東風汽車集團股份有限公司

DONGFENG MOTOR GROUP COMPANY LIMITED*

Stock Code: 489

2009 Annual Report

*For reference only

DONGFENG MOTOR GROUP COMPANY LIMITED
2009 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 2009, the Dongfeng Motor Group commanded a market share of approximately 10.5% 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. And Based on commercial vehicles (excluding mini trucks) and traditional passenger vehicles (excluding the cross type passenger vehicles) sold by domestic automobile manufacturers, the Dongfeng Motor Group had a market share of approximately 12.8%.

Chairman's Statement

Xu Ping
Chairman

Dear Shareholders,

On behalf of the Board of Directors, I hereby present the annual report of the Company for 2009 for your review.

After the economic downturn and depression in the second half of the 2008, the automobile industry of the PRC recovered rapidly and recorded an unexpected rapid growth. The monthly sales volume of vehicles recorded more than 1 million units since March, and hit a monthly record high of 1.41 million units in December after September and October. In 2009, the annual sales volume of vehicles of automobile manufacturers in the PRC was approximately 13,644,800 units, representing an increase of approximately 46.2% over last year.

We believe that, in addition to the benefits from the macroeconomics and industrial revitalization policies, the dramatic growth of the automobile industry in the PRC was mainly driven by the rising income level and consumption power of residents attributable to the sustainable economic growth in the PRC for years. China's automobile market is entering a mass consumption era.

Supported by its well-established industrial background and the diligent efforts of our management and staff, Dongfeng Motor Group achieved remarkable sales results. In 2009, the aggregate sales volume of vehicles of the Dongfeng Motor Group was approximately 1,430,700 units, representing an increase of approximately 35.1% over last year. Among which, the sales of passenger vehicles and commercial vehicles were approximately 1,058,800 units and 371,900 units, representing an increase of approximately 45.6% and 12.2%, respectively over last year. Excluding the cross type passenger vehicles and mini trucks, Dongfeng Motor Group accounted for 12.8% of market share in the PRC, which was basically the same as 2008.

Chairman's Statement

In 2009, the Group's sales revenue was approximately RMB91,758 million, representing a year-on-year increase of approximately 30.0%. Profit attributable to shareholders of the Company was approximately RMB6,250 million, representing a year-on-year increase of approximately 58.0%. The growth of financial results of the Company continuously outweighed the production and sales volume, proving that operating efficiency of Dongfeng Motor Group kept enhancing and its profitability was further consolidated and strengthened.

In 2009, Dongfeng Motor Group continued to implement the policy of prudent investment and moderate expansion so as to capture the opportunity arising from the rapid market growth while controlling the costs in an effective way. The actual investment for the year amounted to approximately RMB6.3 billion. As at the end of 2009, the total production capacity of Dongfeng Motor Group was 1,422,000 units of vehicles. In addition, Dongfeng Motor Group optimised its distribution network and adjusted its marketing strategy in response to the characteristics and trend of market structural changes (including regional and market level structural changes) to consolidate and enhance its position in the industry by leveraging on the market growth.

Looking forward to 2010, the automobile industry in the PRC will keep growing at a relatively rapid pace. As mass consumption has become more important and a new trend in the market, Dongfeng Motor Group will further adjust its product mix and market strategy in order to adapt to the volume growth and structural changes. For internal management, the Group will strive to enhance cost control, quality management and operating efficiency, particularly focus on the continuous improvements in Dongfeng Peugeot Citroen Automobile Company Ltd and the commercial vehicles business, in order to achieve sustainable progress in our operating management, production and sales and financial results.

Xu Ping
Chairman

Wuhan, the PRC
13 April 2010

Business Overview

I Major Businesses of the Dongfeng Motor Group

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

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

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

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

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

The Dongfeng Motor Group's finance business is principally operated by the following companies: Dongfeng Nissan Auto Finance Co., Ltd (the joint venture company between the Company and Nissan Motor Co. Ltd) 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 2009, the members of the Dongfeng Motor Group produced 38 series of commercial vehicles, including 32 series of trucks and 6 series of buses. The commercial vehicles of the Dongfeng Motor Group are mainly manufactured by Dongfeng

Motor Co., Ltd. The commercial vehicles manufactured by the Dongfeng Motor Group are sold mainly through four major sales and after-sales service networks exclusively for commercial vehicles manufactured by the Dongfeng Motor Group, which form one of the most extensive commercial vehicle sales and service networks in the PRC.

Commercial vehicle engines produced by the Dongfeng Motor Group are mainly provided for internal use and external sales. Dongfeng Motor Co., Ltd and Dongfeng Automobile Co., Ltd, 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 2009, the members of the Dongfeng Motor Group produced 28 series of passenger vehicles, including 18 series of sedan, 5 series of MPV and 5 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are sold through eight independently managed sales and the after-sales service networks throughout the PRC. Each of these networks provides sales and after-sales services for one brand of passenger vehicles and is managed by the relevant joint venture of Dongfeng or the Company.

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

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

3. Other businesses

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

The Dongfeng Motor Group is also engaged in other vehicle related businesses, including 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 2009, the production and sales volumes for whole vehicles of the Dongfeng Motor Group were 1,434,376 units and 1,430,742 units respectively. According to statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group had a market share of 10.5% in terms of sales volume of commercial and passenger vehicles made by domestic manufacturers in 2009. 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 2009:

	No. of units produced (units)	No. of units sold (units)	Market share in terms of sales volume (%)[1]
Commercial Vehicles	378,948	371,931	11.2
Trucks	339,604	332,677	11.2
Buses	39,344	39,254	11.1
Passenger Vehicles	1,055,428	1,058,811	10.2
Basic passenger cars	853,990	853,327	11.4
MPVs	30,535	30,106	12.1
SUVs	170,903	175,378	26.6
Total	1,434,376	1,430,742	10.5

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 2009

	Number of vehicles sold by the Dongfeng Motor Group (units)	Ranking in domestic market[2]
Heavy trucks	114,108	3
Medium trucks	50,713	1
Light trucks	167,856	2
Basic passenger cars	853,327	3
MPVs	30,106	3
SUVs	175,378	1

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

3. Sales revenue

As at 31 December 2009, the annual sales revenue of the Group was approximately RMB91,758 million.

Business	Sales revenue (RMB millions)	Contribution to the Group's sales revenue (%)
Commercial vehicles	21,982	24.0
Passenger vehicles	68,864	75.0
Others	912	1.0
Total	91,758	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 12 brand names in China. Each of these 12 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)	292	604	32
Dongfeng Automobile Co., Ltd	Dongfeng (light)	916	994	32
Dongfeng Liuzhou Motor Co., Ltd	Dongfeng (heavy and medium)	172	598	29
Dongfeng Nissan Diesel Motor Co., Ltd	Dongfeng Nissan Diesel	52	92	31

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

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Peugeot Citroën Automobiles Company Ltd	Dongfeng Citroën	292	306	32
Dongfeng Peugeot Citroën Automobiles Company Ltd	Dongfeng Peugeot	165	165	30
Dongfeng Motor Co., Ltd (Dongfeng Nissan Passenger Vehicle Company)	Dongfeng Nissan	391	391	32
Dongfeng Liuzhou Motor Co., Ltd	Dongfeng Future	470	260	32
Dongfeng Honda Automobile Co., Ltd	Dongfeng Honda	260	260	32
Zhengzhou Nissan Automobile Co., Ltd	Zhengzhou Nissan	789	438	32
Dongfeng Automobile Co., Ltd	Dongfeng (Pickup)	916	994	32
Dongfeng Passenger Vehicles Company	Dongfeng Fengshen	72	72	31

IV Production Capacity, Production Capacity Distribution and Future Expansion Plans

As at 31 December 2009, the total whole vehicle production capacity of the Dongfeng Motor Group was approximately 1,422,000 units. The total production capacity of engines was approximately 1,500,000 units, among which the production capacities of commercial vehicles and commercial vehicle engines were approximately 402,000 units and 220,000 units respectively; the production capacities of passenger vehicles and passenger vehicle engines were approximately 1,020,000 units and approximately 1,280,000 units, respectively.

The following table shows the production capacity distribution of vehicles and engines of the Dongfeng Motor Group as at 31 December 2009:

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	220

2. Production capacity of passenger vehicles

2.1 Whole vehicle:

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	500
Dongfeng Peugeot Citroën Automobiles Company Ltd	300
Dongfeng Honda Automobile Co., Ltd	180
Dongfeng Passenger Vehicles Company	40

2.2. Engines:

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	360
Dongfeng Peugeot Citroën Automobiles Company Ltd	380
Dongfeng Honda Automobile Co., Ltd	180
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 2010, the production capacity of whole vehicles is expected to reach approximately 1,700,000 units.

V Investment in 2009 and Investment Plan for the Next Two Years

In 2009, the Dongfeng Motor Group strictly managed its investments by adhering to the principle of rationality and profitability, and the total investment in fixed assets during the year amounted to approximately RMB6,300 million, resulting in steady progress in the following aspects of investment project development:

1. Introduction of new products and development of new models timely according to the industrial development trend, the requirements of the State's industrial adjustment and stimulation policies and the actual market situation.

2. Prudently managing the investments in production capacity expansion or construction to minimize investment risks in face of the financial crisis and the State's stimulation measures.

3. Strengthening the establishment of its own brand name and its research and development capabilities to improve the core competitiveness and sustainability of the Dongfeng Motor Group.

In the next two years, the Dongfeng Motor Group will, according to its strategies and business plans, continue to improve its R&D capability, to introduce new models and new products rationally, to expand its production capacity gradually, to further improve and upgrade production technology and to optimize its investment structure. The total investment of the Dongfeng Motor Group is expected to be approximately RMB9,000 million and RMB12,000 million in 2010 and 2011 respectively.

VI Research and Intellectual Property and Development

1. New Products Development and Research and Development

(1) Commercial Vehicles: The adaptive research of Kinland, T-LIFT and Kingrun series further continued on the D310 and D530 platforms and the brandnames of DCi11, 4H engine and related applicable vehicle models were further enhanced. The development of brand new generation F91A light truck has been completed and commenced its production successfully by the end of the year. As for the Third Generation Dongfeng series Light Truch Research and Industrialization Project, its adaptive development is being continued upon its successful launch into the market so as to consolidate Dongfeng light truck's leading position in the PRC Market.

(2) Passenger Vehicles: Various development of S30, the first own brand B Class sedan, such as its quality improvement has been completed and met the expected quality standards. Its production and sales were successful realized. The development and product announcement for H30, hatchback S30 has also been completed and H30 has been successful rolled off the production line. Meanwhile, the development of own brand PV engines and other class platforms is still going on. The R&D departments of each subsidiary have accelerated the introduction of new products. Several new models, such as Spirior from Dongfeng Honda and C5 from Dongfeng Citroen have successfully completed their development and launched into the market, facilitating the growth of the Group.

(3) New Energy Vehicles: The industrialization of EQ6111HEV basic type hybrid gasoline-electric vehicle has been pressing ahead. Development, production and operation of hybrid power buses in the "Ten City 1000" project has been completed. The development of 11m pure electrical buses has completed its development and commenced mass production and sales in the domestic market. Development and product announcement of Class B hybrid power car has been finished. Project planning for EV pure electrical Mini-car has been completed. The development of high horsepower CNG and LNG engines have been accelerated and the development of ethanol fuel vehicles has also been strengthened so as to further enhance the technological advantages of the Group in the field of clean fuel vehicles.

2. Further enhancement of technological innovation capability

The Company has a proven track records in technological innovation. After the "Dongfeng 1.5 ton high performance off-road vehicles development" project winning the first prize at the State Scientific and Technological Progress Award in 2008, the "Key technology in energy conservation and emission reduction of Dongfeng hybrid power urban buses" project again won the second prize at the State Scientific and Technological Progress Award in 2009. During the year, Dongfeng Motor Group received a total of 13 scientific and technological advancement awards, including 3 second prizes and 9 third prizes.

VII Fulfillment of Social Responsibilities

1. Energy conservation and environment protection

In 2009, each unit or company under the Dongfeng Motor Group has implemented its energy conservation measures, and fulfilled the target in energy conservation and emission reduction. When compared with 2005, energy consumption with RMB10,000 in added value at current price dropped by over 36%, reducing COD and SO_2 emission by 25% and 35%, respectively.

2. Production safety

In 2009, the Dongfeng Motor Group adhered to the policy of "integrated management with safety first and precaution as priority" and implemented responsibility system for production safety. During the year, the number of accidents decreased by approximately 40% as compared to that of 2008 and no death was reported.

3. Safeguard the legal rights of the employees

(1) Further improve the remuneration incentive system. In 2009, the Dongfeng Motor Group improved its performance-based remuneration system and optimized the remuneration system for its contract workers, so that their remuneration will be in line with those regular employees.

(2) Further improve social security systems for the employees. In 2009, the Dongfeng Motor Group fully contributed to various social security funds on time. It also improved the medical insurance, injury insurance and maternity insurance and established supplemental pension, medical insurance and commercial insurance of serious illnesses and accidental injuries for all its staff, formulating a comprehensive insurance system for the entire group.

Ⅷ Business Prospects

The PRC automobile market, especially the passenger vehicle sector, has entered into a mass consumption era. The domestic automobile industry will maintain its rapid growth with new characteristics of market structure.

It is anticipated that the total sales volume of domestically manufactured vehicles will reach 15 million units in 2010.

According to the current production capacity of the Dongfeng Motor Group and the anticipation of the future market trend, Dongfeng Motor Co., Ltd and Dongfeng Honda Engine Co., Ltd plan to further increase their production capacity in the next two years in order to meet the growing market demands.

In terms of product planning, the Dongfeng Motor Group is expected to launch eight new passenger vehicle models, including medium-high sedans, medium sedans, compact sedans, SUVs and MPVs. Two series of commercial vehicles, including medium-high class light trucks and European light buses will be introduced to the market in the next two years.

Meanwhile, the Dongfeng Motor Group will spare no efforts in improving its efficiency in operation and use of resources so as to take a leading position in the industry in cost control, quality and profitability. The Dongfeng Motor Group is committed to continuously consolidating and uplifting its leading position in the PRC automobile industry in terms of production and sales capacity, market influence and financial performance.

Management Discussion and Analysis

On 1 July 2009, the Company purchased the Own-brand Business of DMC ("Own-brand Business") at a cash consideration of RMB797 million ("Business Combination"). The acquisition of the Own-brand Business was considered to be a business combination involving business under common control as the Company and the Own-brand Business are under common control of DMC both before and after the Business Combination. Accordingly, the assets and liabilities of the Own-brand Business have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisition of the Own-brand Business have been restated to include the results of operations and assets and liabilities of the Own-brand Business as if the business acquired had always been part of the Group.

FINANCIAL RESULTS OVERVIEW

During the year, revenue of the Group amounted to approximately RMB91,758 million, representing an increase of approximately RMB21,189 million, or 30.0%, when compared with approximately RMB70,569 million for last year. Profit attributable to shareholders of the Group amounted to approximately RMB6,250 million for the year, representing an increase of approximately RMB2,295 million, or 58.0%, when compared with approximately RMB3,955 million for last year. Earnings per share were approximately RMB72.54 cents, up by approximately RMB26.64 cents, or 58.0%, when compared with approximately RMB45.90 cents for last year.

During the year, net cash inflow from operating activities of the Group amounted to approximately RMB20,514 million, representing an increase of approximately RMB13,244 million, or 182.2%, when compared with approximately RMB7,270 million for the previous year.

REVENUE

Affected by the global financial crisis, the automobile market in the PRC began to decline and downturn since August 2008 and the outlook the automobile industry was highly uncertain. In 2009, driven by macroeconomy, revitalization plan and the boost of domestic demand, the Automobile Industry in the PRC has achieved rapid recovery and


development and the market demand structure was optimized. The automobile industry in the PRC quickly rebound in February 2009 with growth in production and sales. From March 2009 and onwards, the monthly production of and sales of vehicles have exceeded 1 million units. The annual production and sales for all vehicles and passenger vehicles hit record highs of over 10 million units for the year.

In 2009, sales of local made vehicles approximately amounted to 13,640,000 units, representing an increase of approximately 46.2% over last year. Of which, sales of passenger vehicles approximately amounted to 10,330,000 units, representing an increase of approximately 52.9%; sales of the traditional passenger vehicles (excluding the cross type passenger vehicles) approximately amounted to 8,380,000 units, representing an increase of approximately 47.2%; and sales of commercial vehicles approximately amounted to 3,310,000 units, representing an increase of approximately 28.4% over last year. Excluding mini trucks, sales of commercial vehicles approximately amounted to 2,810,000 units, representing an increase of approximately 22.7% when compared with last year.

The total vehicle sales of Dongfeng Motor Group for 2009 approximately amounted to 1,430,000 units, representing an increase of approximately 35.2% over last year. Of which, sales of passenger vehicles (excluding the cross type passenger vehicles) was approximately 1,060,000 units, representing an increase of approximately 45.6% over last year; sales of commercial vehicles approximately (excluding mini trucks) amounted to 370,000 units, representing an increase of approximately 12.2% over last year. Dongfeng Motor Group had a market share of approximately 10.5% in terms of sales volume. The market shares of its passenger vehicles and commercial vehicles were approximately 10.2% and 11.2% respectively. Excluding the cross type passenger vehicles and mini trucks, Dongfeng Motor Group commanded a market share of approximately 12.8% whereas the market shares of passenger and commercial vehicles were approximately 12.6% and 13.2% respectively.

During the year, the growth of sales volume of Dongfeng Motor Group fell below the overall growth of the industry and the market shares of its passenger and commercial vehicles dropped when compared with last year mainly because: (1) in respect of commercial vehicles, the local demand for medium and heavy trucks was relatively weak while the growth of sales was mainly in low-price vans which were not in the product line of Dongfeng Group; (2) in respect of passenger vehicles, stimulated by the 50% sale tax cut, sales of economic passenger vehicles of 1.6L or below saw a rapid growth. However, such class of vehicles were not provided by Dongfeng Honda Automobile Co., Ltd., a subsidiary of the Group. The annual sales growth of Dongfeng Honda Automobile Co., Ltd . was 28.4%, which was far below the overall growth of the industry. The sales growth of Dongfeng Honda Automobile Co., Ltd. was also approximately 17 percentage points below the overall growth in sales of passenger vehicles of the Group. On the other hand, the sales volume of Dongfeng Peugeot Citroën Automobiles Company Ltd of the Group, which sold economic passenger vehicles of 1.6L or below (excluding the cross type passenger vehicles), was higher than the industry growth, and the growth in the sales volume of Dongfeng Nissan Passenger Vehicle Company was in line with that of the industry; (3) The whole vehicle capacity utilization of Dongfeng Motor Group has achieved 100.08% and the further growth of sales volume was effected by the capacity limity.

During the year, the total sales revenue of the Group was approximately RMB91,758 million, representing a growth of approximately RMB21,189 million, or 30.0%, as compared with approximately RMB70,569 million of last year.

	2009		2008	
	Sales revenue RMB million	**Units sold**	Sales revenue RMB million	Units sold
Passenger vehicles	**68,864**	**1,058,811**	48,660	727,392
Commercial vehicles	**21,982**	**371,931**	20,980	331,402
Others	**912**	**N/A**	929	N/A
Total	**91,758**	**1,430,742**	70,569	1,058,794

Note: 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 periods.

During the year, the revenue of the Group from sales of passenger vehicles increased by approximately RMB20,204 million, or 41.5%, from approximately RMB48,660 million last year to approximately RMB68,864 million. Of which, the revenue from sales of whole passenger vehicles increased by approximately RMB19,003 million, or 47.7%, from approximately RMB39,829 million of last year to approximately RMB58,832 million.

During the year, the Group seized the opportunity arising from the market recovery by actively adjusting its product mix and expanding market coverage. In respect of production line, the Group rapidly developed passenger vehicles with a capacity of 1.6L or below to cater for new market changes and demand. The type of passenger vehicles exceeded 20, accounting for 65% of total volume of passenger vehicles. Dongfeng Citroën C-Quatre sedan, which was launched this year, was well-received by the market and recorded sales of over 70,000 units. Dongfeng Nissan New Sylphy and New Teana had been undersupplied. Tiida maintained steady growth. In the face of the unfavorable conditions resulting from the absence of the passenger vehicles with a capacity of 1.6L or below, Dongfeng Honda strived to differentiate its market strategy into a series of effective marketing efforts. The sales of 2009 CIVIC ranked top among the vehicles with the same capacity (1.8L) since its debut, while the sales of CR-V ranked top of SUV for the third consecutive years. In addition, the Group grasped every business opportunity through detailed and in-depth marketing efforts. Leveraged the traditional markets, the Group expanded its marketing efforts and boosted sales in second and third tier cities as well as rural areas. The Group also strengthened cooperation with the government and large enterprises, actively fought for policy support and grasped opportunities in procurement, which were crucial to the increase in sales volume and revenue.

During the year, the sales revenue from commercial vehicles increased by approximately RMB1,002 million, or 4.8%, from approximately RMB20,980 million of the previous year to approximately RMB21,982 million. Of which, the sales revenue from whole commercial vehicles increased by approximately RMB1,634 million, or 9.1%, from approximately RMB18,002 million of the previous year to approximately RMB19,636 million.

In the first half of 2009, particularly the first quarter, the sales of commercial vehicles slumped as affected by the macro-environment and the general market condition. In the second half of the year, economies in major countries bottomed out and the global economy saw gradual recovery. China's economy maintained a stable growth pace with significant improvement in market sentiment and strong growth in investment. The transportation volume of bulky materials picked up gradually, boosting the demand for commercial vehicles in the PRC. The Group captured the opportunity arising from market revival by actively expanding new markets and expediting structure adjustment and technology upgrade, leading to a stable and accelerating growth in the sales of commercial vehicles. In the second half of 2009, the sales of commercial vehicles of the Group increased from 160,000 units in the first half of the year to 210,000 units, representing an increase of approximately 50,000 units, or 31.3%. The sales revenue of whole vehicles increased from approximately RMB7,607 million in the first half of the year to approximately RMB12,029 million, representing an increase of approximately RMB4,422 million or 58.1%.

In order to alleviate the negative impacts resulting from the decrease in demand for medium and heavy commercial vehicles, the Group further streamlined the product mix of heavy, medium and light vehicles. In particular, the timely launch of certain vehicle models catering for the rural market achieved remarkable results. However, the sales volumes of medium and heavy trucks as percentages of the total sales volume of commercial vehicles decreased. The increase in sales revenue of whole commercial vehicles was lower than that of sales volume as a result of the change in the sales structure.

COST OF SALES AND GROSS PROFIT

The total costs of sales of the Group for the year was approximately RMB74,274 million, representing an increase of approximately RMB15,586 million over approximately RMB58,688 million for the previous year. The total gross profit of the Group for the year was approximately RMB17,484 million, representing an increase of approximately RMB5,603 million over approximately RMB11,881 million for the previous year, representing a growth of 47.2%. The gross margin increased by 2.3 percentage points from 16.8% for the previous year to 19.1% for the year.

During the year, the gross profit margin of passenger vehicles increased to approximately 20.6% from approximately 19.0% of the previous year, and that of whole passenger vehicles increased to approximately 20.7% from approximately 18.2% of the previous year. These increases were mainly attributable to: (1) the further rise in the sales proportion of products with higher gross profit margin such as Dongfeng Citroën C-Quatre, Dongfeng Nissan New Sylphy, Tiida and Dongfeng Honda CR-V through optimization of product mix; (2) the decrease in raw material prices to certain extent compared with 2008; (3) the substantial decrease in unit production cost compared with same period last year as a result of the Group's continuous cost control plan through measures including increasing domestic production proportion and reducing procurement and technology costs, which offset the impact from the increase in procurement costs of KD units arising from changes in foreign exchange rate.

During the year, the gross profit margin of commercial vehicles increased to approximately 14.1% from approximately 11.6% of the previous year, and that of whole commercial vehicles of the Group increased to approximately 14.2% from approximately 11.5% of the previous year. The increase in gross profit margin was mainly attributable to: (1) the drop in raw material prices during the year compared with the previous year and the effective cost control measures of the Group; (2) the improvement in overall gross profit margin due to the sales expansion of products with higher gross profit margin such as new heavy truck model Dongfeng "Kinland T-LIFT" and new medium truck model Dongfeng "Kingrun" despite the decrease in sales proportion of medium and heavy commercial vehicles. In 2009, sales volumes of the two truck models increased from 38,333 units and 1,744 units in 2008 by 10,487 units and 8,805 units to 48,820 units and 10,549 units respectively, representing respective increases of approximately 27.4% and 504.9%.

OTHER INCOME

During the year, the total other income of the Group amounted to approximately RMB1,520 million, representing an increase of approximately RMB292 million when compared with approximately RMB1,228 million for the previous year. The increase in other income was mainly attributable to: (1) an increase of approximately RMB85 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 RMB114 million in the sales of steels and auto parts; and (3) the increase of approximately RMB53 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 RMB4,297 million, representing an increase of approximately RMB918 million when compared with approximately RMB3,379 million of the previous year.

The selling and distribution costs as a percentage of sales revenue decreased by approximately 0.1 percentage points to approximately 4.7% from 4.8% 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 incentives to distributors 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 RMB3,138 million, representing an increase of approximately RMB483 million when compared with approximately RMB2,655 million for the previous year. This was mainly due to higher staff costs and amortisation expenses of intangible assets. During the year, amortisation of the fair value of stock appreciation rights amounted to approximately RMB19 million, compared with a write-back in the amortisation of the fair value of stock appreciation rights of approximately RMB91 million for the previous year, resulting in a rise in the increase in administration expenses by approximately RMB110 million. During the year, the administration expenses as a percentage of sales revenue decreased by 0.4 percentage points to approximately 3.4%, down from 3.8% of the previous year due to the increase in sales, the Group's control over administration expenses.

OTHER EXPENSES, NET

During the year, other expenses of the Group were approximately RMB3,110 million, representing an increase of approximately RMB1,140 million when compared with approximately RMB1,970 million for the previous year. The increase was mainly due to: (1) the increase in technology development and transfer expenses by approximately RMB637 million to approximately RMB2,087 million from approximately RMB1,450 million in the previous year; and (2) the exchange loss of approximately RMB31 million resulting from changes in foreign exchange rates compared with the exchange gains of RMB229 million in the same period last year; (3) the increase in warranty provisions by approximately RMB276 million to approximately RMB690 million from RMB414 million of the previous year as a results of sales increase.

STAFF COSTS

During the year, the staff costs (including directors' and supervisors' emoluments) of the Group amounted to approximately RMB3,960 million, representing an increase of approximately RMB719 million when compared with approximately RMB3,241 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, amortisation of the fair value of stock appreciation rights amounted to approximately RMB19 million, compared with a write-back in the amortisation of the fair value of stock appreciation rights of approximately RMB91 million for the previous year, resulting in the increase in staff costs by approximately RMB110 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 RMB2,322 million, representing an increase of approximately RMB297 million when compared with approximately RMB2,025 million for the previous year.

FINANCE COSTS

During the year, the finance costs of the Group amounted to approximately RMB245 million, representing a decrease of approximately RMB148 million when compared with approximately RMB393 million for the previous year, which was mainly attributable to the lower loan interests compared with 2008. In addition, interests expense was effectively reduced as the Group adopted financing means with low capital costs such as issuance of medium-term notes, short-term financing bills and bank note discount.

INCOME TAX

During the year, the income tax of the Group amounted to approximately RMB1,671 million, representing an increase of approximately RMB1,024 million when compared with approximately RMB647 million for the previous year. The effective tax rate for the year was approximately 19.9%, representing an increase of approximately 6.4 percentage points when compared to 13.5% for the previous year. 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 Group's profit attributable to shareholders of the Company amounted to approximately RMB6,250 million for the year, representing an increase of approximately RMB2,295 million, or 58.0%, when compared with approximately RMB3,955 million for the previous year. Earnings per share were approximately RMB72.54 cents, up by approximately RMB26.64 cents, or 58.0%, when compared with approximately RMB45.90 cents 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 6.8%, representing an increase of approximately 1.2 percentage points when compared with that of 5.6% for the previous year.

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 25.3%, representing an increase of approximately 5.4 percentage points when compared with that of 19.9% for the previous year.

LIQUIDITY AND SOURCES OF CAPITAL

	2009 RMB million	2008 RMB million
Net cash inflows from operating activities	**20,514**	7,270
Net cash outflows used in investing activities	**(12,994)**	(8,053)
Net cash inflows from financing activities	**2,640**	889
Net increase in cash and cash equivalents	**10,160**	106

During the year, net cash inflows from operating activities amounted to approximately RMB20,514 million. This principally represents: (1) profit before tax less non-cash items of depreciation and impairment amounting to approximately RMB11,030 million; (2) an increase of approximately RMB4,635 million in trade receivables, bills receivable and prepayments, deposits and other receivables; and (3) an increase of approximately RMB15,280 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 RMB12,994 million. This principally represents: (1) the purchase of property, plant and equipment of approximately RMB3,011 million for the expansion of production capacity and development of new products; (2) the consideration of RMB797 million to purchase the "Dongfeng" brand passenger vehicles project; and (3) the increase of approximately RMB8,496 million in 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 RMB2,640 million, mainly due to: (1) the issue of medium-term notes of RMB3,000 million by the Group; (2) payment of dividends of approximately RMB388 million to the shareholders.

During the year, the increase in cash and cash equivalents (excluding the time deposits with an original maturity of three months or more) of the Group increased to approximately RMB10,160 million. As at 31 December 2009, cash and cash equivalents amounted to approximately RMB17,369 million, and cash and bank balances (including the time deposits with an original maturity of three months or more) amounted to approximately RMB32,784 million, representing a significant increase by approximately RMB18,565 million when compared with approximately RMB14,128 million as at 31 December 2008. As at 31 December 2009, net cash (cash and bank balances less borrowings) of the Group significantly increased to approximately RMB21,143 million from approximately RMB5,428 million as at 31 December 2008.

As at 31 December 2009, the Group's equity ratio, as a percentage of total borrowings to total shareholders' equity, was 42.7%, representing an increase of 3.3 precentage points over the 2008 level of 39.4%.

The Group's liquidity ratio for the year was 1.19 times, representing a slight increase over the 2008 level of 1.08 times. The Group's quick ratio for the year was 1.02 times, representing a great improvement from the 2008 level of 0.81 times.

The Group strengthened control over inventories in this year. Inventory turnover days was 43 days, representing a greater improvement from 58 days in 2008.

The Group's turnover days of receivables (including bills receivable) increased to 49 days from 45 days of the previous year, and the turnover days of receivables (excluding bills receivable) decreased to 7 days from 11 days of the previous year. The turnover days of bills receivable significantly increased to 42 days from 34 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 trustworthy customers with financial 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 52, 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 60, 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 to 2009 and the Chief Accountant of Dongfeng Motor Corporation from April 2005 to June 2009. 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 57, 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., Dongfeng Honda Auto Parts Co., Ltd., and Dongfeng Honda Engine Co., Ltd. (by December 2009). He is also the vice chairman of 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 49, 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 56, 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 53, 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 43, is a Director of the Company. Mr. Liu is a senior post-graduate engineer. He graduated in 1988 from Wuhan Technical Institute with a Bachelor's degree in Engineering, specializing in the automotive industry. He studied Management Science and Engineering and received a Master's degree in Management from Wuhan Polytechnic University from 2000 to 2003. He was a representative of the 10th National People's Congress. Mr. Liu joined Dongfeng Motor Corporation in 1988 and has been the Deputy General Manager of Dongfeng Motor Corporation and the General Manager of Dongfeng Peugeot Citroën Automobiles Company Ltd. since 2001. Since October 2004, he has served as a director of the Board of Directors of the Company.

Zhu Fushou (**朱福壽**), aged 47, is a Director of the Company. Mr. Zhu is a senior post-graduate 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 69, 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 68, 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 70, 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 50, 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, Dongfeng Honda Engine Co. Ltd. (by December 2009) and Dongfeng Peugeot Citroën Automobiles Company Ltd.

SUPERVISORY COMMITTEE

Independent Supervisors

Wen Shiyang (溫世揚), aged 45, 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 56, is an Independent Supervisor of the Company. Mr. Deng is the Dean of the Management College of Wuhan Polytechnic University and holds a Doctor's degree. He is a Professor of financial management and a tutor to doctorate candidates. Mr. Deng has committed to a number of national science research projects and has a number of published works. Mr. Deng is the Vice President of the Tertiary College Committee of Chinese Accounting Association.

Supervisors

Ye Huicheng (葉惠成), aged 59, 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 (周强), aged 48, 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. And he has served as a Standing Committee Member of the Communist Party of Dongfeng Motor Corporation since March 2009. Since October 2004, Mr. Zhou has served as a supervisor of the Supervisory Committee of the Company.

Ren Yong (任勇), aged 46, 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. Mr. Ren has served as a supervisor of the Supervisory Committee of the Company since October 2004.

Liu Yuhe (劉裕和), aged 60, 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 of Dongfeng Honda Automobile Co., Ltd. from July 2003 to December 2009 ,he had served as the director of Dongfeng Honda Automobile Co., Ltd. Mr. Liu is also a Director of Dongfeng Honda Engine Co. Ltd.from 2001 to December 2009 and a Director of Dongfeng Honda Auto Parts Co., Ltd. Since 2001. Since October 2004, Mr. Liu has served as a supervisor of the Supervisory Committee of the Company.

Li Chunrong (李春榮), aged 45, 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 System 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 46, 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 , Secretary of the Commission for Inspecting Discipline 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 42, is Joint Company Secretary of the Company and the Head of Securities Affairs Department of the Company. 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 51, 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.

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 Company Office of the Company is Mr. He Wei.

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 2009 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 businesses as well as other businesses are carried out at the major operating entities of the Company and through subsidiaries, JCEs and other companies in which it has direct equity interests. The Company and the aforesaid subsidiaries, JCEs and the other shareholders having direct equity interests in the above companies jointly manage branding, strategies, operations, marketing and other areas in accordance with the relevant joint venture agreements.

RESULTS

The Group's results for the year ended 31 December 2009 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 79 to 198 in this annual report.

DIVIDENDS

The Board of Directors recommends the dividend distribution of RMB0.090 per share in respect of 2009 results, subject to consideration and approval at the annual general meeting to be held on 18 June 2010.

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2009, the Company's JCEs, in total, declared and distributed aggregate dividends of approximately RMB4,253 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 2009 is set out on pages 199 to 200 in this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 30 to the audited financial statements.

INTEREST CAPITALISED

Details of the interest capitalised of the Group for the year ended 31 December 2009 are set out in note 8 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 2009 are set out in note 15 to the audited financial statements.

DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2009, 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 2009 are set out in note 29 to the audited financial statements and the consolidated statement of changes in equity on page 84, respectively.

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

The Board of Directors recommends allocation of 10% of total profit to the statutory surplus reserve and no allocation to the discretionary surplus reserve under the laws and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 18 June 2010.

DONATIONS

The Group has made total donations of RMB4 million for the year ended 31 December 2009.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2009, 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 2009, 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 2009, details of the subsidiaries and JCEs as well as other companies in which the Company has direct equity interests are set out in notes 18, 19 and 20 respectively to the audited financial statements for the year.

SHARE CAPITAL

As at 31 December 2009, 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 2009, there is no change in the aggregate share capital of the Company.

STOCK APPRECIATION RIGHTS

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

In the first round of SARs, 55,665,782 SAR units were granted on 23 January 2006, the date of grant. The grant price was HK$2.01. The SARs are subject to a minimum lock-up period of two years from the date of grant and the following additional restrictions:

(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, 31,417,405 SAR units were granted at a grant price of HK$4.09. The SARs are subject to a minimum lock-up period of two years from the date of grant and the following additional restrictions:

(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, 19,483,009 SAR units became effective during the year, representing 35% of the total SAR units granted. As at 31 December 2009, an aggregate of 36,182,740 SAR units became effective, representing 65% of the total SAR units granted. During the year, 3,001,742 SAR units were exercised, representing 5.39% of the total SAR units granted. As at 31 December 2009, an aggregate of 3,041,942 SAR units became effective, representing 5.46% of the total SAR units granted.

In respect of the second round of SARs, 12,566,961 SAR units became effective during the year, representing 40% of the total SAR units granted. As at 31 December 2009, an aggregate of 12,566,961 SAR units became effective, representing 40% of the total SAR units granted. During the year, 770,585 SAR units were exercised, representing 2.45% of the total SAR units granted. As at 31 December 2009, an aggregate of 770,585 SAR units became effective, representing 2.45% of the total SAR units granted.

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 2009, 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
SCMB Overseas Limited	H shares	242,282,000 (L)	9.76	2.81
Standard Chartered Asia Limited	H shares	242,282,000 (L)	9.76	2.81
Standard Chartered Bank	H shares	242,282,000 (L)	9.76	2.81
Standard Chartered Holding Limited	H shares	242,282,000 (L)	9.76	2.81
Standard Chartered Holdings (International) B.V.	H shares	242,282,000 (L)	9.76	2.81
Standard Chartered MB Holdings B.V.	H shares	242,282,000 (L)	9.76	2.81
Standard Chartered Private Equity Limited	H shares	242,282,000 (L)	9.76	2.81
JPMorgan Chase & Co.	H shares	185,928,100(L)	6.51	2.16
		182,000(S)	0.01	0.002
		147,674,565(P)	5.17	1.71
UBS AG	H shares	164,891,625(L)	5.77	1.91
		35,014,544(S)	1.23	0.41
Morgan Stanley	H shares	162,989,529(L)	5.71	1.89
		11,958,081(S)	0.42	0.14

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 30 to 32 in this annual report.

The supervisors of the Company during the year were:

Supervisors

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 33 to 34 in this annual report.

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

As at 31 December 2009, 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 2009, the Company did not grant to any director, or senior management or supervisor of the Company or their respective spouses or children under eighteen years of age any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

CONFIRMATIONS OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual written confirmations of independence from all independent non-executive directors, 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 2009.

REMUNERATIONS OF DIRECTORS AND SUPERVISORS

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

FIVE HIGHEST-PAID INDIVIDUALS

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

EMPLOYEES

As at 31 December 2009, the Dongfeng Motor Group had a total of 94,066 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 workers	54,124	57.6%
Engineering and technology	10,262	10.9%
Management	21,464	22.8%
Services	8,216	8.7%
Total	94,066	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 is committed to providing 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 7 to the audited financial statements for the year.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into with any person, firm or legal person during the year ended 31 December 2009.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Competition exists between the businesses of Dongfeng Motor Group and Dongfeng Motor Corporation and its subsidiaries. The Executive Directors (Mr. Xu Ping, Mr. Liu Zhangmin, Mr. Zhou Wenjie, Mr. Li Shaozhu and Mr. Fan Zhong) devote most of their time managing the day-to-day operations of the Company. The Company further confirmed that its management has not involved in daily operations of Dongfeng Motor Corporation and its subsidiaries which compete with the businesses of the Company during the year ended 31 December 2009.

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.

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

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

COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company confirmed that its parent company had complied with Non-competition Agreement signed with the Company for the year ended 31 December 2009. In accordance with the Non-competition Agreement, the Company entered into a purchase agreement with Dongfeng Motor Corporation, its parent company, on 27 May 2009 to acquire the business of the parent under its self-developed brand. And on 1 July 2009, Dongfeng Motor Group has completed the acquisition on following relevant business and equity of own brand of parent company. Including:

(1) the full-set of production line equipment comprising four major production processes, namely, stamping, welding, painting and assembly as required for manufacturing Dongfeng Motor Corporation's own-brand passenger vehicles;

(2) the logistics and warehousing businesses relating to the manufacturing of Dongfeng Motor Corporation's own-brand passenger vehicles;

(3) auto parts suppliers and products distributors network resources;

(4) the relevant personnel being involved in Dongfeng Motor Corporation's own-brand passenger vehicles business; and

(5) certain patent, utility model, layout design and other intellectual properties.

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

During the year ended 31 December 2009, Dongfeng Motor Group, Dongfeng Motor and their connected persons (as defined by the Listing Rules) had entered into the following continuous connected transactions, including the connected transactions exempted under the Listing Rules and their annual caps):

(The following amounts are prepared on combined basis and are aggregates of the amounts of the companies of the Group, including jointly-controlled entities, without pro-rata adjustments)

1. Land Use Right Leasing Agreements

On 14 April 2009, the Company entered into land use right leasing agreements with Dongfeng Motor in respect of the leases 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) five parcels of land for use by the Professional Equipment Plant of the Company (which originally cover an aggregate area of 114,447 square metres and was changed to 129,431 square metres); (iii) nine parcels of land for use by the Power Equipment Plant of the Company (which originally cover an aggregate area of 112,924 square metres and was changed to 69,720 square metres); and (iv) three 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 originally cover an aggregate area of 54,679 square metres and was changed to 34,064 square metres).

The annual rentals under the Land Use Rights Leasing Agreements for the three years from 1 January 2009 to 31 December 2011 will be approximately RMB19.29 million, RMB26.91 million and RMB26.91 million respectively payable every six months in arrears. The rentals payable are determined on a fair basis and are based on market rates, and independent valuer has confirmed that the rentals payable is not higher than the prevailing market rates. The annual rentals payable of the Leased Properties will be reviewed every three years and the new rentals payable will not be higher than the then prevailing market rates as confirmed by an independent valuer.

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

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 Dongfeng Motor Group wish to change the uses of some or all of the Leased Properties, Dongfeng Motor Group shall notify Dongfeng Motor Corporation accordingly. Dongfeng Motor Corporation shall determine within 30 days whether it agrees to such change and, if agreed, seek necessary regulatory approvals.

Dongfeng Motor Corporation has agreed to pay taxes, fees and other statutory charges relating to the Leased Properties.

During the year, the rentals for land use rights leased payable by Dongfeng Motor Group was RMB19.29 million. Dongfeng Motor Corporation is a substantial shareholder of the Company. Accordingly, the Land Use Rights Leasing Agreements constitute continuing connected transactions of the Company under the Listing Rules.

During the year, the Company entered into an agreement in respect of the acquisition of the own-brand business and assets of Dongfeng Motor Corporation as well as the Land Use Rights Leasing Agreement and Property Leasing Agreement to facilitate operation of the own-brand business on 27 May 2009. Land and properties with areas of 752,383.17 sq. metres and 190,855.92 sq. metres, respectively, were leased at annual rental payments of RMB16.53 million and RMB30.22 million. In 2009, lease payments paid by the Company to Dongfeng Motor Coporation according to the above land and property leases amounted to RMB8.26 million and RMB15.11 million, respectively.

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 to provide or procure the relevant members of the Parent Group to provide the following services to Dongfeng Motor Group:

(i) Water Supply Agreement: water is provided by the Parent Group to Dongfeng Motor Group (the "Water Supply Agreement");

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

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

Each of the above Ancillary Services Agreements have a term of three years commencing on 1 January 2008. Under the Ancillary Services Agreements, Dongfeng Motor Group has agreed to give priority in using the ancillary services of the Parent Group if the terms of such services are no less favourable than that offered by an independent third party. Moreover, Dongfeng Motor Corporation and the Company have agreed that the Parent Group is entitled to provide ancillary services to third parties provided that it does not affect the provision of services under the Ancillary Services Agreements. If and to the extent that the ancillary services provided by the Parent Group cannot satisfy the needs of Dongfeng Motor Group, Dongfeng Motor Group may receive such ancillary services from independent third parties. Dongfeng Motor Corporation will not, and will procure its subsidiaries not to, provide ancillary services to Dongfeng Motor Group on terms which are less favourable than those offered to independent third parties.

The relevant members of the Parent Group and 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 Dongfeng Motor Group cannot conveniently obtain any ancillary services from an independent third party, Dongfeng Motor Corporation shall not terminate the provision of such ancillary services under any circumstances.

The above ancillary services shall be provided at (i) prices fixed by government; (ii) where there is no government fixed price but where there are prices recommended by the government, the recommended prices; and (iii) where there is neither a government fixed price nor a government recommended price, market prices. 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 fixed by the PRC government.

The charges of the ancillary services will be calculated at the end of each calendar month by the relevant members of the Parent Group based on the actual usage. The charges of the ancillary services shall be settled in cash by internal resources of Dongfeng Motor Group. Payment must be made on time.

As approved in the board meeting and disclosed in an announcement dated 16 April 2008, the annual cap for the connected transaction of water supply is approximately RMB90 million for 2009. The Group paid approximately RMB48 millions for water supplied by Dongfeng Motor Corporation for the year ended 31 December 2009.

As approved in the board meeting and disclosed in an announcement dated 16 April 2008, the annual cap for the connected transaction of steam supply is approximately RMB135 million for 2009. The Group paid approximately RMB78 million for steam supplied by Dongfeng Motor Corporation for the year ended 31 December 2009.

As approved in the board meeting and disclosed in an announcement dated 16 April 2008, the annual cap for the connected transaction of electricity supply is approximately RMB960 million1 for 2009. The Group paid approximately RMB744 million for electricity supplied by Dongfeng Motor Corporation for the year ended 31 December 2009.

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.

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 Dongfeng Motor Group and Dongfeng Motor Group will supply auto parts to Chaoyang Diesel.

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

Under the Mutual Supply Agreement, the parties shall give priority in sourcing the auto parts from each other if the terms of transaction are not less favourable than those offered by an independent third party. Notwithstanding the above, if and to the extent that the auto parts supplied by Chaoyang Diesel do not satisfy the requirements of Dongfeng Motor Group, Dongfeng Motor Group may procure such 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 auto parts to Chaoyang Diesel under the Mutual Supply Agreement. Chaoyang Diesel will give priority in the purchase of auto parts from Dongfeng Motor Group.

The purchases of diesel engines by Dongfeng Motor Group will be made on a need basis. The consideration of the diesel engines shall be settled in cash by internal resources of Dongfeng Motor Group. Payment must be made on time.

As approved in the board meeting and disclosed in and announcement dated 16 April 2008, for the year ended 31 December 2009, (i) the annual cap for the connected transaction of Chaoyang Diesel purchasing auto parts from the Group is approximately RMB75 million. Chaoyang Diesel actually paid RMB23 million to 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 RMB988 million. Dongfeng Motor Group actually paid Chaoyang Diesel RMB646 million 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.

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 term, the agreement shall automatically renew for another term of ten years.

5. Social Insurance Funds

For the year ended 31 December 2009, 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. The department is responsible for handling all matters relating to social insurance funds for all entities of Dongfeng Motor Corporation located within Hubei Province.

6. **For the year ended 31 December 2009, the continuing connected transactions relating to the JCEs include:**

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

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

During the year ended 31 December 2009, 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 the subsidiaries and associates of these companies) 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 during the term of the joint ventures.

When the joint venture partners have agreed that a JCE will commence the manufacture of a new model of vehicle, representatives of the JCE will enter into negotiations with the joint venture partner to determine a price list for each component needed for the manufacturing of that model of vehicle. Pursuant to the relevant joint venture agreement, the negotiations shall be conducted either directly by the Company, as a joint venture partner, or by the relevant JCE's officers nominated by the Company 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 to ensure that the negotiations are carried out on arm's length commercial terms.

Unlike general consumer products, market prices for many vehicle components are not readily available. The Company's representatives therefore rely heavily on their knowledge of industry standards and their experience gained from similar negotiations in order to determine whether the price list is appropriate. Once an price list between the representatives of the JCE and the foreign joint venture parties has been determined for all components needed for the manufacturing of the model of vehicle, 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 relevant components will be withdrawn from the price list, and the JCE may purchase the relevant components from local suppliers. This is a continuing process which extends throughout the life-cycle of a model of vehicle. The price list agreed between the representatives of the JCE and the foreign joint venture parties may be revised from time to time to reflect changes in raw materials prices, exchange rate, 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.

After a price list has bee agreed between the representatives of the JCE and the joint venture partners, various auto parts and production equipment will be purchased by the JCEs and their subsidiaries and JCEs from the joint venture partners from time to time when they are required by the relevant JCE.

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 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 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 be effective during the term of the relevant joint venture.

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 on 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 2009, the total consideration paid by the JCEs and their subsidiaries and JCEs in respect of purchases of auto parts and production facilities from joint venture partners (including their subsidiaries and associates) was approximately RMB21,185 million.

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

The establishment of Dongfeng Honda Engine Co., Ltd ("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, another major automotive manufacturing joint venture of Honda Motor Co., Ltd 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 shall only purchase from Dongfeng Honda Engine engines and other related auto parts necessary for manufacturing of passenger vehicles during the term of the joint venture at such prices as would provide reasonable investment returns to Dongfeng Honda Engine and Guangzhou Honda Automobile Co., Ltd in respect of their initial investments 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 in Guangzhou Honda Automobiles Co., Ltd is equally held by 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 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 shall 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 to ensure that the negotiations carried out are on arm's length commercial terms.

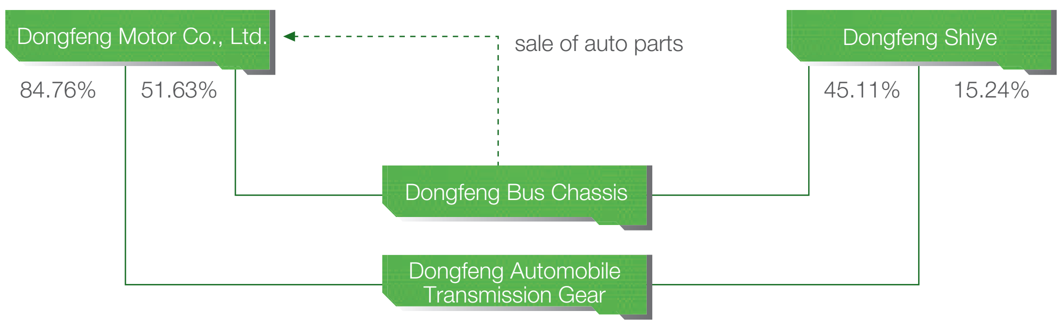
Dongfeng Honda Engine will continue to sell Honda passenger vehicle engines and other related parts to Guangzhou Honda Automobile

Co., Ltd 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 2009, Guangzhou Honda Automobile Co., Ltd continued to purchase from Dongfeng Honda Engine engines and auto parts.

(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 which are sold 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 when required by Dongfeng Motor Co., Ltd and are not subject to any framework agreement.

The consideration of bus chasses is determined in accordance with normal market practice and on commercial terms case by case.

The purchases of bus chassis by Dongfeng Motor Co., Ltd are 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. Furthermore, 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 system are in place to ensure that material transactions, in terms of monetary value of each transaction, are reported to its board. Relevant operating procedures are adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to ensure that the subsidiaries and JCEs of Dongfeng Motor Co., Ltd shall 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 actions necessary for compliance with the Listing Rules. These reporting systems would enable Dongfeng Motor Co., Ltd and, hence the Company, to approve the sales of auto parts by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd.

For the year ended 31 December 2009, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis Co., Ltd for purchases of auto parts was approximately RMB67 million.

(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 models of vehicles 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 constitute a continuing connected transactions.

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 2009, the total consideration paid by the JCEs in respect of purchases of technology licences and technical assistance stated above was RMB3,323 million.

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

(v) *Value-added processing fees paid by Dongfeng Motor Co., Ltd to Guangzhou Aeolus Automobile Co., Ltd (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 2009. 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, 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 2009, 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 RMB1,210 million.

(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 RMB157,000,000. 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.

On 31 December 2009, Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation decided not to adjust the rental of lands leased by Dongfeng Motor Co., Ltd. However, in respect of lands leased by Dongfeng Motor Co., Ltd. from Dongfeng Motor Corporation, rentals shall be adjusted for the change in areas of lands leased and new land lease agreements shall be executed accordingly. The parcels of land leased decreased from 247 to 231, while the area in aggregate decreased from 6,193,777.41 square metres to 6,022,680.52 square metres. The decreases were mainly attributable to the termination of leases by Dongfeng Motor Co., Ltd.

For the year ended 31 December 2009, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation was RMB145 million.

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

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 2009.

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.

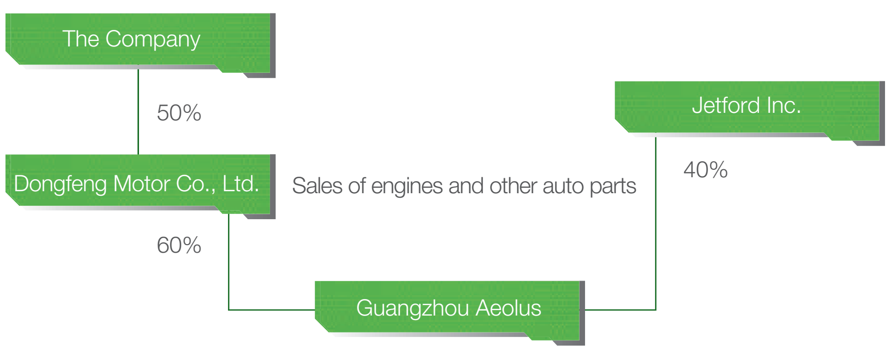
Dongfeng Bus Chassis' need to purchase auto parts depends on expected demand for its products, which fluctuates frequently and is difficult to predict with any degree of accuracy over a long period of time. In the interests of efficient inventory planning, auto parts manufacturers like Dongfeng Bus Chassis 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 2009, the total consideration paid by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd and its subsidiaries listed above for purchases of auto parts was RMB306 million.

(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 2009, the total consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. was RMB7 million.

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.

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 2009, the total amount deposited by Dongfeng Motor Corporation and its subsidiaries with Dongfeng Motor Finance Co., Ltd was RMB446 million. Dongfeng Motor Finance Co., Ltd granted loans of approximately RMB32 million to Dongfeng Motor Corporation and its subsidiaries.

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 given that it will not affect the provision of vehicles and auto parts to Dongfeng Hongtai under the Mutual Supply Agreement.

On 22 December 2008, the Company was informed by Dongfeng Motor Corporation that Dongfeng Motor Corporation has acquired a 91.25% interest in Dongfeng Hongtai. Dongfeng Motor Corporation, being a substantial shareholder of the Company, is a connected person of the Company. Dongfeng 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 2009, the total consideration paid by Dongfeng Motor Group to Dongfeng Hongtai for purchases of vehicle and auto parts from Dongfeng Hongtai was RMB460 million and the total consideration paid by Dongfeng Hongtai to Dongfeng Motor Group for purchases of vehicle and auto parts from Dongfeng Motor Group was RMB438 million.

9. Agreement on acquisition of the businesses and assets under the brand name of Dongfeng Motor Group

The Company and Dongfeng Motor Corporation entered into an agreement on 27 May 2009, pursuant to which the company completed the acquisition of the following businesses and assets under the brand name of Dongfeng Motor Corporation on 1 July 2009:

a. complete production lines of passenger vehicles comprising four major processes, including moulding, welding, vanishing and assembling;

b. logistics and inventory business related to the production of vehicles of its brand;

c. suppliers of auto parts of vehicles and distribution network;

d. relevant personnel related to the production of vehicles of its own brand

e. certain patents, new models, designs and other intellectual property rights.

According to the Acquisition Agreement, the consideration paid by the Company (by internal resources) was RMB797 million.

The independent non-executive directors of the Company confirmed that all continuing connected transactions to which Dongfeng Motor Group was a party for the year ended 31 December 2009:

(1) were conducted in course of the ordinary business of 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 those terms of 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 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 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 Dongfeng Motor Group were conducted in accordance with the pricing policies of 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 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 2009, 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. Please refer to the Corporate Governance Report as set out on pages 68 to 76 in this annual report.

ACCOUNTING PRINCIPLES

The principal accounting policies used by the Company in the preparation of the financial statements for the year ended 31 December 2009 are consistent with those used in the audited annual financial statements for the year ended 31 December 2008, except that the Group has adopted the new and revised International Financial Reporting Standards and International Financial Reporting Interpretations during the year. Adoption of these new and revised standards and interpretations did not have any material effect on the financial statements of the Group. They did however give rise to additional disclosures. Please refer to note 3.2 to the audited financial statements for the details.

REVIEW OF THE ACCOUNTS

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 2009. A resolution will be submitted at the annual general meeting to reappoint Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors respectively for the year ending 31 December 2010, and authorise the directors to fix their remunerations.

By Order of the Board of Directors

Xu Ping
Chairman

Wuhan, the PRC
13 April 2010

Report of the Supervisory Committee

Dear Shareholders,

In 2009, the Supervisory Committee has carried out its supervisory and other duties in accordance with the Company's Articles of Association to ensure the sound, stable and sustainable development of the Company as well as to safeguard the legal interests of all shareholders. It has performed effective supervision, through the inspection of relevant documents and information of the Company, and attending meetings of the Board of Directors and the shareholders' general meetings, on the 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 an in the best interests of the shareholders.

1. PERFORMANCE OF THE SUPERVISORY COMMITTEE

The Supervisory Committee held two meetings in 2009. The numbers of attended supervisors formed quorums of the meetings as stipulated by the Company Law.

In 2009, the Supervisory Committee has reviewed and approved the 2008 report of the Supervisory Committee of the Company, and the 2008 auditors' report, which was prepared by Ernst & Young and reviewed and approved by the Audit Committee. The Supervisory Committee has also reviewed and approved the 2008 annual report and preliminary results announcement, the 2008 profit distribution and payment of dividend proposal, and the 2009 interim report and summary.

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

During the reporting period, the Supervisory Committee has supervised the convening procedures and resolutions of the meetings of the Board of Directors and shareholders' general meetings, the implementation of the resolutions of the shareholders' general meetings by the Board of Directors, the legality and compliance of rules and regulations by the senior management during their performance of duty, and the performance of all control systems of the Company.

The Supervisory Committee is of the view that the Board of Directors was in compliance with the Company Law, the Securities Law, the Listing Rules of the Stock Exchange, the Articles of Association of the Company and other relevant laws, rules and regulations and diligently performed their duties in 2009. The Supervisory Committee also considers that through scientific decision-making of the Board of Directors, the internal management and internal control system of the Company have been further improved and a better internal control mechanism was established.

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

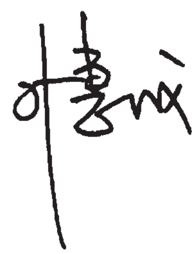
3. THE INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee has examined the financial system and position of the Company conscientiously and carefully and reviewed the 2009 interim report and annual financial statements of the Group. The Supervisory Committee considers that the financial system of the Company was sound and the management measures and internal control system were effective and could ensure the smooth operation and production of the Company. The Supervisory Committee also considers that the 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 and the shareholders.

The Supervisory Committee has seen the operating results and assets position of the Company in 2009 to its satisfaction. Facing the uncertainty of the macro economy and the new situation and prospects of auto industry of 2010, 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
13 April 2010

Corporate Governance Report

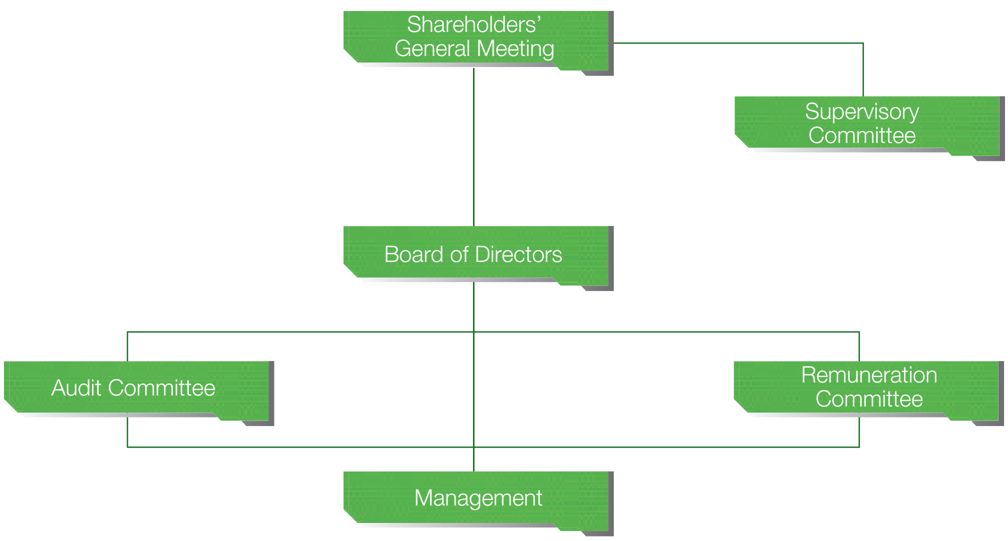
1. OVERVIEW OF CORPORATE GOVERNANCE

The Company has been in compliance with the Company Law of the People's Republic of China (the "Company Law"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Code of Corporate Governance Practice of the Stock Exchange of Hong Kong. The Company regulates its daily operation in strict compliance with the governing regulations 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 the principles of good corporate governance. The Company further improves the transparency and independence of its operations. In addition, the Company maintains its healthy development and maximises shareholder value by strengthening its corporate governance.

During the reporting period, the Company's governance has been in strict compliance with the Code of Corporate Governance. And the Company was awarded the 《5th Best Corporate Governance Asia》 by Corporate Governance Asia Magazine in 7 April 2009.

2. STRUCTURE OF CORPORATE GOVERNANCE

The Company's corporate governance involves 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 has legal power to decide on important matters of the Company. The annual general meetings and extraordinary general meetings provide a channel of direct communication between the directors and the shareholders of the Company. The Company regards the shareholders' general meeting an important event of the Company. The notice of shareholders' general meeting will be dispatched 45 days prior to the date of the meeting. All shareholders are encouraged to attend the shareholders' general meeting, and all Directors and members of the senior management are required to attend.

At the Extraordinary General Meeting held on 14 April 2009, the continuous connected transactions of the Company and the respective proposed annual cas for 2010 were approved and the Board of Directors was approved to apply to and issue bonds at its discretion. The annual report of 2008 and other related matters were approved at the annual general meeting held on 18 June 2009.

ii. Substantial Shareholder

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

Information on shareholdings of the top ten substantial shareholders during the reporting period is set out on page 40 of this annual report.

(2) Directors and Board of Directors

i. Directors

Appointment of Directors

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

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 relevant laws and regulations. Details of members of the Board are set out on page 41 of this annual report.

Independence of Directors

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

All the independent non-executive directors has discharged their duties with good faith, integrity and diligence according to the laws and regulations. The independent non-executive directors participated in the discussion and decision on the material issues of the Board of Directors and Board committees and gave their views on the governance of the Company based on their expertise and experience. They have duly reviewed and expressed their independent views on the fairness and equality of connected transactions as well as the settlement of considerations. They have performed their duties independently and are independent of the substantial shareholders, beneficial owners and other stakeholders or of the Company. The independent non-executive directors made significant contributions towards the interests of the Company and shareholders as a whole and the health development of the Company.

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

Introduction Program for Directors

In 2009, the Company provided the "Explanations and Guidelines for Information Disclosure Requirements of Stock Exchange" and "Highlights on Revisions of Listing Rules" to all directors to promptly inform them of the most updated rules and regulations for compliance. In 2009, the Company Secretariat released 22 issues of newsletters for directors and supervisors, providing them with the latest market news and information of the Company. In 2009, the Company also provided annual reports of the performance, investment and financing of the Company to directors and organised site visits to the relevant units and business sectors for directors.

By providing them with information and reports, 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 Remuneration Committee is responsible for the formulation and review of the remuneration policies and proposals for directors and 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 remuneration for their management function from the Company. The remuneration of the independent non-executive directors is determined with reference to the average market level and the 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, net of tax.

Securities Transactions by Directors

After specific enquiry of all directors made by the Company, all directors have confirmed that they have fully complied with the Model Code as set out in Appendix 10 to the Listing Rules throughout the year of 2009.

ii. Board Meeting

Six board meetings ("Board Meetings") were held by the Company in 2009 and the major matters covered were as follows:

- to consider and approve the annual and interim results announcements;
- to consider and approve the annual and interim financial statements and the reports of the Board of Directors;
- to determine directors' remuneration;
- to re-appoint the international auditors and domestic auditors;
- to consider and approve 2010 continuous connected transactions and their respective annual caps; and
- to acquire the own brand passenger vehicles business from the parent company.

Meetings of Board of Directors can facilitate effective discussion and decision. The attendance of directors at meetings of Board of Directors is as follows:

Members of the Board	Personal Attendance/ Number of Meetings Meetings	Attendance Rate	Remarks
Executive Directors			*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	5/6	83%	
Li Shaozhu	5/6	83%	
Fan Zhong	5/6	83%	
Non-executive Directors			
Tong Dongcheng	5/6	83%	
Ouyang Jie	5/6	83%	
Liu Weidong	4/6	67%	
Zhu Fushou	6/6	100%	
Independent Non-executive Directors			
Sun Shuyi	5/6	83%	
Ng Lin-fung	6/6	100%	
Yang Xianzu	4/6	67%	

The management is responsible for providing the relevant information required for considering and approving the resolutions of the Board of Directors, and present work report, especially the progress of major projects of the Company, at 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 Audit Committee comprises one non-executive director, and two independent non-executive directors. The Remuneration Committee comprises one 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 2009, 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
Sun Shuyi (Chairman)	Independent Non-executive Director	1/2	
Yang Xianzu (Chairman)	Independent Non-executive Director		1/1
Ng Lin-fung	Independent Non-executive Director	2/2	1/1
Ouyang Jie	Non-executive Director	2/2	
Li Shaozhu	Executive Director		1/1

(3) Internal Control System

i. Supervisors and Supervisory Committee

In 2009, 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. Two Supervisory Committee meetings were held in the year. 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 Company and review the effectiveness of the key control procedures for financial, operational, and compliance control and risk management so as to safeguard the interests of the shareholders and the assets of the Group. The review comprises the assessment of the Audit Department of the Company on the internal control and the report of issues identified during the statutory audit by external auditors.

In 2009, the Board of Directors thoroughly reviewed the effectiveness of the Company's internal control system through the Audit Committee and the Company's audit department in five major areas of internal control: the control environment, risk assessment, control activities, information and communication and supervision. Based on the reviews in previous years and the assessment of the internal control system in the year, the Board of Directors is of the opinion that during the year and as at the date of this annual report, the Company has maintained a comprehensive internal control system covering the areas of corporate governance, operation, investment, finance, administration and personnel management, and the internal control system is effective.

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

iii. Auditors and Auditors' Remuneration

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

As at 31 December 2009, 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 2009 was RMB 12.60 million.

The Audit Committee has discussed and assessed the expertise of Ernst & Young, its performance of audit work for 2009 and the proposed fees for 2010. The Audit Committee proposed to re-appoint Ernst & Young as the Company's external auditors and the proposal has been approved by the Board of Directors. The proposal to reappoint Ernst & Young and Ernst & Young Hua Ming as the international and domestic auditors, respectively, of the Company for the year ending 31 December 2010 and authorise the Board of Directors to determine their remunerations will be submitted to the 2009 annual general meeting for shareholders' consideration and approval.

iv. Qualified Accountants

According to the amendments to the Listing Rules in relation to the qualified accountant in 2009. The Company decides not to employ full-time qualified accountants. The

Audit Committee of the Company reviewed the Company's accounting and financial reporting and considers that currently the Company is capable of ensuring normal conduct of the preparation of financial report in institutional framework, function, work flow, staff competence and training.

(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 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 Company.

(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. Meanwhile, 2008 Annual Report was awarded the Sliver Award of 2008 Vision Award by LACP (League of American Communications Professionals).

During the period under review, the Company published 33 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 5 roadshows and promotion activities, approximately 50 receptions of routine visits by the investors and analysts, and over 70 telephone conferences for institutional 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 2008. The Board of Directors proposed to distribute a cash dividend of approximately RMB776 million, or RMB0.090 per share for the year 2009, and will submit the proposal at the shareholders' general meeting of 2009 for approval.

Independent Auditors' Report

ERNST & YOUNG

To the shareholders of Dongfeng Motor Group Company Limited

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

We have audited the financial statements of Dongfeng Motor Group Company Limited set out on pages 79 to 198, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 2009 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

13 April 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 RMB million	2008 RMB million (Restated)
Revenue — Sale of goods	5	**91,758**	70,569
Cost of sales		**(74,274)**	(58,688)
Gross profit		**17,484**	11,881
Other income	6	**1,520**	1,228
Selling and distribution costs		**(4,297)**	(3,379)
Administrative expenses		**(3,138)**	(2,655)
Other expenses, net		**(3,110)**	(1,970)
Finance costs	8	**(245)**	(393)
Share of profits and losses of associates		**195**	95
Profit before tax	7	**8,409**	4,807
Income tax expense	11	**(1,671)**	(647)
Profit for the year		**6,738**	4,160
Profit attributable to:			
Equity holders of the parent	12	**6,250**	3,955
Minority interests		**488**	205
		6,738	4,160
Earnings per share attributable to ordinary equity holders of the parent:	14		
Basic for the year		**72.54 cents**	45.90 cents
Diluted for the year		**N/A**	N/A

Details of dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 RMB million	2008 RMB million (Restated)
Profit for the year	**6,738**	4,160
OTHER COMPREHENSIVE INCOME		
Available-for-sale financial assets:		
Changes in fair value	**30**	—
Income tax effect	**(7)**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**23**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,761**	4,160
Total comprehensive income attributable to:		
Equity holders of the parent	**6,264**	3,955
Minority interests	**497**	205
	6,761	4,160

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB million	2008 RMB million (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**18,703**	18,390
Lease prepayments		**754**	671
Intangible assets	16	**2,001**	1,758
Goodwill	17	**479**	483
Interests in associates	20	**896**	787
Available-for-sale financial assets	26	**164**	137
Other long term assets		**1,081**	1,128
Deferred tax assets	11	**1,366**	795
Total non-current assets		**25,444**	24,149
Current assets			
Inventories	21	**8,741**	9,356
Trade receivables	22	**1,685**	2,101
Bills receivable	23	**10,667**	6,516
Prepayments, deposits and other receivables	24	**4,649**	3,772
Due from jointly-controlled entities	25	**592**	421
Available-for-sale financial assets	26	**1,110**	—
Financial assets at fair value through profit or loss		**17**	6
Pledged bank balances and time deposits	27	**3,405**	1,697
Cash and cash equivalents	27	**29,379**	12,431
Total current assets		**60,245**	36,300
TOTAL ASSETS		**85,689**	60,449

Consolidated Statement of Financial Position (continued)

31 December 2009

	Notes	2009 RMB million	2008 RMB million (Restated)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	28	**8,616**	8,616
Reserves	29	**6,433**	5,702
Retained profits	29	**11,459**	7,349
Proposed final dividend	13	**776**	388
		27,284	22,055
Minority interests		**3,271**	2,837
Total equity		**30,555**	24,892
Non-current liabilities			
Interest-bearing borrowings	30	**4,424**	1,781
Other long term liabilities		**16**	27
Provisions	31	**102**	129
Government grants	32	**94**	83
Deferred tax liabilities	11	**62**	80
Total non-current liabilities		**4,698**	2,100

	Notes	2009 RMB million	2008 RMB million (Restated)
Current liabilities			
Trade payables	33	**18,414**	10,275
Bills payable	34	**7,391**	6,308
Other payables and accruals	35	**14,391**	8,283
Due to jointly-controlled entities	25	**503**	333
Interest-bearing borrowings	30	**7,217**	6,919
Government grants	32	**—**	23
Income tax payable		**1,673**	779
Provisions	31	**847**	537
Total current liabilities		**50,436**	33,457
TOTAL LIABILITIES		**55,134**	35,557
TOTAL EQUITY AND LIABILITIES		**85,689**	60,449
Net current assets		**9,809**	2,843
Total assets less current liabilities		**35,253**	26,992

Xu Ping
Director

Liu Zhangmin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to equity holders of the parent							
	Notes	Issued capital RMB million	Capital reserve RMB million	Statutory reserves RMB million (note 29)	Retained profits RMB million	Proposed final dividend RMB million	Total RMB million	Minority interests RMB million	Total equity RMB million
As at 1 January 2008 (as previously reported)		8,616	1,363	2,792	4,554	388	17,713	2,686	20,399
Effect of the Business Combination under common control	2	–	33	–	(24)	–	9	–	9
As at 1 January 2008 (restated)		8,616	1,396	2,792	4,530	388	17,722	2,686	20,408
Total comprehensive income for the year		–	–	–	3,955	–	3,955	205	4,160
Transfer to reserves		–	–	748	(748)	–	–	–	–
Contribution to an acquiree of the Business Combination under common control by DMC		–	766	–	–	–	766	–	766
Acquisition of an additional interest in a jointly-controlled entity's subsidiary		–	–	–	–	–	–	(2)	(2)
Acquisition of a subsidiary by a jointly-controlled entity	19(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	13	–	–	–	(388)	388	–	–	–
As at 31 December 2008 (restated)		8,616	2,162*	3,540*	7,349	388	22,055	2,837	24,892
As at 1 January 2009 (as previously reported)		8,616	1,363	3,540	7,458	388	21,365	2,837	24,202
Effect of the Business Combination under common Control	2	–	799	–	(109)	–	690	–	690
As at 1 January 2009 (restated)		8,616	2,162	3,540	7,349	388	22,055	2,837	24,892
Total comprehensive income for the year		–	14	–	6,250	–	6,264	497	6,761
Transfer to reserves		–	–	1,364	(1,364)	–	–	–	–
Contribution to an acquiree of the Business Combination under common control by DMC		–	150	–	–	–	150	–	150
Considerations for the Business Combination under common control		–	(797)	–	–	–	(797)	–	(797)
Capital contributions from minority shareholders		–	–	–	–	–	–	79	79
Dividends paid to minority shareholders		–	–	–	–	–	–	(142)	(142)
Final 2008 dividend declared and paid		–	–	–	–	(388)	(388)	–	(388)
Proposed final dividend	13	–	–	–	(776)	776	–	–	–
As at 31 December 2009		8,616	1,529*	4,904*	11,459	776	27,284	3,271	30,555

* These reserve accounts comprise the consolidated reserves of RMB6,433 million (2008: RMB5,702 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB million	2008 RMB million (Restated)
Cash flows from operating activities			
Profit before tax		**8,409**	4,807
Adjustments for:			
Share of profits and losses of associates		**(195)**	(95)
Loss on disposal of items of property, plant and equipment, net	7	**31**	44
Loss on disposal of intangible assets	7	**2**	—
Gain on disposal of associates	7	**(8)**	—
Gain on disposal of available-for-sale financial assets	7	**(25)**	—
Loss/(gain) on disposal of financial assets at fair value through profit or loss	7	**(11)**	2
Stock appreciation right expense/(credit)	7	**19**	(91)
Provision against inventories	7	**19**	201
Impairment of trade and other receivables	7	**23**	66
Exchange losses/(gains), net	7	**31**	(229)
Depreciation	7	**2,322**	2,025
Impairment of property, plant and equipment	7	**150**	177
Impairment of intangible assets	7	**1**	30
Impairment of goodwill	7	**4**	—
Impairment of available-for-sale financial assets	7	**—**	19
Amortisation of intangible assets	7	**367**	252
Finance costs	8	**245**	393
Interest income	6	**(354)**	(301)
		11,030	7,300
Decrease/(increase) in trade and bills receivables and prepayments, deposits and other receivables		**(4,635)**	578
Decrease/(increase) in inventories		**596**	(1,960)
Decrease in financial assets at fair value through profit or loss		**—**	73
Increase in amounts due from jointly-controlled entities		**(171)**	(132)
Increase in trade and bills payables, and other payables and accruals		**15,280**	2,873
Increase in amounts due to jointly-controlled entities		**170**	45
Increase/(decrease) in provisions		**283**	(42)
Decrease in government grants		**(345)**	(260)
Decrease in other long term liabilities		**(11)**	(22)
Cash generated from operations		**22,197**	8,453
Interest paid		**(310)**	(490)
Income tax paid		**(1,373)**	(693)
Net cash flows from operating activities		**20,514**	7,270

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2009

	Notes	2009 RMB million	2008 RMB million (Restated)
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(3,011)**	(4,183)
Increase in lease prepayments and other long term assets		**(36)**	(484)
Purchases of intangible assets		**(613)**	(498)
Purchases of available-for-sale financial assets		**(1,110)**	(11)
Considerations for the Business Combination under common control		**(797)**	—
Acquisition of a subsidiary by a jointly-controlled entity	19(a)	**—**	20
Acquisition of an additional interest in a jointly-controlled entity's subsidiary		**—**	(6)
Investments in associates		**(21)**	(145)
Proceeds from disposal of items of property, plant and equipment		**260**	103
Proceeds from disposal of available-for-sale financial assets		**25**	2
Proceeds from disposal of associates		**84**	33
Dividends from associates		**34**	86
Government grants received	32	**333**	278
Interest received	6	**354**	301
Increase in pledged bank balances and time deposits		**(1,708)**	(766)
Increase in non-pledged time deposits with original maturity of three months or more when acquired		**(6,788)**	(2,783)
Net cash flows used in investing activities		**(12,994)**	(8,053)
Cash flows from financing activities			
Proceeds from borrowings		**12,520**	12,632
Repayment of borrowings		**(9,579)**	(12,062)
Capital contribution from minority shareholders		**79**	38
Contribution to an acquiree of the Business Combination under common control by DMC		**150**	766
Dividends paid to minority shareholders		**(142)**	(97)
Dividends paid		**(388)**	(388)
Net cash flows from financing activities		**2,640**	889
Net increase in cash and cash equivalents		**10,160**	106
Cash and cash equivalents at beginning of year		**7,209**	7,103
Cash and cash equivalents at end of year	27	**17,369**	7,209

Statement of Financial Position

31 December 2009

	Notes	2009 RMB million	2008 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	15	**1,432**	584
Lease prepayments		**74**	72
Intangible assets	16	**180**	22
Investments in subsidiaries	18	**140**	140
Investments in jointly-controlled entities	19	**13,037**	13,037
Investments in associates	20	**326**	326
Available-for-sale financial assets	26	**68**	68
Deferred tax assets	11	**19**	14
Total non-current assets		**15,276**	14,263
Current assets			
Inventories	21	**349**	111
Trade receivables	22	**116**	171
Bills receivable	23	**72**	3
Prepayments, deposits and other receivables	24	**4,857**	1,292
Due from jointly-controlled entities	25	**111**	57
Available-for-sale financial assets	26	**1,110**	—
Cash and cash equivalents	27	**3,102**	1,177
Total current assets		**9,717**	2,811
TOTAL ASSETS		**24,993**	17,074

Statement of Financial Position (continued)

31 December 2009

	Notes	2009 RMB million	2008 RMB million
EQUITY AND LIABILITIES			
Equity			
Issued capital	28	**8,616**	8,616
Reserves	29	**3,566**	2,956
Retained profits	29	**4,302**	2,081
Proposed final dividend	13	**776**	388
Total equity		**17,260**	14,041
Non-current liabilities			
Interest-bearing borrowings	30	**2,976**	—
Total non-current liabilities		**2,976**	—
Current liabilities			
Trade payables	33	**1,024**	191
Other payables and accruals	35	**874**	516
Due to jointly-controlled entities	25	**626**	150
Interest-bearing borrowings	30	**2,006**	1,965
Income tax payable		**211**	211
Provisions	31	**16**	—
Total current liabilities		**4,757**	3,033
TOTAL LIABILITIES		**7,733**	3,033
TOTAL EQUITY AND LIABILITIES		**24,993**	17,074

Xu Ping
Director

Liu Zhangmin
Director

Notes to Financial Statements

31 December 2009

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. BUSINESS COMBINATION INVOLVING BUSINESS UNDER COMMON CONTROL AND BASIS OF PRESENTATION

Pursuant to an agreement entered into between the Company and DMC on 27 May 2009, the Company agreed to purchase the Own-brand Business of DMC (the "Own-brand Business") at a cash consideration of RMB797 million (the "Business Combination"). In accordance with the relevant PRC laws and regulations related to state-owned assets, the consideration for the Business Combination is required to be determined based on the appraised value of the Own-brand Business by a certified valuer registered in the PRC. The appraised value and the net asset value of the Own-brand Business as at 30 April 2009 were RMB797 million and RMB792 million, respectively. The Business Combination was completed on 1 July 2009.

The acquisition of the Own-brand Business was considered to be a business combination involving business under common control as the Company and the Own-brand Business are under common control of DMC both before and after the Business Combination. Accordingly, the assets and liabilities of the Own-brand Business have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisition of the Own-brand Business have been restated to include the results of operations and assets and liabilities of the Own-brand Business as if the business acquired had always been part of the Group.

2. BUSINESS COMBINATION INVOLVING BUSINESS UNDER COMMON CONTROL AND BASIS OF PRESENTATION (continued)

The results of the operations for the year ended 31 December 2008 and the financial position as at 31 December 2008 as previously reported by the Group and the combined amounts presented in the accompanying consolidated financial statements to reflect the acquisition of the Own-brand Business are set out below:

	The Group (as previously reported) RMB million	The Own-brand Business RMB million	Total RMB million	Consolidation adjustment RMB million	The Group (as restated) RMB million
Results of operations for the year ended 31 December 2008:					
Revenue — Sale of goods	70,569	—	70,569	—	70,569
Profit/(loss) for the year	4,245	(85)	4,160	—	4,160
Financial positions as at 31 December 2008:					
Total assets	59,765	731	60,496	(47)	60,449
Total liabilities	35,563	41	35,604	(47)	35,557
Total equity	24,202	690	24,892	—	24,892

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("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 2009.

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

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.

3.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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. Acquisitions 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.

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

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Exception for certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on 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 — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payments — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IFRS 8 Amendment *	Amendment to IFRS 8 *Operating Segments — Disclosure of information about segment assets* (early adopted)
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
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*
IFRIC 9 and IAS 39 Amendment	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers*
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in Improvements to IFRSs 2009 (as issued in April 2009).

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) **IFRS 1 and IAS 27 Amendments — Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) **IFRS 2 Amendments — Amendments to IFRS 2 S*hare-based Payment — Vesting Conditions and Cancellations***

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) **IFRS 7 Amendments — *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments***

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(d) IFRS 8 — *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

The Group has early adopted in these financial statements the Amendment to IFRS 8 issued in *Improvements to IFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

(e) IAS 1 (Revised) — *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses recognised directly in equity, either in one single statement, or in two linked statements.

(f) IAS 23 (Revised) — *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has no financial impact on the Group.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(g) 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*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group has no such financial instruments and obligations, the amendments have no financial impact on the financial position or results of operations of the Group.

(h) IFRIC 9 and IAS 39 Amendments — Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*

The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(i) IFRIC 13 — *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(j) IFRIC 15 — *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estates, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) IFRIC 16 — *Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities with a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) IFRIC 18 — *Transfers of Assets from Customers*

IFRIC 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that ongoing access to a supply of goods or services, or both. 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.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(m) *Improvements to IFRSs*

In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments resulted in changes to accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

— IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

— IAS 16 *Property, Plant and Equipmen*t: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

— IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted with no or at a below-market rate of interest to be accounted for as a government grant.

— IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosure (e.g. discount rate and growth rate used) are required which are consistent with disclosures required when the discounted cash flows are used to estimate "value in use".

— IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

3.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards — Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payments — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*[1]

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

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits 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 is treated as:

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

(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.

3.4 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 the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's 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 statement of financial position 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 and is not individually tested for impairment.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is 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.

3.4 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Patents and licences

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

Research and development costs

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

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

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

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

Available-for-sale financial investments

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

When the fair value of unlisted equity 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.

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

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

3.4 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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Assets carried at cost

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

Available-for-sale financial instruments

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

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

Subsequent measurement

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

Loans and borrowings

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using valuation techniques. 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and measurement

The Group uses derivative financial instruments such as forward and swap foreign currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk. 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 of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Inventories

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

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

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

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

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Provision for product warranties granted by the Group 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.

Income tax

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

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

Dividend income

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

Employee benefits

Retirement benefits

The Group's contributions to various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC and a supplemental pension scheme regulated by DMC are expensed as incurred. Further details of the defined contribution pension schemes and the supplemental pension scheme are set out in note 7(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 7(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 7(c) below.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 7(d) below.

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 option pricing model, taking into account the terms and conditions upon which the instruments were granted (note 7(e)). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value recognised in the income statement.

Borrowing costs

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

Foreign 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 end of the reporting period. All exchange differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. 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 end of the reporting period. 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 end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

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 17.

Impairment of long-lived assets

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

Warranty provisions

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

Impairment of receivables

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.

5. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

Segment information

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

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

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

— The corporate and others segment manufactures and sells other automobile related products

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

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

During the years ended 31 December 2008 and 2009, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

Segment information (continued)

Year ended 31 December 2009

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	21,982	68,864	912	91,758
Results				
Segment results	151	8,579	(625)	8,105
Interest income	44	259	51	354
Finance costs				(245)
Share of profits and losses of associates	96	68	31	195
Profit before tax				8,409
Income tax expense				(1,671)
Profit for the year				6,738
Other segment information				
Capital expenditure:				
— Property, plant and equipment	480	2,214	382	3,076
— Intangible assets	167	423	23	613
— Lease prepayments	45	78	4	127
Depreciation of property, plant and equipment	505	1,715	102	2,322
Amortisation of intangible assets	86	190	91	367
Provision against inventories	(15)	21	13	19
Impairment losses recognised in the income statement	140	23	15	178
Warranty provisions	205	485	—	690

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

Segment information (continued)

Year ended 31 December 2008 (Restated)

	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				
Segment results	121	5,406	(723)	4,804
Interest income	52	198	51	301
Finance costs				(393)
Share of profits and losses of associates	61	36	(2)	95
Profit before tax				4,807
Income tax expense				(647)
Profit for the year				4,160
Other segment information				
Capital expenditure:				
— Property, plant and equipment	815	3,259	206	4,280
— Intangible assets	50	374	74	498
— 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 provisions	139	275	—	414

6. OTHER INCOME

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

		Group	
		2009	2008
	Note	**RMB million**	RMB million
Government grants and subsidies	32	**345**	260
Net income from disposal of other materials		**483**	455
Interest income		**354**	301
Rendering of services		**29**	28
Others		**309**	184
		1,520	1,228

7. PROFIT BEFORE TAX

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

		Group	
		2009	2008
	Notes	**RMB million**	RMB million
			(Restated)
Cost of inventories recognised as expense		**74,274**	58,688
Provision against inventories		**19**	201
Depreciation	15	**2,322**	2,025
Amortisation of intangible assets*	16	**367**	252
Auditors' remuneration		**18**	18
Minimum lease payments under operating leases in respect of land and buildings		**195**	195
Staff costs (excluding directors' and supervisors' remuneration (note 9)):			
— Wages and salaries		**3,222**	2,722
— Pension scheme costs	(a)	**501**	444
— Medical benefit costs	(b)	**195**	142
— Cash housing subsidy costs	(c)	**15**	15
— Stock appreciation rights expense/(credit)	(e)	**19**	(65)
		3,952	3,258

7. PROFIT BEFORE TAX (continued)

		Group	
		2009	2008
	Notes	**RMB million**	RMB million
			(Restated)
Included in other expenses, net			
Loss on disposal of items of property, plant and equipment, net		**31**	44
Loss on disposal of intangible assets		**2**	—
Loss/(gain) on disposal of financial assets at fair value through profit or loss		**(11)**	2
Gain on disposal of available-for-sale financial assets		**(25)**	—
Gain on disposal of associates		**(8)**	—
Impairment of property, plant and equipment	15	**150**	177
Impairment of intangible assets	16	**1**	30
Impairment of goodwill	17	**4**	—
Impairment of available-for-sale financial assets		**—**	19
Impairment of trade and other receivables		**23**	66
Warranty provisions	31	**690**	414
Research costs		**2,087**	1,450
Exchange losses/(gains), net		**31**	(229)

* The amortisation of intangible assets is included in "Cost of sales" in 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.

7. PROFIT BEFORE TAX (continued)

(a) Retirement benefits (continued)

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

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

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

(b) Medical benefits

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

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

7. PROFIT BEFORE TAX (continued)

(b) Medical benefits (continued)

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

(c) Cash housing subsidies

In 2000, the Group implemented cash housing subsidy plans pursuant to which the Group undertook the obligation to pay cash housing subsidies to its eligible employees who had not been allocated housing quarters 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 entity from 1 January 2003 onwards and the retired employees of such jointly-controlled entity were not entitled to any benefits under the cash housing subsidy 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.

(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 have the obligations 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.

7. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights

The shareholders of the Company have adopted a plan of stock appreciation rights ("SARs") for the senior management of the Group. The plan is designed to link the financial interests of the Group's senior management with the Group's future results of operations and the performance of the 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. 55,665,782 SAR units were granted with a term of six years with effect from 23 January 2006 (the "Batch 1 SAR"). 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 years 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 was 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 has not been 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. 31,417,405 SAR units were granted with a term of six years with effect from 15 January 2007 (the "Batch 2 SAR"). The rights to the SAR units will have an exercise period of six years from the date of grant (i.e, 15 January 2007) and can be exercised in the third, fourth and fifth years following the date of grant and the total number of the rights exercised by an individual shall not in aggregate exceed 40%, 70% and 100%, respectively, of the total rights granted to the individual. The exercise price of the SARs as approved by the board of directors on 18 April 2007was 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 have not been exercised on 14 January 2013 shall not be exercised and shall lapse upon their expiry.

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 the market price of the H shares of the Company at the time of exercise.

7. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

During the year ended 31 December 2009, the Company received notices from all grantees of the above plans of SARs which confirmed that each grantee has unconditionally waived for the portion of benefits receivable by each grantee in excess of 50% of the annual remuneration (including benefits receivable from the plans of SARs) of the respective grantee at the grant date of each plan of SARs. Accordingly, the carrying amount of the liability relating to the SARs has been accounted for by the Company at the lower of the accumulated amortisation of the fair value of the plans of SARs (RMB605 million) and the total benefits receivable by the grantees from the Batch 1 SAR and the Batch 2 SAR capped at 50% of the annual remuneration (including benefits receivable from the plans of SARs) of each grantee at the grant date of each plan of SARs ("Ceiling of benefits receivable from the plans of SARs") (RMB71 million) as at 31 December 2009.

As at 31 December 2009, the carrying amount of the liability relating to the SARs stated on the basis as described in the preceding paragraph was RMB71 million (2008: RMB56 million) and the compensation expense recognised for the year ended 31 December 2009 was RMB19 million (2008: credit of RMB91 million).

The following SARs were outstanding during the year:

	2009		2008	
	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**	**87,043**	2.76	87,083
Granted during the year	**—**	**—**	—	—
Exercised during the year	**2.43**	**3,772**	2.01	40
Lapsed during the year	**—**	**—**	—	—
At 31 December	**2.78**	**83,271**	2.76	87,043

The weighted average share price at the date of exercise of the SARs exercised during the year was HK$3.6 (2008: HK$3.3).

7. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

The exercise price and exercise periods of the SARs outstanding as at the end of the reporting period are as follows:

2009

Number of SAR units '000	Exercise price HK$ per share	Exercise period
52,624	**2.01**	**23-1-2008 to 22-1-2012**
30,647	**4.09**	**15-1-2009 to 14-1-2013**
83,271		

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		

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

7. PROFIT BEFORE TAX (continued)

(e) Stock appreciation rights (continued)

The following table lists the inputs to the binomial option pricing model used for the measurement of the fair value of the SARs as at 31 December 2009:

Dividend yield (%)	0.40
Expected volatility (%)	49.64–81.56
Risk-free interest rate (%)	0.040–0.588
Expected life of options (years)	4
Share price on measurement date (HK$)	11.18

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2009	2008
	RMB million	RMB million
Interest on bank loans and other borrowings wholly repayable:		
— within five years	**107**	205
— beyond five years	**104**	121
Interest on discounted bills	**42**	62
Interest on short term debentures	**23**	102
Interest on medium term notes	**34**	—
	310	490
Less: Amount capitalised in construction in progress	**(65)**	(97)
Net interest expense	**245**	393

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group			
	Directors		Supervisors	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**441**	441	**96**	96
Other emoluments:				
— Salaries, allowances and benefits in kind	**1,743**	1,712	**1,440**	1,395
— Bonuses	**2,377**	2,410	**1,800**	1,765
— Pension scheme costs	**326**	303	**205**	184
	4,887	4,866	**3,541**	3,440
Stock appreciation right expenses/(credit) recognised in the income statement	**(679)**	(18,425)	**606**	(7,037)
Total charged/(credited) to the income statement	**4,208**	(13,559)	**4,147**	(3,597)

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 7(e) to the financial statements.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and the supervisors and their remuneration (the SAR expenses/(credit) are disclosed in the second last column) for the year ended 31 December 2009 are as follows:

2009	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 expense/ (credit) recognised in the income statement* RMB'000	Waived stock appreciation right benefits RMB'000
Executive directors:							
Xu Ping	–	229	319	41	589	(63)	14,620
Liu Zhangmin	–	187	281	38	506	(63)	14,620
Zhou Wenjie	–	187	255	34	476	(79)	12,106
Fan Zhong	–	187	255	36	478	(79)	12,106
Li Shaozhu	–	187	255	36	478	(79)	12,106
	–	977	1,365	185	2,527	(363)	65,558
Non-executive directors:							
Tong Dongcheng	–	187	255	36	478	(79)	12,106
Liu Weidong	–	187	255	36	478	(79)	12,106
Ouyang Jie	–	187	255	36	478	(79)	12,106
Zhu Fushou	–	205	247	33	485	(79)	12,106
	–	766	1,012	141	1,919	(316)	48,424
Independent non-executive directors:							
Sun Shuyi	147	–	–	–	147	–	–
Ng Lin-fung	147	–	–	–	147	–	–
Yang Xianzu	147	–	–	–	147	–	–
	441	–	–	–	441	–	–
	441	1,743	2,377	326	4,887	(679)	113,982
Supervisors:							
Ye Huicheng	–	187	255	36	478	(79)	12,106
Zhou Qiang	–	183	336	29	548	168	7,197
Ren Yong	–	489	465	59	1,013	168	7,197
Liu Yuhe	–	289	443	28	760	156	2,953
Li Chunrong	–	141	124	24	289	98	5,244
Kang Li	–	151	177	29	357	95	6,323
	–	1,440	1,800	205	3,445	606	41,020
Independent supervisors:							
Wen Shiyang	48	–	–	–	48	–	–
Deng Mingran	48	–	–	–	48	–	–
	96	–	–	–	96	–	–
	96	1,440	1,800	205	3,541	606	41,020

* represents the lower of the accumulated amortisation of the fair value of the plans of SARs and the Ceiling of benefits receivable from the plans of SARs recognised as expense/(credit) in the income statement (note 7(e)).

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and the supervisors and their remuneration (the SAR expenses/(credit) are disclosed in the last column) for the year ended 31 December 2008 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 recognised 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	4,866	(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)

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

As set out in note 7(e), during the year ended 31 December 2009, all the directors and the supervisors waived unconditionally the portion of benefits receivable by them in excess of 50% of their respective annual remuneration (including benefits receivable from the plans of SARs) at the grant date of each plan of SARs. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year ended 31 December 2008.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: two) directors or supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2008: three) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,836**	1,829
Bonuses	**617**	618
Pension scheme contributions	**87**	79
	2,540	2,526

10. FIVE HIGHEST PAID EMPLOYEES (continued)

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	
	2009	2008
Nil–RMB500,000	**—**	—
RMB500,001–RMB1,000,000	**2**	2
RMB1,000,001–RMB1,500,000	**1**	1
	3	3

In prior years, the SARs were granted to two (2008: two) of the non-director, non-supervisor, highest paid employees in respect of their services to the Group, further details of which are included in note 7(e) to the financial statements.

11. INCOME TAX EXPENSE

	Group	
	2009	2008
	RMB million	RMB million
Current income tax	**2,267**	1,055
Deferred income tax	**(596)**	(408)
Income tax expense for the year	**1,671**	647

11. INCOME TAX EXPENSE (continued)

(a) Corporate income tax

Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the Company, its subsidiaries and its jointly-controlled entities is calculated at rates ranging from 7.5% to 25%, on their estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof. As certain of the Company's subsidiaries and jointly-controlled entities are foreign investment enterprises, after obtaining authorisation from the respective tax authorities, these subsidiaries and jointly-controlled entities are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year. After the implementation of the New Enterprise Income Tax Law from 1 January 2008, these subsidiaries and jointly-controlled entities will continue to enjoy the preferential income tax rate up to the end of the transition period, after which, the 25% standard rate applies.

(b) Hong Kong profits tax

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

(c) Deferred income tax

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

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

11. INCOME TAX EXPENSE (continued)

(c) Deferred income tax (continued)

A reconciliation of the income tax expense 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 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			
	2009		2008	
	RMB million	**%**	RMB million (Restated)	%
Profit before tax	**8,409**		4,807	
At the PRC statutory corporate income tax rate of 25% (2008: 25%)	**2,102**	**25.0**	1,202	25.0
Tax concessions and lower tax rates for specific provinces or locations	**(619)**	**(7.3)**	(651)	(13.5)
Income not subject to corporate income tax	**(148)**	**(1.8)**	(120)	(2.5)
Expenses not deductible for corporate income tax	**42**	**0.5**	39	0.8
Tax losses not recognised	**294**	**3.5**	177	3.7
Income tax expense at the Group's effective income tax rate	**1,671**	**19.9**	647	13.5

11. INCOME TAX EXPENSE (continued)

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

Group

	As at 31 December		Year ended 31 December		
	2009 RMB million	2008 RMB million	Credited to income statement 2009 RMB million	Charged to statement of comprehensive income 2009 RMB million	Charged/ (credited) to income statement 2008 RMB million
Deferred tax liabilities:					
Capitalisation of development costs	**(24)**	(31)	**(7)**	**–**	31
Arising from acquisition of a subsidiary by a jointly-controlled entity (note 19(a))	**–**	(2)	**(2)**	**–**	
Others	**(38)**	(47)	**(16)**	**7**	23
Gross deferred tax liabilities	**(62)**	(80)			
Deferred tax assets:					
Losses available for offsetting against future taxable income	**–**	–	**–**	**–**	2
Impairment of items of property, plant and equipment	**51**	40	**(11)**	**–**	(5)
Provision for stock appreciation right liabilities	**19**	14	**(5)**	**–**	23
Accrual expenses	**1,040**	559	**(481)**	**–**	(379)
Warranty provisions	**119**	68	**(51)**	**–**	(35)
Others	**137**	114	**(23)**	**–**	(68)
Gross deferred tax assets	**1,366**	795			
Deferred income tax credit			**(596)**	**7**	(408)
Net deferred tax liabilities	**(62)**	(80)			
Net deferred tax assets	**1,366**	795			

11. INCOME TAX EXPENSE (continued)

Company

	As at 31 December	
	2009	2008
	RMB million	RMB million
Deferred tax assets:		
Provision for stock appreciation right liabilities	**19**	14
Gross deferred tax assets	**19**	14
Net deferred tax assets	**19**	14

12. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to the equity holders of the parent for the year ended 31 December 2009 includes a profit of RMB3,607 million (2008: RMB1,888 million) which has been dealt with in the financial statements of the Company (note 29).

13. DIVIDEND

	Group	
	2009	2008
	RMB million	RMB million
Proposed final — RMB0.090 (2008: RMB0.045) per ordinary share	**776**	388

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

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the Accounting Standards for Business Enterprises (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, the net profit after tax can only be distributed as dividends after an allowance has been made for the following:

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

(ii) Allocations to the statutory common reserve of at least 10% of after-tax profit, until the reserve reaches 50% of the Company's share capital in aggregate. For the purpose of calculating the transfer to the reserve, the profit after tax shall be the amount determined under 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.

13. DIVIDEND (continued)

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

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

14. 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:

	2009 RMB million	2008 RMB million (Restated)
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	**6,250**	3,955

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

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

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2009				
At 31 December 2008 and 1 January 2009 (Restated):				
Cost	1,119	27,138	3,374	31,631
Accumulated depreciation and impairment	(404)	(12,797)	(40)	(13,241)
Net carrying amount	715	14,341	3,334	18,390
At 1 January 2009, net of accumulated depreciation and impairment (Restated)	715	14,341	3,334	18,390
Additions	19	518	2,539	3,076
Disposals	(42)	(249)	—	(291)
Reclassifications	55	3,049	(3,104)	—
Impairment	(1)	(149)	—	(150)
Depreciation provided during the year	(48)	(2,274)	—	(2,322)
At 31 December 2009, net of accumulated depreciation and impairment	698	15,236	2,769	18,703
At 31 December 2009:				
Cost	1,140	30,121	2,804	34,065
Accumulated depreciation and impairment	(442)	(14,885)	(35)	(15,362)
Net carrying amount	698	15,236	2,769	18,703

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2008 (Restated)				
At 1 January 2008:				
Cost	1,080	24,391	2,319	27,790
Accumulated depreciation and impairment	(409)	(10,901)	(41)	(11,351)
Net carrying amount	671	13,490	2,278	16,439
At 1 January 2008, net of accumulated depreciation and impairment	671	13,490	2,278	16,439
Additions	31	779	3,470	4,280
Acquisition of a subsidiary by a jointly-controlled entity (note 19(a))	17	3	—	20
Disposals	(19)	(109)	(19)	(147)
Reclassifications	48	2,346	(2,394)	—
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	14,341	3,334	18,390
At 31 December 2008:				
Cost	1,119	27,138	3,374	31,631
Accumulated depreciation and impairment	(404)	(12,797)	(40)	(13,241)
Net carrying amount	715	14,341	3,334	18,390

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2009				
At 31 December 2008 and 1 January 2009:				
Cost	199	617	51	867
Accumulated depreciation and impairment	(66)	(217)	—	(283)
Net carrying amount	133	400	51	584
At 1 January 2009, net of accumulated depreciation and impairment	133	400	51	584
Additions	—	10	639	649
Acquisition of the Own-brand Business	—	4	262	266
Reclassifications	20	679	(699)	—
Depreciation provided during the year	(8)	(59)	—	(67)
At 31 December 2009, net of accumulated depreciation and impairment	145	1,034	253	1,432
At 31 December 2009:				
Cost	219	1,310	253	1,782
Accumulated depreciation and impairment	(74)	(276)	—	(350)
Net carrying amount	145	1,034	253	1,432

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2008				
At 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 accumulated depreciation 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

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

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

16. INTANGIBLE ASSETS

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million (Restated)	**RMB million**	RMB million
Cost:				
At 1 January	**2,789**	2,291	**35**	21
Additions	**613**	498	**21**	14
Acquisition of the Own-brand Business	**—**	—	**156**	—
Disposals	**(125)**	—	**—**	—
At 31 December	**3,277**	2,789	**212**	35
Accumulated amortisation:				
At 1 January	**1,001**	749	**13**	—
Amortisation	**367**	252	**19**	13
Disposals	**(123)**	—	**—**	—
At 31 December	**1,245**	1,001	**32**	13
Impairment:				
At 1 January	**30**	—	**—**	—
Additions	**1**	30	**—**	—
At 31 December	**31**	30	**—**	—
Net book value:				
At 1 January	**1,758**	1,542	**22**	21
At 31 December	**2,001**	1,758	**180**	22

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

17. GOODWILL

Group

	2009 RMB million	2008 RMB million
At 1 January	**483**	477
Acquisition of an additional interest in a jointly-controlled entity's subsidiary	**—**	4
Acquisition of a subsidiary by a jointly-controlled entity (note 19(a))	**—**	2
Impairment	**(4)**	—
At 31 December	**479**	483

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 11%. No growth rate has been projected beyond the five-year period.

18. INVESTMENTS IN SUBSIDIARIES

Company

	2009 RMB million	2008 RMB million
Unlisted investments, at cost	**140**	140

Particulars of the principal subsidiaries as at 31 December 2009 were as follows:

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
China Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB200,000,000	95.0	2.6	Marketing and sale of automobiles
Shanghai Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB30,000,000	—	97.6	Marketing and sale of automobiles

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Company

	2009 RMB million	2008 RMB million
Unlisted investments, at cost	**13,037**	13,037

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the principal jointly-controlled entities as at 31 December 2009 were as follows:

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Dongfeng 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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Dongfeng Motor Finance Co., Ltd.#	PRC	RMB558,770,000	20.0	40.0	Provision of finance services
Dongfeng Automobile Co., Ltd.##	PRC	RMB2,000,000,000	—	30.1	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Electronics Technology Co., Ltd.##	PRC	RMB313,560,000	—	32.5	Manufacture and sale of automotive parts and components
Dongfeng Cummins Engines Co., Ltd.#	PRC	US$100,620,000	—	15.0	Manufacture and sale of automotive parts and components
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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
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 ventures

Joint stock limited liability companies

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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:

	2009 RMB million	2008 RMB million
Non-current assets	**22,758**	22,244
Current assets	**53,259**	34,229
Non-current liabilities	**(1,678)**	(2,092)
Current liabilities	**(48,622)**	(31,158)
Minority interests	**(3,544)**	(3,049)
Net assets	**22,173**	20,174
Total revenue	**90,702**	69,844
Total expenses	**(83,435)**	(65,357)
Minority interests	**(543)**	(259)
Profit attributable to equity holders of the parent	**6,724**	4,228

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

During the year ended 31 December 2008, the Group had the following significant changes in the holdings of a jointly-controlled entity:

(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 a 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 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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (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 were as follows:

	2008	
	Fair value recognised 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 equivalents 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 recognised separately and does not meet the criteria for recognition as intangible assets under IAS 38.

20. INTERESTS/INVESTMENTS IN ASSOCIATES

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

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

	2009 RMB million	2008 RMB million
Unlisted investments, at cost	**326**	326

Particulars of the principal associates as at 31 December 2009 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
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	35.0	—	Provision of finance services

\# Sino-foreign equity joint ventures

\## Joint stock limited liability company

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

20. INTERESTS/INVESTMENTS IN ASSOCIATES (continued)

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

	2009 RMB million	2008 RMB million
Non-current assets	**819**	474
Current assets	**1,425**	1,171
Non-current liabilities	**(97)**	(24)
Current liabilities	**(1,251)**	(831)
Minority interests	**—**	(3)
Net assets	**896**	787
Total revenue	**1,565**	1,423
Total expenses	**(1,402)**	(1,347)
Profit attributable to equity holders of the parent	**163**	76

21. INVENTORIES

	Group		Company	
	2009 RMB million	2008 RMB million	2009 RMB million	2008 RMB million
Raw materials	**3,589**	4,468	**123**	28
Work in progress	**713**	126	**42**	31
Finished goods	**4,439**	4,762	**184**	52
	8,741	9,356	**349**	111

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

22. TRADE RECEIVABLES

Sales of the Group's commercial and passenger vehicles are normally settled on an advance receipt basis, whereby the dealers are required to pay in advance either in cash or by bank acceptance drafts. However, in the case of long-standing customers with bulk purchases and a good repayment history, the Group may offer these customers credit terms that are generally between 30 and 180 days. For sales of engines and other automotive parts, the Group generally offers its customers credit terms that are generally between 30 and 180 days. 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	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**1,351**	1,493	**108**	162
More than three months but within one year	**294**	593	**7**	8
More than one year	**40**	15	**1**	1
	1,685	2,101	**116**	171

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
At 1 January	**990**	987	**4**	4
Impairment loss recognised/(reversed)	**(11)**	55	**—**	—
Amount written off as uncollectible	**(72)**	(52)	**—**	—
At 31 December	**907**	990	**4**	4

22. TRADE RECEIVABLES (continued)

As at 31 December 2009, trade receivables of the Group with an aggregate nominal value of RMB778 million (2008: RMB891 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	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Neither past due nor impaired	**1,375**	1,479	**108**	162
Less than three months past due	**14**	23	**7**	8
	1,389	1,502	**115**	170

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	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
A joint venture partner	**6**	46	**—**	—
Associates	**13**	21	**1**	3
DMC and its subsidiaries	**4**	4	**1**	1
	23	71	**2**	4

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

23. BILLS RECEIVABLE

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**6,568**	3,940	**67**	2
More than three months but within one year	**4,099**	2,576	**5**	1
	10,667	6,516	**72**	3

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
		(Restated)		
Prepayments	**1,082**	1,180	**350**	61
Deposits and other receivables	**3,567**	2,592	**4,507**	1,231
	4,649	3,772	**4,857**	1,292

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
At 1 January	**94**	85	**—**	—
Impairment loss recognised	**34**	11	**—**	—
Amount written off as uncollectible	**(2)**	(2)	**—**	—
At 31 December	**126**	94	**—**	—

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
		(Restated)		
Joint venture partners and their holding companies	**9**	3	**—**	—
Associates	**1**	12	**1**	2
Fellow subsidiaries	**3**	2	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**29**	62	**—**	—
Subsidiaries	**—**	—	**205**	28
Dividends receivable from jointly-controlled entities	**—**	—	**2,492**	1,227
Dividend receivable from an associate	**—**	14	**—**	—
	42	93	**2,698**	1,257

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

25. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

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

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Unlisted investments at cost				
less impairment:				
Non-current	**164**	137	**68**	68
Current*	**1,110**	—	**1,110**	—
	1,274	137	**1,178**	68

* The unlisted investments of the Group and the Company amounting to RMB810 million (2008: nil) and RMB810 million (2008: nil), respectively, are guaranteed by certain banks and financial institutions with repayment due date within one year.

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

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million (Restated)	**RMB million**	RMB million
Cash and bank balances	**16,979**	8,335	**3,101**	1,167
Time deposits	**15,805**	5,793	**1**	10
	32,784	14,128	**3,102**	1,177
Less: Pledged bank balances and time deposits for securing general banking facilities and restricted deposits with the central bank	**(3,405)**	(1,697)	**—**	—
Cash and cash equivalents as stated in the consolidated statement of financial position	**29,379**	12,431	**3,102**	1,177
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(12,010)**	(5,222)	**—**	—
Cash and cash equivalents as stated in the consolidated statement of cash flows	**17,369**	7,209	**3,102**	1,177

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

28. SHARE CAPITAL

Group and Company

	2009 RMB million	2008 RMB million
Registered, issued and fully paid:		
— 5,760,388,000 (2008: 5,760,388,000) Domestic Shares of RMB1.00 each	**5,760**	5,760
— 2,855,732,000 (2008: 2,855,732,000) H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 84 of the financial statements.

29. RESERVES (continued)

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 2008	1,363	1,190	984	388	3,925
Final 2007 dividend declared	—	—	—	(388)	(388)
Total comprehensive income for the year	—	—	1,888	—	1,888
Transfer to reserves	—	403	(403)	—	—
Proposed final dividend	—	—	(388)	388	—
At 31 December 2008 and 1 January 2009	1,363	1,593	2,081	388	5,425
Final 2008 dividend declared	—	—	—	(388)	(388)
Total comprehensive income for the year	—	—	3,607	—	3,607
Transfer to reserves	—	610	(610)	—	—
Proposed final dividend	—	—	(776)	776	—
At 31 December 2009	1,363	2,203	4,302	776	8,644

29. RESERVES (continued)

Company (continued)

Notes:

(a) *Statutory reserves*

In accordance with the PRC Company Law, the Company and each of its subsidiaries, jointly-controlled entities and associates are required to allocate 10% of their profits after tax (determined under 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 13, for dividend distribution purpose, the Company's distributable profit is based on the lower of the 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.

30. INTEREST-BEARING BORROWINGS

Group

	2009			2008		
	Effective interest rate (%)	Maturity	RMB million	Effective interest rate (%)	Maturity	RMB million
Current						
Bank loans — secured	0–6.59	2010	1,460	3.34–10	2009	1,333
Bank loans — secured	LIBOR + 1.5	2010	241	LIBOR + 1	2009	41
Bank loans — unsecured	0.22–7.47	2010	2,528	5–7.78	2009	3,051
Bank loans — unsecured	LIBOR + 0.55 -LIBOR + 1.2	2010	587	LIBOR + 0.78 -LIBOR + 2	2009	1,649
Debentures — unsecured	1.72	2010	1,981	—	—	—
Other loans — unsecured	4–6	2010	420	5–6	2009	845
			7,217			6,919
Non-current						
Bank loans — secured	1–7.47	2011–2030	517	0.3–7.63	2011–2030	586
Bank loans — secured	—	—	—	LIBOR + 1.5 -LIBOR + 2.28	2010	202
Bank loans — unsecured	6.59	2012	46	5.58–7.74	2012	343
Bank loans — unsecured	LIBOR + 0.8 -LIBOR + 1.2	2011–2015	885	LIBOR + 1.2 -LIBOR + 1.25	2011–2015	650
Medium term notes — unsecured	3.8	2012	2,976	—	—	—
			4,424			1,781
			11,641			8,700

30. INTEREST-BEARING BORROWINGS (continued)

Company

	2009			2008		
	Effective interest rate (%)	Maturity	RMB million	Effective interest rate (%)	Maturity	RMB million
Current						
Bank loans — unsecured	5	2010	25	5.43	2009	1,790
Debentures — unsecured	1.72	2010	1,981	–	–	–
Other loans — unsecured	–	–	–	5.31 – 5.91	2009	175
			2,006			1,965
Non-current						
Medium term notes — unsecured	3.8	2012	2,976	–	–	–
			4,982			1,965

30. 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

	2009 RMB million	2008 RMB million
Property, plant and equipment	**836**	830
Intangible assets	**8**	71
Inventories	**—**	113
Time deposits and bank balances	**2,933**	1,142
Other assets	**1,304**	1,000
	5,081	3,156

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

On 16 June 2009, short term debentures with a face value of RMB2,000 million were issued at a discount in the inter-bank debenture market of the PRC. The issue price was RMB98.31 each and the term of maturity was 365 days. The total proceeds from the issue of the short term debentures amounted to RMB1,966.20 million.

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

30. INTEREST-BEARING BORROWINGS (continued)

Details of the medium term notes at 31 December 2009 are as follows:

	2009 RMB million
Principal amount	3,000
Notes issuance cost	(27)
Proceeds received	2,973
Accumulated amortised amounts of notes issuance cost	3
	2,976

30. INTEREST-BEARING BORROWINGS (continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Bank loans repayable:				
Within one year or on demand	**4,816**	6,074	**25**	1,790
In the second year	**487**	202	**—**	—
In the third to fifth years, inclusive	**590**	986	**—**	—
Beyond five years	**371**	593	**—**	—
	6,264	7,855	**25**	1,790
Debentures repayable within one year	**1,981**	—	**1,981**	—
Medium term notes repayable in the third year	**2,976**	—	**2,976**	—
Other loans repayable:				
Within one year or on demand	**420**	845	**—**	175
	11,641	8,700	**4,982**	1,965

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

31. PROVISIONS

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

	Group				Company
	Environmental restoration costs	Warranty expenses	Reorganisation expenses	Total	Warranty expenses
	RMB million	RMB million	RMB million	RMB million	RMB million
At 31 December 2009:					
Current portion	146	701	–	847	16
Non-current portion	–	–	102	102	–
	146	701	102	949	16
At 31 December 2008:					
Current portion	131	406	–	537	–
Non-current portion	–	–	129	129	–
	131	406	129	666	–

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

31. PROVISIONS (continued)

The movements of the above provisions are analysed as follows:

	Group				Company
	Environmental restoration costs	Warranty expenses	Reorganisation expenses	Total	Warranty expenses
	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2008	135	410	163	708	–
Provision during the year	5	414	–	419	–
Utilised	(9)	(418)	(34)	(461)	–
At 31 December 2008 and 1 January 2009	131	406	129	666	–
Provision during the year	27	690	–	717	16
Utilised	(12)	(395)	(27)	(434)	–
At 31 December 2009	146	701	102	949	16

31. PROVISIONS (continued)

Environmental restoration costs

In accordance with the prevailing regulations in the PRC, the Group is required to restore to the original condition of the land on which 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 and the Company provides warranties for certain automotive products and undertake to repair or replace items that fail to perform satisfactorily. The amount of provision for product warranties is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and is revised when appropriate.

Reorganisation expenses

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

32. GOVERNMENT GRANTS

The Group's government grants are analysed as follows:

	2009 **RMB million**	2008 RMB million
Current portion	**–**	23
Long term portion	**94**	83
	94	106

32. GOVERNMENT GRANTS (continued)

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

	RMB million
At 1 January 2008	88
Received during the year	278
Recognised as other income during the year (note 6)	(260)
At 31 December 2008 and 1 January 2009	106
Received during the year	333
Recognised as other income during the year (note 6)	(345)
At 31 December 2009	94

33. TRADE PAYABLES

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million (Restated)	**RMB million**	RMB million
Within three months	**17,228**	9,377	**929**	137
More than three months but within one year	**935**	757	**89**	43
More than one year	**251**	141	**6**	11
	18,414	10,275	**1,024**	191

33. TRADE PAYABLES (continued)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
DMC	**35**	40	**3**	—
Joint venture partners and their holding companies	**2,068**	998	**—**	—
Associates	**162**	167	**44**	74
A minority shareholder of a jointly-controlled entity's subsidiary	**—**	1	**—**	—
Fellow subsidiaries	**26**	12	**4**	2
	2,291	1,218	**51**	76

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

34. BILLS PAYABLE

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

	2009	2008
	RMB million	RMB million
Within three months	**3,428**	3,221
More than three months but within one year	**3,963**	3,087
	7,391	6,308

35. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
		(Restated)		
Advances from customers	**3,809**	1,638	**242**	70
Accrued salaries, wages and benefits	**2,130**	1,452	**411**	336
Other payables	**8,452**	5,193	**221**	110
	14,391	8,283	**874**	516

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
DMC	**164**	80	**—**	—
Joint venture partners	**815**	771	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**5**	1	**—**	—
Fellow subsidiary	**87**	1	**—**	—
Associates	**2**	—	**—**	—
	1,073	853	**—**	—

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

36. COMMITMENTS

(a) Operating lease commitments as lessee

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Within one year	**184**	151	**65**	19
After one year but not more than five years	**653**	490	**262**	75
More than five years	**3,447**	1,783	**1,216**	720
	4,284	2,424	**1,543**	814

(b) Capital commitments

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
		(Restated)		
Contracted, but not provided for:				
Property, plant and equipment	**1,638**	2,539	**178**	—
Authorised, but not contracted for:				
Property, plant and equipment	**3,584**	2,164	**—**	—

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB million	RMB million	**RMB million**	RMB million
Bank acceptance bills discounted with recourse	**997**	816	**465**	—
Bank acceptance bills endorsed with recourse	**5,411**	3,958	**71**	—
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	**—**	—	**200**	52
— Jointly-controlled entities	**571**	622	**1,083**	1,121
— Associates	**45**	53	**—**	—
— Other third parties	**18**	9	**—**	—
Pending litigation	**3**	6	**—**	—
	7,045	5,464	**1,819**	1,173

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 2008 and 2009.

As at 31 December 2009, the banking facilities granted to the subsidiaries and jointly-controlled entities subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB1,283 million (2008: RMB1,173 million), and the banking facilities guaranteed by the Group to the jointly-controlled entities, associates and other third parties were utilised to the extent of approximately RMB634 million (2008: RMB684 million).

38. RELATED PARTY TRANSACTIONS

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

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

	Note	2009 RMB million	2008 RMB million
Purchases of automotive parts/raw materials from:	(i)		
— DMC		**53**	94
— A fellow subsidiary		**179**	1
— Joint venture partners and their holding companies		**21,185**	19,054
— Associates		**1,025**	1,106
— Jointly-controlled entities		**3,775**	4,198
— Minority shareholders of jointly-controlled entities' subsidiaries		**39**	50
		26,256	24,503
Purchases of automobiles from:	(i)		
— Jointly-controlled entities		**962**	1,129
— Associates		**100**	—
— Joint venture partners and their holding companies		**32**	—
		1,094	1,129
Purchases of water, steam and electricity from DMC	(i)	**870**	866
Purchases of items of property, plant and equipment from:	(i)		
— The holding company of a joint venture partner		**71**	47
— A jointly-controlled entity		**23**	91
— An associate		**33**	37
— Fellow subsidiaries		**8**	—
		135	175
Rental expenses to DMC	(i)	**213**	165

38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2009 RMB million	2008 RMB million
Purchases of services from:	(i)		
— DMC		**50**	60
— A fellow subsidiary		**27**	1
— A joint venture partner		**29**	12
— An associate		**17**	13
— Jointly-controlled entities		**6**	21
		129	107
Purchases of technology know-how from joint venture partners and their holding companies	(i)	**3,323**	1,865
Sales of automotive parts/raw materials to:	(i)		
— DMC		**50**	71
— Fellow subsidiaries		**1**	4
— A joint venture partner		**168**	498
— An associate		**31**	31
— Jointly-controlled entities		**995**	1,247
— A minority shareholder of a jointly-controlled entity's subsidiary		**3**	—
		1,248	1,851
Sales of automobiles to:	(i)		
— An associate		**346**	174
— Jointly-controlled entities		**—**	1
		346	175
Provision of services to:	(i)		
— Jointly-controlled entities		**10**	44
— Joint venture partners and their holding companies		**41**	47
		51	91

38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

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

(b) Outstanding balances with related parties:

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

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

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

	2009	2008
	RMB'000	RMB'000
Short term employee benefits	**7,897**	7,819
Post-employment benefits	**531**	487
Total compensation paid to key management personnel	**8,428**	8,306
Stock appreciation right credit recognised in the income statement	**(73)**	(25,462)
	8,355	(17,156)

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

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2009

Group

Financial assets

	Financial assets at fair value through profit or loss — Held for trading RMB million	Loans and receivables RMB million	Available-for-sale financial assets RMB million	Total RMB million
Available-for-sale financial assets	—	—	1,274	1,274
Trade receivables	—	1,685	—	1,685
Bills receivable	—	10,667	—	10,667
Financial assets included in prepayments, deposits and other receivables	—	3,567	—	3,567
Due from jointly-controlled entities	—	592	—	592
Financial assets at fair value through profit or loss	17	—	—	17
Pledged bank balances and time deposits	—	3,405	—	3,405
Cash and cash equivalents	—	29,379	—	29,379
	17	49,295	1,274	50,586

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB million
Trade payables	18,414
Bills payable	7,391
Financial liabilities included in other payables and accruals	8,452
Due to jointly-controlled entities	503
Interest-bearing borrowings	11,641
	46,401

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2008 (Restated)

Group

Financial assets

	Financial assets at fair value through profit or loss — Held for trading RMB million	Loans and receivables RMB million	Available-for-sale financial assets RMB million	Total RMB million
Available-for-sale financial assets	—	—	137	137
Trade receivables	—	2,101	—	2,101
Bills receivable	—	6,516	—	6,516
Financial assets included in prepayments, deposits and other receivables	—	2,592	—	2,592
Due from jointly-controlled entities	—	421	—	421
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	—	12,431	—	12,431
	6	25,758	137	25,901

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB million
Trade payables	10,275
Bills payable	6,308
Financial liabilities included in other payables and accruals	5,193
Due to jointly-controlled entities	333
Interest-bearing borrowings	8,700
	30,809

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2009

Company

Financial assets

	Loans and receivables RMB million	Available-for-sale financial assets RMB million	Total RMB million
Available-for-sale financial assets	—	1,178	1,178
Trade receivables	116	—	116
Bills receivable	72	—	72
Financial assets included in prepayments, deposits and other receivables	4,507	—	4,507
Due from jointly-controlled entities	111	—	111
Cash and cash equivalents	3,102	—	3,102
	7,908	1,178	9,086

Financial liabilities

	Financial liabilities at amortised cost RMB million
Trade payables	1,024
Financial liabilities included in other payables and accruals	221
Due to jointly-controlled entities	626
Interest-bearing borrowings	4,982
	6,853

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2008

Company

Financial assets

	Loans and receivables RMB million	Available-for-sale financial assets RMB million	Total RMB million
Available-for-sale financial assets	—	68	68
Trade receivables	171	—	171
Bills receivable	3	—	3
Financial assets included in prepayments, deposits and other receivables	1,231	—	1,231
Due from jointly-controlled entities	57	—	57
Cash and cash equivalents	1,177	—	1,177
	2,639	68	2,707

Financial liabilities

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including principally forward and swap foreign currency 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 the 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
2009	**1**	**68**
2008	1	44

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The businesses of the Group are principally located in the PRC. While most of the sales of the Group are conducted in RMB, certain of 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 end of the reporting period, the fair values of these foreign currency forward and swap contracts were insignificant.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD, Euro and JPY exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). There is no impact on the Group's equity.

	Increase/(decrease) in profit before tax	
	2009	2008
	RMB million	RMB million
If RMB strengthens against USD by 1%	**24**	44
If RMB weakens against USD by 1%	**(24)**	(44)
If RMB strengthens against Euro by 1%	**6**	8
If RMB weakens against Euro by 1%	**(6)**	(8)
If RMB strengthens against JPY by 1%	**1**	3
If RMB weakens against JPY by 1%	**(1)**	(3)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The cash and bank balances and time deposits of the Group are mainly deposited with state-owned banks in the PRC.

The Group has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not have a significant exposure to any individual customer.

The 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 has no significant concentration of credit risk.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2009				
	Within one year or on demand RMB million	In the second year RMB million	In the third to fifth years RMB million	Beyond five years RMB million	Total RMB million
Interest-bearing borrowings	7,217	487	3,566	371	11,641
Trade payables	18,414	—	—	—	18,414
Bills payable	7,391	—	—	—	7,391
Other payables	8,452	—	—	—	8,452
Due to jointly-controlled entities	503	—	—	—	503
Guarantees given to banks in connection with facilities granted to jointly-controlled entities, associates and other third parties	634	—	—	—	634
	42,611	487	3,566	371	47,035

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	2008 (Restated)				
	Within one year or on demand RMB million	In the second year RMB million	In the third to fifth years RMB million	Beyond five years RMB million	Total RMB million
Interest-bearing borrowings	6,919	202	986	593	8,700
Trade payables	10,275	—	—	—	10,275
Bills payable	6,308	—	—	—	6,308
Other payables	5,193	—	—	—	5,193
Due to jointly-controlled entities	333	—	—	—	333
Guarantees given to banks in connection with facilities granted to jointly-controlled entities, associates and other third parties	684	—	—	—	684
	29,712	202	986	593	31,493

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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 end of the reporting period was as follows:

Group

	2009 RMB million	2008 RMB million (Restated)
Interest-bearing borrowings	**11,641**	8,700
Less: Cash and cash equivalents	**(29,379)**	(12,431)
Less: Pledged bank balances and time deposits	**(3,405)**	(1,697)
Net debt	**(21,143)**	(5,428)
Equity	**27,284**	22,055
Net debt to equity ratio	**(77.5%)**	(24.6%)

41. COMPARATIVE FIGURES

As stated in note 2, comparative figures have been restated to reflect the effects of the Business Combination under common control and certain comparatives figures have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2010.

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				
	2009	2008	2007	2006	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
		(Restated)	(Restated)		
RESULTS					
Revenue — Sale of goods	**91,758**	70,569	59,318	48,264	41,735
Cost of sales	**(74,274)**	(58,688)	(49,503)	(40,058)	(35,639)
Gross profit	**17,484**	11,881	9,815	8,206	6,096
Other income	**1,520**	1,228	935	736	1,007
Selling and distribution costs	**(4,297)**	(3,379)	(2,642)	(2,157)	(1,738)
Administrative expenses	**(3,138)**	(2,655)	(2,569)	(2,219)	(1,928)
Other expenses, net	**(3,110)**	(1,970)	(1,432)	(1,285)	(767)
Finance costs	**(245)**	(393)	(365)	(411)	(478)
Loss on dilution of interests in jointly-controlled entities	**—**	—	—	(252)	—
Share of profits and losses of associates	**195**	95	69	61	29
Profit before tax	**8,409**	4,807	3,811	2,679	2,221
Income tax	**(1,671)**	(647)	202	(428)	(474)
Profit for the year	**6,738**	4,160	4,013	2,251	1,747
Attributable to:					
Equity holders of the parent	**6,250**	3,955	3,746	2,081	1,601
Minority interests	**488**	205	267	170	146
	6,738	4,160	4,013	2,251	1,747

Five Year Financial Summary (continued)

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
		(Restated)	(Restated)		
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**85,689**	60,449	52,340	44,113	37,980
Total liabilities	**(55,134)**	(35,557)	(31,932)	(27,291)	(23,646)
Minority interests	**(3,271)**	(2,837)	(2,686)	(2,534)	(2,127)
	27,284	22,055	17,722	14,288	12,207

The financial information previously reported by the Group in 2007 and 2008 has been restated as a result of the retrospective adjustment to apply the principles of merger account for business combination under common control.

Corporate Information

REGISTERED NAME

Dongfeng Motor Group Company Limited

REGISTERED ADDRESS

Special No. 1 Dongfeng Road
Wuhan Economic and Technology Development Zone
Wuhan,
Hubei 430056
PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Special No. 1 Dongfeng Road
Wuhan Economic and Technology Development Zone
Wuhan,
Hubei 430056,
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 28, Three Pacific Place,
1 Queen's Road East,
Hong Kong SAR

COMPANY WEBSITE

www.dfmg.com.cn

COMPANY SECRETARIES

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

HONG KONG H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre,
183 Queen's Road East
Wan Chai,
Hong Kong SAR

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

00489

Notice of Annual General Meeting and Relating Information

NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR 2009

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the "AGM") of Dongfeng Motor Group Company Limited (the "Company") for the year 2009 will be held at 9:00 a.m. on Friday, 18 June 2010 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 2009.

2. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2009.

3. To consider and approve the report of the international auditors and audited financial statements of the Company for the year ended 31 December 2009.

4. To consider and approve the profit distribution proposal of the Company for the year ended 31 December 2009, and the authorization to the Board to deal with all issues in relation to the Company's distribution of final dividend for the year 2009.

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 2010 at its sole discretion (including, but not limited to, determining whether to distribute interim dividend for the year 2010).

6. To consider and approve the re-appointments of Ernst & Young as the international auditors of the Company, and Ernst & Young Hua Ming as the domestic auditors of the Company for the year 2010 to hold office until the conclusion of annual general meeting for the year 2010, and to authorize the Board to determine their remunerations.

7. To consider and approve the Board to determine the remuneration of the directors and the supervisors of the Company for the year 2010.

II. As special resolutions:

8. For the purpose of increasing the flexibility and efficiency of operation, to grant a general mandate to the Board to issue, allot and deal with additional Domestic Shares not exceeding 20 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 powers of the Company to allot, issue and deal with, either separately or concurrently, additional Domestic Shares and H shares and to make or grant offers, agreements, options and powers of exchange or conversion which might require the exercise of such powers be hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements, options and powers of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;

(c) each of the aggregate nominal amounts of Domestic Shares and H shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Board pursuant to the approval granted in paragraph (a) shall not exceed 20 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 a period of 12 months from the date of passing of the special resolution granting the general mandate; or

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

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

(B) The Board 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

30 April 2010, 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 shareholders who are entitled to attend the AGM, the registers of members of the Company will be closed from Wednesday, 19 May 2010 to Friday, 18 June 2010, 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, no later than 4:30 p.m. on Tuesday, 18 May 2010.

(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, the instrument must be either under its common seal or under the hand of its director(s) or duly authorized attorney(s). If the 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 2010.

(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, Computers hare Hong Kong Investor Services Limited, for the holders of the H Shares on or before Friday, 28 May 2010 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 Articles of Association of the Company, where two or more persons are registered as the joint holders of any share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting rights attached to such share at the AGM, and this notice shall be deemed to be given to all joint holders of such share.

(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.

* For identification only

15th Meeting of the Second Session of the Board of Directors
Dongfeng Motor Group Company Limited

Resolutions on Matters in relation to Annual Reporting

To: Annual General Meeting of the Company:

According to the resolutions on matters in relation to annual reporting passed by the 15th Meeting of the Second Session of Board of Directors of Dongfeng Motor Group Company Limited (the "Company"), the Board of Directors shall propose the following resolutions to the Annual General Meeting of the Company:

1. To consider and approve the financial report of 2009 and the auditor's report of 2009 prepared by Ernst & Young Hua Ming and Ernst & Young respectively.

2. To consider and approve the report of the Board of Directors of 2009.

3. The Board of Directors noted that the audited net profit for the year 2009 amounted to RMB3,607 million, and the distributable profit for 2009 amounted to RMB2,997 million after deducting the statutory reserves of RMB610 million according to the Chinese Accounting Standards. Taking into account the undistributed profits of RMB2,081 million at the beginning of the year, the total profits distributable to shareholders amounted to 5,078 million. The Board of Directors has agreed to declare dividends of RMB0.090 per ordinary share, RMB776 million in aggregate, to shareholders of the Company for 2009.

4. To authorise the Board of Directors to deal with all matters in relation to the Company's distribution of interim dividend for 2010 at its discretion (including, but not limited to, determining whether to distribute interim dividend for 2010).

5. To 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 2010 to hold office until the conclusion of the annual general meeting of 2010, and to authorize the Audit Committee of the Board of Directors to determine the remunerations of overseas auditors and domestic auditors for 2010.

The above resolutions will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
Dongfeng Motor Group Company Limited

13 April 2010

15th Meeting of the Second Session of the Board of Directors
Dongfeng Motor Group Company Limited

Resolutions on the Issuance and Allotment of Shares

To: Annual General Meeting of the Company

According to the resolutions on the issuance and allotment of Shares passed by the 15th Meeting of the Second Session of Board of Directors of Dongfeng Motor Group Company Limited (the "Company"), the Board of Directors shall propose the following resolutions to the Annual General Meeting of the Company:

1. To approve and authorize the Board of Directors to issue, allot and deal with, either separately or concurrently, additional domestic shares not exceeding 20 per cent of the domestic shares in issue and additional H shares not exceeding 20 per cent of H shares in issue.

2. To approve and authorize the Board of Directors to make corresponding amendments to the Articles of Association of the Company to reflect the new capital structure upon the allotment, issue and dealing of the additional domestic shares and/or additional H shares and the increase of registered capital of the Company.

The above resolutions will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
Dongfeng Motor Group Company Limited

13 April 2010

15th Meeting of the Second Session of the Board of Directors
Dongfeng Motor Group Company Limited

Resolution on the Remuneration of Directors and Supervisors

To: Annual General Meeting of the Company

According to the resolution on remuneration of Directors and Supervisors passed by the 15th Meeting of the Second Session of Board of Directors of Dongfeng Motor Group Company Limited (the "Company"), the Board of Directors shall propose the resolution on the remuneration of Directors and Supervisors for 2010 to the Annual General Meeting of the Company:

Remuneration	Cash	Medium to Long Term Incentives
Executive Directors Non Executive Directors	Nil	Shares appreciation rights granted under the Third Share Appreciation Scheme of Dongfeng Motor Group Company Limited
Independent Non-executive Directors	Allowance of RMB120,000, net of tax	Nil
Supervisors	Nil	Nil
Independent Supervisors	Allowance of RMB40,000, net of tax	Nil

Note:

- The Executive Directors and Non Executive Directors receive salaries in their capacities of employee rather than director.
- Executive Directors and the Non Executive Directors are entitled to participate in the Stock Appreciation Scheme.
- Independent Directors and Independent Supervisors are not entitled to participate in the Stock Appreciation Scheme.
- Internal Supervisors receive salaries in their capacities of employee of the Company rather than supervisor.
- Internal Supervisors participate in the Stock Appreciation Scheme in their capacities of employee of the Company rather than supervisor.
- The grant of Share Appreciation Rights are subject to approval of the Third Stock Appreciation Scheme.

The above resolutions will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
Dongfeng Motor Group Company Limited

13 April 2010

The 6th Meeting of the Second Session of the Supervisory Committee
Dongfeng Motor Group Company Limited

Resolution

To: Annual General Meeting of the Company

According to the resolution passed by the 6th Meeting of the Second Session of Supervisory Committee of Dongfeng Motor Group Company Limited (the "Company"), the Supervisory Committee has decided to submit the 2009 supervisory report for consideration and approval.

The above resolution will be submitted to the Annual General Meeting for shareholders' consideration.

The Board of Directors
Dongfeng Motor Group Company Limited

13 April 2010

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-controlledEntities (including their respective subsidiaries and Jointly-controlled Entities) have equity interests as at 31 December 2009.
"Dongfeng Motor Corporation" or "DMC"	東風汽車公司 (Dongfeng Motor Corporation), a state-owned enterprise incorporatedunder the laws of the PRC
"Dongfeng Motor Group" or "Group"	the Company and its subsidiaries, the Dongfeng Joint Venture Companies and their respective subsidiaries and associates.
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Joint Venture Company"	a joint venture company is a company set up by contractual agreement, whereby joint venture parties undertake an economic activity. A joint venture company operates as a separate entity in which each party has an interest.The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with terms of the joint venture agreement.

A joint venture company is treated by a joint venture party as:

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

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

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

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

"Jointly-controlled Entity" or "JCE"	a jointly-controlled entity is a Joint Venture Company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. A joint venture party's investments in its Jointly-controlled Entities can be accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements of the joint venture party on a line-by-line basis. When the profit sharing ratio is different to the joint venture party's equity interests in the Jointly-controlled Entities, the joint venture party's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio. The results of Jointly-controlled Entities are included in the joint venture party's profit and loss account to the extent of dividends received and receivable. The joint venture party's investments in Jointly- controlled Entities are treated as long term assets and are stated at cost less impairment losse
"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.