deferred tax liabilities	**(80)**	(24)		
Net deferred tax assets	**795**	333		

10. INCOME TAX (continued)

Company

	As at 31 December	
	2008	2007
	RMB million	RMB million
Deferred tax assets:		
Provision for stock appreciation right liabilities	**14**	37
Gross deferred tax assets	**14**	37
Net deferred tax assets	**14**	37

11. 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 2008 includes a profit of RMB1,888 million (2007: RMB1,686 million) which has been dealt with in the financial statements of the Company (note 27).

12. DIVIDEND

	Group	
	2008	2007
	RMB million	RMB million
Proposed final — RMB0.045 (2007: RMB0.045) per ordinary share	**388**	388

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

12. 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 the 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 an allowance has been made for the following:

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

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

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

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

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

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

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

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

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

The calculation of basic earnings per share is based on:

	2008	2007
	RMB million	RMB million
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	**4,040**	3,770

	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.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2008				
At 31 December 2007 and 1 January 2008:				
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
At 1 January 2008, net of accumulated depreciation and impairment	671	13,489	2,278	16,438
Additions	31	777	3,272	4,080
Acquisition of a subsidiary by a jointly-controlled entity (note 18(a))	17	3	—	20
Disposals	(19)	(109)	(19)	(147)
Reclassifications	48	2,345	(2,393)	—
Impairment	(5)	(171)	(1)	(177)
Depreciation provided during the year	(28)	(1,997)	—	(2,025)
At 31 December 2008, net of accumulated depreciation and impairment	715	14,337	3,137	18,189
At 31 December 2008:				
Cost	1,119	27,134	3,177	31,430
Accumulated depreciation and impairment	(404)	(12,797)	(40)	(13,241)
Net carrying amount	715	14,337	3,137	18,189

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2007				
At 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 additional interest in a jointly-controlled entity (note 18(b))	18	131	10	159
Deemed disposal of interests in a jointly-controlled entity's subsidiaries to jointly-controlled entities (note 18(c))	(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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2008				
At 31 December 2007 and 1 January 2008:				
Cost	160	643	22	825
Accumulated depreciation and impairment	(114)	(122)	—	(236)
Net carrying amount	46	521	22	589
At 1 January 2008, net of accumulated depreciation and impairment	46	521	22	589
Additions	—	6	55	61
Disposals	—	(1)	(11)	(12)
Reclassifications	95	(80)	(15)	—
Impairment	—	(14)	—	(14)
Depreciation provided during the year	(8)	(32)	—	(40)
At 31 December 2008, net of accumulateddepreciation and impairment	133	400	51	584
At 31 December 2008:				
Cost	199	617	51	867
Accumulated depreciation and impairment	(66)	(217)	—	(283)
Net carrying amount	133	400	51	584

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2007				
At 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 2008, 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

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

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

15. INTANGIBLE ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Cost:				
At 1 January	**2,233**	1,793	**21**	—
Additions	**425**	474	**14**	21
Acquisition of an additional interest in a jointly-controlled entity (note 18(b))	**—**	2	**—**	—
Disposals	**—**	(36)	**—**	—
At 31 December	**2,658**	2,233	**35**	21
Accumulated amortisation:				
At 1 January	**749**	542	**—**	—
Amortisation	**252**	243	**13**	—
Disposals	**—**	(36)	**—**	—
At 31 December	**1,001**	749	**13**	—
Impairment:				
At 1 January	**—**	—	**—**	—
Addition	**30**	—	**—**	—
At 31 December	**30**	—	**—**	—
Net book value:				
At 1 January	**1,484**	1,251	**21**	—
At 31 December	**1,627**	1,484	**22**	21

The details of the above items of intangible assets pledged to secure general banking facilities granted to the Group are set out in note 28 below.

16. GOODWILL

Group

	2008 RMB million	2007 RMB million
At 1 January	**477**	434
Acquisition of an additional interest in a jointly-controlled entity's subsidiary	**4**	10
Acquisition of a subsidiary by a jointly-controlled entity (note 18(a))	**2**	—
Acquisition of an additional interest in a jointly-controlled entity (note 18(b))	—	33
At 31 December	**483**	477

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

17. INVESTMENTS IN SUBSIDIARIES

Company

	2008 RMB million	2007 RMB million
Unlisted investments, at cost	**140**	140

Particulars of the principal subsidiaries as at 31 December 2008 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.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Company

	2008 RMB million	2007 RMB million
Unlisted investments, at cost	**13,037**	13,037

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

Particulars of the principal jointly-controlled entities as at 31 December 2008 were as follows:

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Dongfeng Honda Engine Co., Ltd.#	PRC	US$121,583,517	50.0	—	Manufacture and sale of automotive parts and components
Dongfeng Honda Auto Parts Co., Ltd.#	PRC	US$37,500,000	44.0	—	Manufacture and sale of automotive parts and components
Dongfeng Motor Co., Ltd.#	PRC	RMB16,700,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Honda Automobile Co., Ltd.#	PRC	US$250,000,000	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

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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	RMB562,000,000	—	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.

18. 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:

	2008 RMB million	2007 RMB million
Non-current assets	**22,244**	19,483
Current assets	**34,229**	29,558
Non-current liabilities	**(2,092)**	(2,784)
Current liabilities	**(31,158)**	(25,686)
Minority interests	**(3,049)**	(2,853)
Net assets	**20,174**	17,718
Total revenue	**69,844**	59,003
Total expenses	**(65,357)**	(55,272)
Minority interests	**(259)**	(300)
Profit attributable to equity holders of the parent	**4,228**	3,431

During the years ended 31 December 2008 and 2007, the Group had the following significant changes in the holdings of jointly-controlled entities:

(a) Acquisition of a subsidiary by a jointly-controlled entity

In July 2008, Shenzhen Dongfeng Properties Co., Ltd ("SZ Dongfeng"), a 95% subsidiary of Dongfeng Motor Co., Ltd., acquired a 55% equity interest in Zhejiang Fengshen Co., Ltd. ("ZJFS") at a total consideration of RMB20.8 million.

Upon completion of this acquisition, SZ Dongfeng had a 55% direct equity interest in ZJFS, which was thereafter accounted for as a subsidiary of SZ Dongfeng.

Since the date of acquisition, ZJFS had contributed loss of RMB1 million to the Group's profit attributable to equity holders of the parent and RMB147 million to the Group's revenue for the year ended 31 December 2008.

Had the aforesaid acquisition by SZ Dongfeng taken place alone at the beginning of 2008, the Group's profit attributable to equity holders of the parent and the revenue of the Group for the year would have been RMB4,039 million and RMB70,656 million, respectively.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(a) Acquisition of a subsidiary by a jointly-controlled entity (continued)

The fair values of the identified assets and liabilities of ZJFS shared by the Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

	2008 Fair value recognition on acquisition RMB million	Carrying amount RMB million
Property, plant and equipment	**20**	**20**
Lease prepayments	**8**	**—**
Inventories	**24**	**24**
Prepayments, deposits and other receivables	**20**	**20**
Cash and cash equivalents	**30**	**30**
Trade and bills payables	**(35)**	**(35)**
Other payables and accruals	**(39)**	**(39)**
Interest-bearing borrowings	**(6)**	**(6)**
Other long term liabilities	**(5)**	**(5)**
Deferred tax liabilities	**(2)**	**—**
Minority interests	**(7)**	**(4)**
	8	**5**
Goodwill arising on acquisition	**2**	
Cash consideration	**10**	
Net cash inflow arising from the acquisition is as follows:		
Cash and cash equivalent acquired	**30**	
Cash paid	**(10)**	
Net cash inflow	**20**	

Included in the goodwill of RMB2 million recognised above is a customer list, which is not recognized separately and does not meet the criteria for recognition as intangible assets under IAS 38.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(b) 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 RMB189 million.

Upon completion of this acquisition, DFL and DFL's subsidiary had 28.65% and 51% direct equity interests in Zhengzhou Nissan, respectively, which 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 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.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

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

The fair values of additional identified assets and liabilities of Zhengzhou Nissan shared by the Group at the date of acquisition are 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	
Cash consideration	94	
Net cash outflow arising from the acquisition is as follows:		
Cash and cash equivalent acquired	77	
Cash paid	(94)	
Net cash outflow	(17)	

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(b) 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, items included in the balance consist of 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 intangible assets under IAS 38.

(c) Deemed disposal of interests in a jointly-controlled entity's subsidiaries to jointly-controlled entities

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") at a consideration of RMB152 million and DFHT injected its assets and liabilities in its stamping and welding branch at 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.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Company (continued)

(c) Deemed disposal of interests in a jointly-controlled entity's subsidiaries to jointly-controlled entities (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 and cash equivalents injected into Wuhan Stamping attributable to DFHT	(7)
Cash acquired from DFHT attributable to the Group	8
Net cash inflow	1

19. 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:

	2008 RMB million	2007 RMB million
Unlisted investments, at cost	**326**	256

Particulars of the principal associates as at 31 December 2008 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
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	RMB700,000,000	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.

19. 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:

	2008 RMB million	2007 RMB million
Non-current assets	**474**	375
Current assets	**1,171**	949
Non-current liabilities	**(24)**	(19)
Current liabilities	**(831)**	(619)
Minority interests	**(3)**	(9)
Net assets	**787**	677
Total revenue	**1,423**	1,214
Total expenses	**(1,347)**	(1,157)
Profit attributable to equity holders of the parent	**76**	57

20. INVENTORIES

	Group		Company	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Raw materials	**4,468**	2,809	**28**	20
Work-in-progress	**126**	623	**31**	21
Finished goods	**4,762**	4,141	**52**	40
	9,356	7,573	**111**	81

The details of the above items of inventories pledged to secure general banking facilities granted to the Group are set out in note 28 below.

21. 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	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**1,493**	1,939	**162**	106
More than three months but within one year	**593**	232	**8**	24
More than one year	**15**	58	**1**	5
	2,101	2,229	**171**	135

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
At 1 January	**987**	1,003	**4**	4
Impairment loss recognised/(reversed)	**55**	(28)	**—**	—
Acquisition of an additional interest in a jointly-controlled entity	**—**	83	**—**	—
Deemed disposal of interests in a jointly-controlled entity's subsidiaries to jointly-controlled entities	**—**	(1)	**—**	—
Amount written off as uncollectible	**(52)**	(70)	**—**	—
At 31 December	**990**	987	**4**	4

21. TRADE RECEIVABLES (continued)

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

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Neither past due nor impaired	**1,479**	1,905	**162**	106
Less than three months pass due	**23**	22	**8**	18
	1,502	1,927	**170**	124

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

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
A joint venture partner	**46**	30	**—**	—
Associates	**21**	9	**3**	3
DMC and its subsidiaries	**4**	—	**1**	—
	71	39	**4**	3

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

22. BILLS RECEIVABLE

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**3,940**	4,424	**2**	1
More than three months but within one year	**2,576**	3,559	**1**	6
	6,516	7,983	**3**	7

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Prepayments	**881**	807	**61**	28
Deposits and other receivables	**2,589**	1,910	**1,231**	196
	3,470	2,717	**1,292**	224

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
At 1 January	**85**	83	**—**	1
Impairment loss recognized/(reversed)	**11**	(18)	**—**	(1)
Acquisition of an additional interest in a jointly-controlled entity	**—**	25	**—**	—
Amount written off as uncollectible	**(2)**	(5)	**—**	—
At 31 December	**94**	85	**—**	—

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Joint venture partners and their holding companies	**3**	20	—	—
Associates	**12**	3	**2**	—
Fellow subsidiaries	**2**	2	—	—
A minority shareholder of a jointly-controlled entity's subsidiary	**62**	62	—	—
Subsidiaries	—	—	**28**	6
Dividends receivable from jointly-controlled Entities	—	—	**1,227**	174
Dividend receivable from an associate	**14**	—	—	—
	93	87	**1,257**	180

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

24. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

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

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Cash and bank balances	**8,320**	7,117	**1,167**	1,264
Time deposits	**5,793**	3,356	**10**	—
	14,113	10,473	**1,177**	1,264
Less: Pledged bank balances and time deposits for securing general banking facilities and restricted deposits with central bank	**(1,697)**	(931)	**—**	—
Cash and cash equivalents in the consolidated balance sheet	**12,416**	9,542	**1,177**	1,264
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(5,222)**	(2,439)	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**7,194**	7,103	**1,177**	1,264

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.

26. SHARE CAPITAL

Group and Company

	2008 RMB million	2007 RMB million
Registered, issued and fully paid:		
— 5,760,388,000 (2007: 5,760,388,000) Domestic Shares of RMB1.00 each	**5,760**	5,760
— 2,855,732,000 (2007: 2,855,732,000) H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

27. RESERVES

Group

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

Company

	Capital reserve RMB million	Statutory reserves RMB million (note (a))	Retained profits RMB million	Proposed final dividend RMB million	Total RMB million
At 1 January 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 and 1 January 2008	1,363	1,190	984	388	3,925
Final 2007 dividend declared	—	—	—	(388)	(388)
Profit for the year	—	—	1,888	—	1,888
Transfer to reserves	—	403	(403)	—	—
Proposed final dividend	—	—	(388)	388	—
At 31 December 2008	1,363	1,593	2,081	388	5,425

27. RESERVES (continued)

Company (continued)

Notes:

(a) *Statutory reserves*

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

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

(b) *Distributable reserves*

As set out in note 12, for dividend distribution 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 these financial statements, which are prepared in accordance with IFRSs.

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

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

28. INTEREST-BEARING BORROWINGS

Group

	2008			2007		
	Effective interest rate (%)	Maturity	RMB million	Effective interest rate (%)	Maturity	RMB million
Current						
Bank loans — secured	**3.34–10**	**2009**	**1,333**	2–8.75	2008	529
Bank loans — secured	**LIBOR + 1**	**2009**	**41**	LIBOR + 1.2 – LIBOR + 1.5	2008	39
Bank loans — unsecured	**5–7.78**	**2009**	**3,051**	4.86–7.29	2008	1,132
Bank loans — unsecured	**LIBOR + 0.78 – LIBOR + 2**	**2009**	**1,649**	LIBOR + 0.1 – LIBOR + 2.28	2008	1,606
Debentures — unsecured	**—**	**—**	**—**	3.6055	2008	1,998
Other loans — unsecured	**5–6**	**2009**	**845**	0.72–5.31	2008	447
			6,919			5,751
Non-current						
Bank loans — secured	**0.3–7.63**	**2011–2030**	**586**	1–5.832	2009–2023	747
Bank loans — secured	**LIBOR + 1.5 – LIBOR + 2.28**	**2010**	**202**	LIBOR + 1.5	2009–2010	465
Bank loans — unsecured	**5.58–7.74**	**2012**	**343**	5.427–6.586	2009–2012	598
Bank loans — unsecured	**LIBOR + 1.2 – LIBOR + 1.25**	**2011–2015**	**650**	LIBOR + 2.28 – LIBOR + 1.2	2009–2013	704
			1,781			2,514
			8,700			8,265

Company

	2008			2007		
	Effective interest rate (%)	Maturity	RMB million	Effective interest rate (%)	Maturity	RMB million
Current						
Bank loans — secured	**—**	**—**	**—**	5.31–5.38	2008	25
Bank loans — unsecured	**5.43**	**2009**	**1,790**	—	—	—
Debentures — unsecured	**—**	**—**	**—**	3.6055	2008	1,998
Other loans — unsecured	**5.31–5.91**	**2009**	**175**	5.91	2008	150
			1,965			2,173

28. INTEREST-BEARING BORROWINGS (continued)

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

Group

	2008 **RMB million**	2007 RMB million
Property, plant and equipment	**830**	1,002
Intangible assets	**71**	73
Inventories	**113**	130
Time deposits and bank balances	**1,142**	931
Other assets	**1,000**	1,023
	3,156	3,159

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 the issue of the short term debentures was RMB1,987.65 million. The short term debentures issued in the year 2007 were fully settled during the year.

28. INTEREST-BEARING BORROWINGS (continued)

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Bank loans repayable:				
Within one year or on demand	**6,074**	3,306	**1,790**	25
In the second year	**202**	1,059	**—**	—
In the third to fifth years, inclusive	**986**	885	**—**	—
Beyond five years	**593**	570	**—**	—
	7,855	5,820	**1,790**	25
Debentures repayable within one year	**—**	1,998	**—**	1,998
Other loans repayable:				
Within one year or on demand	**845**	447	**175**	150
	8,700	8,265	**1,965**	2,173

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

29. PROVISIONS

The Group's provisions are analysed as follows:

	Environmental restoration costs RMB million	Warranty expenses RMB million	Reorganisation expenses RMB million	Total RMB million
At 31 December 2008:				
Current portion	131	406	—	537
Non-current portion	—	—	129	129
	131	406	129	666
At 31 December 2007:				
Current portion	135	410	—	545
Non-current portion	—	—	163	163
	135	410	163	708

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 RMB million	Warranty expenses RMB million	Reorganisation expenses RMB million	Total RMB million
At 1 January 2007	102	310	193	605
Provision during the year	33	468	—	501
Utilised	—	(368)	(30)	(398)
At 31 December 2007 and 1 January 2008	135	410	163	708
Provision during the year	5	414	—	419
Utilised	(9)	(418)	(34)	(461)
At 31 December 2008	131	406	129	666

29. PROVISIONS (continued)

Environmental restoration costs

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

Warranty expenses

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

Reorganisation expenses

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

30. GOVERNMENT GRANTS

The Group's government grants are analysed as follows:

	2008 RMB million	2007 RMB million
Current portion	**23**	35
Long term portion	**83**	53
	106	88

30. GOVERNMENT GRANTS (continued)

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

	RMB million
At 1 January 2007	79
Received during the year	204
Recognised as other income during the year (note 5)	(195)
At 31 December 2007 and 1 January 2008	88
Received during the year	278
Recognised as other income during the year (note 5)	(260)
At 31 December 2008	106

31. 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	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**9,361**	7,783	**137**	89
More than three months but within one year	**757**	1,684	**43**	28
More than one year	**141**	183	**11**	9
	10,259	9,650	**191**	126

31. TRADE PAYABLES (continued)

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
DMC	**40**	35	**—**	6
Joint venture partners and their holding companies	**998**	677	**—**	—
Associates	**167**	62	**74**	2
A minority shareholder of a jointly-controlled entity's subsidiary	**1**	22	**—**	—
Fellow subsidiaries	**12**	1	**2**	1
Subsidiaries	**—**	—	**—**	9
	1,218	797	**76**	18

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

32. BILLS PAYABLE

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

	2008	2007
	RMB million	RMB million
Within three months	**3,221**	2,424
More than three months but within one year	**3,087**	2,388
	6,308	4,812

33. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Advances from customers	**1,685**	2,047	**70**	66
Accrued salaries, wages and benefits	**1,443**	1,248	**336**	379
Other payables	**5,177**	4,207	**110**	331
	8,305	7,502	**516**	776

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
DMC	**80**	304	**—**	230
Joint venture partners	**771**	53	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**1**	1	**—**	—
Associates	**—**	7	**—**	1
Fellow subsidiary	**1**	—	**—**	—
	853	365	**—**	231

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

34. 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	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Within one year	**151**	113	**19**	9
After one year but not more than five years	**490**	463	**75**	75
More than five years	**1,783**	1,746	**720**	748
	2,424	2,322	**814**	832

(b) Capital commitments

In addition to the operating lease commitments detailed in note 34(a) above, the Group had the following capital commitments at the balance sheet date:

Group

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

The Company had no capital commitments at the balance sheet date.

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Bank acceptance bills discounted with recourse	**816**	1,268	—	—
Bank acceptance bills endorsed with recourse	**3,958**	4,377	—	—
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	—	—	**52**	163
— Jointly-controlled entities	**622**	724	**1,121**	1,375
— Associates	**53**	53	—	—
— Other third parties	**9**	20	—	—
Pending litigation	**6**	5	—	—
	5,464	6,447	**1,173**	1,538

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

36. RELATED PARTY TRANSACTIONS

(a) Transactions with DMC, fellow subsidiaries, 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[1] with their related parties:

	Note	**2008 RMB million**	2007 RMB million
Purchases of automotive parts/raw materials from:	(i)		
— DMC		**94**	49
— A fellow subsidiary		**1**	—
— Joint venture partners and their holding companies		**19,054**	15,050
— Associates		**1,106**	779
— Jointly-controlled entities		**4,198**	3,553
— Minority shareholders of jointly-controlled entities' subsidiaries		**50**	190
		24,503	19,621
Purchases of automobiles from:	(i)		
— Jointly-controlled entities		**1,129**	1,244
Purchases of water, steam and electricity from DMC	(i)	**866**	806
Purchases of items of property, plant and equipment from:	(i)		
— The holding company of a joint venture partner		**47**	371
— A jointly-controlled entity		**91**	7
— A minority shareholder of a jointly-controlled entity's subsidiary		**—**	14
— An associate		**37**	4
		175	396
Rental expenses to DMC	(i)	**165**	147

36. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Note	2008 RMB million	2007 RMB million
Purchases of services from	(i)		
— DMC		**60**	48
— A fellow subsidiary		**1**	—
— A joint venture partner		**12**	6
— An associate		**13**	15
— Jointly-controlled entities		**21**	44
		107	113
Purchases of technology know-how from joint venture partners and their holding companies	(i)	**1,865**	2,260
Sales of automotive parts/raw materials to:	(i)		
— DMC		**71**	41
— Fellow subsidiaries		**4**	1
— A joint venture partner		**498**	158
— An associate		**31**	34
— Jointly-controlled entities		**1,247**	1,031
— A minority shareholder of a jointly-controlled entity' subsidiary		**—**	73
		1,851	1,338
Sales of automobiles to:	(i)		
— An associate		**174**	200
— Jointly-controlled entities		**1**	52
— A minority shareholder of a jointly-controlled entity's subsidiary		**—**	14
		175	266
Provision of services to:	(i)		
— Jointly-controlled entities		**44**	60
— Joint venture partners and their holding companies		**47**	52
		91	112

36. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Note:

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

1 *These figures of the Group (including jointly-controlled entities) are prepared on a full consolidation basis, before adjustment on a proportionate consolidation basis.*

(b) Outstanding balances with related parties:

(i) Details of the Group's balances with its related parties as at the balance sheet date are disclosed in notes 21, 23, 31 and 33 to the financial statements.

(ii) Details of the Group's balances with jointly-controlled entities as at the balance sheet date are disclosed in note 24 to the financial statements.

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

	2008 **RMB'000**	2007 RMB'000
Short term employees benefits	**7,819**	11,221
Post-employment benefits	**487**	329
Total compensation paid to key management personnel	**8,306**	11,550
Stock appreciation right expenses/(credit) recognized in the income statement	**(25,462)**	30,421
	(17,156)	41,971

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amount of each of the categories of financial instruments as at the balance sheet date are as follows:

2008

Group

Financial assets

	Financial assets at fair value through profit or loss — Held for trading RMB million	Loan and receivables RMB million	Available for-sale financial assets RMB million	Total RMB million
Other long term assets	—	330	—	330
Available-for-sale financial assets	—	—	137	137
Trade receivables	—	2,101	—	2,101
Bills receivables	—	6,516	—	6,516
Financial assets included in prepayments, deposits and other receivables	—	2,589	—	2,589
Due from jointly-controlled entities	—	386	—	386
Financial assets at fair value through profit or loss	6	—	—	6
Pledged bank balances and time deposits	—	1,697	—	1,697
Cash and cash equivalents	—	12,416	—	12,416
	6	26,035	137	26,178

Financial liabilities

	Financial liabilities at amortised cost RMB million
Trade payables	10,259
Bills payable	6,308
Financial liabilities included in other payables and accruals	5,177
Due to jointly-controlled entities	333
Interest-bearing borrowings	8,700
	30,777

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007

Group

Financial assets

	Financial assets at fair value through profit or loss — Held for trading RMB million	Loan and receivables RMB million	Available for-sale financial assets RMB million	Total RMB million
Other long term assets	—	291	—	291
Available-for-sale financial assets	—	—	136	136
Trade receivables	—	2,229	—	2,229
Bills receivables	—	7,983	—	7,983
Financial assets included in prepayments, deposits and other receivables	—	1,910	—	1,910
Due from jointly-controlled entities	—	289	—	289
Financial assets at fair value through profit or loss	81	—	—	81
Pledged bank balances and time deposits	—	931	—	931
Cash and cash equivalents	—	9,542	—	9,542
	81	23,175	136	23,392

Financial liabilities

	Financial liabilities at amortised cost RMB million
Trade payables	9,650
Bills payable	4,812
Financial liabilities included in other payables and accruals	4,207
Due to jointly-controlled entities	288
Interest-bearing borrowings	8,265
	27,222

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2008			2007		
	Loan and receivables RMB million	Available for sale financial assets RMB million	Total RMB million	Loan and receivables RMB million	Available for sale financial assets RMB million	Total RMB million
Available-for-sale financial assets	—	68	68	—	68	68
Trade receivables	171	—	171	135	—	135
Bills receivables	3	—	3	7	—	7
Financial assets included in prepayments, deposits and other receivables	1,231	—	1,231	196	—	196
Due from jointly-controlled Entities	57	—	57	56	—	56
Cash and cash equivalents	1,177	—	1,177	1,264	—	1,264
	2,639	68	2,707	1,658	68	1,726

Financial liabilities

	2008 Financial liabilities at amortised cost RMB million	2007 Financial liabilities at amortised cost RMB million
Trade payables	191	126
Financial liabilities included in other payables and accruals	110	331
Due to jointly-controlled entities	150	106
Interest-bearing borrowings	1,965	2,173
	2,416	2,736

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign currency forward and swap contracts 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 not material.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its non-current interest-bearing borrowings with following interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in percentage %	Decrease/ (increase) in profit before tax RMB million
2008	**1**	**44**
2007	1	28

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The businesses of the Group are principally located in the PRC. While most of the sales of the Group are conducted in RMB, certain of their purchases and borrowings were denominated in other currencies including, amongst others, United States dollars ("USD"), European currency units ("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.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the USD, Euro and JPY exchange rate, 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).

	Increase/(decrease) in profit before tax	
	2008	2007
	RMB million	RMB million
If RMB strengthens against USD by 1%	**44**	31
If RMB weakens against USD by 1%	**(44)**	(31)
If RMB strengthens against Euro by 1%	**8**	9
If RMB weakens against Euro by 1%	**(8)**	(9)
If RMB strengthens against JYP by 1%	**3**	2
If RMB weakens against JYP by 1%	**(3)**	(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 these financial statements represents the maximum exposure of the Group to credit risk in relation to its financial assets. In addition, the guarantees given by the Group to banks in favour of banking facilities granted to the Group's jointly-controlled entities and associates represent their other exposure to credit risk. The Group has no other financial assets carrying significant exposure to credit risk and have no significant concentration of credit risk.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, and other available sources of financing.

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

Group

	2008				
	Within one year or on demand RMB million	**In the second year RMB million**	**In the third to five years RMB million**	**Beyond five years RMB million**	**Total RMB million**
Interest-bearing borrowings	**6,919**	**202**	**986**	**593**	**8,700**
Trade payables	**10,259**	**—**	**—**	**—**	**10,259**
Bills payable	**6,308**	**—**	**—**	**—**	**6,308**
Other payables and accruals	**5,177**	**—**	**—**	**—**	**5,177**
Due to jointly-controlled entities	**333**	**—**	**—**	**—**	**333**
	28,996	**202**	**986**	**593**	**30,777**

	2007				
	Within one year or on demand RMB million	In the second year RMB million	In the third to five years RMB million	Beyond five 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 and accruals	4,207	—	—	—	4,207
Due to jointly-controlled entities	288	—	—	—	288
	24,708	1,059	885	570	27,222

38. 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in managing capital during the years ended 31 December 2008 and 31 December 2007.

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 represents equity attributable to the equity holders of the parent. The net debt to equity ratio as at the balance sheet dates was as follows:

Group

	2008 **RMB million**	2007 RMB million
Interest-bearing borrowings	**8,700**	8,265
Less: Cash and cash equivalents	**(12,416)**	(9,542)
Less: Pledged bank balances and time deposits	**(1,697)**	(931)
Net debt	**(5,413)**	(2,208)
Equity	**21,365**	17,713
Net debt to equity ratio	**(25.3%)**	(12.5%)

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2009.

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				
	2008	2007	2006	2005	2004
	RMB million	RMB million	RMB million	RMB million	RMB million
RESULTS					
Continuing operations:					
Revenue — Sale of goods	**70,569**	59,318	48,264	41,735	32,737
Cost of sales	**(58,688)**	(49,503)	(40,058)	(35,639)	(26,952)
Gross profit	**11,881**	9,815	8,206	6,096	5,785
Other income	**1,228**	935	736	1,007	568
Gain on dilution of interests in certain businesses and investments, net	**—**	—	—	—	852
Selling and distribution costs	**(3,359)**	(2,642)	(2,157)	(1,738)	(1,384)
Administrative expenses	**(2,591)**	(2,545)	(2,219)	(1,928)	(1,793)
Other expenses, net	**(1,969)**	(1,432)	(1,285)	(767)	(654)
Finance costs	**(393)**	(365)	(411)	(478)	(242)
Loss on dilution of interests in jointly-controlled entities	**—**	—	(252)	—	—
Share of profits and losses of associates	**95**	69	61	29	42
Profit before tax	**4,892**	3,835	2,679	2,221	3,174
Income tax	**(647)**	202	(428)	(474)	(308)
Profit for the year	**4,245**	4,037	2,251	1,747	2,866

Five Year Financial Summary (Continued)

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB million	RMB million	RMB million	RMB million	RMB million
Attributable to:					
Equity holders of the parent	**4,040**	3,770	2,081	1,601	2,598
Minority interests	**205**	267	170	146	268
	4,245	4,037	2,251	1,747	2,866
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**59,765**	52,197	44,113	37,980	33,451
Total liabilities	**(35,563)**	(31,798)	(27,291)	(23,646)	(23,336)
Minority interests	**(2,837)**	(2,686)	(2,534)	(2,127)	(2,078)
	21,365	17,713	14,288	12,207	8,037

Corporate Information

REGISTERED NAME

Dongfeng Motor Group Company Limited

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Hu Xindong
Lo Yee Har Susan *(FCS, FCIS)*

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The Stock Exchange of Hong Kong Limited

STOCK CODE

00489

Notice of Annual General Meeting and Relating Information

NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR 2008

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the "AGM") of Dongfeng Motor Group Company Limited (the "Company") for the year 2008 will be held at 9:00 a.m. on Thursday, 18 June 2009 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 2008.

2. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2008.

3. To consider and approve the report of the international auditors and audited financial statements of the Company for the year ended 31 December 2008.

4. To consider and approve the profit distribution proposal of the Company for the year ended 31 December 2008, and the authorisation to the Board to deal with all the issues relating to the distribution of the final dividend for the year 2008.

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 2009 at its absolute discretion (including, but not limited to, determining whether to distribute interim dividend for the year 2009).

6. To consider and approve the re-appointment of Ernst & Young as the overseas auditors of the Company, and Ernst & Young Hua Ming as the domestic auditors of the Company for the year 2009 to hold office until the conclusion of next annual general meeting, and to authorize the Board to fix their remuneration.

7. To consider and approve the Board to determine the remuneration of the directors and the supervisors of the Company for the year 2009.

8. To consider and approve to authorize Qiao Yang, the general manager of the finance and accounting department of the Company, during his term of employment, at his discretion, to deal with the provision of guarantee for the bank loans with a cap not exceeding RMB30 million each.

II. As special resolutions:

9. For the purpose of increasing the flexibility and efficiency in operation, to grant 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 as at the date of passing this resolution, otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; and

(d) for the purposes of this resolution:

"Relevant Period" means the period from (and including) the date of passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period of 12 months from the date of passing of the special resolution granting the general mandate; or

(iii) the date of revocation or variation of the authority given under this resolution by a special resolution of the Company in a general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors to the holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws, or the requirements, of any recognized regulatory body or any stock exchange in any territory outside Hong Kong) and an offer, allotment or issue of shares by way of rights shall be construed accordingly.

(B) The Board 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."

By order of the Board
Xu Ping
Chairman

14 April 2009, 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 Tuesday, 19 May 2009 to Thursday, 18 June 2009, both days inclusive, during which 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 4:30 p.m. on Monday, 18 May 2009.

(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. 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 of the Company 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 no later than 9:00 a.m. on 17 June 2009.

(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 of the Company at the Company's principal place of business in the PRC for the holders of the Domestic Shares or to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, for the holders of the H Shares on or before Friday, 29 May 2009 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) 8428 5041
Fax: (8627) 8428 5057

(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.

Tenth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited Proposal — To Consider and Approve the Annual Report for 2008

To the annual general meeting of the Company:

Pursuant to the Resolution — To Consider and Approve the Annual Report for 2008, considered and passed at the tenth 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 consideration at the annual general meeting of the Company:

1. to consider and approve the financial report for 2008 as audited by Ernst & Young Hua Ming and the report of the auditor for 2008 prepared by Ernst & Young.

2. to consider and approve the report of the board of directors of the Company for 2008.

3. It is noticed by the board of directors that the total audited profits of the Company for 2008 amounted to RMB1,888,152,247.62. After appropriating RMB403,293,201.87 to the statutory common reserve fund pursuant to PRC Accounting Standards, profit distributable is RMB1,484,859,045.75. Together with the undistributed profits at the beginning of the year of RMB983,917,693.46, profits distributable to shareholders amounted to RMB2,468,776,739.21. The board of directors recommends a payment of dividend of RMB0.045 per ordinary share for 2008 to shareholders, totaling RMB387,725,400.00.

4. to authorize the board of directors to deal with all matters in relation to the Company's interim dividend payment for the year 2009 at its discretion (including, but not limited to, the determination of the payment of interim dividend for the year 2009).

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 2009 to hold office until the conclusion of the 2009 annual general meeting, and to agree to authorize the audit committee under the board of directors to determine their remuneration for 2009.

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

Board of directors
Dongfeng Motor Group Company Limited

14 April 2009

Tenth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited
Proposal — To Consider and Approve the Remuneration of Directors and Supervisors

To the annual general meeting of the Company:

Pursuant to the Resolution – To Consider and Approve the Remuneration of Directors and Supervisors, considered and passed at the tenth 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 2009 as determined by the board of directors to the annual general meeting of the Company:

Item 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;
- According to the relevant requirements, the independent directors and the independent supervisors shall not take part in the stock appreciation rights plan;
- 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 of the Company instead of supervisors.
- The third proposal in respect of the grant of the stock appreciation rights will be implemented conditional to the fulfillment of the relevant approval procedures.

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

Board of directors
Dongfeng Motor Group Company Limited

14 April 2009

Tenth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited Proposal — To authorize for dealing with credit lines and the provision of facilities guarantee

To the annual general meeting of the Company:

Pursuant to the Resolution — To Consider and Approve the Cap for Credit Lines and to Authorize to Deal with the Provision of Facilities Guarantee, considered and passed at the tenth 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:

to authorize Qiao Yang, the general manager of the finance and accounting department of the Company, during his term of employment, on behalf of the Company, to deal with the provision of guarantee for the bank loans granted to the subsidiaries of the Company, with a cap not exceeding RMB30 million each, according to the needs of the Company, and to execute all such agreements and documents.

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

Board of directors
Dongfeng Motor Group Company Limited

14 April 2009

Tenth Meeting of the Second Board of Directors of Dongfeng Motor Group Company Limited Proposal — To Consider and Approve the Issue and Allotment of Shares

To the annual general meeting of the Company:

Pursuant to the Resolution — To Consider and Approve the Issue and Allotment of Shares, considered and passed at the tenth 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 the 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 of 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
Dongfeng Motor Group Company Limited

14 April 2009

Fourth 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 fourth meeting of the second supervisory committee of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the supervisory committee has decided to submit the 2008 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

14 April 2009

Definitions

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

"Company"	東風汽車集團股份有限公司 (Dongfeng Motor Group Company Limited), a joint stock limited company registered in the PRC on 12 October 2004 in accordance with the laws of the PRC or where the context refers to any time prior to the date of incorporation, those entities and businesses which were contributed to and conducted by the Company upon its establishment
"Dongfeng Joint Venture Companies"	Jointly-controlled Entities in which the Company, its subsidiaries or Jointly-controlled Entities (including their respective subsidiaries and Jointly-controlled Entities) have equity interests as at 31 December 2008. Please refer to page 174 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. All information given in this annual report with respect to the Dongfeng Motor Group includes information of the Group and all such companies collectively, without regard to the ownership level of the members of the Group in such companies. Please refer to further page 174 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 and the Group
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Joint Venture Company"	a joint venture company is a company set up by contractual agreement, whereby joint venture parties undertake an economic activity. A joint venture company operates as a separate entity in which each party has an interest. The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with terms of the joint venture agreement. A joint venture company is treated by a joint venture party as: (a) a subsidiary, if the joint venture party has unilateral control, directly or indirectly, over the joint venture company; (b) a jointly-controlled entity, if the joint venture party does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

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

(d) an investment, if the joint venture party holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company

"Jointly-controlled Entity" or "JCE"	a jointly-controlled entity is a Joint Venture Company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. A joint venture party's investments in its Jointly-controlled Entities can be accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements of the joint venture party on a line-by-line basis. When the profit sharing ratio is different to the joint venture party's equity interests in the Jointly-controlled Entities, the joint venture party's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio. The results of Jointly-controlled Entities are included in the joint venture party's profit and loss account to the extent of dividends received and receivable. The joint venture party's investments in Jointly-controlled Entities are treated as long term assets and are stated at cost less impairment losses
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Macau"	the Macau Special Administrative Region of the PRC
"Parent Group"	Dongfeng Motor Corporation and its subsidiaries (excluding the Group)
"PRC" or "China"	the People's Republic of China. Except where the context requires, geographical references in this annual report to the PRC or China exclude Hong Kong, Macau or Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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