Contents

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 13 subsidiaries, jointly-controlled entities and other companies in which the Company has direct equity interests, all of which constitute the Dongfeng Motor Group. The 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, as well as other automotive-related businesses.

In 2006, the Dongfeng Motor Group commanded a domestic market share of approximately 10.4% in terms of the total sales volume of commercial and passenger vehicles in the PRC, according to the statistics published by the China Association of Automobile Manufacturers. Consequently, the Group has established a solid position in the industry and plays a leading role in certain sectors.

Chairman's Statement

Dear shareholders,

I am pleased to submit the annual report for the year ended 31 December 2006 of Dongfeng Motor Group Company Limited for your review.

With the dynamic progress and healthy development in the PRC economy, its automotive industry continued to grow rapidly in 2006. On the basis of statistics published by the China Association of Automobile Manufacturers, the whole automotive manufacturing sector produced approximately 7.28 million vehicles and sold approximately 7.22 million vehicles in 2006, representing an increase of approximately 27% and 25% respectively compared to last year.

The year 2006 was a significant one in the development of the Dongfeng Motor Group. Besides its overall production and sales growth in line with other players, the performance of its passenger vehicle business excelled in the market and all of the joint ventures' operations were back on a rising track. During the year, the Dongfeng Motor Group manufactured approximately 756,000 vehicles, and realized sales of approximately 751,000 vehicles, representing a growth of 26.4% and 26.3% on the previous year, and the sales took up approximately 10.4% of the market share according to the information of the China Association of Automobile Manufacturers. Hence, the combined sales achieved was RMB48,264 million and profit attributable to equity holders of the parent amounted to RMB2,081 million. Dongfeng Peugeot Citroën Automobiles Company Ltd, the joint venture between the Company, Peugeot Citroën Automobiles, Automobiles Citroën and Automobiles Peugeot was profitable for the year, laying a solid groundwork for its continuous development.

During 2006, the Dongfeng Motor Group moved steadily and proactively in the expansion of production capacity, Research and Development, product launches and construction of the after-sales service network. The aggregate production capacity reached 945,000 vehicles as at 31 December 2006 with reasonable utilization rate attained. The Dongfeng Motor Group had made progress in various major Research and Development projects. In particular, 36 vehicle models with over 100 varieties including 東風天龍, 大力神, which signified a new generation of medium and heavy commercial vehicles were launched on the market. With regard to passenger vehicles, 7 new models were launched. These innovations have ensured the continuity of technological and product development and have provided greater depth to cater for the needs of the market. During the year, the composition of the after-sales service network was fine-tuned and its market coverage was further enlarged. Meanwhile, the Dongfeng Motor Group also continued to emphasize the importance of safety conditions and environmental protection. The Dongfeng Motor Group also continued to pay particular attention to the protection of our staff's legal rights and to corporate social responsibility. These are pivotal to the Dongfeng Motor Group's harmonious working environment and the continuous and stable growth.

However, the Board was aware that the development of commercial vehicle business of the Dongfeng Motor Group was unstable, especially for heavy and medium trucks. The outcome of marketing efforts for the new products was not meeting the expectation in full. However, there were signs of improvement in the second half of the year and with the implementation of adjustment of product mix, there is considerable room to enhance the Group's profitability.

The Board considers that the business segments of the Dongfeng Motor Group as a whole contributed to encouraging results in 2006. On the other hand, the Dongfeng Motor Group has been facing long-term challenges. Our honorable shareholders, please be assured that we always uphold the philosophy of adding value for you regardless of setbacks or accomplishments. The Board is committed to enhancing and strengthening the Company's profitability and position in the industry in order to push forward its lasting development in 2007 and the years to come.

Xu Ping
Chairman

Wuhan, the PRC
18 April 2007

Business Overview

I Major Businesses of the Dongfeng Motor Group

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

The commercial vehicle business of the Dongfeng Motor Group, 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 whole vehicle and engines and auto parts businesses are principally operated by Dongfeng Motor Co., Ltd., the joint venture between the Company and Nissan Motor Co., Ltd (through Nissan (China) Investment Co., Ltd).

The Dongfeng Motor Group's passenger vehicle business is principally operated by the following companies: Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd (the joint venture between the Company, Peugeot Citroën Automobiles, Automobiles Citroën and Automobiles Peugeot) 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, a wholly-owned subsidiary of Honda Motor Co., Ltd.)). At present, the Dongfeng Motor Group's engines and auto parts business for passenger vehicles is principally operated by Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd.

The Dongfeng Motor Group's vehicle manufacturing equipment business is conducted primarily through Dongfeng Motor Co., Ltd.

1. Commercial vehicles

As of 31 December 2006, the members of the Dongfeng Motor Group produced 33 principal basic series of whole commercial vehicles, including 27 principal basic series of trucks and 6 principal basic series of buses. Most of the whole commercial vehicles manufactured by the Dongfeng Motor Group are manufactured by Dongfeng Motor Co., Ltd. Commercial vehicles manufactured by the Dongfeng Motor Group are currently sold mainly through three major after-sales services networks devoted exclusively to the provision of sales and services for the whole commercial vehicles manufactured by the Dongfeng Motor Group, which form one of the most extensive commercial vehicle sales and services networks in the PRC.

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

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

2. Passenger vehicles

As of 31 December 2006, the members of the Dongfeng Motor Group produced 18 series of passenger vehicles, including 14 series of passenger cars, 2 series of MPV and 2 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are currently sold together with after-sales services through 5 independently managed after-sales services networks throughout the PRC. Each of these networks sells one brand of passenger vehicle with after-sales services, and is managed by the relevant Joint Venture Company and Dongfeng Motor Group.

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

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

3. Other businesses

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

In addition to the products described above, the Dongfeng Motor Group is engaged in various other automotive-related businesses, including vehicle and vehicle manufacturing equipment import/export, auto finance, insurance agency and used car sales businesses.

II Business Operations during the year under review

1. Sales and production volume and market share for whole vehicles of the Dongfeng Motor Group

As of 31 December 2006, the production volume and sales volume for whole vehicles of the Dongfeng Motor Group was 756,319 and 751,088 units respectively. According to the statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group held a domestic market share of approximately 10.4% in terms of the total domestic sales of commercial and passenger vehicles in 2006. The following table sets out the sales and production volume of the Dongfeng Motor Group for commercial and passenger vehicles, as well as its market share in terms of sales volume in 2006 (on the basis of statistics published by the China Association of Automobile Manufactures):

	No. of units produced (units)	No. of units sold (units)	Market share in terms of sales volume (%)
Commercial Vehicles	260,240	256,242	12.6
Trucks	221,501	217,965	12.4
Buses	38,739	38,277	13.2
Passenger Vehicles	496,079	494,846	9.6
Basic passenger cars	436,379	438,103	11.4
MPVs	24,572	23,450	12.3
SUVs	35,128	33,293	14.0
Total	756,319	751,088	10.4

2. **Ranking of the Dongfeng Motor Group's major vehicle lines in the domestic market in 2006 (on the basis of statistics published by the China Association of Automobile Manufactures):**

	Number of units sold by the Dongfeng Motor Group (units)	Ranking in the domestic market
Heavy trucks	66,778	1
Medium trucks	50,426	2
Light trucks	100,761	2
Basic passenger cars	438,103	3
MPVs	23,450	4
SUVs	33,293	3

3. **Sales Revenue**

As of 31 December, 2006, the sales revenue of the Group was RMB48,264 million.

		Sales revenue (RMB millions)		Contribution to the Group's sales revenue (%)
Commercial vehicles		13,215		27.4
Whole vehicles	11,471		23.8	
External sales of engines and auto parts	1,744		3.6	
Passenger vehicles		34,219		70.9
Whole vehicles	27,014		56.0	
External sales of engines and auto parts	7,205		14.9	
Others		830		1.7
Total		48,264		100.0

III Production Capacity, Production Capacity Distribution and Future Expansion Plans

As at 31 December 2006, the total motor vehicle production capacity of the Dongfeng Motor Group was 945,000 units, among which the production capacity of commercial vehicles was 320,000 units and the production capacity of passenger vehicles was 625,000 units. The total production capacity of engines was 1,180,000 units.

The following table shows the production capacity distribution of vehicles and engines of the Dongfeng Motor Group as at 31 December 2006:

1. Production capacity of commercial vehicles

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	315
Dongfeng Nissan Diesel Motor Co., Ltd	5

2. Production capacity of passenger vehicles

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	285
Dongfeng Peugeot Citroën Automobiles Company Ltd	220
Dongfeng Honda Automobile Co., Ltd	120

3. Production capacity of engines

Company	Production capacity ('000 units)
Dongfeng Motor Co., Ltd	500
Dongfeng Peugeot Citroën Automobiles Company Ltd	200
Dongfeng Honda Automobile Co., Ltd	120
Dongfeng Honda Engine Co., Ltd	360

IV Production safety and environmental protection

In 2006, management and production officers of all levels of the Dongfeng Motor Group adhered to the concept of safety development and complied with the national laws and regulations, and policies of production safety. They handled safety and development properly by continuing to enhance the corporate culture for safety, strengthening the basic safety management, improving the safety production responsibility system and establishing a healthy long term effective safety management mechanism and accident precaution mechanism. Production safety and economic benefits were developed to ensure the safety and health of the staff of the Dongfeng Motor Group, as well as the stable and sustainable development of the Dongfeng Motor Group.

In 2006, the Dongfeng Motor Group achieved the goal of "five eliminations" — namely minimizing any serious accidents of occupational injuries and deaths, fire disasters, explosions of boilers, pressure vessels and pipes, emissions of hazardous chemicals and explosions, and occupational poisonings. During the year, there were 92 occupational injuries in total, of which 12 were serious and 80 were minor. The frequency of accidents was 0.11% and frequency of serious injuries was 0.01%. Occupational injuries of all kind were below the control standard.

For environment protection, the Dongfeng Motor Group strictly complied with the national laws and regulations and developed the concepts of scientific development, clean development and sustainable growth, and put an emphasis on "precaution and treatment, with precaution as priority" with the aim for reducing the emission of pollutants and their concentration, to ensure that no occurrence of material pollution during the year. The Dongfeng Motor Group implemented the environment protection assessment for all projects, and the achievement rate for monitoring the emission of key pollution was approximately 99.8%, disposal rate for solid wastes achieved 100% and the discharge of industrial waste water for 100 million production value reduced by approximately 0.93% as compared to that in 2005.

Business Overview

The Dongfeng Motor Group sees environment protection as an integral part of its production and operation, and formulates, develops and implements its production and operation plan in line with its environment protection measures, aiming to realize production and environment protection at the same time. The Dongfeng Motor Group managed to (i) implement its environment protection measures in its entire value chain of production, with continuous improvement and adaptability development, and striving to develop the core technology for energy saving and environmental protection, (ii) to allocate funds for the improvement of material, technical procedures and environment protection facilities to reduce the amount of pollutants and their concentration from the sources, and devoting to the development of cycle economy to increase the utility rate of the energy and raw material, and (iii) to focus on the management of environment protection during the production processes to maximize the utilization of the environment protection facilities to ensure the permitted level of emission, and implementation of ISO14001 environment protection system for the management of important environment factors and finding out problems and hidden danger in advance to ensure a much stricter environment protection management standard, and (iv) to establish an environmentally friendly automobile manufacturer by further implementing the three “environmentally clean chains”, i.e. the reduction of pollutants, recycling of resources in the production process and the reduction of the discharge of wastes to realize energy saving, reduction of consumption and pollution and increase of efficiency.

V Sales and Service Networks

The motor vehicles manufactured by the Dongfeng Motor Group are sold together with after-sales services in the PRC through 8 major sales and service networks. Each of these 8 sales and service networks sells vehicles manufactured by a particular Joint Venture Company with after-sales services, and is managed by the relevant Joint Venture Company independently of the other members of the Dongfeng Motor Group. The sales outlets which comprise each network are generally owned and operated by independent third parties. The Dongfeng Motor Group provides after-sales services through these distribution and services networks.

The commercial vehicles are mainly distributed with after-sales services through 3 major sales and service networks, which are devoted to the distribution of, and after-sales services for, the commercial vehicles manufactured by Dongfeng Motor Co., Ltd.

The passenger vehicles are mainly sold together with after-sales services through 5 sales and service networks. Each of these networks sells one brand of passenger vehicle with after-sales services, and is operated by the relevant Joint Venture Company independently of the Dongfeng Motor Group.

1. Sales and service networks for commercial vehicles

The Dongfeng Motor Group is currently one of the commercial vehicle manufacturers in the PRC operating one of the most extensive after-sales service networks. The following table sets out the details of the major domestic after-sales service networks for commercial vehicles of the Dongfeng Motor Group as at 31 December 2006.

	No. of after-sales services outlets	No. of first-level outlets	No. of second-level outlets	No. of provinces/ cities covered
Dongfeng Motor Co., Ltd (commercial vehicle company)	565	328	237	31/323
Dongfeng Automobile Co., Ltd	580	580	—	31/303
Dongfeng Liuzhou Motor Co., Ltd	406	406	—	28/318

2. Sales and service networks for passenger vehicles

The passenger vehicle sales and service networks operated by the Dongfeng Motor Group, which comprises passenger vehicle sales and service networks mainly operated by Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd, is currently one of the most extensive sales and service networks for passenger vehicles in the PRC automotive market.

Business Overview

The following table sets out the details of the different major domestic after-sales service networks for passenger vehicles of the Dongfeng Motor Group as at 31 December 2006.

	No. of after-sales services outlets	No. of first-level outlets	No. of second level outlets	No. of provinces/ cities covered	Product type serviced
Dongfeng Nissan Passenger Vehicle Company	280	244	36	31/172	Nissan passenger vehicles
Dongfeng Peugeot Citroën Automobiles	321	321		31/171	Citroën passenger vehicles
Company Ltd	202	110	92	30/143	Peugeot passenger vehicles
Dongfeng Honda Automobile Co., Ltd	119	119		29/82	Honda passenger vehicles
Dongfeng Liuzhou Motor Co., Ltd	185	181	4	29/136	Dongfeng Future passenger vehicles
Zhengzhou Nissan Automobile Co., Ltd	293	257	36	31/248	Nissan passenger vehicles

VI Investment in 2006 and Future Investment Plan for the next two years

The Dongfeng Motor Group has managed to invest by adhering to the principle of rational and profitable investment. The actual total investment in 2006 was RMB5,515 million. According to the Dongfeng Motor Group's future plan for products and business plan, the total investment in the next two years will still remain at a high level. The total investment in 2007 is expected to be approximately RMB9,830 million, while the total investment in 2008 is expected to be approximately RMB9,695 million.

VII Research & Development

In the year 2006, the Dongfeng Motor Group's development of new models of the third-generation 1.5 ton highly flexible off-road vehicle series was completed and the development of the second-generation 3.5 ton off-road vehicle series was also completed.

The development of mixed power passenger buses/cars made new advances, with whole vehicles and certain core components for development having promising industrial prospects. The Dongfeng Motor Group also received two national 863 projects in the "11th five-year plan" after successfully passing the government's inspection for the national 863 project in the "10th five-year plan".

For heavy medium commercial vehicles, the Dongfeng Motor Group launched brand-new products such as Dongfeng "Kinland" and 東風大力神, with 36 models and 100 brands in total, to equip with the newly-developed D310 driving cab.

For light vehicles, the enhanced models of Dongfeng Xiaobawang and Dongfeng Duolika entered into the market during 2006.

Research developments on new technology for commercial vehicles was as follows: the preliminary development of electrically controlled common trail injection technology for engines, whole vehicle electronic control technology, "AMT 控制器開發", "混合動力整車控制器開發", "越野車用差速器總成台架試驗方法研究" and power train integration technology made significant progress, which served as technological exploration and reserves in the areas of automotive advance technology. Reliability design, simulation analysis technology, system matching technology and trial verification technology were further strengthened and applied. The development of products thus became more efficient and of higher technical level.

In relation to passenger vehicles, 7 new vehicles were launched to create a new growth point for sales. The vehicles launched included new Teana, Bluebird Sylphy, Geniss, Dongfeng Peugeot 206, C-Triomphe, C2 and CIVIC, Dongfeng Honda Automobile Co., Ltd's first attempt in passenger cars.

VIII Business Outlook

Position in the industry

It is expected that the sales and production volume of the Dongfeng Motor Group will continue to grow at a fast pace in order to strengthen and raise its position in the PRC automotive industry by enlarging its market share.

Business Overview

Increase in production capacity

According to the automotive market forecast and the business plan of the Dongfeng Motor Group, production capacity will rise gradually so as to meet the needs of manufacturing products, while capacity utilization will continue to increase. By the year 2008, the production capacity of motor vehicles is expected to reach approximately 1,280,000 units and to approximately 1,630,000 units by 2010.

New products to the market

There are 4 to 8 new models of passenger vehicles being put into the market by the Dongfeng Motor Group every year. After the new generation of heavy trucks, represented by Dongfeng "Kinland", entered into the market in 2006, the Dongfeng Motor Group, to cater for the market need, will continue to work on the research and development of a new generation of long head medium vehicles and new engine products for commercial medium vehicles.

Profitability

To maintain or improve the profitability and the profit level, the Dongfeng Motor Group will further implement measures that would raise the rate of localization, improve technology which would lower costs and reduce expenses, etc.

Management Discussion and Analysis

Financial Results Overview

During the year, revenue of the Group amounted to approximately RMB48,264 million, representing an increase of approximately RMB6,529 million, or 15.6%, when compared with approximately RMB41,735 million of 2005. The profit of the Group attributable to shareholders amounted to approximately RMB2,081 million for the year, representing an increase of approximately RMB480 million, or 30.0%, when compared with approximately RMB1,601 million of 2005. Earnings per share was approximately RMB24.15 cents.

In 2006, after excluding the one-time expenses of approximately RMB252 million arising from the share reform schemes for Dongfeng Automobile Co., Ltd and Dongfeng Electronics Technology Co., Ltd., whose shares are listed on the A-share market in Mainland China, the adjusted profit of the Group attributable to shareholders amounted to approximately RMB2,333 million, representing an increase of approximately RMB732 million, or 45.7%, over 2005. In 2006, the adjusted earnings per share was RMB27.07 cents.

Revenue

During the year, the total revenue of the Group amounted to approximately RMB48,264 million, representing an increase of approximately RMB6,529 million, or 15.6%, when compared with the figure in 2005 of approximately RMB41,735 million.

	2006		2005	
	Revenue from sales RMB million	**Units sold**	Revenue from sales RMB million	Units sold
Passenger vehicles:	**34,219**	**N/A**	27,915	N/A
Whole vehicles	**27,014**	**494,846**	21,798	351,219
External sales of engines and parts	**7,205**	**N/A**	6,117	N/A
Commercial vehicles:	**13,215**	**N/A**	12,989	N/A
Whole vehicles	**11,471**	**256,242**	11,193	243,582
External sales of engines and parts	**1,744**	**N/A**	1,796	N/A
Others	**830**	**N/A**	831	N/A
Total	**48,264**	**N/A**	41,735	N/A

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

Management Discussion and Analysis

During the year, revenue of the Group from sales of passenger vehicles increased by approximately RMB6,304 million, or 22.6%, from approximately RMB27,915 million in 2005 to approximately RMB34,219 million. Of which, revenue from sales of whole passenger vehicles increased by approximately RMB5,216 million, or 23.9%, from approximately RMB21,798 million in 2005 to approximately RMB27,014 million. Despite oil price hikes, increase in consumption tax and auto price decline for intensifying market competition during the year, the revenue from sales of passenger vehicles recorded a significant increase of 23.9%. That was mainly attributable to a significant increase in the sales volume of vehicles. During the year, the total sales volume of whole passenger vehicles increased by 40.9% to 494,846 units from 351,219 units in 2005, higher than the industry growth rate of 30.0% for passenger vehicles. The market share in terms of sales volume of the Dongfeng Motor Group for the year increased to approximately 9.6% from approximately 8.8% in 2005. The newly released Peugeot 206, C-Triomphe, Civic, Sylphy, Geniss and C2 in 2006 gained wide acceptance in the market with encouraging sales performance. Meanwhile, the sales of various existing passenger vehicle series had not been affected by the above new model launches and remained encouraging during the year. During the year, because of the diversification of the product mix, the whole passenger vehicles of the Dongfeng Motor Group successfully extended its market share in high and medium as well as small passenger vehicles. The change of the product mix of the whole passenger vehicles (with gross profit margin of the Group increased to 17.9% from 14.5% in 2005) drove the revenue of the Group from sales of whole passenger vehicles to increase by approximately 23.9%.

Revenue of the Group from the sale of passenger vehicle engines and other auto parts increased by approximately 17.8% to RMB7,205 million for the year from RMB6,117 million in 2005. This overall increase in revenue of passenger vehicle engines and other auto parts was primarily due to the steady growth trend in the sales volume brought about by the enhancement in the engines of Dongfeng Honda Engine Co., Ltd.

During the year, the sales volume of commercial vehicles of the Dongfeng Motor Group increased by approximately 5.2%, maintaining its leading position in the domestic commercial vehicles market; revenue of the Group increased by approximately RMB226 million, or 1.7%, from approximately RMB12,989 million in 2005 to approximately RMB13,215 million. Of which, revenue of the Group from sales of whole commercial vehicles increased by approximately RMB278 million from approximately RMB11,193 million in 2005 to approximately RMB11,471 million, increased by approximately 2.5% for the whole year, representing a turnaround from the approximately 15.2% drop in sales volume in the first half of the year. The increase was mainly resulted from a series of promotion activities launched by the Dongfeng Motor Group, bringing about the approximately 24.3% increase in sales volume of whole commercial vehicles of the Dongfeng Motor Group for the second half of the year as compared with the corresponding period in 2005. During the year, sales volume of the Dongfeng Motor Group's heavy trucks decreased from 71,652 units in 2005 to 66,778 units, while the sales volume increased by approximately 12.3% for the second half of the year as compared with the corresponding period in 2005. As the newly launched "Kinland" heavy trucks by the Dongfeng Motor Group was going through the adjustment process, its sales volume failed to meet the expected target. During the year, sales volume of medium trucks decreased from 55,883 units in 2005 to 50,426 units, while the sales volume increased by approximately 18.3% for the second half of the year as compared with the corresponding period in 2005. The Dongfeng Motor Group's sales volume of light trucks during the year increased from 82,569 units in 2005 to 100,761 units, the growth in sales volume for the second half of the year was approximately 34.2% compared with the corresponding period in 2005.

COST OF SALES AND GROSS PROFIT MARGIN

During the year, the total cost of sales of the Group was approximately RMB40,058 million, representing an increase of approximately RMB4,419 million when compared with approximately RMB35,639 million in 2005. The gross profit margin of the Group increased to 17.0% from 14.6% in 2005, primarily because the Group maintained the selling price at a reasonable level through launching various competitive new vehicle models to avoid price decrease, and on the other hand adopted cost reduction measures. The measures included increasing the localization ratio, controlling expenses in the sourcing, technical and management areas, and involving all the staff to cut expenses for the whole production process and the entire value chain, resulting in drop in the unit cost for various vehicle models to different extent. During the year, the gross profit margin of passenger vehicles increased to approximately 18.9% from approximately 15.8% in 2005, and the gross profit margin of whole passenger vehicles increased to approximately 17.9% from approximately 14.5% in 2005.

During the year, the gross profit margin of passenger vehicle engines and other auto parts increased to approximately 22.6% from approximately 20.4% in 2005. The rise in the price of key raw materials such as fuel and aluminum in the PRC during the year led to the increase of material costs to some extent. However, the cost savings resulting from RMB appreciation against Japanese Yen offset the effect of price increase of domestic raw materials. Coupled with the adoption of measures such as increasing the localisation ratio, optimising work processes and reducing costs, the gross profit margin of passenger vehicle engines and other auto parts increased during the year.

During the year, the gross profit margin of the Group's commercial vehicles increased to approximately 12.0% from approximately 11.3% in 2005, and the gross profit margin of whole commercial vehicles increased to approximately 11.5% from approximately 10.5% in 2005. Under the unfavourable business environment for whole commercial vehicles, the Dongfeng Motor Group adopted a number of measures to boost sales and managed to get the Dongfeng Motor Group's whole commercial vehicles business back on the track of growth.

OTHER INCOME

During the year, the total other income of the Group was approximately RMB736 million, representing a decrease of approximately RMB271 million when compared with approximately RMB1,007 million in 2005. The decrease in other income was mainly attributable to a decrease in grants by RMB293 million received from the government for the purpose of supporting the development of automotive technologies and automobile projects.

SELLING AND DISTRIBUTION COSTS

During the year, the selling and distribution costs of the Group amounted to approximately RMB2,157 million, representing an increase of approximately RMB419 million when compared with approximately RMB1,738 million in 2005. This was due to higher transportation costs resulting from increased sales volume of vehicles of the Dongfeng Motor Group as well as higher advertising and exhibition costs and market expansion expenses arising from the marketing of several new models.

During the year, the sales and distribution costs of the Group as a percentage of sales revenue increased slightly by approximately 0.3% points to approximately 4.5%, up from approximately 4.2% in 2005, reflecting an effective control over the sales and distribution costs of the Dongfeng Motor Group in spite of an increase in the sale volume of vehicles and the marketing of a number of new models.

ADMINISTRATIVE EXPENSES

During the year, the total administrative expenses of the Group amounted to approximately RMB2,219 million, representing an increase of approximately RMB291 million when compared with approximately RMB1,928 million in 2005. This was due to the increased business volume. During the year, the administrative expenses of the Group as a percentage of sales revenue remained at the 2005 level of approximately 4.6%, reflecting administrative expenses of the Group under control.

OTHER EXPENSES

During the year, other expenses of the Group was approximately RMB1,285 million, representing an increase of approximately RMB518 million when compared with approximately RMB767 million in 2005. This was mainly due to (1) research and development costs increased by approximately RMB186 million or 25.9% to approximately RMB905 million from approximately RMB719 million in 2005, as the Dongfeng Motor Group made greater investments in research and development; and (2) the Group recorded an exchange gain of approximately RMB9 million during the year while there was an exchange gain of approximately RMB252 million in 2005. Hence, an increase of

RMB243 million of other expenses was recorded for the year. The exchange gain recorded in 2005 was due to the weakening of EURO, which was beneficial to the EURO loans of a jointly-controlled entity of the Company.

LOSS ON DILUTION OF INTERESTS IN JOINTLY-CONTROLLED ENTITIES

During the year, the Group completed share reform schemes for two subsidiaries of a jointly-controlled entity, incurring one-time expenses of approximately RMB252 million. The shareholdings of these two listed companies indirectly held by the Company obtained the tradable right. The details are set out below:

(1) Dongfeng Automobile Co., Ltd ("DFAC"), a subsidiary of Dongfeng Motor Co., Ltd., a jointly-controlled entity of the Company, approved a share reform scheme in its shareholders' meeting on 30 October 2006. With the aggregate number of share capital of DFAC (2,000,000,000 shares) remained unchanged, Dongfeng Motor Co., Ltd granted shares to all tradeable shareholders whose names appeared on the register of members at a registration date specified by the share reform scheme according to their respective shareholdings on the basis of offering 3.3 shares for every 10 tradeable shares held. A total of 198,000,000 shares were transferred. The net book value of the consideration shares amounting to approximately RMB234 million attributable to the Group was recorded as an one-time expense.

(2) Dongfeng Electronics Technology Co., Ltd. ("DFTC"), a subsidiary of Dongfeng Motor Co., Ltd., approved a share reform scheme in its shareholders' meeting on 20 December 2006. With the aggregate number of share capital of DFTC (313,560,000 shares) remained unchanged, Dongfeng Motor Co., Ltd granted shares to all tradeable shareholders whose names appeared on the register of members at a registration date specified by the share reform scheme according to their respective shareholdings on the basis offering 4 shares for every 10 tradeable shares held. A total of 31,356,000 shares were transferred. The net book value of the consideration shares amounting to approximately RMB18 million attributable to the Group was recorded as an one-time expense.

STAFF COSTS

During the year, the staff costs of the Group amounted to approximately RMB2,234 million, representing an increase of approximately RMB212 million when compared with approximately RMB2,022 million in 2005. It was because the increase in the sales volume of vehicles brought about a higher demand for labour and a general rise in salaries. In addition, the Group adopted a plan of stock appreciation rights as incentives to its senior management, and the amortised expenses during the year were RMB36 million.

Management Discussion and Analysis

DEPRECIATION CHARGES

With a view to expanding its business, the Group made greater investments in properties, plant and equipment. During the year, the Group's depreciation charges amounted to approximately RMB1,479 million, representing an increase of approximately RMB173 million when compared with approximately RMB1,306 million in 2005.

FINANCE COSTS

During the year, the finance costs of the Group amounted to approximately RMB411 million, representing a decrease of approximately RMB67 million when compared with approximately RMB478 million in 2005. Such a decrease is mainly attributable to the bank loans obtained in 2005 for financing the repurchase of shareholdings held by asset management companies being fully repaid within a month after the listing with the proceeds therefrom.

INCOME TAX

The income tax expenses of the Group during the year amounted to approximately RMB428 million, representing a decrease of approximately RMB46 million when compared with approximately RMB474 million in 2005. The effective tax rate decreased to 16.0% from 21.3% in 2005. The decrease in income tax expenses was mainly due to the prior year's tax losses of the Company and one of jointly-controlled entities of the Company, which partly offseted the income tax payable and the decrease in deferred taxation due to the receipt of dividends from subsidiaries of the Dongfeng Motor Group during the year.

NET PROFIT

Based on the above reasons, the net profit of the Group increased by approximately RMB480 million or 30.0% to approximately RMB2,081 million from approximately RMB1,601 million in 2005.

In 2006, after excluding the one-time expenses of approximately RMB252 million arising from the share reform schemes for DFAC and DFTC, which their respective shares listed in A share market in Mainland China, the adjusted net profit of the Group amounted to approximately RMB2,333 million, representing an increase of approximately 45.7% over the net profit in 2005.

DIVIDENDS

The board of directors recommends to distribute a dividend of RMB4 cents per share in respect of the earnings in 2006.

LIQUIDITY AND SOURCES OF CAPITAL

The Group raises funds through operations, bank loans and listing of shares to meet its working capital requirements. The funds raised by the Group are mainly used for operating activities, capital expenditure and repayment of short and long term loans.

	2006 RMB million	2005 RMB million
Net increase in cash flows generated from operating activities	**4,561**	4,322
Net decrease in cash flows generated from investing activities	**(3,930)**	(4,269)
Net increase/(decrease) in cash flows generated from financing activities	**(558)**	1,055
Net increase in cash and cash equivalents	**73**	1,108

During the year, net cash inflows of the Group from operating activities amounted to approximately RMB4,561 million. This principally represents: (1) profit before tax amounting to approximately RMB2,679 million; (2) an increase of approximately RMB2,488 million in trade receivables, bills receivable and prepayments, deposits and other receivables; (3) an increase of approximately RMB4,027 million in trade, bills and other payables and accrued liabilities; (4) depreciation and impairment of approximately RMB1,531 million; and (5) a decrease of approximately RMB877 million in inventories.

During the year, net cash used in investing activities of the Group amounted to approximately RMB3,930 million. This is mainly attributable to the purchase of property, plant and equipment to the value of approximately RMB2,787 million, generally relating to the expansion of capacity and development of new products. During the year, the above outlays together with an increase of approximately RMB25 million in unsecured time deposits was partly offset by proceeds of approximately RMB87 million from the disposal of obsolete property, plant and equipment.

During the year, net cash outflow from financing activities of the Group amounted to approximately RMB558 million, mainly reflecting the offsetting of borrowings of approximately RMB11,894 million by repayment of borrowings of approximately RMB12,047 million.

During the year, the increase in cash and cash equivalents (excluding the time deposits with original maturity of three months or more) of the Group amounted to approximately RMB73 million. As at 31 December 2006, cash and cash equivalents of the Group amounted to approximately RMB5,659 million, and cash and bank balances (including the time deposits with original maturity of three months or more) amounted to approximately RMB7,437 million.

Management Discussion and Analysis

As at 31 December 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity is approximately 56.0%, representing an improvement from the 2005 level of 66.8%. On 12 December 2006, the Group completed the issue of the first tranche of its short term debentures with an aggregate face value of RMB1,900 million, and the term of maturity was one year. All the proceeds were used to repay the short-term bank borrowings. The successful issue of the short term debentures ear-marked a more diversified capital structure of the Group.

In 2006, the Group's turnover days of inventory was 54 days, which was almost equivalent to 55 days in 2005, reflecting the Dongfeng Motor Group's prudent inventory management.

The Group's turnover days of account receivable (including bills receivable) increased to 56 days from 44 days in 2005, and the turnover days of account receivable (excluding bills receivable) decreased slightly to 12 days from 13 days in 2005, which was mainly due to the Dongfeng Motor Group's strengthening its collection management of account receivable in 2006. The turnover days of bills receivable increased to 44 days from 31 days in 2005, as a result of the Dongfeng Motor Group using promissory notes from trustworthy banks for facilitating transactions. The Dongfeng Motor Group adopts stringent polices for the management of bills receivable and only accepts applications by clients with credibility, while the credit risks related to bank promissory notes are assumed by the clients' banks.

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Xu Ping (徐平), aged 50, 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 Citroen Automobiles Company Ltd (since June 2005) and Dongfeng Automobile Co., Ltd (since July 2005).

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

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

Li Shaozhu (李紹燭), aged 46, is a Director of the Company. Mr. Li is a senior post-graduate engineer, graduated from Qinghua University in 1983 with a Bachelor's degree in Engineering Science, specializing in Casting Engineering and Equipment and received a Master's degree in Business Administration from Zhongnan Finance University in 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. 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.

Profiles of Directors, Supervisors and Senior Management

Fan Zhong (范仲), aged 54, is a Director of the Company. Mr. Fan is a senior post-graduate engineer. He graduated in 1982 from the Department of Machinery Engineering and Equipment of Shenyang Electrical and Mechanical College with a Bachelor's degree in Engineering Science. Prior to joining Dongfeng Motor Corporation, he was the Deputy Mayor of Beipiao City in Liaoning Province. He joined Dongfeng Motor Corporation in 1993 as Deputy General Manager of Dongfeng Chaoyang Diesel Engine Corporation. From 1999 to 2001, Mr. Fan was the General Manager of Dongfeng Chaoyang Diesel Engine Corporation. Since 2001, Mr. Fan has served as the Deputy Secretary of the Communist Party of Dongfeng Motor Corporation and has been the Chairman of the Board of Directors of Dongfeng Chaoyang Diesel Engine Co. Ltd.

Non-executive Directors

Tong Dongcheng (童東城), aged 51, is a Director of the Company. Mr. Tong is a senior economist and graduated from the Central Party School in 1996, majoring in Economics and Management. He joined Dongfeng Motor Corporation in 1971, and has been the Deputy General Manager of Dongfeng Motor Corporation since 1997. In 2003, Mr. Tong became a Vice President of Dongfeng Motor Co., Ltd, and has been the Chairman of Dongfeng Nissan Diesel Motor Co., Ltd. since April 2005 and a director of Dongfeng Motor Co., Ltd since September 2005.

Ouyang Jie (歐陽潔), aged 50, 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.

Liu Weidong (劉衛東), aged 41, is a Director of the Company. Mr. Liu is a senior engineer. He graduated in 1988 from Wuhan Technical Institute with a Bachelor's degree in Engineering, specializing in the automotive industry and received a Master's degree in Management from Wuhan Polytechnic University in 2003. He is currently a representative of the 10th National People's Congress. Mr. Liu joined Dongfeng Motor Corporation in 1988 and has been the Deputy General Manager of Dongfeng Motor Corporation and the General Manager of Dongfeng Peugeot Citroen Automobiles Company Ltd since 2001.

Zhu Fushou (朱福壽), aged 45, is a Director of the Company. Mr. Zhu is a senior engineer. He graduated from Anhui Technical Institute with a Bachelor's degree in Engineering, majoring in Agricultural engineering, in 1984 and received a Master's degree in Business Administration from Zhongnan Finance University in 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.

Independent Non-executive Directors

Sun Shuyi (孫樹義), aged 67, is an independent Non-Executive Director of the Company. Mr. Sun graduated from the University of Science and Technology of China in 1963. He is currently a member of the National Committee of the 10th Chinese People's Political Consultative Conference; Vice President of the China Enterprise Confederation and the China Enterprise Directors Association; Vice Chairman of the China Federation of Industrial Economics and Vice Chairman of the China Institute for the Study of Multinational Companies. Mr. Sun was formerly Head of the Production System Department of the State Restructuring Commission, Deputy Director of the Office of the Central Financial and Economic Leading Group, Vice Minister of the Ministry of Personnel and Deputy Secretary of the Central Business Affairs Commission of the PRC. Mr. Sun is qualified in the PRC as a certified public accountant and a senior engineer.

Ng Lin-fung (吳連烽), aged 66, is an Independent Non-Executive Director of 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 68, is an Independent Non-Executive Director of the Company. He graduated from Wuhan College of Post and Telecommunications in 1965. Mr. Yang is currently a member of the National Committee of the 10th Chinese People's Political Consultative Conference, Chairman of the Presidium of the China Federation of Industrial Economics; and Vice President of the China Enterprise Directors Association and the China Enterprise Confederation. Mr. Yang was formerly Vice Minister of the Ministry of Post and Telecommunications and Vice Minister of the Ministry of Information Industry, Chairman of the Board of Directors and General Manager of China United Telecommunications Corporation and Chairman and Chief Executive Officer of China Unicom (Hong Kong) Group Limited.

Profiles of Directors, Supervisors and Senior Management

Senior Management

Cai Wei (蔡瑋), aged 48, 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 Deputy General Manager of the autoparts division of the Dongfeng Motor Corporation between November 2001 and July 2003. He was the Head of the Planning Department of Dongfeng Motor Corporation from July 2003 to September 2005 and has been a Vice President and the Secretary of the Board of Directors of the Company since October 2004. Mr. Cai is a director of Dongfeng Honda Automobile Co., Ltd and Dongfeng Peugeot Citroen Automobiles Company Ltd.

Supervisory Committee

Independent Supervisors

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

Deng Mingran (鄧明然), aged 54, is an Independent Supervisor of the Company. Mr. Deng is the Dean of the Management College of Wuhan Polytechnic University and holds a Doctor's degree. He is a Professor of financial management and a tutor to doctorate candidates. Mr. Deng has committed to a number of national science research projects and has a number of published works. Mr. Deng is the Vice President of the Tertiary College Committee of Chinese Accounting Association. He is also an independent non-executive director of Hubei Chutian ExpressWay Co., Ltd.

Supervisors

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

Profiles of Directors, Supervisors and Senior Management

Zhou Qiang (周強), aged 46, is a Supervisor of the Company. Mr. Zhou is a senior economist, having graduated from the Central Party School in 1992, specializing in Economics and Management. In 2005, he graduated from Qinghua University with an EMBA degree. Mr. Zhou joined Dongfeng Motor Corporation in 1978. From July 2003 to September 2005, Mr. Zhou was a Standing Committee Member of Dongfeng Motor Co., Ltd as well as Secretary of the Communist Party and Deputy General Manager of the Commercial Vehicles Company of Dongfeng Motor Co., Ltd. He is now the Head of Office Affairs of Dongfeng Motor Group Company Limited.

Ren Yong (任勇), aged 43, is a Supervisor of the Company. Mr. Ren is a senior accountant, having graduated in 1986 from Central Broadcast and Telecommunication University, majoring in Industrial Corporate Management. 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.

Liu Yuhe (劉裕和), aged 58, is a Supervisor of the Company. Mr. Liu is a senior engineer, having graduated from the Department of Metal Heat Treatment of Qinghua University in 1992 and obtained a Master's degree in Engineering. Mr. Liu joined Dongfeng Motor Corporation in 1971 and is now the Executive Deputy Manager and a director of Dongfeng Honda Automobile Co., Ltd. Mr. Liu is also a Director of Dongfeng Honda Engine Co. Ltd and Dongfeng Honda Auto Parts Co., Ltd.

Li Chunrong (李春榮), aged 43, is a Supervisor of the Company. Mr. Li is a senior economist, having graduated with a Bachelor's degree from Huazhong Technical Institute majoring in Vessel and Shipyard Electronic Automation in 1985. He graduated from Huazhong Technical Institute with a postgraduate degree in Management Systems in 1987, and joined Dongfeng Motor Corporation in the same year.

Kang Li (康理), aged 44, is a Supervisor of the Company. Mr. Kang is a senior engineer, graduated from Luoyang Technical Institute in 1984 with a Bachelor's degree specializing in Casting Engineering and Equipment and received a Master's degree in Engineering from Huazhong Polytechnic University in 1996. Mr. Kang joined Dongfeng Motor Corporation in 1984 and is the Secretary of the Communist Party and Chairman of the Labour Union of Dongfeng Peugeot Citroen Automobiles Company Ltd.

Profiles of Directors, Supervisors and Senior Management

Joint Company Secretaries

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

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

Qualified Accountant

Chan Yuk Tong (陳育棠), aged 44, is the Company's qualified accountant pursuant to Rule 3.24 of the Listing Rules. Mr. Chan is employed by the Company basis and is a member of the Company's senior management. Mr. Chan is a professional accountant. He is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Prior to joining the Company on 31 October 2005, Mr. Chan worked as Audit Principal at Ernst & Young and as executive director at Tak Sing Alliance Holdings Limited. Later he worked in G2000 (Apparel) Limited as the finance director and sales director. Mr. Chan graduated from the University of Newcastle in Australia with a Bachelor's degree in Commerce and received a Master's degree in Business Administration from the Chinese University of Hong Kong.

Heads of Departments

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

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

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

The head of the Technical Development Department of the Company is Mr. Huang Song.

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

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

The head of the Planning and Investment Department of the Company is Mr. Liao Zhenbo.

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

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

The head of the Staff Relation Department of the Company is Mr. Zhou Shirong.

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

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

The Secretary for the Communist Youth League of the Company is Mr. Qin Jie.

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 2006 together with the audited financial statements of the Company and its subsidiaries and jointly-controlled entities prepared in accordance with the International Financial Reporting Standards (the "IFRS").

PRINCIPAL ACTIVITIES

The Dongfeng Motor Group is engaged in the manufacture and sale of commercial vehicles, passenger vehicles, engines and auto parts and also the manufacture of vehicle manufacturing equipment, both are to support the Dongfeng Motor Group's vehicle manufacturing businesses and also for external sales. The Dongfeng Motor Group has also developed automotive-related businesses, including vehicle and vehicle manufacturing equipment import/export, auto finance, insurance agency and used car businesses.

Substantially all of the Dongfeng Motor Group's vehicles, engines and auto parts business as well as automotive-related businesses are carried out through subsidiaries, JCEs and other companies in which it has direct equity interests. The Company and its subsidiaries, JCEs and the other shareholders in the other companies in which the Company has a direct equity interest, jointly manage branding, strategy, operations, marketing and other areas in accordance with the relevant joint venture agreements.

RESULTS

The Group's results for the year ended 31 December 2006 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 60 to 158 in this annual report.

DIVIDENDS

The Board of Directors recommends the distribution of an annual dividend of RMB4 cents for the year ended 31 December 2006, subject to consideration and approval at the annual general meeting to be held on 18 June 2007.

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2006, the Company's JCEs, in total, declared and paid aggregate dividends of approximately RMB1,139 million to the Company. Although the exact amounts of dividend distributions are not set each year, pursuant to each of the joint venture agreements, distributions are required to be paid out of the profit made by the relevant JCE (after payments of income tax) in accordance with the relevant PRC law as determined by the directors of each JCE as being appropriate dividend distributions based on the circumstances of each JCE. When determining dividend distributions, the directors of each JCE will offset losses of previous years and deduct from the profit made by the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under PRC laws and regulations and company reserve (including but not limited to amounts allocated to cover the relevant JCE's working capital or to increase capital or expand production), employee bonus and welfare and company development. Pursuant to each of the joint venture agreements, distributions of profit will be made in proportion to the capital contributions paid by the relevant joint venture party and the Company respectively in accordance with the PRC law.

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

FINANCIAL SUMMARY

A summary of the operating results, assets and liabilities of the Group for the last five years ended 31 December 2006 is set out on pages 159 to 160 in this annual report.

BANK LOANS AND OTHER BORROWINGS

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

INTEREST CAPITALISED

Details of the interest capitalised of the Group for the year ended 31 December 2006 are set out in note 7 to the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Changes in the Company's and the Group's property, plant and equipment for the year ended 31 December 2006 are set out in note 15 to the audited financial statements.

Report of the Directors

DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2006, 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 2006 are set out in note 31 to the audited financial statements and the consolidated statement of changes in equity on page 63 of the audited financial statements, respectively.

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

The Board of Directors recommends allocation of 10% of total profit to the statutory public surplus reserve and no allocation to the discretionary surplus reserve under the law and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 18 June 2007.

DONATIONS

The Group made no donation for the year ended 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the revenue attributable to the five largest customers accounted for no more than 30% of the Group's total revenue for the year.

During the year ended 31 December 2006, 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 2006, 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 2006, the aggregate share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 were Domestic Shares representing approximately 66.86% of the aggregate number of shares in issue, and 2,855,732,000 were H Shares representing approximately 33.14% of the aggregate number of shares in issue.

STOCK APPRECIATION RIGHTS

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

In the first round of SARs, 55,665,783 SAR units were granted, equivalent to approximately 0.65% of the Company's registered share capital, or approximately 1.95% of the Company's H Share capital. The date of grant was the thirty-first business day following the listing of the H Shares, i.e. 23 January 2006. The grant price was the average share price at close of trading over the 30 business days preceding the date of grant, i.e. HK$2.01. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

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

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

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

The first round grant implementation plan has been approved by the State-owned Assets Supervision and Administration Commission, and was approved at the meeting of the Board of Directors held on 19 April 2006.

The Company implemented the second round SAR grant plan in 2007, and the date of grant was 15 January 2007. In this round of SARs, 31,417,349 SAR units were granted, equivalent to approximately 0.36% of the Company's registered share capital, or approximately 1.10% of the Company's H Share capital. The grant price of this round of SARs grant was HK$3.10, representing the higher of the average share price at close of trading over the 5 business days preceding the date of grant and the share price at close of trading on the date of grant. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

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

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

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

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SIGNIFICANT FINANCING

The Company issued the first tranche of its short-term debentures in the inter-bank debenture market of PRC on 12 December 2006. The short-term debentures were issued on a discounted basis for an amount of RMB1,900,000,000 at a face value of RMB100 each. The issue price was RMB96.52 each and the term of maturity was 365 days.

The issue has been approved by the 2005 Annual General Meeting and approved by the People's Bank of China. The debentures were issued to institutional investors in the PRC inter-bank debenture market (save as those prohibited from purchasing such debentures by State laws and regulations). Dealings in the said debentures in the PRC inter-bank debenture market commenced on 14 December 2006.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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 are set out below, as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

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

Name of substantial shareholder	Class of Shares	Number of shares held	Percentage in the class of issued share capital (%)	Percentage in the total share capital (%)
Dongfeng Motor Corporation	Domestic Shares	5,760,388,000(L)	100	66.86
JPMorgan Chase & Co.	H Shares	457,598,065(L)	16.02	5.31
		159,063,475(P)	5.57	1.85
The Capital Group Companies, Inc.	H Shares	312,823,000(L)	10.95	3.63
UBS AG	H Shares	288,970,000(L)	10.10	3.35
		4,200,000(S)	0.15	0.05
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
Halbis Capital Management (Hong Kong) Limited	H Shares	170,912,000(L)	5.98	1.98
Fidelity International Limited	H Shares	149,426,000(L)	5.23	1.73
Platinum Asset Management Limited	H Shares	147,050,600(L)	5.15	1.71

Report of the Directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Directors

Xu Ping	Executive Director and Chairman
Liu Zhangmin	Executive Director and President
Zhou Wenjie	Executive Director and Executive Vice President
Li Shaozhu	Executive Director
Fan Zhong	Executive Director
Tong Dongcheng	Non-Executive Director
Ouyang Jie	Non-Executive Director
Liu Weidong	Non-Executive Director
Zhu Fushou	Non-Executive Director
Sun Shuyi	Independent Non-Executive Director
Ng Lin-fung	Independent Non-Executive Director
Yang Xianzu	Independent Non-Executive DirectorSenior 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 23 to 25 in this annual report.

Supervisors

The supervisors of the Company during the year were:

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

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

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

As at 31 December 2006, none of the directors, supervisors or senior management of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), which were required to be entered in the register required to be kept under section 352 of the Securities and Futures Ordinance, or were required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2006, the Company did not grant to any director 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

No director is proposed for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries or JCEs within one year without payment of compensation, other than statutory compensation.

No supervisor is proposed for re-election at the forthcoming annual general meeting.

No supervisor proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries or JCEs 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 contract of significance to which the Company or any of its subsidiaries and JCEs was a party during the year ended 31 December 2006.

Report of the Directors

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 2006, the Dongfeng Motor Group had a total of 88,530 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	54,260	61.29%
Engineering and technology	10,392	11.74%
Management	17,020	19.22%
Services	6,858	7.75%
Total	88,530	100.00%

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

The Dongfeng Motor Group endeavours to provide trainings for its employees. The scope of the completed and on-going training programs includes management skills and technology training, overseas exchange programs and other courses. The Dongfeng Motor Group also encourages its employees to engage in self-learning programs by awarding scholarships.

The Stock Appreciation Rights ("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 authorized to determine which other key employees are eligible for the SARs.

RETIREMENT BENEFITS

Details of the retirement benefits provided by the Dongfeng Motor Group are set out in note 6(a) to the audited financial statements for the year.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into with any person, firm or legal person during the year ended 31 December 2006.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

CONNECTED TRANSACTIONS

For the year ended 31 December 2006, the continuing connected transactions between the Dongfeng Motor Group and Dongfeng Motor Corporation and its associates, together with the annual caps exempted subject to the Listing Rules, were as follows:

1. Land Use Rights Leasing Agreement

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

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

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

2. Provision of Ancillary Services

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

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

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

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

(together the "Ancillary Services Agreements").

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

The annual caps for the above connected transaction of water supply are RMB59 million, RMB64 million and RMB74 million for the three years ending 31 December 2007, respectively. The Dongfeng Motor Group paid RMB53 million of water supply fees to Dongfeng Motor Corporation for the year ended 31 December 2006. The payment for 2005 was RMB56 million.

The annual caps for the above connected transaction of steam supply are RMB111 million, RMB117 million and RMB120 million for the three years ended 31 December 2007, respectively. The Dongfeng Motor Group paid RMB69 million of steam supply fee to Dongfeng Motor Corporation for the year ended 31 December 2006. The payment for 2005 was RMB99 million.

The previous annual caps for the above connected transaction of electricity supply were RMB560 million, RMB545 million and RMB589 million for the three years ending 31 December 2007, respectively. However, these annual caps for the connected transaction of electricity supply were subsequently reviewed and adjusted to RMB734 million and RMB857 million for the year 2006 and 2007 respectively, at the annual general meeting on 16 June 2006. The electricity supply fee paid by the Dongfeng Motor Group for the year ended 31st December 2006 to Dongfeng Motor Corporation was RMB634 million, the payment for 2005 was RMB603 million.

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

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

The previous annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel were RMB480 million, RMB570 million and RMB740 million for the three years ending 31 December 2007, respectively. However, these annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel were subsequently reviewed and adjusted to RMB830 million and RMB1,017 million for the year 2006 and 2007 respectively, at the annual general meeting on 16 June 2006. The purchase expense paid by the Dongfeng Motor Group for the year ended 31 December 2006 to Chaoyang Diesel was RMB564 million. The payment for 2005 was RMB554 million.

The annual caps for the connected transaction of Chaoyang Diesel purchasing auto parts from the Dongfeng Motor Group are RMB150 million, RMB230 million and RMB270 million for the three years ended 31 December 2007, respectively. Chaoyang Diesel paid RMB44 million to the Dongfeng Motor Group for purchasing auto parts for the year ended 31 December 2006. The payment for 2005 was RMB37 million.

4. Trademarks Licence Agreement

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

5. Social Insurance Funds

For the year ended 31 December 2006, the Group made payments to the following funds according to local regulations in the PRC: (1) basic pension fund; (2) supplementary pension fund; (3) medical insurance; (4) unemployment insurance; and (5) housing provident fund (together "Social Insurance Funds"). These payments were made to or through an independent department of Dongfeng Motor Corporation. This department is responsible for handling all matters relating to social insurance funds for all parts of the organisation located within Hubei Province.

6. Continuing Connected Transactions

For the year ended 31 December 2006, the continuing connected transactions conducted by the Company, its subsidiaries and the JCEs include:

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

During the year ended 31 December 2006, each of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroen Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd (including each of these companies' subsidiaries and associates) regularly purchased auto parts and/or production facilities from the foreign joint venture partners of the Company and such purchases will continue for the duration of the joint venture term.

For the year ended 31 December 2006, the total amount of consideration paid by the JCEs in respect of purchases of auto parts and production facilities from the joint venture partners (including their subsidiaries and associates) was approximately RMB19,384 million. The payment for 2005 was RMB15,590 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*

Pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd, Guangzhou Honda Automobile Co., Ltd purchases from Dongfeng Honda Engine Co., Ltd engines and other related auto parts needed by it to manufacture passenger vehicles for the duration of the joint venture term. For the year ended 31 December 2006, Guangzhou Honda Automobile Co., Ltd continued to purchase from Dongfeng Honda Engine Co., Ltd engines and auto parts needed by it.

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

Dongfeng Bus Chassis Co., Ltd manufactures bus chasses and sells them to Dongfeng Motor Co., Ltd. For the year ended 31 December 2006, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis Co., Ltd for purchases of auto parts was approximately RMB424 million. The payment for 2005 was RMB975 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 vehicle models manufactured by the JCEs. The terms of the agreements relating to technology licences and technical assistance are fixed with reference to the expected life cycle of vehicle models.

For the year ended 31 December 2006, the total amount of the consideration paid by the JCEs in respect of purchases of technology licences and technical assistance stated above was approximately RMB1,658 million. The payment for 2005 was RMB1,575 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*

Pursuant to the agreement between the Company and Yulon Motor Co., Ltd, Guangzhou Aeolus Automobile Co., Ltd continued to provide value-added processing services relating to automobiles to Dongfeng Motor Co., Ltd and its subsidiaries for the year ended 31 December 2006. Dongfeng Motor Co., Ltd paid value-added processing fees to Guangzhou Aeolus Automobile Co., Ltd.

(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.

For the year ended 31 December 2006, the aggregate net 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 approximately RMB725 million. The net aggregate consideration for 2005 was RMB613 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, Dongfeng Motor Co., Ltd leased land from Dongfeng Motor Corporation for a term equivalent to the term of Dongfeng Motor Co., Ltd.

For the year ended 31 December 2006, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation was approximately RMB141 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.*

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 2006.

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

For the year ended 31 December 2006, the total amount of consideration paid by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for purchases of auto parts was approximately RMB587 million. The payment for 2005 was RMB966 million.

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

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

For the year ended 31 December 2006, the total amount of consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. was RMB52 million. The payment for 2005 was RMB138 million.

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

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

As of 31 December 2006, Dongfeng Motor Finance Co., Ltd granted loans of approximately RMB42 million to Dongfeng Motor Corporation and its subsidiaries.

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

On 30 August 2006, the Company entered into a joint venture agreement with Nissan Motor Co., Ltd ("Nissan") to establish a joint venture company, Dongfeng Nissan Auto Finance Co., Ltd. (東風日產汽車金融有限公司) in Shanghai, the PRC. The purpose of this joint venture company is to promote the sale, in the PRC, of passenger vehicles manufactured or imported by Dongfeng Motor Co., Ltd. or its subsidiaries using trademarks or brand names owned by Nissan, and other passenger vehicles manufactured by Dongfeng Motor Co., Ltd. or its subsidiaries. The registered capital of this joint venture company is proposed to be RMB500 million, to be contributed by Nissan and the Company in the amount of RMB325 million and RMB175 million, representing 65% and 35% respectively of the registered capital of the joint venture company. Dongfeng Motor Co., Ltd, a Jointly-controlled Entity of the Company, is owned as to 50% by the Company and as to 50% by Nissan (China) Investment Co, Ltd, a wholly-owned subsidiary of Nissan. Therefore, Nissan is regarded as a connected person of the Company under the Listing Rules because it is an associate of a substantial shareholder of Dongfeng Motor Co., Ltd (which is required by the Stock Exchange to be regulated in a manner consistent with the regulation of subsidiaries of the Company, as a condition to its listing on the Stock Exchange), and the establishment of the joint venture company between Nissan and the Company constitutes a connected transaction under the Listing Rules.

The independent non-executive directors of the Company confirmed that all continuing connected transactions to which the Dongfeng Motor Group was a party for the year ended 31 December 2006:

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

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

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

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

After reviewing the above current year's connected transactions, the auditors of the Company confirmed the matters stated in Rule 14A.38 of the Listing Rules.

MATERIAL LEGAL PROCEEDINGS

As of 31 December 2006, 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 conduct code less strict than the Model Code in respect of securities transactions by directors.

Report of the 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 complied with the recommended best practices.

ACCOUNTING PRINCIPLES

During the year of 2006, the Company did not adopt any new accounting principles.

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors respectively for the year ended 31 December 2006. 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 ended 31 December 2007, and authorize the directors to fix their remunerations.

By Order of the Board of Directors

Xu Ping
Chairman of the Board of Directors

Wuhan, the PRC
18 April 2007

Report of the Supervisory Committee

Dear Shareholders,

The Supervisory Committee has carried out its duties in accordance with the Company's Articles of Association. It has performed supervision, through the inspection of relevant documents and information of the Company and attending meetings of the Board of Directors, on the performance by the Board of Directors and the senior management of their statutory duties and their duties under the Company's Articles of Association, and on whether their acts were beneficial to and in the best interests of the Company.

The Supervisory Committee is of the opinion that the decision-making process of the Company is in compliance with the Company's Articles of Association and relevant norms. The Supervisory Committee is not aware of any acts by the directors and the senior management of the Company in breach of any laws and regulations, the Listing Rules and the Articles of Association of the Company or against the interests of the shareholders.

The Supervisory Committee is of the opinion that the Company has duly fulfilled its disclosure obligations in accordance with the requirements of the Listing Rules since its listing on The Stock Exchange of Hong Kong Limited.

The Supervisory Committee has reviewed the Company's 2006 financial statements and considers that the financial statements give a full, true and fair view of the operating results and financial position of the Company and the Group for the year and that the unqualified opinion and auditors' report by Ernst & Young, the auditors of the Company, are objective and fair.

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

The Supervisory Committee has seen the operating results and assets position of the Company in 2006 to its satisfaction. It is expected that the Company will continue seeking continuous revenue growth and exercising improved cost control and risk management, so as to consolidate its solid foundation for steady and continuous development.

Report of the Supervisory Committee

In 2007, the Supervisory Committee will continue to comply strictly with laws and the Company's Articles of Association and, while bearing in mind the missions and duties conferred by the shareholders, perform its duties in safeguarding the interests of the shareholders and the Company.

By Order of the Supervisory Committee

Ye Huicheng
Chairman of the Supervisory Committee

Wuhan, the PRC
18 April 2007

Corporate Governance Report

1. Overview of Corporate Governance

The Company recognizes the importance of the provision of transparency and accountability to its shareholders. The Company is committed to achieving high standards of corporate governance and believes that sound corporate governance is essential for the Company to maximize shareholders' value.

Currently, the Company's code on corporate governance practices includes, but is not limited to, the following:

- Articles of Association of Dongfeng Motor Group Company Limited
- Rules and Procedures of Shareholders' General Meetings
- Rules and Procedures of Meetings of the Board of Directors
- Rules and Procedures of Meetings of the Supervisory Committee
- Detailed Regulations for the Work of the Audit Committee
- Detailed Regulations for the Work of the Remuneration Committee
- Management Methods for Commodity Committee
- Management Methods for Auditing Contracts
- Leaders' and Managers' Methods for Auditing Economic Responsibility
- Internal Auditors' Work Regulations
- Development Strategy Working Management Methods
- Management Methods for Supervision of Safe Production
- Delegated Directors' Management Methods and Flowchart
- Internal Guidelines on Information Disclosure
- Management Systems for Asset Appraisal
- Management Systems for Accounting Reports
- Management Systems for Financial Budgeting
- Methods for Financial Budget Analysis
- Management Methods for Statistics
- Methods for High Risk Investment Management
- Management for Environment Protection Work
- Management for Supervision on Connected Transactions
- Investment Committee Work Ordinance

The Board of Directors has reviewed the relevant corporate governance documents adopted by the Company, and is of the view that the documents contain all the Code Provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code").

2. Code on Corporate Governance Practices

After listing on The Stock Exchange of Hong Kong on 7 December, 2005, the Company has fully complied with the requirements of the Code Provisions of the Corporate Governance Code.

3. Directors' Securities Transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). After specific enquiry of all directors by the Company, all directors have confirmed that they have fully complied with the Model Code throughout the year of 2006.

4. Board of Directors

The composition of the Board of Directors is as follows:

Xu Ping	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

The Board of Directors meets at least four times a year, and will hold special meetings when necessary. From 1 January to 31 December, 2006, the Board of Directors held five board meetings in total.

The following table sets out the attendance record for each director at meetings of the Board of Directors:

No.	Names	Position	Attendance	Attendance Rate
1	Xu Ping	Chairman	5	100%
2	Liu Zhangmin	Executive Director	5	100%
3	Zhou Wenjie	Executive Director	5	100%
4	Fan Zhong	Executive Director	5	100%
5	Li Shaozhu	Executive Director	5	100%
6	Tong Dongcheng	Non-executive Director	5	100%
7	Ouyang Jie	Non-executive Director	5	100%
8	Liu Weidong	Non-executive Director	5	100%
9	Zhu Fushou	Non-executive Director	5	100%
10	Sun Shuyi	Independent Non-executive Director	5	100%
11	Yang Xianzu	Independent Non-executive Director	5	100%
12	Ng Lin Fung	Independent Non-executive Director	5	100%

The Board of Directors is the standing decision-making organization of the Company. It leads and supervises the Company based on the principle of responsibility and effectiveness. All directors are under an obligation to perform their duties in the interest of the Company. All members of the Board of Directors are jointly and severally liable to all shareholders with regards to matters of management, supervision and operation of the Company.

The duties and responsibilities conferred on the Board of Directors include:

— convening shareholders' meetings and reporting on its work to shareholders;

— implementing resolutions of shareholders' meetings;

— determining the Company's business and investment plans;

— formulating the Company's annual budget and final accounts;

— formulating the Company's proposals for dividend and bonus distributions and for the increase or reduction of registered capital; and

— exercising other powers, duties and responsibilities as conferred by the Articles of Association.

The Board of Directors is responsible for ensuring the preparation of the financial statements for each accounting year to give a true and fair view of the financial position of the Company and its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2006, the Board of Directors has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgment and estimates, and has prepared the financial statements on a going concern basis.

Since the listing of the Company, the Board of Directors has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors in the Board of Directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to be specialized in accounting or relevant financial management.

The Company has accepted the written confirmation of each of the independent non-executive directors in respect of their independence, which confirms that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

Other than their working relationship with the Company, none of the directors, supervisors or senior management has any financial, business or family relationship or other material relationship with each other.

5. Chairman and President of the Company

The roles of the Chairman and the President are two distinctively separate positions. The Articles of Association set out in detail the respective duties of the Chairman and the President. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The President is responsible for the Group's business development and decision making on operation. For the year ended 31 December 2006, the Chairman of the Company was Mr. Xu Ping and the President of the Company was Mr. Liu Zhangmin.

6. Directors' Term of Office

The term of office for all directors (including non-executive directors) is for a period of three years. All directors must resign upon the expiration of their terms of office and shall be eligible for re-election.

7. Remuneration of Directors

The Company has set up a Remuneration Committee which consists of one executive Director and two independent non-executive Directors of the Company. The current chairman of the Board Remuneration Committee is Yang Xianzu and the other two members are Li Shaozhu and Ng Lin Fung. The Remuneration Committee formulates and recommends to the Board of Directors the remuneration and other benefits paid by the Company to the directors. The remuneration of all directors is subject to regular monitoring by the Remuneration Committee to ensure that levels of remuneration and compensation are appropriate.

The Remuneration Committee held two meetings in total for the year ended 31 December 2006. During the meetings, the followings were respectively reviewed and approved or discussed:

— Rules and Procedures of the Remuneration Committee

— Stock appreciation rights scheme

— Implementation plan for the first granting of stock appreciation rights

— Assessment method of stock appreciation right-related performance

— Implementation rules of stock appreciation rights and the second granting framework plan

The following table sets out the 2006 attendance record for each member at meetings of the Remuneration Committee:

No.	Name	Position	Attendance	Attendance Rate
1	Yang Xianzu	Independent Non-executive Director	2	100%
2	Ng Lin Fung	Independent Non-executive Director	2	100%
3	Li Shaozhu	Executive Director	1	50%

8. Nomination of Directors

The Company has not established a director nomination committee. The Company appoints new directors in accordance with a transparent procedure. According to the Articles of Association of the Company shareholders of the Company can nominate director candidates.

Written notice containing the intention to nominate a candidate and the candidate's express willingness to accept the nomination shall be delivered to the Company not earlier than the day when the notice of the shareholders' general meeting has been dispatched and not later than seven days prior to the convening of such meeting. The period between nomination and acceptance of nomination shall not be less than seven days.

9. Auditors' Remuneration

The Company's external auditors are Ernst & Young. The audit fee of the Company for the year ended 31 December of 2006 was RMB10 million.

10. Internal Controls

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of shareholders and the Group's assets. The Board has delegated implementation of the system of internal control and reviewing all relevant financial, operational, compliance control and risk management function within an established framework to executive management.

An annual evaluation was carried out by the Company to perform documentations and review on the internal controls system of the Group. This evaluation covered all material controls, including financial, operational and compliance controls and risk management functions.

11. Audit Committee

The Company has established an Audit Committee in compliance with the Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee will be to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board of Directors. The audit committee consists of three members who are all non-executive directors (including two independent non-executive directors) of the Company. The Chairman of the Audit Committee is Mr. Sun Shuyi. Mr. Sun Shuyi is a qualified public accountant certified by the PRC Institute of Certified Public Accountants. The other members of the Audit Committee are Mr. Ouyang Jie and Mr. Ng Lin Fung.

The audit committee held two meetings in total during the year ended 31 December 2006. During the meetings, the followings were respectively reviewed and approved or discussed:

— 2005 financial statements of Dongfeng Motor Group

— 2006 Interim financial statements of Dongfeng Motor Group

— The system of regular submission of financial statements and financial summaries, and other special financial reports to the Audit Committee by the financial accounting department

The following table sets out the 2006 attendance record for each member at meetings of the Audit Committee:

No.	Name	Position	Attendance	Attendance Rate
1	Sun Shuyi	Independent Non-executive Director	2	100%
2	Ng Lin Fung	Independent Non-executive Director	2	100%
3	Ouyang Jie	Non-executive Director	2	100%

The Audit Committee of the Company has reviewed with the management of the Company, the accounting principles and practices accepted by the Group and has discussed with the Directors matters concerning internal Controls and financial reporting of the Company, including a review of the results of the Group for the year ended 31 December 2006.

12. Shareholders' Rights

In accordance with the Articles of Association of the Company, shareholders who solely or in aggregate hold 10% or more of the voting shares issued by the Company, have the right to call for an extraordinary general meeting in writing (the number of shares held by the shareholders is calculated on the day the relevant shareholders submit their written request).

The Company has adopted a policy of disclosing information to its shareholders in a timely manner. The annual general meeting shall serve as a communication channel between directors and shareholders. The chairman will chair the annual general meeting to ensure that the shareholders' views are communicated to the Board of Directors. During the annual general meeting, the chairman of the Board of Directors and its committees will all be present to answer any queries that shareholders may have.

The notice of annual general meeting shall be sent to all shareholders at least 45 days prior to the date of the meeting. It will state the purpose of the general meeting. Shareholders may propose to the Board of Directors procedures for making enquiries and put forth the proposed procedures at shareholders' general meetings.

13. Authorisation of Directors

The Board of Directors formulates the strategies of the Company. Responsibility for execution of the Board of Directors' strategies and the Company's daily operations is delegated to the management.

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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 60 to 158, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Independent Auditors' Report

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 2006 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
18 April 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 RMB million	2005 RMB million
Revenue — Sale of goods	4	**48,264**	41,735
Cost of sales		**(40,058)**	(35,639)
Gross profit		**8,206**	6,096
Other income	5	**736**	1,007
Selling and distribution costs		**(2,157)**	(1,738)
Administrative expenses		**(2,219)**	(1,928)
Other expenses, net		**(1,285)**	(767)
Finance costs	7	**(411)**	(478)
Loss on dilution of interests in jointly-controlled entities	8	**(252)**	—
Share of profits and losses of associates		**61**	29
Profit before tax	6	**2,679**	2,221
Income tax expense	11	**(428)**	(474)
Profit for the year		**2,251**	1,747
Attributable to:			
Equity holders of the parent	12	**2,081**	1,601
Minority interests		**170**	146
		2,251	1,747
Dividend	13	**345**	1,390
Earnings per share attributable to ordinary equity holders of the parent:	14		
Basic for the year		**24.15 cents**	25.86 cents

Consolidated Balance Sheet

31 December 2006

	Notes	2006 RMB million	2005 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	15	**15,571**	14,414
Lease prepayments		**340**	350
Intangible assets	16	**1,251**	725
Goodwill	17	**434**	434
Investments in associates	20	**486**	372
Available-for-sale financial assets	21	**127**	163
Loan to a jointly-controlled entity	22	**150**	200
Other long term assets		**1,040**	397
Deferred tax assets	11	**214**	73
Total non-current assets		**19,613**	17,128
Current assets			
Inventories	23	**7,128**	6,251
Trade receivables	24	**1,562**	1,436
Bills receivable	25	**5,774**	3,542
Prepayments, deposits and other receivables	26	**1,649**	1,576
Due from jointly-controlled entities	27	**100**	126
Other financial assets	28	**60**	109
Restricted cash	29	**790**	423
Cash and cash equivalents	29	**7,437**	7,389
Total current assets		**24,500**	20,852
TOTAL ASSETS		**44,113**	37,980

Consolidated Balance Sheet

31 December 2006

	Notes	2006 RMB million	2005 RMB million
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Issued capital	30	**8,616**	8,616
Reserves	31	**3,375**	2,858
Retained profits	31	**1,952**	733
Proposed final dividend	13	**345**	—
		14,288	12,207
Minority interests		**2,534**	2,127
Total equity		**16,822**	14,334
Non-current liabilities			
Interest-bearing borrowings	32	**2,087**	2,226
Other long term liabilities		**40**	222
Provisions	33	**193**	205
Government grants	34	**51**	67
Deferred tax liabilities	11	**745**	564
Total non-current liabilities		**3,116**	3,284
Current liabilities			
Trade payables	35	**7,588**	5,757
Bills payable	36	**4,145**	2,873
Other payables and accruals	37	**5,592**	5,021
Due to jointly-controlled entities	27	**386**	366
Interest-bearing borrowings	32	**5,921**	5,931
Government grants	34	**28**	18
Income tax payable		**103**	69
Provisions	33	**412**	327
Total current liabilities		**24,175**	20,362
TOTAL LIABILITIES		**27,291**	23,646
TOTAL EQUITY AND LIABILITIES		**44,113**	37,980

Xu Ping
Director

Liu Zhangmin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Notes	Attributable to the equity holders of the parent							
		Issued capital	Capital reserve	Statutory reserves	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Notes	RMB million	RMB million	RMB million (note 31)	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2005		6,020	—	936	1,081	—	8,037	2,078	10,115
Issue of shares upon listing	30(a)	2,257	1,502	—	—	—	3,759	—	3,759
Issue of shares upon exercising of the Over-allotment Option	30(b)	339	225	—	—	—	564	—	564
Share issuing expenses		—	(364)	—	—	—	(364)	—	(364)
Profit for the year		—	—	—	1,601	—	1,601	146	1,747
Transfer to reserves		—	—	559	(559)	—	—	—	—
Additional investment in a jointly-controlled entity	19(b)	—	—	—	—	—	—	11	11
Dividends paid to minority shareholders		—	—	—	—	—	—	(108)	(108)
Special dividend	13	—	—	—	(1,390)	—	(1,390)	—	(1,390)
As at 31 December 2005		8,616	1,363	1,495	733	—	12,207	2,127	14,334
Profit for the year		—	—	—	2,081	—	2,081	170	2,251
Transfer to reserves		—	—	517	(517)	—	—	—	—
Investments in subsidiaries		—	—	—	—	—	—	4	4
Additional investments in jointly-controlled entities		—	—	—	—	—	—	18	18
Dilution of interests in jointly-controlled entities	8	—	—	—	—	—	—	252	252
Dividends paid to minority shareholders		—	—	—	—	—	—	(37)	(37)
Proposed final dividend	13	—	—	—	(345)	345	—	—	—
As at 31 December 2006		8,616	1,363	2,012	1,952	345	14,288	2,534	16,822

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 RMB million	2005 RMB million
Cash flows from operating activities			
Profit before tax		**2,679**	2,221
Adjustments for:			
Share of profits and losses of associates		**(61)**	(29)
Loss on disposal of items of property, plant and equipment, net	6	**57**	14
Loss on disposal of intangible assets, net	6	**—**	8
Loss on dilution of interests in jointly-controlled entities	8	**252**	—
Gain on disposal of available-for-sale financial assets	6	**(4)**	—
Impairment/(reversal of impairment) of trade and other receivables	6	**(6)**	16
Exchange gains, net	6	**(9)**	(252)
Depreciation and impairment, net	6	**1,531**	1,357
Amortisation of intangible assets	6	**155**	112
Finance costs	7	**411**	478
Interest income	5	**(162)**	(141)
		4,843	3,784
Increase in trade and bills receivables and prepayments, deposits and other receivables		**(2,488)**	(27)
Decrease/(increase) in inventories		**(877)**	513
Decrease in other financial assets		**53**	115
Decrease in amounts due from jointly-controlled entities		**26**	231
Increase in trade and bills payables, and other payables, and accruals		**4,027**	731
Increase in amounts due to jointly-controlled entities		**20**	306
Increase in provisions		**73**	18
Decrease in government grants		**(138)**	(431)
Decrease in other long term liabilities		**(182)**	(210)
Cash generated from operations		**5,357**	5,030
Interest paid		**(452)**	(522)
Income tax paid		**(344)**	(186)
Net cash flows generated from operating activities		**4,561**	4,322

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 RMB million	2005 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(2,787)**	(4,051)
Increase in lease prepayments and other long-term assets		**(583)**	(67)
Purchases of intangible assets		**(681)**	(226)
Purchases of available-for-sale financial assets		**(12)**	(21)
Repayment of loan from/(loan to) a jointly-controlled entity		**50**	(250)
Investments in associates		**(36)**	(98)
Acquisition of a jointly-controlled entity, net of cash acquired	19(a)	**—**	(22)
Acquisition of additional equity interests in jointly-controlled entities, net of cash acquired	19(b)	**—**	(27)
Proceeds from disposal of items of property, plant and equipment		**87**	467
Proceeds from disposal of available-for-sale financial assets		**44**	28
Proceeds from disposal of associates		**21**	16
Dividends from associates		**15**	29
Government grants received	34	**132**	464
Interest received	5	**162**	141
Decrease/(increase) in pledged time deposits		**(367)**	86
Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired		**25**	(738)
Net cash flows used in investing activities		**(3,930)**	(4,269)
Cash flows from financing activities			
Proceeds from borrowings		**11,894**	10,960
Repayment of borrowings		**(12,041)**	(10,456)
Repurchase of capital		**—**	(2,306)
Net proceeds from issue of shares		**—**	3,959
Proceeds/(refund of proceeds) from sales of Domestic Shares of National Council for Social Security Fund	30	**(396)**	396
Capital contribution from minority shareholders		**22**	—
Dividends paid to minority shareholders		**(37)**	(108)
Dividends paid		**—**	(1,390)
Net cash flows generated from/(used in) financing activities		**(558)**	1,055
Net increase in cash and cash equivalents		**73**	1,108
Cash and cash equivalents at beginning of year		**5,586**	4,478
Cash and cash equivalents at end of year	29	**5,659**	5,586

Balance Sheet

31 December 2006

	Notes	**2006 RMB million**	2005 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	15	**575**	479
Investments in subsidiaries	18	**140**	140
Investments in jointly-controlled entities	19	**13,037**	13,037
Investments in associates	20	**73**	73
Available-for-sale financial assets	21	**68**	68
Loan to a jointly-controlled entity	22	**300**	400
Total non-current assets		**14,193**	14,197
Current assets			
Inventories	23	**55**	55
Trade receivables	24	**211**	182
Bills receivable	25	**6**	2
Prepayments, deposits and other receivables	26	**41**	50
Due from jointly-controlled entities	27	**133**	128
Cash and cash equivalents	29	**668**	762
Total current assets		**1,114**	1,179
TOTAL ASSETS		**15,307**	15,376

Balance Sheet

31 December 2006

	Notes	2006 RMB million	2005 RMB million
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Issued capital	30	**8,616**	8,616
Reserves	31	**2,178**	1,957
Retained profits/(accumulated losses)	31	**61**	(94)
Proposed final dividend	13	**345**	—
Total equity		**11,200**	10,479
Non-current liabilities			
Interest-bearing borrowings	32	**—**	500
Other long term liabilities		**—**	180
Deferred tax liabilities	11	**732**	550
Total non-current liabilities		**732**	1,230
Current liabilities			
Trade payables	35	**72**	78
Other payables and accruals	37	**526**	862
Due to jointly-controlled entities	27	**596**	487
Interest-bearing borrowings	32	**2,181**	2,240
Total current liabilities		**3,375**	3,667
TOTAL LIABILITIES		**4,107**	4,897
TOTAL EQUITY AND LIABILITIES		**15,307**	15,376

Xu Ping
Director

Liu Zhangmin
Director

Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee that remain in effect. 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.

These financial statements have been prepared under the going concern basis although the Company's current liabilities exceeded its current assets as at 31 December 2006. This is because the directors of the Company have the following measures to ensure that the Company has adequate funds for its operations:

(1) as at 31 December 2006, the Company had unutilised banking facilities of RMB8,405 million, out of which RMB2,405 million can be utilised up to more than one year after 31 December 2006; and

2.1 BASIS OF PREPARATION (Continued)

(2) according to a notice received from People's Bank of China, the Company has been approved to issue short-term debentures to the extent of RMB4,000 million (inclusive of related interest payable) on or before the end of November 2007. Currently, short-term debentures with a face value of RMB1,900 million were issued and are repayable on 13 December 2007 at RMB1,900 million, and the Company has short-term debenture issuance facilities of RMB2,100 million (inclusive of related interest payable) available for its use on or before the end of November 2007.

In the opinion of the directors, the above financing arrangements will enable the Company to meet its financial obligations when due, and also enable the Company to have adequate working capital to meet its daily operation needs. The Company will not have a going concern issue arising from shortage of operating capital.

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 2006.

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

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

All significant intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated 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 combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The principal accounting policies used in the preparation of these financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2005, except that the Group has adopted the following new and amended IFRSs and International Financial Reporting Interpretations Committee Intrepretations ("IFRICs") during the year. Adoption of these revised standards and interpretations did not have any material effect on these financial statements of the Group. They did however give rise to additional disclosures.

IAS 39 Amendments	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an Arrangement contains a Lease

The principal effects of these changes are as follows:

(a) IAS 39 Financial Instruments: Recognition and Measurement

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of IAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

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

(a) IAS 39 Financial Instruments: Recognition and Measurement (Continued)

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(b) IFRIC 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

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

IAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
IAS 23 (Revised)	Borrowing Costs
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economics*
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 — Group and Treasury Share Transaction
IFRIC 12	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying assets. The choice of immediately recognise such cost as an expense is eliminated.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosures requirements of IAS 32.

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

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11 and IFRIC 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Change in segment identification

During the year, the Group changed its identification of reportable business segments. The Group consolidated its previous four segments, namely, "Commercial vehicles", "Passenger vehicles", "Engines and other automotive parts" and "Corporate and others" into three new business segments namely, "Commercial vehicles", "Passenger vehicles" and "Corporate and others". The main change relates to the allocation of the activities pertaining to the previous "Engines and other automotive parts" segment into the respective "Passenger vehicles" segment and "Commercial vehicles" segment to the extent to which such activities are related. In the opinion of the directors, the new basis of segment identification provides a more appropriate presentation of the segment information. Prior year segment information is restated for comparative purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Joint ventures

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

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

A joint venture company is treated as:

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

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

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

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

Subsidiaries

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities (Continued)

The Group's investments in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. When the profit sharing ratio is different to the Group's equity interests in the jointly-controlled entities, the Group's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio.

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

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

Associates

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

The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's or its jointly-controlled entities' share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the Group's or its jointly-controlled entities' share of the results of operations of the associates. The Group's and the jointly-controlled entities' investments in their associates include goodwill (net of accumulated impairment) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill on acquisition of subsidiaries and jointly-controlled entities is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised. 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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

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.

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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.5 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 in value.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

2.5 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:

Buildings	Over 10 to 45 years
Plant and equipment	Over 5 to 20 years

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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 ability of resources to complete and the availability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred. 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, commencing from the date when the underlying products are put into commercial use.

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 arising during the year.

Lease prepayments

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

Leases

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging

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

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

Cash flow hedges (Continued)

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

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 an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which 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 and its jointly-controlled entities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents (Continued)

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provision for product warranties granted by the Group and its jointly-controlled entities 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 is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or its jointly-controlled entities and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

Rendering of services

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

Interest income

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

Dividend income

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Retirement benefits

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

Medical benefits

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

Cash housing subsidies

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

Termination and early retirement benefits

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group are granted stock appreciation rights, 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 Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (note 6(e)). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

These financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Group and its jointly-controlled entities. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

Impairment of goodwill

The Group 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 Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred taxation

As at 31 December 2006, deferred tax assets in relation to unused tax losses and other deductible temporary differences have been recognised in the consolidated balance sheet. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

Segment information

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

The Group's operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. As detailed in note 2.4 to the financial statements, the Group adopted a new segment reporting basis and consolidated its businesses into three new business segments during the year. Summary details of these business segments are as follows:

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

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

Segment information (Continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	13,215	34,219	830	48,264
Other income	129	376	231	736
Total	13,344	34,595	1,061	49,000
Results				
Segmental results	81	3,814	(614)	3,281
Loss on dilution of interests in jointly-controlled entities				(252)
Finance costs				(411)
Share of profits and losses of associates	26	33	2	61
Profit before tax				2,679
Income tax expense				(428)
Profit for the year				2,251
Assets and liabilities				
Segment assets	9,542	23,261	9,633	42,436
Investments in associates	300	165	21	486
Unallocated assets				1,191
Total assets				44,113
Segment liabilities	5,074	8,885	4,476	18,435
Unallocated liabilities				8,856
Total liabilities				27,291

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

Segment information (Continued)

Year ended 31 December 2006 (Continued)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Other segment information				
Capital expenditure:				
— Property, plant and equipment	**659**	**1,713**	**415**	**2,787**
— Intangible assets	**22**	**574**	**85**	**681**
Depreciation of property, plant and equipment	**427**	**985**	**67**	**1,479**
Amortisation of intangible assets	**20**	**109**	**26**	**155**
Impairment losses recognised in the income statement	**24**	**21**	**7**	**52**

Year ended 31 December 2005

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	12,989	27,915	831	41,735
Other income	160	270	577	1,007
Total	13,149	28,185	1,408	42,742
Results				
Segmental results	75	2,771	(176)	2,670
Finance costs				(478)
Share of profits and losses of associates	7	17	5	29
Profit before tax				2,221
Income tax expense				(474)
Profit for the year				1,747

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

Segment information (Continued)

Year ended 31 December 2005 (Continued)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Assets and liabilities				
Segment assets	10,921	19,302	6,617	36,840
Investments in associates	290	38	44	372
Unallocated assets				768
Total assets				37,980
Segment liabilities	4,344	7,505	3,007	14,856
Unallocated liabilities				8,790
Total liabilities				23,646
Other segment information				
Capital expenditure:				
— Property, plant and equipment	701	2,879	471	4,051
— Intangible assets	44	153	29	226
Depreciation of property, plant and equipment	401	830	75	1,306
Amortisation of intangible assets	14	89	9	112
Impairment losses recognised in the income statement	34	16	1	51

Due to the change in the segment identification, certain balances and figures in the segment information for the year ended 31 December 2005 have been reclassified to conform with the current year's presentation. Further details of the change in segment identification are set out in note 2.4 to the financial statements.

5. OTHER INCOME

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

		Group	
	Note	**2006** **RMB million**	2005 RMB million
Government grants and subsidies (note 34)	(a)	**138**	431
Net income from disposal of other materials		**260**	273
Interest income		**162**	141
Rendering of services		**15**	18
Others		**161**	144
		736	1,007

Note:

(a) An analysis of the Group's government grants and subsidies is as follows:

	Group	
	2006 **RMB million**	2005 RMB million
Subsidies for business development	**132**	405
Subsidies for relocation of offices and production plants	**—**	6
Others	**6**	20
	138	431

Government grants received for which related expenditure has not yet been undertaken are recognised as deferred income in the balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

		Group	
		2006	2005
	Notes	**RMB million**	RMB million
Cost of inventories recognised as expense		**40,058**	35,639
Provision against inventories		**59**	5
Amortisation of intangible assets*		**155**	112
Depreciation		**1,479**	1,306
Auditor's remuneration		**18**	15
Minimum lease payments under operating leases in respect of land and buildings		**159**	158
Staff costs (excluding directors' and supervisors' remuneration (note 9)):			
— Wages and salaries		**1,857**	1,727
— Pension scheme contributions	(a)	**269**	248
— Medical benefits costs	(b)	**74**	40
— Cash housing subsidies costs	(c)	**9**	7
— Stock appreciation rights expense	(e)	**25**	—
		2,234	2,022
Included in other expenses, net			
Loss on disposal of items of property, plant and equipment, net		**57**	14
Loss on disposal of intangible assets, net		**—**	8
Gain on disposal of available-for-sale financial assets		**(4)**	—
Impairment of property, plant and equipment		**48**	34
Impairment of available-for-sale financial assets		**8**	24
Reversal of impairment of other financial assets		**(4)**	(7)
Impairment/(reversal of impairment) of trade and other receivables		**(6)**	16
Warranty expenses (note 33)		**317**	250
Research costs		**905**	719
Exchange gains, net		**(9)**	(252)

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

6. PROFIT BEFORE TAX (Continued)

(a) Retirement benefits

The Group's and its jointly-controlled entities' employees in the PRC are covered by various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC pursuant to which the municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and retired employees. In addition to the defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC, the Group and most of its jointly-controlled entities located in Hubei Province (collectively referred to as the "Hubei Entities") also participate in a supplemental pension scheme regulated by DMC (the "Scheme") pursuant to which the Company is required to make a contribution based on a percentage of the wages of these employees of the Hubei Entities 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 Company has no further obligation to the Scheme beyond the defined 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 Company's contribution to the Scheme is settled directly with the Scheme by each of the Hubei Entities based on the amount of their respective contributions required to be borne by each of the Hubei Entities.

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

6. PROFIT BEFORE TAX (Continued)

(b) Medical benefits

The Group and its jointly-controlled entities contribute 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. Contributions to these plans by the Group and the jointly-controlled entities are expensed as incurred.

In addition, the Hubei Entities also participate in a supplemental medical benefit plan regulated by DMC pursuant to which such companies contribute a percentage of the wages of their qualified employees to the plan, on a monthly basis, and DMC undertakes to assume the supplemental medical benefit obligations payable to existing and retired employees of the Hubei Entities. The Group and the jointly-controlled entities have no further obligations for medical benefits and supplemental medical benefits for their qualified employees under these plans. Contributions to these plans by the Group and the jointly-controlled entities are expensed as incurred.

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

(c) Cash housing subsidies

In 2000, the Group and a jointly-controlled entity implemented cash housing subsidy plans pursuant to which the Group and the jointly-controlled entity undertook the obligation to pay cash housing subsidies to 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 Group's cash housing subsidy plans are also eligible to entitle 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.

6. PROFIT BEFORE TAX (Continued)

(c) Cash housing subsidies (Continued)

For cash housing subsidies related to service periods before 1 January 2000, they are fully recognised as expenses in the year of the implementation of such plans in 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 2004, the Group implemented a termination and early retirement plan for certain qualified employees, pursuant to which the Group and its jointly-controlled entities had the obligation to pay early retirement benefits on a monthly basis to the relevant early retired employees until such employees reach their normal retirement age at which time they can join the governmental regulated pension schemes and the DMC regulated supplemental pension scheme.

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

(e) Stock appreciation rights

On 19 April 2006, the Company's board of directors approved a plan of stock appreciation rights ("SARs") for the senior management of the Group with a term of six years with effect from 23 January 2006. 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 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.

6. PROFIT BEFORE TAX (Continued)

(e) Stock appreciation rights (Continued)

The rights to the SAR units will have an exercise period of six years from the date of grant and can be exercised in the third, fourth and fifth year following the date of grant and the total number of the rights exercised by an individual shall not in aggregate exceed 30%, 65% and 100%, respectively, of the total rights granted to the individual. The exercise price of the SARs as approved by the board of directors on 19 April 2006 is HK$2.01, being the average share price at the close of trading over the 30 business days preceding the date of grant. The SARs which are not exercised on 22 January 2012 shall not be exercised and shall lapse upon their expiry.

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

The Company granted 55,665,783 SAR units during the year ended 31 December 2006 and recognised a compensation expense over the applicable vesting period. The compensation expense recognised for the year ended 31 December 2006 amounted to RMB36 million (2005: Nil). Of which RMB11 million was included in the directors and supervisors' remuneration set out in note 9 to the financial statements. As at 31 December 2006, 55,665,783 (2005: Nil) SAR units were outstanding.

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

The following table lists the inputs to the Black-Scholes option pricing model used for the measurement of the fair value of SARs for the year ended 31 December 2006:

Dividend yield (%)	1.22
Expected volatility (%)	49.24
Risk free interest rate (%)	3.480–3.694
Expected life of option (years)	6
Share price on measurement date (HK$)	3.77

7. FINANCE COSTS

	Group	
	2006	2005
	RMB million	RMB million
Interest on bank loans, and other borrowings wholly repayable:		
— within five years	**272**	358
— beyond five years	**114**	127
Interest on discounted bills	**59**	37
Interest on short-term debentures	**7**	—
	452	522
Less: Amount capitalised in construction in progress	**(41)**	(44)
Net interest expense	**411**	478

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

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

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group			
	Directors		Supervisors	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**468**	—	**94**	—
Other emoluments:				
— Salaries, allowances and benefits in kind	**1,791**	1,875	**1,334**	1,374
— Bonuses	**3,046**	2,645	**1,774**	1,918
— Stock appreciation rights	**8,079**	—	**2,939**	—
— Pension scheme contributions	**102**	81	**70**	60
Total	**13,486**	4,601	**6,211**	3,352

During the year, certain directors were granted stock appreciation rights, in respect of their services to the Group, further details of which are set out in note 6(e) to the financial statements. The fair value of the rights which has been recognised in the income statement over the vesting period was determined at the date of grant and at each reporting date. The amount included in the financial statements for the current year is included in this directors' remuneration disclosure.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

2006	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Stock appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Xu Ping	—	243	410	1,061	11	1,725
Liu Zhangmin	—	198	370	1,061	11	1,640
Zhou Wenjie	—	199	330	851	14	1,394
Fan Zhong	—	198	330	851	11	1,390
Li Shaozhu	—	195	330	851	11	1,387
	—	1,033	1,770	4,675	58	7,536
Non-executive directors:						
Tong Dongcheng	—	195	330	851	11	1,387
Liu Weidong	—	195	330	851	11	1,387
Ouyang Jie	—	195	330	851	11	1,387
Zhu Fushou	—	173	286	851	11	1,321
	—	758	1,276	3,404	44	5,482
Independent non-executive directors:						
Sun Shuyi	156	—	—	—	—	156
Ng Lin-fung	156	—	—	—	—	156
Yang Xianzu	156	—	—	—	—	156
	468	—	—	—	—	468
	468	1,791	3,046	8,079	102	13,486
Supervisors						
Ye Huicheng	—	195	330	851	11	1,387
Zhou Qiang	—	169	210	453	11	843
Ren Yong	—	409	386	453	9	1,257
Liu Yuhe	—	273	444	420	17	1,154
Li Chunrong	—	133	187	342	11	673
Kang Li	—	155	217	420	11	803
	—	1,334	1,774	2,939	70	6,117
Independent supervisors:						
Wen Shiyang	47	—	—	—	—	47
Deng Mingran	47	—	—	—	—	47
	94	—	—	—	—	94
	94	1,334	1,774	2,939	70	6,211

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

2005	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Stock appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Xu Ping	—	257	354	—	9	620
Liu Zhangmin	—	205	310	—	9	524
Zhou Wenjie	—	217	283	—	9	509
Fan Zhong	—	205	283	—	9	497
Li Shaozhu	—	205	283	—	9	497
	—	1,089	1,513	—	45	2,647
Non-executive directors:						
Tong Dongcheng	—	205	283	—	9	497
Liu Weidong	—	190	283	—	9	482
Ouyang Jie	—	205	283	—	9	497
Zhu Fushou	—	186	283	—	9	478
	—	786	1,132	—	36	1,954
Independent non-executive directors:						
Sun Shuyi	—	—	—	—	—	—
Ng Lin-fung	—	—	—	—	—	—
Yang Xianzu	—	—	—	—	—	—
	—	—	—	—	—	—
	—	1,875	2,645	—	81	4,601
Supervisors:						
Ye Huicheng	—	205	283	—	9	497
Zhou Qiang	—	167	321	—	9	497
Ren Yong	—	377	554	—	9	940
Liu Yuhe	—	316	401	—	15	732
Li Chunrong	—	154	186	—	9	349
Kang Li	—	155	173	—	9	337
	—	1,374	1,918	—	60	3,352
Independent supervisors:						
Wen Shiyang	—	—	—	—	—	—
Deng Mingran	—	—	—	—	—	—
	—	—	—	—	—	—
	—	1,374	1,918	—	60	3,352

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

During the years ended 31 December 2005 and 2006, no emoluments were paid by the Group to any of the persons who are the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2005: three) directors and supervisors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining two non-director and non-supervisor, highest paid employees for the year ended 31 December 2005 are as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	—	520
Bonuses	—	563
Pension scheme contributions	—	17
	—	1,100

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	
	2006	2005
Nil–RMB200,000	—	—
RMB200,001–RMB400,000	—	—
RMB400,001–RMB600,000	—	2
	—	2

11. INCOME TAX EXPENSE

	Group	
	2006	2005
	RMB million	RMB million
Current income tax	**388**	170
Deferred income tax	**40**	304
Income tax charge for the year	**428**	474

(a) Corporate income tax

Under the relevant PRC Income Tax Law and the respective regulations, the corporate income tax for the Company, its subsidiaries and its jointly-controlled entities is calculated at rates ranging from 10% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. As certain of the Company's subsidiaries and jointly-controlled entities are foreign-invested enterprises, after obtaining authorisation from respective tax authorities, these subsidiaries and jointly-controlled entities are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the years ended 31 December 2005 and 2006.

(c) Deferred income tax

Deferred tax assets have been recognised at the end of each year in respect of temporary differences relating to certain future deductible expenses for the purpose of corporate income tax arising from the impairment of various assets.

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

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 income tax rate for the PRC in which the Company and its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the Group's effective income tax rate is as follows:

	Group			
	2006		2005	
	RMB million	**%**	RMB million	%
Profit before tax	**2,679**		2,221	
At the PRC statutory corporate income tax rate of 33%	**884**	**33.0**	733	33.0
Tax concessions and lower tax rates for specific provinces or locations	**(456)**	**(17.0)**	(248)	(11.1)
Income not subject to tax	**(145)**	**(5.4)**	(88)	(4.0)
Expenses not deductible for tax	**147**	**5.5**	83	3.7
Others	**(2)**	**(0.1)**	(6)	(0.3)
Tax charge at the Group's effective rate	**428**	**16.0**	474	21.3

11. INCOME TAX EXPENSE (Continued)

(c) Deferred income tax (Continued)

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

Group

	As at 31 December		Year ended 31 December	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Deferred tax liabilities				
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	**(732)**	(605)	**127**	200
Arising from acquisition of a jointly-controlled entity	**(13)**	(14)	**(1)**	—
Others	**(3)**	(60)	**(57)**	47
Gross deferred tax liabilities	**(748)**	(679)		
Deferred tax assets				
Losses available for offsetting against future taxable income	**—**	85	**85**	89
Impairment of items of property, plant and equipment	**34**	23	**(11)**	(4)
Others	**183**	80	**(103)**	(28)
Gross deferred tax assets	**217**	188		
Deferred income tax charge			**40**	304
Net deferred tax liabilities	**(745)**	(564)		
Net deferred tax assets	**214**	73		

11. INCOME TAX EXPENSE (Continued)

(c) Deferred income tax (Continued)

Company

	As at 31 December	
	2006	2005
	RMB million	RMB million
Deferred tax liabilities		
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	**(732)**	(605)
Gross deferred tax liabilities	**(732)**	(605)
Deferred tax assets		
Losses available for offsetting against future taxable income	**—**	55
Gross deferred tax assets	**—**	55
Net deferred tax liabilities	**(732)**	(550)
Net deferred tax assets	**—**	—

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 2006 includes a profit of RMB721 million (2005: RMB227 million) which has been dealt with in the financial statements of the Company (note 31).

13. DIVIDEND

	Group	
	2006	2005
	RMB million	RMB million
Special dividend — nil (2005: RMB23.09 cents) per ordinary share	**—**	1,390
Proposed final — RMB4 cents (2005: nil) per ordinary share	**345**	—
	345	1,390

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 Accounting Standards for Business Enterprises and Accounting System for Business Enterprises ("PRC GAAP") and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, 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 fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's share capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund 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 fund if approved by the shareholders.

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

13. DIVIDEND (Continued)

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

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

The calculation of basic earnings per share amounts 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:

	2006	2005
	RMB million	RMB million
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	**2,081**	1,601

	Number of shares	
	million	million
Shares:		
Weighted average number of shares in issue during the year	**8,616**	6,192

No diluted earnings per share amount 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 2006				
At 31 December 2005 and 1 January 2006:				
Cost	966	18,819	3,167	22,952
Accumulated depreciation and impairment	(320)	(8,179)	(39)	(8,538)
Net carrying amount	646	10,640	3,128	14,414
At 1 January 2006, net of accumulated depreciation and impairment	646	10,640	3,128	14,414
Additions	34	294	2,500	2,828
Disposals	(2)	(119)	(23)	(144)
Reclassifications	79	3,795	(3,874)	—
Impairment	(4)	(44)	—	(48)
Depreciation provided during the year	(49)	(1,430)	—	(1,479)
At 31 December 2006, net of accumulated depreciation and impairment	704	13,136	1,731	15,571
At 31 December 2006:				
Cost	1,076	22,587	1,767	25,430
Accumulated depreciation and impairment	(372)	(9,451)	(36)	(9,859)
Net carrying amount	704	13,136	1,731	15,571

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2005				
At 1 January 2005:				
Cost	791	16,998	1,462	19,251
Accumulated depreciation and impairment	(285)	(6,997)	(44)	(7,326)
Net carrying amount	506	10,001	1,418	11,925
At 1 January 2005, net of accumulated depreciation and impairment	506	10,001	1,418	11,925
Additions	114	294	3,687	4,095
Acquisition of a jointly-controlled entity (note 19(a))	36	119	5	160
Acquisition of additional equity interests in jointly-controlled entities (note 19(b))	2	50	3	55
Disposals	(21)	(322)	(138)	(481)
Reclassifications	43	1,809	(1,852)	—
Impairment	—	(39)	5	(34)
Depreciation provided during the year	(34)	(1,272)	—	(1,306)
At 31 December 2005, net of accumulated depreciation and impairment	646	10,640	3,128	14,414
At 31 December 2005:				
Cost	966	18,819	3,167	22,952
Accumulated depreciation and impairment	(320)	(8,179)	(39)	(8,538)
Net carrying amount	646	10,640	3,128	14,414

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2006				
At 31 December 2005 and 1 January 2006:				
Cost	162	374	140	676
Accumulated depreciation and impairment	(101)	(96)	—	(197)
Net carrying amount	61	278	140	479
At 1 January 2006, net of accumulated depreciation and impairment	61	278	140	479
Additions	—	3	141	144
Disposals	—	(1)	(22)	(23)
Reclassifications	—	239	(239)	—
Depreciation provided during the year	(6)	(19)	—	(25)
At 31 December 2006, net of accumulated depreciation and impairment	55	500	20	575
At 31 December 2006:				
Cost	162	610	20	792
Accumulated depreciation and impairment	(107)	(110)	—	(217)
Net carrying amount	55	500	20	575

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 2005				
At 1 January 2005:				
Cost	101	395	74	570
Accumulated depreciation and impairment	(96)	(77)	—	(173)
Net carrying amount	5	318	74	397
At 1 January 2005, net of accumulated depreciation and impairment	5	318	74	397
Additions	69	3	109	181
Disposals	(7)	(57)	(1)	(65)
Reclassifications	—	42	(42)	—
Depreciation provided during the year	(6)	(28)	—	(34)
At 31 December 2005, net of accumulated depreciation and impairment	61	278	140	479
At 31 December 2005:				
Cost	162	374	140	676
Accumulated depreciation and impairment	(101)	(96)	—	(197)
Net carrying amount	61	278	140	479

The impairment of items of property, plant and equipment of the Company, its subsidiaries and its jointly-controlled entities was mainly related to the 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 and its jointly-controlled entities are set out in note 32 below.

16. INTANGIBLE ASSETS

Group

	2006 **RMB million**	2005 RMB million
Cost:		
At beginning of year	**1,114**	896
Additions	**681**	226
Disposals	**(2)**	(8)
At end of year	**1,793**	1,114
Accumulated amortisation:		
At beginning of year	**389**	277
Amortisation	**155**	112
Disposals	**(2)**	—
At end of year	**542**	389
Net book value:		
At beginning of year	**725**	619
At end of year	**1,251**	725

The details of the intangible assets pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 32 below.

17. GOODWILL

Group

	2006 **RMB million**	2005 RMB million
At beginning of year	**434**	277
Arising from acquisition of a jointly-controlled entity (note 19(a))	**—**	157
At end of year	**434**	434

17. GOODWILL (Continued)

The recoverable amount of goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 6%. No growth rate has been projected beyond the five-year period.

18. INVESTMENTS IN SUBSIDIARIES

Company

	2006 **RMB million**	2005 RMB million
Unlisted investments, at cost	**140**	140

Particulars of the principal subsidiaries as at 31 December 2006 were as follows:

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
China Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB100,000,000	95.0	2.6	Marketing and sale of automobiles
Shanghai Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB30,000,000	—	97.6	Marketing and sale of automobiles

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Company

	2006 RMB million	2005 RMB million
Unlisted investments, at cost	**13,037**	13,037

Particulars of the principal jointly-controlled entities as at 31 December 2006 were as follows:

Name	**Place of establishment and operations**	**Paid-up registered capital**	**Percentage of equity interest attributable to the Company Direct**	**Indirect**	**Principal activities**
Dongfeng Honda Engine Co., Ltd.#	PRC	US$60,060,000	50.0	—	Manufacture and sale of automotive parts and components
Dongfeng Honda Auto Parts Co., Ltd.#	PRC	US$37,500,000	44.0	—	Manufacture and sale of automotive parts and components
Dongfeng Motor Co., Ltd.#	PRC	RMB16,700,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Honda Automobile Co., Ltd.#	PRC	US$200,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Peugeot Citroën Automobiles Company Ltd.#	PRC	RMB7,000,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Dongfeng Nissan Diesel Motor Co., Ltd.#	PRC	RMB289,900,700	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Motor Finance Co., Ltd.#	PRC	RMB558,770,352	20.0	27.5	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 automotiveparts 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	Manufacture and sale of automobiles, automotive parts and components
Aeolus Xiangfan Motor Co., Ltd.#	PRC	RMB826,000,000	—	48.2	Manufacture and sale of automotive parts and components

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Aeolus Automobile Co., Ltd.#	PRC	RMB173,350,000	—	31.5	Manufacture and sale of automobiles, automotive parts and components
Zhengzhou Nissan Automobile Co., Ltd.#	PRC	RMB250,000,000	—	15.3	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 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 jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

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

	2006 RMB million	2005 RMB million
Non-current assets	**18,329**	15,802
Current assets	**23,803**	20,144
Non-current liabilities	**(2,535)**	(2,199)
Current liabilities	**(21,249)**	(17,204)
Minority interests	**(2,662)**	(2,251)
Net assets	**15,686**	14,292
Total revenue	**48,087**	41,281
Total expenses	**(45,463)**	(39,341)
Minority interests	**(190)**	(155)
Profit attributable to equity holders of the parent	**2,434**	1,785

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

During 2005, the Group had the following significant changes in its holdings of jointly-controlled entities:

(a) *Acquisition of a jointly-controlled entity*

In March 2005, DFAC, a 70%-owned subsidiary of Dongfeng Motor Co., Ltd., acquired 35% and 16% equity interests in Zhengzhou Nissan Automobile Co., Ltd. ("Zhengzhou Nissan") from CITIC Automobile Co., Ltd. and Zhengzhou Light Vehicle Manufacturing Plant, for a cash consideration of RMB241.8 million and RMB110.6 million, respectively.

Upon completion of these acquisitions, DFAC had a 51% equity interest in Zhengzhou Nissan which was thereafter accounted for as a jointly-controlled entity of DFAC. DFAC cannot exercise control over Zhengzhou Nissan due to certain restrictions under the memorandum and articles of association of Zhengzhou Nissan.

Since the date of acquisition, Zhengzhou Nissan had contributed a profit of RMB15 million to the Group's profit attributable to equity holders of the parent in 2005.

Had the aforesaid acquisition by DFAC taken place alone at the beginning of 2005, the Group's profit attributable to the equity holders of the parent and the revenue of the Group for the year would have been RMB1,600 million and RMB41,820 million, respectively.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(a) ***Acquisition of a jointly-controlled entity*** (Continued)

The Group's share of the fair values of the identified assets and liabilities of Zhengzhou Nissan acquired in 2005 is as follows:

	2005 RMB million
Property, plant and equipment	160
Lease prepayments	13
Other long term assets	12
Inventories	144
Trade and bills receivables	119
Prepayments, deposits and other receivables	25
Cash and cash equivalents	154
Trade and bills payables	(119)
Other payables and accrued liabilities	(59)
Income tax payable	(4)
Interest-bearing borrowings	(412)
Deferred tax liabilities	(14)
Fair value of net assets acquired	19
Goodwill arising on acquisition	157
	176
Consideration:	
Cash consideration	176
Net cash outflow arising on acquisition is as follows:	
Net cash and cash equivalent acquired from the jointly-controlled entity	154
Cash paid	(176)
Net cash outflow	(22)

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(a) ***Acquisition of a jointly-controlled entity*** (Continued)

Included in the goodwill of RMB157 million recognised above are certain intangible assets of Zhengzhou Nissan that cannot be individually separated and reliably measured due to their nature. In the opinion of the directors, assets included in this balance consist of customer loyalty, research activities of internal projects and voting power in the board of Zhengzhou Nissan, and they are not separable and therefore do not meet the criteria for recognition as an intangible asset under IAS 38.

(b) ***Acquisition of additional equity interests in jointly-controlled entities***

(1) *Dongfeng Bus Chassis Co., Ltd. ("DBC")*

Pursuant to the amendments to the articles of DBC, a then 51.63%-owned jointly-controlled entity of Dongfeng Motor Co., Ltd., on 1 January 2005, Dongfeng Motor Co., Ltd. obtained unilateral control over DBC. Since then, DBC became a 51.63%-owned subsidiary of Dongfeng Motor Co., Ltd.

(2) *Dongfeng Motor Finance Co., Ltd. ("DMF")*

In May 2005, the Company and Dongfeng Motor Co., Ltd. injected cash of RMB35 million and RMB170 million, respectively, into DMF to increase its registered capital while the other joint venture partner's equity interest therein was diluted. As a result of the aforesaid cash injections, the Company's share of paid-up registered capital of DMF remained at 20% while Dongfeng Motor Co., Ltd.'s share of paid-up registered capital thereof increased from 40% to 55%. The equity interest in DMF attributable to the Group increased from 40% to 47.5% since then.

Since the date of acquisition, DMF had contributed an immaterial additional profit to the Group's profit attributable to equity holders of the parent in 2005.

Had the aforesaid acquisition by Dongfeng Motor Co., Ltd. taken place alone at the beginning of 2005, the Group's profit attributable to equity holders of the parent and the revenue of the Group for the year would have been RMB1,606 million and RMB41,735 million, respectively.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(b) ***Acquisition of additional equity interests in jointly-controlled entities*** (Continued)

(3) *Dongfeng Honda Auto Parts Co., Ltd. ("DHAP")*

In June 2005, the Company acquired an additional 9% equity interest in DHAP from certain joint venture partners for total cash consideration of RMB45 million, and the Company's equity interest therein increased from 35% to 44%.

Since the date of acquisition, DHAP had contributed RMB7 million to the Group's profit attributable to equity holders of the parent in 2005.

Had the aforesaid acquisition by the Company taken place alone at the beginning of 2005, the Group's profit attributable to equity holders of the parent and the revenue of the Group for the year would have been RMB1,607 million and RMB41,767 million, respectively.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(b) ***Acquisition of additional equity interests in jointly-controlled entities*** (Continued)

The fair values of additional identified assets and liabilities of DBC, DMF and DHAP shared by the Group at the respective dates of acquisition are summarised as follows:

	2005 RMB million
Property, plant and equipment	55
Lease prepayments	1
Other long term assets	18
Inventories	32
Trade and bills receivables	50
Prepayment, deposits and other receivables	77
Cash and cash equivalents	138
Trade and bills payables	(49)
Other payables and accrued liabilities	(26)
Income tax payable	(7)
Interest-bearing borrowings	(112)
Provisions	(1)
Minority interests	(11)
Fair value of net assets acquired	165
Goodwill arising on acquisition	—
	165
Consideration:	
Cash consideration	165
Net cash outflow arising on acquisition is as follows:	
Net cash and cash equivalent acquired from the jointly-controlled entities	138
Cash paid	(165)
Net cash outflow	(27)

20. INVESTMENTS IN ASSOCIATES

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

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

	2006 RMB million	2005 RMB million
Unlisted investments, at cost	**73**	73

Particulars of the principal associates as at 31 December 2006 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	RMB128,000,000	—	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

A sino-foreign equity joint venture

A 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. INVESTMENTS IN ASSOCIATES (Continued)

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

	2006 RMB million	2005 RMB million
Non-current assets	**296**	287
Current assets	**622**	396
Non-current liabilities	**(34)**	(39)
Current liabilities	**(390)**	(272)
Minority interests	**(8)**	—
Net assets	**486**	372
Total revenue	**989**	587
Total expenses	**(939)**	(561)
Minority interest	**1**	—
Profit attributable to equity holders of the parent	**51**	26

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Unlisted investments, at fair value	**127**	163	**68**	68

22. LOAN TO A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Loan to a jointly-controlled entity	**200**	250	**400**	500
Less: Current portion included in amounts due from jointly-controlled entities	**(50)**	(50)	**(100)**	(100)
Non-current portion	**150**	200	**300**	400

The loan to a jointly-controlled entity is unsecured and bears an interest rate of 4.65% per annum.

23. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Raw materials	**2,954**	2,784	**13**	12
Work-in-progress	**635**	599	**20**	18
Finished goods	**3,539**	2,868	**22**	25
	7,128	6,251	**55**	55

The details of the inventories pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 32 below.

24. TRADE RECEIVABLES

Sales of the Group's and its jointly-controlled entities' 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 and its jointly-controlled entities may offer these customers credit terms that are generally between 30 and 180 days. For sales of engines and other automotive parts, the Group and its jointly-controlled entities generally offer their 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 impairment, of the Group and the Company, based on the due date, is as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**1,361**	1,171	**206**	171
More than three months but within one year	**157**	208	**3**	7
More than one year	**44**	57	**2**	4
	1,562	1,436	**211**	182

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

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Subsidiaries	**—**	—	**2**	4
A joint venture partner	**5**	13	**—**	—
Associates	**6**	18	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**34**	—	**—**	—
	45	31	**2**	4

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

25. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group and the Company as at each of the balance sheet dates are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**3,707**	2,386	**—**	1
More than three months but within one year	**2,067**	1,156	**6**	1
	5,774	3,542	**6**	2

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
DMC	**—**	3	**—**	2
Joint venture partners and their holding companies	**4**	11	**—**	—
Associates	**15**	27	**5**	6
Fellow subsidiaries	**—**	5	**—**	5
A minority shareholder of a jointly-controlled entity's subsidiary	**69**	38	**—**	—
Subsidiaries	**—**	—	**2**	—
	88	84	**7**	13

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

27. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

The Group's and the Company's balances with its jointly-controlled entities are unsecured, have no fixed terms of repayment and are interest-free except for the loan to a jointly-controlled entity as disclosed in note 22.

28. OTHER FINANCIAL ASSETS

Group

	2006 **RMB million**	2005 RMB million
Investments listed in the PRC, at fair value	**31**	35
Debt securities listed in the PRC, at fair value	**29**	74
	60	109

29. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Cash and bank balances	**5,785**	5,694	**668**	762
Time deposits	**2,442**	2,118	**—**	—
	8,227	7,812	**668**	762
Less: Pledged bank balances and time deposits for securing general banking facilities (note 32)	**(790)**	(423)	**—**	—
Cash and cash equivalents in the consolidated balance sheet	**7,437**	7,389	**668**	762
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(1,778)**	(1,803)	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**5,659**	5,586	**668**	762

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 carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

30. SHARE CAPITAL

Group and Company

	2006 RMB million	2005 RMB million
Registered, issued and fully paid:		
— 5,760,388,000 (2005: 5,760,388,000) Domestic Shares of RMB1.00 each	**5,760**	5,760
— 2,855,732,000 (2005: 2,855,732,000) H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

A summary of the movements in the Company's registered capital is as follows:

	Notes	**Domestic Shares of RMB1.00 each** RMB million	**H shares of RMB1.00 each** RMB million	**Total** RMB million
At 1 January 2005		6,020	—	6,020
Sales of Domestic Shares by the ultimate holding company and conversion into H shares upon listing	(a)	(226)	226	—
Issuance of new H shares upon listing	(a)	—	2,257	2,257
Sales of Domestic Shares by the ultimate holding company and conversion into H shares upon full exercise of the Over-allotment Option	(b)	(34)	34	—
Issuance of new H shares upon full exercise of the Over-allotment Option	(b)	—	339	339
At 31 December 2005 and 2006		5,760	2,856	8,616

30. SHARE CAPITAL (Continued)

Group and Company (Continued)

Notes:

(a) On 7 December 2005, the Company issued 2,483,250,000 H shares, consisting of 2,257,500,000 new H shares and 225,750,000 H shares converted from Domestic Shares, with a par value of RMB1.00 each, to the public by way of placement and offer at HK$1.60 (equivalent to approximately RMB1.67) each. The gross proceeds received from the issue of the 2,257,500,000 new H shares amounted to RMB3,759 million. Part of such proceeds of RMB2,257 million was recorded as share capital, and the remaining balance of such proceeds of RMB1,502 million was recorded as capital reserves. The net proceeds from the sale of 225,750,000 Domestic Shares of RMB342 million were payable to the National Council for Social Security Fund, and was recorded as a payable.

(b) On 13 December 2005, an additional 372,482,000 H shares, consisting of 338,620,000 new H shares and 33,862,000 H shares converted from Domestic Shares, with a par value of RMB1.00 each were issued to the public by way of placement at HK$1.60 (equivalent to approximately RMB1.67) each as a result of the full exercise of the Over-allotment Option. The gross proceeds received from the issue of the 338,620,000 new H shares amounted to RMB564 million. Part of such proceeds of RMB339 million was recorded as share capital, and the remaining balance of such proceeds of RMB225 million was recorded as capital reserves. The net proceeds from the sale of 33,862,000 Domestic Shares of RMB54 million were payable to the National Council for Social Security Fund, and was recorded as a payable.

The H shares rank pari passu, in all material respects, with the Domestic Shares of the Company.

31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 63 of the financial statements.

Company

	Notes	Capital reserve RMB million	Statutory reserves RMB million note (a)	Retained profits/ (accumulated losses) RMB million	Proposed final dividend RMB million	Total RMB million
At 1 January 2005		—	344	1,319	—	1,663
Issue of new H shares upon listing	30(a)	1,502	—	—	—	1,502
Issue of new H shares upon exercising of the Over-allotment Option	30(b)	225	—	—	—	225
Share issuing expenses		(364)	—	—	—	(364)
Profit for the year		—	—	227	—	227
Transfer to reserves		—	250	(250)	—	—
Special dividend		—	—	(1,390)	—	(1,390)
At 31 December 2005 and 1 January 2006		1,363	594	(94)	—	1,863
Profit for the year		—	—	721	—	721
Transfer to reserve		—	221	(221)	—	—
Proposed final dividend		—	—	(345)	345	—
At 31 December 2006		1,363	815	61	345	2,584

31. RESERVES (Continued)

Company (Continued)

Notes:

(a) *Statutory reserves*

In accordance with the Company Law of the PRC, the Company and its subsidiaries, jointly-controlled entities and associates are required to allocate 10% and 5% to 10% of their profits after tax (determined under PRC GAAP) to the statutory surplus reserve (the "SSR") and the statutory public welfare fund (which are collectively referred to as "statutory reserves"), respectively. 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 Company Law of the PRC, 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.

Starting from 1 January 2006 onward, the Company and its subsidiaries, jointly-controlled entities and associates are not required to provide further appropriation from profit to the statutory public welfare fund pursuant to the revised Company Law. The balance of the statutory public welfare fund as at 1 January 2006 was converted into the SSR.

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

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

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

32. INTEREST-BEARING BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 RMB million	Group 2005 RMB million	Company 2006 RMB million	Company 2005 RMB million
Current						
Bank loans — secured	2–6.73	2007	**1,368**	834	**—**	—
Bank loans — secured	LIBOR+1.5	2007	**33**	43	**—**	—
Bank loans — unsecured	4.86–6.25	2007	**801**	3,307	**—**	2,240
Bank loans — unsecured	LIBOR+2.28	2007	**1,475**	1,382	**—**	—
Debentures — unsecured	3.6055	2007	**1,841**	—	**1,841**	—
Other loans — unsecured	0.72–5.31	2007	**403**	365	**340**	—
			5,921	5,931	**2,181**	2,240
Non-current						
Bank loans — secured	2–5.83	2008-2023	**1,208**	606	**—**	—
Bank loans — unsecured	5.43–6.48	2008-2009	**692**	1,447	**—**	500
Bank loans — unsecured	LIBOR+2.28	2008-2027	**185**	170	**—**	—
Bank loans — unsecured	SEBR+6.25	2008	**1**	2	**—**	—
Other loans — unsecured	2.25	2008	**1**	1	**—**	—
			2,087	2,226	**—**	500
			8,008	8,157	**2,181**	2,740

32. INTEREST-BEARING BORROWINGS (Continued)

The above secured bank loans were secured by certain assets of the Group and its jointly-controlled entities. An analysis of the carrying values of these assets consolidated by the Group is as follows:

Group

	2006	2005
	RMB million	RMB million
Property, plant and equipment	**1,085**	642
Intangible assets	**57**	38
Inventories	**130**	125
Time deposits and bank balances	**790**	423
Other assets	**1,439**	737
	3,501	1,965

The carrying values of property, plant and equipment, intangible assets, inventories, and time deposits and bank balances of the jointly-controlled entities proportionately consolidated by the Group have been included above. The other assets represent other long term assets, trade, bills and other receivables, prepayments and deposits of the jointly-controlled entities proportionately consolidated by the Group.

The short term debentures were issued, in the inter-bank debenture market of the PRC on 12 December 2006, on a discount basis of RMB1,900 million at a face value of RMB100 each. The issue price was RMB96.52 each and the term of maturity was 365 days.

Other loans of the Group and the Company included an amount of RMB320 million (2005: nil) borrowed from DMC which is unsecured, repayable within one year and bears interest at 3.6% per annum.

32. INTEREST-BEARING BORROWINGS (Continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Bank loans repayable:				
Within one year or on demand	**3,677**	5,566	**—**	2,240
In the second year	**65**	425	**—**	—
In the third to fifth years, inclusive	**1,442**	1,255	**—**	500
Beyond five years	**579**	545	**—**	—
	5,763	7,791	**—**	2,740
Debentures repayable within one year	**1,841**	—	**1,841**	—
Other loans repayable:				
Within one year or on demand	**403**	365	**340**	—
In the second year	**1**	1	**—**	—
	404	366	**340**	—
	8,008	8,157	**2,181**	2,740

33. PROVISIONS

The Group's provisions are analysed as follows:

	Environmental restoration costs RMB million	Warranty expenses RMB million	Reorganisation expenses RMB million	Total RMB million
At 31 December 2006:				
Current portion	102	310	—	412
Non-current portion	—	—	193	193
	102	310	193	605
At 31 December 2005:				
Current portion	102	225	—	327
Non-current portion	—	—	205	205
	102	225	205	532

The movements of the above provisions are analysed as follows:

	Environmental restoration costs RMB million	Warranty expenses RMB million	Reorganisation expenses RMB million	Total RMB million
At 1 January 2005	102	196	215	513
Acquisition of additional equity interest in a jointly-controlled entity (note 19(b))	—	1	—	1
Arising during the year	—	250	—	250
Utilised	—	(222)	(10)	(232)
At 31 December 2005 and 1 January 2006	102	225	205	532
Arising during the year	—	317	—	317
Utilised	—	(232)	(12)	(244)
At 31 December 2006	102	310	193	605

33. PROVISIONS (Continued)

Environmental restoration costs

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

Warranty expenses

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

Reorganisation expenses

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

34. GOVERNMENT GRANTS

The Group's government grants are analysed as follows:

	2006 **RMB million**	2005 RMB million
Current portion	**28**	18
Long term portion	**51**	67
	79	85

34. GOVERNMENT GRANTS (Continued)

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

	RMB million
At 1 January 2005	52
Received during the year	464
Recognised as other income during the year (note 5(a))	(431)
At 31 December 2005 and 1 January 2006	85
Received during the year	132
Recognised as other income during the year (note 5(a))	(138)
At 31 December 2006	79

35. TRADE PAYABLES

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**6,804**	5,098	**36**	11
More than three months but within one year	**589**	514	**25**	61
More than one year	**195**	145	**11**	6
	7,588	5,757	**72**	78

35. TRADE PAYABLES (Continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
DMC	**18**	6	**1**	2
Joint venture partners and their holding companies	**563**	523	**—**	—
Associates	**71**	65	**4**	10
A minority shareholder of a jointly-controlled entity's subsidiary	**2**	—	**—**	—
	654	594	**5**	12

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

36. BILLS PAYABLE

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

	2006	2005
	RMB million	RMB million
Within three months	**2,049**	1,085
More than three months but within six months	**2,096**	1,788
	4,145	2,873

37. OTHER PAYABLES AND ACCRUALS

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
DMC	**28**	13	**1**	2
Joint venture partners	**222**	177	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**—**	2	**—**	—
Associates	**4**	3	**1**	—
	254	195	**2**	2

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

38. COMMITMENTS

(a) Operating lease commitments as lessee

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Within one year or on demand	**2**	—	**2**	—
After one year but not more than five years	**67**	50	**67**	50
More than five years	**789**	835	**789**	835
	858	885	**858**	885

38. COMMITMENTS (Continued)

(a) Operating lease commitments as lessee (Continued)

In addition, the Group's share of future minimum rental payables under non-cancellable operating leases of its jointly-controlled entities, which are not included in the above are as follows:

	2006 **RMB million**	2005 RMB million
Within one year or on demand	**95**	83
After one year but not more than five years	**359**	328
More than five years	**569**	485
	1,023	896

(b) Commitments

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

	Group		**Company**	
	2006 **RMB million**	2005 RMB million	**2006** **RMB million**	2005 RMB million
Contracted, but not provided for:				
Property, plant and equipment	**9**	86	**9**	86
Capital contribution to an associate	**175**	—	**175**	—
	184	86	**184**	86
Authorised, but not contracted for:				
Property, plant and equipment	**—**	3	**—**	3

38. COMMITMENTS (Continued)

(b) Commitments (Continued)

In addition, the Group's share of the capital commitments of its jointly-controlled entities, which are not included in the above, is as follows:

	2006 **RMB million**	2005 RMB million
Contracted, but not provided for:		
Property, plant and equipment	**1,785**	1,675
Authorised, but not contracted for:		
Property, plant and equipment	**1,355**	1,210

39. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2006 **RMB million**	2005 RMB million	**2006** **RMB million**	2005 RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	**—**	—	**116**	—
— Jointly-controlled entities	**742**	844	**1,402**	1,561
	742	844	**1,518**	1,561

39. CONTINGENT LIABILITIES (Continued)

In addition, the Group's share of the contingent liabilities of its jointly-controlled entities not provided for in the financial statements, which are not included in the above, is as follows:

	2006 RMB million	2005 RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:		
— Associates	**53**	10
— Others	**85**	111
Pending litigation	**32**	—
	170	121

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 2005 and 2006.

40. RELATED PARTY TRANSACTIONS

(a) Transactions with the DMC group, the Group's jointly-controlled entities, associates, joint venture partners and their holding companies, and a minority shareholder of a jointly-controlled entity's subsidiary

During the year, in addition to those disclosed elsewhere in these financial statements, the Group and its jointly-controlled entities had the following significant transactions with their related parties:

	Notes	**2006 RMB million**	2005 RMB million
Purchases of automotive parts/raw materials from:	(i)		
— DMC		**31**	24
— Joint venture partners and their holding companies		**18,522**	15,705
— Associates		**706**	642
— Jointly-controlled entities		**2,270**	2,728
— Minority shareholders of jointly-controlled entities' subsidiaries		**213**	138
		21,742	19,237
Purchases of automobiles from:	(i)		
— An associate		**5**	16
— Jointly-controlled entities		**1,476**	1,082
— A minority shareholder of a jointly-controlled entity's subsidiary		**3**	—
		1,484	1,098
Purchases of water, steam and electricity from DMC	(ii)	**749**	759

40. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

	Notes	2006 RMB million	2005 RMB million
Purchases of items of property, plant and equipment from:	(i)		
— A holding company of a joint venture partner		203	149
— A jointly-controlled entity		12	—
— A minority shareholder of a jointly-controlled entity's subsidiary		—	2
— An associate		33	—
		248	151
Rental expenses to DMC	(i)	141	107
Purchases of services from	(i)		
— DMC		10	14
— A joint venture partner		6	12
— An associate		16	9
— A jointly-controlled entity		12	7
— A minority shareholder of a subsidiary		—	4
		44	46
Purchases of technology know-how from joint venture partners and their holding companies	(i)	1,638	1,728

40. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

	Notes	2006 RMB million	2005 RMB million
Sales of automotive parts/raw materials to:	(i)		
— DMC		**48**	20
— Fellow subsidiaries		**4**	—
— A joint venture partner		**40**	39
— An associate		**26**	10
— Jointly-controlled entities		**752**	694
— Minority shareholders of jointly-controlled entities' subsidiaries		**127**	4
		997	767
Sales of automobiles to:	(i)		
— A joint venture partner		**2**	—
— An associate		**197**	96
— Jointly-controlled entities		**197**	107
— A minority shareholder of a jointly-controlled entity's subsidiary		**4**	—
		400	203
Provision of services to:	(i)		
— An associate		**2**	14
— Jointly-controlled entities		**27**	15
		29	29

Notes:

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

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

40. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

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

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

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

(iv) Details of the Group's loans from its holding company as at the balance sheet date are disclosed in note 32 to the financial statements.

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

	2006 **RMB'000**	2005 RMB'000
Short term employees benefits	**7,945**	7,812
Stock appreciation rights	**11,018**	—
Post-employment benefits	**172**	141
Total compensation paid to key management personnel	**19,135**	7,953

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

41. FINANCIAL INSTRUMENTS

Financial assets of the Group and its jointly-controlled entities mainly include cash and cash equivalents, pledged deposits, trade and bills receivables, available-for-sale and other financial assets, deposits, due from/loan to jointly-controlled entities and other receivables. Financial liabilities of the Group mainly include bank and other loans, debentures, trade and bills payables, due to jointly-controlled entities and other payables.

The carrying amounts of the financial instruments of the Group and its jointly-controlled entities approximated to their fair values as at each of the balance sheet dates. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including principally foreign currency swap and forward currency contracts. The purpose is to manage the foreign currency risk arising from the Group's operations and its sources of finance. The impact of such derivative transactions on the Group is immaterial.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit 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 market risk for changes in interest rates relates primarily to its interest-bearing borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The businesses of the Group and its jointly-controlled entities are principally located in the PRC. While most of the transactions of the Group and its jointly-controlled entities 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 ("ECU") and Japanese yen. Fluctuations in the exchange rates of RMB against foreign currencies can affect the Group's results of operations.

During the year, a jointly-controlled entity entered into certain foreign currency forward and swap contracts, which do not qualify for hedge accounting, to manage its risks associated with foreign currency fluctuations. As at the balance sheet date, the jointly-controlled entity had committed to sell a total notional amount of approximately ECU27 million and USD93 million for the purchase of USD and RMB, respectively.

As at the balance sheet, the fair values of these foreign currency forward and swap contracts were insignificant.

Credit risk

The cash and bank balances of the Group and its jointly-controlled entities are mainly deposits with state-owned banks in the PRC.

The Group and its jointly-controlled entities have 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 and its jointly-controlled entities do not have a significant exposure to any individual customer.

The carrying amount of each financial asset included in the these financial statements represents the maximum exposure of the Group and its jointly-controlled entities to credit risk in relation to their financial assets. In addition, the guarantees given by the Group and its jointly-controlled entities to banks in favour of banking facilities granted to the associates of the Group and its jointly-controlled entities represent their other exposure to credit risk. The Group and its jointly-controlled entities have no other financial assets carrying significant exposure to credit risk and have no significant concentration of credit risk.

43. POST BALANCE SHEET EVENTS

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

44. COMPARATIVE AMOUNTS

As further explained in note 2.4 to the financial statements, due to the change in segment identification during the year, certain items and balances in the segment information have been reclassified to allow a more appropriate presentation of the segment information. The relevant comparative amounts have been reclassified to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2007.

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				
	2006	2005	2004	2003	2002
	RMB million	RMB million	RMB million	RMB million	RMB million
RESULTS					
Continuing operations:					
Revenue — Sale of goods	**48,264**	41,735	32,737	36,556	40,412
Cost of sales	**(40,058)**	(35,639)	(26,952)	(28,326)	(30,619)
Gross profit	**8,206**	6,096	5,785	8,230	9,793
Other income	**736**	1,007	568	570	575
Gain on acquisition of subsidiaries and an associate	**—**	—	—	12	301
Gain on dilution of interests in certain businesses and investments, net	**—**	—	852	1,180	—
Selling and distribution costs	**(2,157)**	(1,738)	(1,384)	(1,247)	(1,234)
Administrative expenses	**(2,219)**	(1,928)	(1,793)	(1,999)	(2,712)
Other expenses, net	**(1,285)**	(767)	(654)	(1,606)	(915)
Finance costs	**(411)**	(478)	(242)	(402)	(539)
Loss on dilution of interests in jointly-controlled entities	**(252)**	—	—	—	—
Share of profits and losses of associates	**61**	29	42	49	257
Profit before tax	**2,679**	2,221	3,174	4,787	5,526
Income tax expense	**(428)**	(474)	(308)	(211)	(876)
Profit for the year from continuing operations	**2,251**	1,747	2,866	4,576	4,650
Discontinued operations:					
Loss for the year from discontinued operations	**—**	—	—	(363)	(492)
Profit for the year	**2,251**	1,747	2,866	4,213	4,158

Five Year Financial Summary

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB million	RMB million	RMB million	RMB million	RMB million
Attributable to:					
Equity holders of the parent	**2,081**	1,601	2,598	3,339	3,069
Minority interests	**170**	146	268	874	1,089
	2,251	1,747	2,866	4,213	4,158
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**44,113**	37,980	33,451	28,790	43,535
Total liabilities	**(27,291)**	(23,646)	(23,336)	(16,184)	(30,219)
Minority interests	**(2,534)**	(2,127)	(2,078)	(2,554)	(3,355)
	14,288	12,207	8,037	10,052	9,961

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)*

QUALIFIED ACCOUNTANT

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

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 2006

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the "AGM") of Dongfeng Motor Group Company Limited (the "Company") for the year 2006 will be held at 9:00 a.m. on Monday, 18 June 2007 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 2006.

2. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2006.

3. To consider and approve the report of the international auditors and audited financial statements of the Company for the year ended 31 December 2006.

4. To consider and approve the profit distribution plan of the Company for the year ended 31 December 2006 and the authorisation to the Board to deal with all issues relating to the distribution of the final dividend for the year 2006.

5. To consider and approve the authorisation to the Board to deal with all issues in relation to the Company's distribution of interim dividend for the year 2007 at its absolute discretion (including, but not limited to, determining whether to distribute interim dividend for the year 2007).

6. To consider and approve the re-appointment of Ernst & Young as the international auditors of the Company, and Ernst & Young Hua Ming as the PRC auditors of the Company for the year 2007 to hold office until the conclusion of the next annual general meeting, and to authorise the Board to fix their remuneration.

7. To consider and approve the authorisation of the Board to fix the remuneration of the directors and the supervisors of the Company for the year 2007.

8. To consider and approve Rules of Procedures for Shareholders' Meeting of Dongfeng Motor Group Company Limited, Rules of Procedures for the Board of Directors' Meeting of Dongfeng Motor Group Company Limited, and Rules of Procedures for the Supervisory Committee of Dongfeng Motor Group Company Limited (the "Rules of Procedures") (note (1)).

II. As special resolutions:

9. For the purpose of increasing the flexibility and efficiency in operation, to give a general mandate to the Board to issue, allot and deal with additional Domestic Shares not exceeding 20 per cent. of the Domestic Shares in issue and additional H Shares not exceeding 20 per cent. of the H Shares in issue and authorise the Board to make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares:

"**THAT**

(A) (a) subject to paragraph (c) and in accordance with the relevant requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and the applicable laws and regulations of the PRC, the exercise by the Board during the Relevant Period of all the rights of the Company to allot, issue and deal with, either separately or concurrently, additional Domestic Shares and H shares and to make or grant offers, agreements, options and powers of exchange or conversion which might require the exercise of such powers be hereby generally and unconditionally approved;

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

(c) each of the aggregate nominal amounts of Domestic Shares and H shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Board pursuant to the approval granted in paragraph (a) shall not exceed 20 per cent. of each of the aggregate nominal amounts of Domestic Shares and H shares in issue at the date of passing this resolution, otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; and

(d) for the purposes of this resolution:

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by its Articles of Association or by law to be held; or

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

"**Rights Issue**" means an offer of shares open for a period fixed by the directors to 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 recognised 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 authorised 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."

10. To authorise the Board of the Company to issue short-term debentures as it thinks fit to improve the debt structure of the Company and to lower its finance costs:

"**THAT**

(A) given that the general meeting held on 16 June 2006 approved the Company to issue public short-term debentures with a maximum maturity term of 365 days and a maximum outstanding amount of RMB4 billion through a book-building and centralised placing process in the PRC inter-bank debenture market on a discounted basis, which were underwritten by the underwriting syndicate led by China Construction Bank Corporation, being the lead underwriter, and the Company has issued short-term debentures of RMB1.9 billion, the Board is authorised to continuingly appoint China Construction Bank Corporation as the lead underwriter to organize the issuance of short-term debentures with a maximum outstanding amount of RMB2.1 billion and a maximum maturity term of 365 days with reference to the financial and operational conditions of the Company within twelve (12) months of the passing of this resolution.

(B) (a) in addition to the issuance of short-term debentures proposed in paragraph (A) above, the Board is authorised to apply to relevant authorities in the PRC with reference to the financial and operational conditions of the Company for a public issuance of short-term debentures with a maximum outstanding amount of RMB4 billion and a maximum maturity term of 365 days in the PRC inter-bank debenture market on a discounted basis within twelve months from the passing of this resolution; and

(b) the approval granted to the Board in paragraph (a) authorises the Board to determine the exact issuance time and amount of the short-term debentures as it thinks fit and to deal with such issues as the registration of the issuance of short-term debentures with relevant authorities in the PRC."

By order of the Board
XU PING
Chairman

27 April 2007, 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) The Rules of Procedures do not form part of the Articles of Association of the Company. If any matters contained in the Rules of Procedures are in any way inconsistent with any laws, regulations, administrative regulations (including but not limited to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or the Articles of Association of the Company, the latter shall prevail.

(2) 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. A poll may be demanded by (i) the chairman of the meeting; or (ii) at least two shareholders having the right to vote, present in person or by proxy; or (iii) one or more shareholders present in person or by proxy who solely or jointly hold(s) 10 per cent. or more of the shares with rights to vote at the meeting.

(3) In order to determine the list of shareholders who are entitled to attend the AGM and to qualify for the final dividend, the registers of members of the Company will be closed from Friday, 18 May 2007 to Monday, 18 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to attend and vote at the AGM and to qualify for the final dividend, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at or before 4:00 p.m. on Thursday, 17 May 2007.

(4) 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.

(5) The instrument appointing a proxy shall be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a corporation, that instrument shall be either under its common seal or under the hand of its director(s) or duly authorised attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorising that attorney to sign or other authorisation document shall be notarised.

(6) In order to be valid, the form of proxy together with the power of attorney or other authorisation document (if any) shall be deposited at the Secretariat of the Board at the Company's principal place of business in the PRC for holders of the Domestic Shares and at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, for holders of the H Shares not later than 9:00 a.m. on Sunday, 17 June 2007.

(7) 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 to the above effect shall have been received by the Company prior to the commencement of the AGM.

(8) For information purpose only, shareholders who intend to attend the AGM in person or by proxy shall return the reply slip to the Secretariat of the Board at the Company's principal place of business in the PRC for holders of the Domestic Shares and to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, for holders of the H Shares on or before Monday, 28 May 2007 by hand, by post or by fax.

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

Room 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong.
Tel: (852)2862 8628
Fax: (852)2865 0990

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

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

(11) In accordance with the Company's Articles of Association, where two or more persons are registered as the joint holders of any share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting rights attached to such share at the AGM, and this notice shall be deemed to be given to all joint holders of such share.

(12) 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 identity documents.

Notice of Annual General Meeting and Relating Information

**11th Meeting of the First Board of Directors of
Dongfeng Motor Group Company Limited**

Proposal I

To the annual general meeting of the Company:

Pursuant to Resolution No. 1 to be considered and approved at the 11th meeting of the first board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors decides to submit the following proposals for consideration at the annual general meeting of the Company:

1. to consider and approve the report of the board of directors of the Company for 2006.

2. to consider and approve the report of the supervisory committee of the Company for 2006.

3. to approve report of the report of the auditor for 2006 as audited by Ernst & Young and the financial report for 2006 as audited by Ernst & Young Hua Ming.

4. pursuant to laws and the Articles of Association and based on an audited net profit of the Company proposed in accordance with Accounting Standards for Business Enterprises and Accounting system for Business Enterprises ("PRC GAAP") for 2006 amounted to RMB2,208 billion, to propose to set aside 10% of the PRC GAAP net profit of the Company to statutory common reserve fund, without setting aside an amount for the discretionary common reserve. In addition, in light of the Company's accumulated distributable profit of RMB406.22 million, the board of directors recommends the dividend payment of RMB0.04 per ordinary share to shareholders for the year 2006, totaling RMB344.64 million.

5. to authorize the board of directors to deal with all matters in relation to the Company's interim dividend payment for the year 2007 in its discretion (including, but not limited to, the determination of he payment of interim dividend for the year 2007).

6. to agree to re-appointement of Ernst & Young as the overseas auditor and Ernst & Young Hua Ming as the domestic auditor of the Company for 2007 to hold office until the conclusion of the 2007 annual general meeting, and to agree to authorize the audit committee under the board of directors to determine their remuneration for 2007.

We wish to submit the above proposal for discussion at the annual general meeting.

Board of directors of
Dongfeng Motor Group Company Limited

11th Meeting of the First Board of Directors of Dongfeng Motor Group Company Limited

Proposal II

To the annual general meeting of the Company:

Pursuant to Resolution No. 5 to be considered and approved at the 11th meeting of the first board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors decides to seek approval for the following proposals for the remuneration of directors and supervisors for 2007 as determined by the board of directors at the annual general meeting of the Company:

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

Note: Executive Directors and Non-Executive Directors are entitled to receive their remunerations as members of the staff of the Company in accordance with the descriptions about the remunerations of the Directors and the Supervisors in the Prospectus and the service contracts of the Directors and the Supervisors: Stock appreciation rights are granted to Executive Directors and Non-Executive Directors, but not Independent Non-Executive Directors and Independent Supervisors. Supervisors are granted stock appreciation rights as members of the staff of the Company.

We wish to submit the above proposal for discussion at the annual general meeting.

Board of directors of
Dongfeng Motor Group Company Limited

18 April 2007

Notice of Annual General Meeting and Relating Information

11th Meeting of the First Board of Directors of Dongfeng Motor Group Company Limited

Proposal III

To the annual general meeting of the Company:

Pursuant to Resolution No. 4 to be considered and approved at the 11th meeting of the first board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors decides to seek consideration and approval of the Rules of Procedure of the general meeting of Dongfeng Motor Group Company Limited and the Rules of Procedure of the board of directors of Dongfeng Motor Group Company Limited at the annul general meeting of the Company.

We wish to submit the above proposal for discussion at the annual general meeting.

Board of directors of
Dongfeng Motor Group Company Limited

18 April 2007

Dongfeng Motor Group Company Limited
Fourth Meeting of the First Supervisory Committee

Proposal IV

To: the Company's Annual General Meeting

In accordance with Resolution 2 considered and passed at the fourth meeting of the first Supervisory Committee of Dongfeng Motor Group Company Limited (the "Company"), the Board of Directors have decided to submit the Rules of Procedure of the Supervisory Committee of Dongfeng Motor Group Company Limited to the Annual General Meeting of the Company for consideration and approval.

The said resolution is hereby submitted to the Annual General Meeting for discussion.

Supervisory Committee of
Dongfeng Motor Group Company Limited

18th April 2007

RULES OF PROCEDURE OF THE BOARD OF DIRECTORS OF DONGFENG MOTOR GROUP COMPANY LIMITED

Chapter 1 General Provisions

Article 1 In order to ensure the lawful, independent, disciplined and efficient exercise of authorities, as well as the effective and disciplined operation and the systematic decision-marking of the board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), these Rules are formulated pursuant to the Company Law of the Peoples' Republic of China (hereinafter referred to as the "Company Law"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Articles of Association of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Articles of Association") and other relevant laws and regulations.

Article 2 The board of directors shall be accountable to the general meeting. Matters for discussion by the board of directors shall principally be considered at board meetings.

Article 3 Secretary to the Company's board of directors shall be responsible for the preparation and arrangement of board meetings.

Chapter 2 Authorities of the Board of Directors

Article 4 The board of directors shall be accountable to the general meetings and shall have the following authorities:

(1) be responsible for convening general meetings and report work progress at the meetings;

(2) to implement the resolutions of general meetings;

(3) to determine the operation plans and investment proposals of the Company;

(4) to formulate the annual financial budget and final accounts of the Company;

(5) to formulate the profit distribution proposals and loss recovery proposals of the Company;

(6) to formulate the debt and financial policies, proposals for addition or reduction of registered capital and bond issuance of the Company;

(7) to formulate proposals for major acquisitions or disposals and for the amalgamation, demerger and dissolution of the Company;

(8) to determine the internal management structure of the Company;

(9) to appoint or dismiss the president of the Company, to appoint or dismiss the vice president and financial controller of the Company according to nominations of the president of the Company and to determine their remuneration;

(10) to determine the branch structure of the Company;

(11) to set up the basic management system of the Company, including the financial management and human resources management systems;

(12) to formulate proposals for amendments for the Articles of the Association;

(13) to submit the proposals for application of bankruptcy of the Company;

(14) to determine the external guarantees of the Company within the authorization of general meetings;

(15) to determine other major and administrative businesses, other than those required to be determined at general meetings under the Company Law and the Articles of Association, and to sign other significant agreements;

(16) to exercise such other authorities as conferred at general meetings and under the Articles of Association.

Article 5 In the event that the board of directors proposes to dispose of the Company's fixed assets and where the aggregate of the expected value of the fixed assets to be disposed of and the value realized from the disposal of fixed assets in the last 4 months prior to such proposed disposal exceeds 33% of the value of the fixed assets as shown in the latest balance sheet approved at the general meeting, the board of directors shall not dispose of or agree to dispose of the said fixed assets without the prior approval of the general meeting.

Disposal of fixed assets as referred in this Article includes the transfer of interests in certain assets, but excludes the provision of guarantees by fixed assets.

Article 6 The board of directors shall be under supervision by the supervisory committee and shall not obstruct and hinder the examination and audit work carried out by the supervisory committee within their authorities.

Article 7 The board of directors shall meet the following essential criteria in performing their duties:

The president shall provide the directors with necessary information and materials for the board of directors to make sophisticated, efficient and careful decisions.

The directors may request the president or relevant departments of the Company, via the president, to provide those information and explanations necessary for them to make sophisticated, efficient and careful decisions.

If the independent directors consider necessary and the consent of more than half of the independent directors is obtained, the board of directors shall engage independent firms to issue independent advices to form bases of decision-making. The engagement fee shall be borne by the Company.

Chapter 3 Composition and Organizations of the Board of Directors

Article 8 The board of directors of the Company shall comprise 13 directors, one of which shall be the chairman and one which shall be the vice chairman.

The board of directors shall include executive directors, non-executive directors and independent non-executive directors. More than half of the members of the board of directors shall be external directors (being those who do not hold office in the Company) and shall include at least 3 independent directors.

Article 9 The directors of the Company shall be natural person and shall be elected at general meetings with a term of office of 3 years. Directors are eligible for re-election upon the expiry of their terms of office.

The chairman shall be appointed or removed by more than half of the directors. The directors may exercise the following authorities:

(1) to preside over general meetings and convene and preside over board meetings;

(2) to perform the duties of the board of directors and monitor the implementation of the resolutions of the board of directors;

(3) to sign to approve the bond issuance of the Company;

(4) to exercise such other authorities conferred by the board of directors.

The chairman may designate the vice chairman to exercise the authorities on his/her behalf if he/she is unable to perform duties.

Article 10 Directors other than external directors and independent non-executive directors may hold office of other senior management of the Company (except supervisors).

The number of senior management (i.e. chairman, vice chairman, executive directors) of the controlling shareholders who also act as the chairman, vice chairman and executive directors of the Company shall not exceed 2.

Article 11 The board of directors of the Company has an audit committee and a remuneration committee and may set up other special committees and restructure existing committees according to needs.

Article 12 The audit committee shall be comprised of one non-executive director and two independent non-executive directors, at least one of which shall possess the relevant professional qualifications in the field of finance and accounting. The primary duties of the audit committee are:

(1) to propose the appointment and removal of the auditors of the Company, to approve their remuneration and other engagement terms and to supervise and monitor the work of the auditors as well as to formulate and to execute policies for non-audit services provided by external auditors;

(2) to review the financial information of the Company and monitor the completeness of the Company's financial information such as financial statement, annual reports and interim reports;

(3) to monitor the financial reporting, internal control and risk management systems of the Company.

Article 13 The remuneration committee shall be comprised of one executive director and two independent non-executive directors. The primary duties of the remuneration committee are:

(1) to make recommendations to the board of directors in respect of the remuneration package and policies of directors and senior management and to maintain a fair and transparent remuneration system;

(2) to determine the remuneration of executive directors and senior management and to make recommendations to the board of directors in respect of the remuneration of non-executive directors;

(3) to review and approve the remuneration system set up by the Company;

(4) to review and approve the offer of compensation by the Company to executive directors and senior management for loss of office, dismissal or removal due to improper behaviour and to ensure such compensation are fair and reasonable for a listing company;

(5) to ensure no director or any of its associates shall be involved in determining their remuneration.

Chapter 4 Secretary to the Board of Directors

Article 14 The Company has a secretary to the board of directors who shall be the senior management of the Company and shall be appointed and removed by the board of directors. The primary duties of the secretary are:

(1) to keep a complete copy of the constitution and record, to ensure the preparation and submission of reports and documents as required by the PRC competent authorities in accordance with laws, to properly maintain the register of members of the Company and to safeguard the right to access relevant records and document of the concerned personnel of the Company.

(2) in accordance with the direction of the board of directors, to declare and submit relevant information and documents to the Hong Kong Stock Exchange pursuant to the Listing Rules of the Hong Kong Stock Exchange, to prepare the papers for general meetings and board meetings and to submit documents in relation to the Company to the Registrar of Companies of Hong Kong.

Article 15 The board of directors shall have its own office, which is located at the secretariat to the board of directors of the investors relation department. Such office shall be for use by the secretary to the board of directors to carry out his/her daily work.

Chapter 5 Convening of Board Meetings

Article 16 Board meetings can be classified into regular meetings and extraordinary meetings of the board of directors according to the certainty of the board meetings convened.

Article 17 The board of directors shall convene 4 meetings every year, at a frequency of approximately once a quarter.

Article 18 Regular board meetings include:

(1) *Board meetings for annual results*

The meeting shall be convened within 4 months after the end of an accounting year of the Company and shall principally review the annual report of the Company and deal with other relevant matters. The board of directors shall ensure that the timing for holding annual board meetings shall secure the timely distribution of the Company's annual reports to shareholders within the period required under relevant regulations and the Articles of Association and the timely release of the Company's preliminary annual financial results within the period required under relevant regulations, as well as the holding of annual general meetings within 6 months after the end of an accounting year of the Company.

(2) *Interim meeting*

The meeting shall be convened in the 2nd quarter every year, at which the management shall report the interim estimated completion schedule.

(3) *Board meeting for interim results*

The meeting shall be convened within 2 months after the end of first six months of an accounting year of the Company and shall principally review the interim report of the Company and deal with other relevant matters.

(4) Year-end meeting

The meeting shall be convened at the 4th quarter every year, at which the management shall report the annual estimated completion schedule and the forecast for the next year.

The above regular board meetings may be combined or separated, and new businesses may be put forward when necessary.

Article 19 The chairman shall convene and preside over the extraordinary board meeting within 10 days following the occurrence of any of the following circumstances:

(1) when the chairman considers necessary;

(2) when proposed by one-third or more of the directors;

(3) when proposed by more than 2 independent directors;

(4) when proposed by the supervisory committee;

(5) when proposed by the president.

Article 20 Board meetings may be held on-site or via conference call, videoconference or circulation and signing of agenda.

Circulation and signing of agenda means that the meeting is convened when the agenda is served individually or by circulation. Regular meetings shall not be convened via circulation and singing of agenda.

For board meetings convened via conference call or videoconference, the board of directors shall enable all attending directors to clearly hear and communicate with each other, and all such directors shall be deemed to be present at the meeting in person.

Chapter 6 Submission and Collection of Board Proposals

Article 21 Board proposal shall be submitted primarily based on the following conditions:

(1) proposals by shareholder(s) who represent more than 10% of voting rights;

(2) proposals by directors;

(3) proposals by the supervisory committee;

(4) proposals by special committees of the board of directors;

(5) proposals by the president.

Article 22 Regular board meetings shall be convened by issuing a notice for the collection of matters for consideration to directors, committees of the board of directors and functioning department within the Company 30 days prior to the convening of the meeting.

All functioning departments and committees of the board of directors shall submit the matters for consideration at board meetings to the secretariat to the board within 10 days upon receiving the notice. Such materials include but not limited to background or illustrative information, disclosure documents, budgets, forecasts and monthly financial statements and other relevant internal financial statements).

Article 23 After collecting all the matters for consideration submitted within the period required in Article 22, the secretariat to the board of directors shall prepare the agenda for board meetings and the draft allocation of matters.

The draft shall be approved and singed by the board of directors 14 days before convening board meetings.

Chapter 7 Meetings Notices and Communication before Meetings

Article 24 When the Company convenes a board meeting, the secretariat to the board shall issue a written notice 14 days before the date of the meeting to notify all directors and supervisors of the matters to be considered and the date and venue of the meeting.

In case of emergency and when an extraordinary board meeting is required to be convened as soon as possible, reasonable notice may be given and such notice need not be subject to the above provision. The convenor shall make a statement at the meeting in respect of the meeting notice given.

Article 25 The written notice shall at least set out the following:

(1) venue, date and time of the meeting;

(2) manner in which the meeting is convened;

(3) agenda and matters to be considered;

(4) time of the issue of notice.

A verbal notice of meeting shall at least include items (1) and (2) above and a statement for the emergency extraordinary meeting.

Article 26 The notification of board meetings shall have the following criteria:

(1) mode of notice of board meetings: by hand, fax, telegram, telex, express courier service or registered mail;

(2) the notice shall be in Chinese and may include the English translation (if necessary).

Directors may waive the right to receive board meeting notice

Directors who present at meetings and do not express disagreement about not receiving meeting notice before or on attendance shall be deemed to have been given meeting notice.

Article 27 For the period between the issuance of meeting notices and the date of the meeting, the secretary to the board of the directors shall be responsible or shall arrange the communication and liaison with all directors, particularly independent directors, and to ask directors' opinions or advices on the matters and pass the same to the proposing person, who shall revise the relevant proposals in a timely manner.

Article 28 The secretary to the board of directors shall also arrange the proposing directors to provide necessary information for decision-making in respect of the proposals. The agenda of the meeting signed by the chairman and the relevant documents and information shall be served to all directors at least 3 days before the meeting.

Article 29 When more than one-fourth of the directors or 2 external directors consider that the information is insufficient or the argument is not justifiable, they may jointly propose the postponement of board meetings or discussion of certain matters, and the board of directors shall adopt such proposal.

Article 30 Before convening each board meeting, the corresponding special committees of the board of directors shall conduct a discussion in advance in accordance with their rules of work so as to be well-prepared of the matters for consideration and provide necessary material or information to directors via the secretary to the board. Chairmen of relevant special committees shall report the results of discussion of the matter in relation to their terms of reference to the board of directors.

Chapter 8 Attendance of Meetings

Article 31 Board meetings shall be held by the attendance of more than half of the directors (including those who appoint proxies in writing to attend the meeting according to Article 32 of these Rules).

All supervisors and senior management of the Company who are in relation to the matters for discussion in this meeting shall present the meeting. Attendees shall, with the consent of the presider, express opinions or offer explanations in respect of relevant matters, but enjoy no voting rights.

Article 32 In principle, directors shall attend board meetings in person. In the event that a director is unable to attend the meeting for certain reasons, he/she may authorize another director to attend the meeting on his/her behalf by a letter of proxy. The letter of proxy shall set forth:

(1) names of the principal and proxy;

(2) scope of authority of the principal, the matter in question and the period of validity;

(3) signature of the principal and the signing date.

The director who acts as a proxy shall exercise the rights of directors within his/her power of attorney. Should a director be absent from a board meeting and fails to appoint a proxy to attend the same on his/her behalf, he/she shall be deemed to have abstained from voting at such meeting.

Article 33 The principal and proxy shall follow the following rules when attending board meetings:

(1) in considering connected transactions, directors who are not connected person shall not appoint connected directors to attend meetings on their behalf, and connected directors shall not accept the offer of appointment from non-connected directors;

(2) independent directors shall not authorize non-independent directors to attend on their behalf, and non-independent directors shall not accept the offer of authorization from independent directors;

(3) a director shall not accept the offer of appointment from more than 2 directors.

Chapter 9 Convening of Meetings

Article 34 A board meeting shall be convened and presided over by the chairman.

Where the chairman is unable to preside over the meeting, he/she may designate the vice chairman or a director to preside over the meeting. Where the chairman is unable to preside over the meeting and does not designate a specific person on his/her behalf, the meeting shall be presided over by a director who is jointly elected by more than half of the directors.

Article 35 Presider of the meeting shall announce the commencement of the meetingat the appointed time.

Article 36 After the formal commencement of the meeting, the attending directors shall consider every proposal and the proposing party or its proxy shall report to the board of directors or give an explanation.

Article 37 The presider of the meeting shall ask the attending directors to give clear comments on each proposal.

Independent directors shall express independent opinions on the following matters:

(1) major and connected transactions (as determined under the criteria issued by competent authorities from time to time) of the Company which involve the shareholders, effective controlling party and associated corporations of the Company and are required to be considered at board meetings or general meetings in accordance with laws;

(2) matters which, in the opinion of independent directors, may harm the minority interest.

Independent directors shall provide clear comments on the above matters:

(1) agree;

(2) qualified opinions and the reasons for it;

(3) opposing opinions and the reasons for it;

(4) no comments and the reasons for it.

Chapter 10 Voting, Resolutions and Minutes of Meetings

Article 38 The presider of the meeting shall ask the attending directors to vote for each proposal after thorough consideration.

Voting at board meetings shall be in the form of show of hands or ballot. Each director shall have one vote. When the numbers of dissenting and affirmative votes are equal, the chairman shall be entitled one more vote.

Article 39 The board of directors shall make resolutions, except:

(1) to formulate the debt and financial policies, proposals for addition or reduction of registered capital and bond issuance of the Company;

(2) to formulate proposals for major acquisitions or disposals and for the amalgamation, demerger and dissolution of the Company;

(3) to formulate proposals for amendments for the Articles of the Association;

(4) to submit the proposals for application of bankruptcy of the Company;

(5) to determine the external guarantees of the Company within the authorization of general meetings;

which shall be approved by more than two-thirds of the directors, other resolutions may be approved upon approval by more than half of the directors.

Article 40 Directors who are interested in a connected transaction shall not vote in respect thereof at board meetings. In case of failure of a resolution due to the abstention of voting by relevant director(s), such resolution shall submit for consideration at general meetings.

Article 41 Directors shall be responsible for the resolutions passed at board meetings. In the event that a board resolution violates the laws, administrative regulations and the Articles of Association and thus causes a material loss to the Company, directors who cast affirmative votes or abstain from voting in respect thereof shall pay compensation to the Company. If it is proved that a director has expressed disagreements and cast a dissenting vote and the results of which was being recorded in the minutes, such director shall not be liable to compensation.

Article 42 Minutes of board meetings serve as an official proof of the matters considered at board meetings and the secretariat to the board of directors shall keep proper record of the meetings. Minutes of board meetings shall include:

(1) time, venue, convenor and presider of the meeting;

(2) names of attending supervisors, and principals and proxies for proxy attendance;

(3) agenda of the meeting;

(4) proposals for consideration, the main points and principal ideas of the directors' speeches and their voting intentions;

(5) method of voting and voting results of each motion (the voting results shall include the number of affirmative votes, dissenting votes and abstention);

(6) signature of directors.

Minutes of board meetings shall be treated as the important documents and kept at the seat of the Company.

Article 43 Minutes of every board meeting shall be sent to all attending directors for review within 5 working days after the end of such meeting. Where a director requests to make amendments or offer supplementary opinions to the minutes, he/she shall provide the same within 5 working days upon receiving the minutes. The finalized minutes shall be signed by the attending directors or proxies and the secretary to the board of directors.

Directors may make a written statement for different opinions upon signing the minutes.

Article 44 The chairman shall monitor and check the implementation of resolutions of the board of directors. The progress of implementation of resolutions shall be reported to the board in a timely manner.

Chapter 11 Information Disclosure of Board Meetings

Article 45 The board of directors of the Company shall strictly adhere to the disclose requirement of the regulatory authorities and stock exchange in the territory where the Company's shares are listed and disclose the matters or resolutions discussed at board meetings in a complete, timely and accurate manner.

The Company shall also provide the minutes of board meetings as required by stock exchanges.

Article 46 In the event that the independent directors express independent opinions on a matter which constitute a discloseable event, the Company shall announce such opinions. When there are disagreement between the independent directors, the board shall separately disclose the opinions of each independent directors.

Article 47 Attendees and other insiders shall to keep the secret contents of meetings of the board of directors confidential, failure of which must be held to account.

Chapter 12 Supplementary Provisions

Article 48 These Rules shall come into effect from the date of passing at the general meetings of the Company. Any amendment to these Rules shall be proposed by the board of directors in the form of a proposal, and shall come into effect upon approval at the general meeting.

Article 49 These Rules do not form part of the Articles of Association of the Company. If any matters contained in these Rules are in any way inconsistent with any laws, regulations, administrative regulations (including but not limited to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or the Articles of Association of the Company, the latter shall prevail.

Article 50 These Rules shall be interpreted by the board of directors of the Company.

RULES OF PROCEDURE OF THE SUPERVISORY COMMITTEE OF DONGFENG MOTOR GROUP COMPANY LIMITED

Chapter 1 General Provisions

Article 1 In order to ensure the lawful exercise of the independent regulatory power and an effective and disciplined operation of the supervisory committee of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), as well as to improve the corporate governance of the Company, these Rules are formulated pursuant to provisions of the Company Law of the Peoples' Republic of China, the Articles of Association of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Articles of Association") and other relevant laws, regulations and regulatory documents.

Article 2 The supervisory committee shall act as the regulatory arm of the Company and be responsible to the general meeting. It shall oversee the financial affairs of the Company and the performance of duties by its board of directors, senior management and their members to prevent the abuse of duty and safeguard the legitimate interests of the Company, its shareholders and staff.

Article 3 The supervisory committee shall lawfully enjoy the right to know, to propose and to report conferred by the laws and regulations. The Company shall take measures to protect the right to know of the supervisors and provide the supervisory committee with relevant information and materials in accordance with regulations and in a timely manner such that the supervisory committee can effectively oversee, monitor and evaluate the Company's financial affairs, risk control, operation and management. The supervisory committee may put forward proposals to the board of directors and the senior management and may report to the general meeting when necessary.

Chapter 2 Composition and Authority of the Supervisory Committee

Article 4 The supervisory committee shall comprise no less than 8 supervisors, one of whom shall chair the supervisory committee. Supervisors shall have a term of office of 3 years and are eligible for re-election.

The chairman of the supervisory committee shall be appointed or removed by way of poll by more than two-thirds of the members of the supervisory committee.

The chairman of the supervisory committee shall arrange for the performance of duties of the supervisory committee.

Article 5 Members of the supervisory committee shall be comprised of seven shareholder representatives, including those who are qualified to act as external supervisors (being those who do not hold office in the Company (referred to as the "External Supervisors")) and independent supervisors (same as follows), and one staff representative. The External Supervisors shall account for more than half of the members of the supervisory committee and shall include more than 2 independent supervisors. Supervisors who are shareholder representatives and the External Supervisors shall be elected and removed in a general meeting, while supervisors who are staff representatives shall be elected and removed in a democratic manner.

Article 6 Directors, presidents, vice presidents, financial controllers and other senior management shall not act as supervisors.

Article 7 The supervisory committee shall set up an office for its daily operation and such office shall be responsible for work implementation and monitoring, arranging meetings of the supervisory committee, preparing meeting papers and taking minutes at the meetings.

Article 8 The supervisory committee shall be accountable to the general meeting and shall exercise the following authorities in accordance with laws:

(1) to review the financial position of the Company;

(2) to supervise the Company's directors, managers and other senior management who violate the laws, administrative regulations and the Articles of Association in performing their duties;

(3) to require directors, managers and other senior management of the Company to rectify their behaviour which impairs the interests of the Company;

(4) to check the financial information such as the financial report, business reports and profit distribution proposals proposed to be submitted by the board of directors to the general meetings, and to engage certified accountants and auditors for re-examination on behalf of the Company in case of any doubt;

(5) to propose to convene extraordinary general meetings;

(6) to negotiate with, or bring actions against, directors on behalf of the Company;

(7) to exercise such other authorities as required under the Articles of Association.

The supervisory committee may put forward a proposal for engaging the Company's accounting firm. When necessary, it may also engage, on behalf of the Company, another accounting firm to carry out independent examination of the Company's financial position and report the situation directly to the regulatory securities authorities under the State Council and other relevant authorities.

The External Supervisors shall report to the general meetings the integrity and due diligence of the Company's senior management. The supervisors may attend board meetings.

Article 9 Copies of the Company's documents or information in respect of significant operation decisions, financial activities and operation management shall be sent to the supervisory committee and the relevant information management system and documents shall be open for the supervisory committee for inspection. The supervisory committee shall be notified of the holding of meetings.

Article 10 In performing its duties, the supervisory committee shall be entitled to access the relevant personnel and departments of the Company, which shall provide necessary assistance in respect thereof.

In performing its duties, the supervisory committee may engage professionals such as lawyers and certified accountants to provide services and professional advices, and the reasonable expenses incurred shall be borne by the Company.

Chapter 3 Convening of the Meetings of the Supervisory Committee

Article 11 Matters for discussion by the supervisory committee shall be considered at meetings of the supervisory committee. Meetings of the supervisory committee can be classified into regular meetings and extraordinary meetings of the supervisory committee.

Article 12 The supervisory shall hold at least 2 regular meetings every year and such meetings shall, in principle, be convened prior to the release of the Company's annual reports and interim reports.

Major businesses to be considered in regular meetings of the supervisory include:

(1) to consider the Company's periodic reports, such as annual reports and interim reports;

(2) to consider the Company's financial budgets and financial decision-making proposals;

(3) to consider the Company's profit distribution proposals and loss recovery proposals;

(4) to report on the performance of duties by the board of directors, senior management and their members;

(5) to consider the work report of the supervisory committee;

(6) to consider such other businesses required to be considered by the supervisory committee under relevant laws, regulations and other regulatory documents and the Company's Articles of Association.

The above regular meetings of the supervisory committee may be combined or separated, and new businesses may be put forward when necessary.

Article 13 The supervisory committee may convene extraordinary meetings in case of emergency and when proposed by one-third or more supervisors.

Chapter 4 Proposals and Notices of the Meetings of the Supervisory Committee

Article 14 Before giving the notice convening the regulatory meetings of the supervisory committee, the office of the supervisory committee shall be responsible for collecting the proposals from all supervisors, and those supervisors who put forward proposals shall submit the same and relevant illustrative materials 15 working days before the meeting convenes. The office, after organization, shall list and submit to the chairman of the supervisory committee the venue, time and agenda of the meetings.

Article 15 Any proposals for convening extraordinary meetings shall be put forward by supervisors in the form of written proposals signed by the proposing supervisors and submitted via the office of the supervisory committee or directly to the chairman of the committee. The written proposals shall set out the followings:

(1) Name of the proposing supervisors;

(2) Reasons or bases for the proposals;

(3) Time or time limit, venue and form of the proposed meeting;

(4) Clear and concrete proposals;

(5) Contact information of the proposing supervisor and the date of the proposal.

The office of the supervisory committee shall send a notice convening the extraordinary meeting within 3 working days upon receiving the written proposal from the proposing supervisor by the office or chairman of the committee.

Article 16 To convene regular meetings or extraordinary meetings of the supervisory committee, the office of the committee shall deliver the written notice stamped with the office chop to all supervisors 10 days prior to the date of meeting.

In case of emergency and when an extraordinary committee meeting is required to be convened as soon as possible, a meeting notice may be given in a verbal from or by phone and may not subject to the above provision. The convenor shall make a statement at the meeting in respect of the meeting notice given.

Article 17 The written notice shall at least set out the following:

(1) time and venue of the meeting;

(2) matters (proposals) to be considered;

(3) convenor of the extraordinary meeting and his/her written proposal;

(4) time of the issue of notice.

A verbal notice of meeting shall at least include items (1) and (2) above and a statement for the emergency extraordinary meeting.

Chapter 5 Convening of Meetings of the Supervisory Committee

Article 18 The quorum of meetings of the supervisory meeting shall comprise more than two-thirds of supervisors.

Article 19 A meeting of the supervisory committee shall be convened and presided over by the chairman of the committee. Where the chairman is unable to or fails to perform his/her duties, the supervisor recommended by half or more of the supervisors shall convene and preside over the meeting.

Article 20 The supervisory committee may request a director, president or other senior management, the internal and external audit personnel of the Company to attend the meeting to explain any relevant matters when necessary and answer any concerns of the committee.

Chapter 6 Voting, Resolutions and Minutes of Meetings

Article 21 All supervisors present at meetings of the supervisory committee shall declare their affirmative, dissenting votes or abstaining opinions for proposals submitted at the meeting. Each supervisor shall have one vote.

Article 22 In principle, supervisors shall attend meetings of the supervisory committee in person. In the event that a supervisor is unable to attend the meeting for certain reasons, he/she may authorize another supervisor to attend the meeting on his/her behalf by a letter of proxy. The letter of proxy shall set forth:

(1) names of the principal and proxy;

(2) scope of authority of the principal, the matter in question and the period of validity;

(3) signature of the principal and the signing date.

The supervisor who acts as a proxy shall exercise the rights on behalf of the principal within their power of attorney. Should a supervisor be absent from a meeting of the supervisory committee and fails to appoint a proxy to attend the same on his/her behalf, he/she shall be deemed to have abstained from voting at such meeting.

Article 23 All supervisors present at meetings of the supervisory committee shall declare their affirmative, dissenting votes or abstaining opinions for proposals submitted at the meeting. A meeting of the supervisory meeting shall pass resolutions for motions in the agenda. All resolutions shall come into effect subject to the approval by more than two-thirds of the supervisors.

Article 24 Detailed minutes shall be kept for all businesses considered at the meetings of the supervisory committee and the meetings may be record where necessary.

Minutes of meetings of the supervisory committee shall include:

(1) session, venue and time of the meeting;

(2) convenor and presider of the meeting;

(3) names of attending supervisors, and principals and proxies for proxy attendance;

(4) proposals for consideration and the main points of the supervisors' speeches (for meetings convened by circulation and signing of agenda, written feedbacks from supervisors shall prevail);

(5) method of voting and voting results of each motion (the voting results shall include the number of affirmative votes, dissenting votes and abstention);

(6) such other matters as the attending supervisors considered necessary to be recorded.

Article 25 Supervisor or proxies and recorder(s) shall sign the minutes and the supervisors are entitled to request to record their comments in the minutes.

Minutes of meetings of the supervisory committee shall be kept at the seat of the Company.

Chapter 7 Information Disclosure of Meetings of the Supervisory Committee

Article 26 The board of directors shall disclose the matters or resolutions discussed at meetings of the supervisory committee in a timely and accurate manner pursuant to the information disclosure requirement of relevant regulatory authorities. For information disclosures regarding major events, the board of directors shall also file the same to the relevant regulatory authorities.

Article 27 An announcement of resolutions shall include:

(1) time, venue and method of convening the meeting and a statement of compliance of relevant laws, administrative regulations, authorities rules and the Articles of Association;

(2) number and names of supervisors who appoint proxies and are absent from meetings, reasons for absence and the name of supervisors who act as proxies;

(3) number of affirmative votes, dissenting votes and abstention for every resolution and the reasons for dissent and abstention;

(4) specific contents of motions and resolutions put forward at the meeting.

Article 28 Attendees and other insiders shall fulfill their obligation to keep the secret contents of meetings of the supervisory committee confidential.

Chapter 8 Supplementary Provisions

Article 29 These Rules shall come into effect from the date of passing at the general meetings of the Company. Any amendment to these Rules shall be proposed by the supervisory committee in the form of a proposal, and shall come into effect upon approval at the general meeting.

Article 30 These Rules do not form part of the Articles of Association of the Company. If any matters contained in these Rules are in any way inconsistent with any laws, regulation, administrative regulations (including but not limited to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or the Articles of Association of the Company, the latter shall prevail.

Article 31 These Rules shall be interpreted by the supervisory committee of the Company.

RULES OF PROCEDURE OF GENERAL MEETINGS OF DONGFENG MOTOR GROUP COMPANY LIMITED

Chapter 1 General Provisions

Article 1 In order to safeguard the legitimate interest of the shareholders, define the duties and authorities of general meetings and ensure the disciplined operation and lawful exercise of authorities of general meetings, these Rules are formulated by Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company") pursuant to the Company Law of the Peoples' Republic of China (hereinafter referred to as the "Company Law"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Articles of Association of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Articles of Association") and other relevant laws and regulations.

Article 2 These Rules shall have a binding effect on the Company and its shareholders, directors, supervisors, senior management and other relevant attendees of general meetings.

Article 3 General meetings shall be convened by the board of directors of the Company pursuant to the Company Law and other relevant laws and regulations, the Articles of Association and provisions in relation to the convening of general meetings under these Rules. All directors of the Company shall have the fiduciary duty for the normal convening of general meetings and shall not obstruct the legitimate exercise of authorities at general meetings.

Article 4 Shareholders who hold the Company's shares with validity and according to laws shall be entitled to attend general meetings in person or by proxy, and shall enjoy the rights in accordance with laws and these Rules such as right to know, to speech, to enquire and to vote.

Article 5 The Company's secretary to the board of the directors shall be responsible for the preparation and arrangement of board meetings.

Chapter 2 Authorities of General Meetings

Article 6 General meetings represent the power of the Company and shall exercise the following authorities in accordance with laws:

(1) to determine the operation plans and investment proposals of the Company;

(2) to elect and change the directors and determine their remuneration;

(3) to elect and change the supervisors who are shareholder representatives and determine their remuneration;

(4) to consider and approve the report of directors;

(5) to consider and approve the report of the supervisory committee;

(6) to consider and approve the annual financial budget and final accounts of the Company;

(7) to consider and approve the profit distribution proposals and loss recovery proposals of the Company;

(8) to resolve on the proposals for addition or reduction of registered capital;

(9) to resolve on major acquisitions or disposals and for the amalgamation, demerger and dissolution of the Company;

(10) to resolve on the bond issuance of the Company;

(11) to resolve on the appointment, removal or dismissal of the accounting firm of the Company;

(12) to amend the Articles of Association;

(13) to consider proposals by shareholder(s) representing more than 5% (5% inclusive) of the Company's voting rights;

(14) to transact other businesses which shall be approved at general meetings as required by laws, administrative regulations and the Articles of Association.

A general meeting shall exercise its powers within the scope stipulated by the Company Law and shall not interfere with the decisions of shareholders with regards to the exercise of their own rights.

Article 7 Matters listed above which are within the scope of authorities of general meetings shall be considered and decided at general meetings. However, under necessary, reasonable and legal circumstances, general meetings may authorize or entrust the board of directors to transact such matters as authorized or entrusted.

Where an authority granted by the general meeting to the board of directors is related to a matter subject to an ordinary resolution as provided under these Rules, such resolution shall be passed by votes representing more than half of the voting rights held by the shareholders (including their proxies) present at the general meeting; where it is related to a matter subject to a special resolution as provided under these Rules, such resolution shall be passed by votes representing more than two-thirds of the voting rights held by the shareholders (including their proxies) present at the general meeting.

Chapter 3 Convening of General Meetings

Article 8 General meetings are classified into annual general meetings and extraordinary general meetings.

Article 9 Annual general meetings shall be convened once every year and convened within 6 months from the end of the last accounting year.

Article 10 Under any of the following circumstances, the board of directors shall convene an extraordinary general meeting within 2 month upon the occurrence of any one of the following:

(1) The number of directors falls short of the minimum number required by the Company Law or is less than two-thirds of the number required by the Articles of Association;

(2) The unrecovered losses of the Company reaches to one-third of the total amount of its share capital;

(3) Shareholder(s) holding more than 10% (including 10%) of the Company's outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;

(4) It is deemed necessary by the board of directors or proposed by the supervisory committee;

(5) It is proposed by more than 2 independent directors.

Article 11 The procedures for convening an extraordinary general meeting or a class meeting of the shareholders at the request of the shareholders shall be as follows:

(1) Two or more shareholders who hold an aggregate of 10% or more of the shares carrying voting rights at such proposed meeting may sign one or several written requests in the same form requesting the board of directors to convene an extraordinary general meeting or a class meeting of the shareholders, specifying the objects of the meeting. Upon receipt of the said written request, the board of directors shall convene an extraordinary general meeting or a class meeting of shareholders as soon as possible. The number of the shares held as aforesaid shall be calculated based on those shares held by the shareholders as at the date of the written request.

(2) Where the board of directors fails to give notice to convene the meeting within 30 days upon the receipt of the said written request, the requesting shareholders may themselves convene a meeting within 4 months upon the receipt of the said request by the board of directors. A meeting convened by the requesting shareholders shall be convened in accordance with the same procedures, as nearly as possible, as that in which meetings are to be convened by the board of directors.

Article 12 Where the shareholders decide to convene the general meeting on their own, they should inform the board of directors in writing, and the board of directors and the secretary to the board of directors shall be cooperative for the purpose of the meeting.

Article 13 Any reasonable expenses incurred by the requesting shareholders by reason of the failure of the board of directors to convene a meeting shall be borne by the Company and deducted from fees due to such directors in default of their obligations.

Chapter 4 Qualification of Attending Shareholders

Article 14 Shareholders whose names appear on the register of members on the date for entitlement registration set out in the notice of general meetings shall be entitled to attend and vote at the meeting after required registration.

Article 15 Any shareholder who is entitled to attend and vote at general meetings shall be entitled to appoint one or more proxy(ies), which shall not be a shareholder, as his/her proxy(ies) to attend and vote on his/her behalf.

Article 16 A shareholder shall appoint his/her proxy(ies) in writing and the proxy form shall be signed by the appointor or an agent authorized by him/her in writing. Where the appointor is a legal person, the proxy from shall bear its seal or be signed by its director or an authorized officer or an agent duly appointed and shall specify the number of shares represented by the proxy on behalf of its appointor.

Article 17 The proxy form shall be lodged at the Company's seat or such other venue as specified in the notice convening the meeting at least 24 hours prior to the time of the relevant meeting, or 24 hours prior to the appointed voting time. Where the proxy form is signed by a person authorized by the principal, the power of attorney or other authority shall be notarized. The notarized power of attorney or other authority together with the proxy form shall be lodged at the Company's seat or such other venue as specified in the notice convening the meeting. The proxy form shall have a specified date of signing.

Where an appointor is a legal person, its legal representative or such persons authorized by the board of directors and other decision-marking bodies shall act a proxy to attend the general meeting of the Company.

In addition, if a shareholder is a recognized stock exchange or its agent, it may authorize one or more proxy(ies) as it thinks fit to act as its proxy(ies) at any general meeting or class meeting of shareholders. However, if more than one proxies are appointed, the proxy form shall specify the number and class of shares represented by each of such proxies under the authorization. Such authorized proxies may exercise the right of the recognized stock exchange, as if they are the individual members of the Company.

Article 18 The format of the proxy form given by the board of directors of the Company to the shareholders for use of proxy appointment shall allow the shareholders to choose in their own whether to indicate the casting of affirmative or dissenting votes, and shall allow them to indicate how to vote for each resolution put forward to the general meeting. The proxy form shall state that the proxy may vote at his/her discretion if no such indications are given.

Article 19 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 principal or revocation of the proxy or power of authority or the transfer of the share in respect of which the proxy is given, provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which the proxy is valid.

Article 20 A proxy who represents the shareholder to attend the general meeting shall produce his/her identification. Where a legal person appoints its legal representative to attend the meeting, such representative shall produce his/her identification and the notarized copy of the resolution of the board of directors or other competent bodies of the legal person (other than a recognized stock exchange) appointing such representative or other certified copies thereof.

Article 21 The proxy may exercise the following rights pursuant to the appointment made by the appointing shareholder:

(1) the same right as such shareholder to express at the general meeting;

(2) the authority to demand, jointly or severally, a poll;

(3) the right to vote by show of hands or on a poll; however, where more than one proxy is appointed, the proxies may only vote on a poll.

Chapter 5 Motions and Notice of General Meetings

Article 22 Motions put forward at general meetings shall be specific and shall relate to the maters to be considered at the general meeting. Motions are generally raised by the board of directors at general meetings.

Article 23 When the Company convenes an annual general meeting, shareholder(s) holding 5% or more of the total number of shares of the Company carrying voting rights shall be entitled to propose new motions in writing to the board of directors. The subject of the motions shall be within the scope of duty of general meetings, be clear and specific, and shall comply with the provisions under laws, administrative regulations and the Articles of Association.

Article 24 The Company shall, within 45 days (inclusive of the date of meeting but exclusive of the date of the notice) before the date of meeting, give a written notice of the general meeting and inform all registered shareholders of the matters to be considered at the meeting and date and venue of the meeting. Shareholders who intend to attend the meeting shall send a written reply to the Company 20 days before the date of meeting.

Article 25 The Company shall, based on the written replies received from shareholders 20 days prior to the date of the general meeting, calculate the number of voting shares held by shareholders intending to attend the meeting. Where the number of voting shares represented by shareholders intending to attend the meeting accounts for more than half of the Company's voting shares, the Company may convene the general meeting; if not, the Company shall, within 5 days, notify shareholders of the issues to be considered, the date and venue of the meeting again in the form of a public notice. The Company may then convene the general meeting after the publication of such notice.

The extraordinary general meeting shall not decide on any matter which is not set out in the notice.

Article 26 Notices of general meetings shall meet the following requirements:

(1) be in written form;

(2) specify the venue, date and time of the meeting;

(3) state the matters to be discussed at the meeting;

(4) provide shareholders with such information and explanation as necessary to enable them to make an informed decision on issues to be discussed. Such principle includes but not limited t) the situation where a proposal for merger, share repurchase, capital restructuring or any other reorganization of the Company, and detailed conditions of the proposed transaction shall be provided together with contracts (if any) and the cause and effect of any such proposal shall also be properly explained;

(5) contain a disclosure of the nature and extent of the material interests of any director, supervisor, general manager and other senior management in relation to the matters to be discussed. Where the effect of the matters to be discussed on any director, supervisor,

general manager and other senior management in their capacity as shareholders is different from the effect on other shareholders of the same class, the difference shall be clearly explained;

(6) contain the full text of any special resolution to be proposed at the meeting;

(7) contain a clear statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one or more proxy(ies) to attend and vote on his/her behalf and that such proxy need not be a shareholder;

(8) specify the time and venue for lodging proxy forms for the meeting.

Article 27 The notice of a general meeting shall be delivered to shareholders (whether or not they are entitled to vote at the general meeting) by hand or by pre-paid mail to their addresses as shown in the register of members. For holders of Domestic Shares, the notice of general meeting can be served by means of a public announcement.

Article 28 The accidental omission to give a notice of meeting to or the non-receipt of notice of meeting by any person who is entitled to receive notice shall not invalidate the meeting and the resolutions passed at such general meeting.

Article 29 The notice of the general meeting and its supplemental notice shall disclose the detailed content of all proposals in its entirety and provide all materials and explanations for the shareholders to make reasonable judgment on the proposal.

Article 30 Where the general meeting proposes to consider the election of the directors and supervisors, the notice of general meeting shall disclose detailed information about the director candidates and supervisor candidates which shall at least include the following:

(1) personal information such as education background, work experience and plurality;

(2) connected relations with the Company, its controlling shareholders and its effective controller;

(3) the number of the shares of the Company held;

(4) whether there is any rule by competent authorities in relation the breach of provisions under securities laws and regulations.

Article 31 Following the delivery of the notice of a general meeting, such meeting shall not be postponed or cancelled and the motions stated in the meeting notice shall not be invalidated without proper grounds. In case of any postponement or cancellation, the convenor shall make a public notice stating the reason at least 2 working days before the original date of meeting.

Chapter 6 Convening of General Meetings

Article 32 A general meeting shall be convened and presided over by the chairman of the board of directors. Where the chairman of the board of directors is unable to attend for any reason, such meeting shall be convened and presided over by the vice chairman of the board of directors. Where the chairman and vice chairman of the board of directors are unable to attend, the board of directors shall choose a director to convene and preside over such meeting. Where no chairman of the meeting has been designated, the shareholders present may elect one person to act as the chairman of the meeting. If for any reason no chairman is elected by the shareholders, the shareholder (including proxy) present at the meeting holding the greatest number of shares carrying voting rights shall preside over the meeting.

Article 33 The convener shall examine the validity of the shareholders qualification based on the register of members of the Company provided by the securities depository and clearing organization, and shall register the name of the shareholder and the number of voting shares held by them. Registration shall be closed upon the announcement by the convener the commencement of the meeting at the appointed time.

Article 34 The chairman of the meeting shall announce the total number of shareholders and proxies present and their number of shares with voting right, which shall be based on the meeting register.

Article 35 Shareholders may raise enquiries about the Company at the general meeting and, except for those trade secrets of the Company which may not be released at the meeting, the chairman of the meeting shall instruct the directors, shareholders or other attendees to answer such questions.

Article 36 When a general meeting of the Company is convened, the directors, supervisors and secretary to the board of directors who are in relation to the motions shall attend the meeting, while the president, vice president and other senior management who are in relation thereto shall present at the meeting.

Chapter 7 Voting at Meetings

Article 37 The general meeting shall vote for each proposal listed in the agenda. As for the different proposals relating the same matter, the voting sequence shall be in the order as stated in the proposals.

Article 38 For the purpose of voting at the general meeting, a shareholder (including proxy) shall exercise voting rights in accordance with the number of shares carrying voting rights represented by him/her. Each share shall have one vote.

Article 39 Unless a poll is demanded by the following persons before or after voting by show of hands, a resolution put to vote at a general meeting shall be decided on a show of hands:

(1) the chairman of the meeting;

(2) at least two members present in person or by proxy having the right to vote;

(3) a member or members present in person or by proxy holding shares, severally or jointly, of 10% or more conferring the right to attend and vote at the meeting.

Unless a poll is demanded, a declaration by the chairman of the meeting in respect of the voting results by show of hands in relation to a resolution and a record of the same in the minutes of the meeting shall serve as conclusive evidence of the passing of a resolution, without requiring evidence of the number of affirmative and dissenting votes cast or their respective proportions.

A demand for a poll may be withdrawn by the person making such demand.

Article 40 If the chairman of the election demands a poll or the meeting is adjourned, the voting shall be carried out immediately. For any other matters which is decided by way of poll as demanded, the time for voting shall be decided by the chairman and the meeting shall continue to discuss other matters. The voting results shall be deemed as the resolutions passed at such meeting.

Article 41 On a poll, shareholders (including proxies) entitled to have two or more votes need not cast all of their votes as either affirmative votes or dissenting votes.

Subject to the provisions under the Listing Rules, if any shareholder who may not exercise any voting rights or shall only vote for or against a particular resolution casts a vote, in person or by proxy, which is not in accordance with the above limitation and restriction, the vote of such shareholder shall not be taken into account when determining the voting results.

Article 42 In the event of equality of votes, the chairman of the meeting shall be entitled to an additional vote.

Article 43 Resolutions of general meetings are classified into ordinary resolutions and special resolutions:

Ordinary resolutions shall be passed at the general meeting by votes of more than half of the voting rights represented by shareholders (including proxies) attending the meeting.

Special resolutions shall be passed at the general meeting by votes of more than two-thirds of the voting rights represented by shareholders (including proxies) attending the meeting.

Shareholders (including proxies) attending the meeting shall clearly indicate whether they vote for or against each matter put to vote. Abstention votes shall not be calculated as valid votes with voting rights when determining the voting results.

Article 44 The following matters shall be approved by ordinary resolutions at a general meeting:

(1) working reports of the board of directors and the supervisory committee;

(2) profit distribution plans and loss recovery plans formulated by the board of directors;

(3) appointment and removal of the members of the board of directors and the supervisory committee, their remuneration and the method of payment thereof;

(4) annual budgets, final accounts, balance sheets and profit and loss accounts and other financial statements of the Company;

(5) other matters, except for those required by law, administrative regulations or the Articles of Association to be passed by special resolutions.

Article 45 The following matters shall be approved by special resolutions at general meetings:

(1) increase or reduction in share capital of the Company and the issue of shares of any class, warrants and other similar securities;

(2) issue of bonds of the Company;

(3) demerger, merger, dissolution and liquidation and major acquisitions or disposals of the Company;

(4) amendments to the Articles of Association;

(5) any other issues resolved by an ordinary resolution at a general meeting that may have material impact on the Company and accordingly shall be approved by special resolution.

Chapter 8 Special Voting Procedures of Classes of Shareholders

Article 46 Holders of different classes of shares are shareholders of their respective classes. Classes of shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and the Articles of Association.

Article 47 To vary or abrogate the rights of the classes of shareholders, the Company shall approve the same by a special resolution in a general meeting and it must also be approved at a separate general meeting convened by the affected class of shareholders in accordance with Articles 49 to 53 under these Rules.

Article 48 The following shall be deemed to be a variation or abrogation of the rights of certain classes of shareholders:

(1) to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

(2) to change all or part of the shares of such class into shares of another class or to change all or part of the shares of another class into shares of that class or to grant relevant conversion rights;

(3) to cancel or reduce rights to accrued dividends or cumulative dividends attached to shares of such class;

(4) to reduce or cancel the preferential rights attached to the shares of such class to receive dividends or to receive distributions of assets in the event of liquidation of the Company;

(5) to add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of the Company attached to the shares of such class;

(6) to cancel or reduce rights to receive payments made by the Company in a particular currency attached to the shares of such class;

(7) to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

(8) to restrict the transfer or ownership of the shares of such class or to impose additional restrictions;

(9) to issue rights to subscribe for, or to convert into, shares of such class or another class;

(10) to increase the rights and privileges of the shares of another class;

(11) to restructure the Company in such a way as to cause shareholders of different classes to bear liabilities disproportionately during the restructuring;

(12) to amend or abrogate the provisions of this chapter.

Article 49 Where matters specified in items (2) to (8), (11) to (12) of Article 48 of these Rules are involved, the affected class of shareholders, whether or not they are entitled to vote at general meetings originally, shall have the right to vote at class meetings. However, interested shareholder(s) shall not be entitled to vote at such class meetings.

(1) in the event of a repurchase of shares by the Company by way of a general offer to all shareholders in proportion to their existing shareholdings of the Company or by way of public transactions on a stock exchange pursuant to Rule 30 of the Articles of Association, an "interested shareholder" is a controlling shareholder within the meaning of the Articles of Association;

(2) in the event of a repurchase of shares by the Company by an off-market agreement, an "interested shareholder" is a shareholder related to the agreement;

(3) in the event of a reorganization of the Company, an "interested shareholder" is a shareholder who assumes relatively less obligation than that of any other shareholder of that class or who has an interest different from that of any other shareholder of that class.

Article 50 Resolutions of a class general meeting shall be approved by votes representing more than two-thirds of the voting rights of shareholders of that class present at the meeting who are entitled to vote at the meeting.

Article 51 The Company shall, within 45 days (inclusive of the date of meeting) before the date of meeting, send a written notice of the meeting of classes of shareholders and inform all registered shareholders of the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who intend to attend the meeting shall send a written reply to the Company 20 days before the meeting.

Where the number of voting shares represented by shareholders intending to attend the meeting accounts for more than half of such class of the shares, the Company may convene the meeting of the class of shareholders; if not, the Company shall, within 5 days, notify shareholders of the issues to be considered, the date and venue of the meeting again in the form of a public notice. The Company may then convene the meeting of the class of shareholders after the publication of such notice.

Article 52 Notice of the meetings of the class of shareholders shall deliver to shareholders who are entitled to vote at such meetings only.

A meeting of class of shareholders shall be convened in accordance with the same procedures, as nearly as possible, as that in which meetings are to be convened by the general meetings. The provisions in relation to the procedures for holding general meetings in the Articles of Association also apply to the meetings of class of shareholders.

Article 53 Except for other classes of shareholders, holders of domestic shares and those of overseas-listed shares are deemed to be shareholders of different classes.

The special voting procedures of the meetings of class of shareholders are not applicable to the following circumstances:

(1) with the approval by special resolutions at the general meeting, the issuance of domestics shares or overseas-listed shares, separately or concurrently, for every a 12-month period and the proposed issuance of domestics shares or overseas-listed shares of not more than 20% of the class of shares in issue and outstanding; or

(2) any plan regarding the issuance of domestic shares and overseas-listed shares on the approval of the securities regulatory authorities of the State Council.

Chapter 9 Disclosure of Resolutions of Meetings

Article 54 The resolutions of general meetings shall be announced in a timely manner and the announcement shall state the number of shareholders and proxies attending the meeting, the total number of shares carrying voting rights held by them, the proportion to the total number of shares of the Company carrying voting rights, mode of voting, voting results of each proposal and the details of the resolutions passed at the meeting.

The Company shall formulate and announce the statistics for the attendance and voting by holders of domestic shares and foreign shares.

Article 55 For any proposals which have not been passed or any resolutions which were amended in this general meeting, a special notice shall be made in the announcement of the resolutions of the general meetings.

Article 56 Any proposals passed at general meetings regarding to the distribution of shares, bonus shares and the transfer of capital reserve to share capital shall be implemented within 2 months following the conclusion of the general meeting.

Chapter 10 Minutes

Article 57 Secretary to the board of directors shall be responsible for the preparation of the minutes of general meetings, which shall include the following:

(1) time, venue, agenda and name of convenor of the meeting;

(2) names of the chairmanof the meeting and attending or presenting directors, supervisors, general managers and other senior management;

(3) number of shareholders and proxies attending the meeting, the total number of shares carrying voting rights held by them and the proportion to the total number of shares of the Company;

(4) details of the consideration, the main points of the speeches and the voting results of each proposal;

(5) advices or recommendations from shareholders and the answer or explanation by directors and supervisors;

(6) names of the voter-taker and scrutinizer;

(7) other matters which should be included in the minutes as the general meeting thinks fir and as required in the Articles of Association.

Article 58 All attending directors and supervisors shall sign in the minutes.

All shareholders (including proxies) attending the meeting shall sign in the resolutions of the general meetings.

Minutes and resolutions of the general meetings shall be in Chinese and such minutes, resolutions together with the signature record of attending shareholders and proxy forms shall be kept at the Company's seat.

Article 59 Copies of the minutes are open for inspection by shareholders during the normal working hours of the Company. Any shareholders who wish to obtain a copy of such minutes may receive the copy within 7 days after paying a reasonable fee.

Chapter 11 Supplementary Provisions

Article 60 These Rules shall come into effect from the date of passing at the general meetings of the Company. Any amendment to these Rules shall be proposed by the board of directors in the form of a proposal, and shall come into effect upon approval at the general meeting.

Article 61 These Rules do not form part of the Articles of Association of the Company. If any matters contained in these Rules are in any way inconsistent with any laws, regulation, administrative regulations (including but not limited to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or the Articles of Association of the Company, the latter shall prevail.

Article 62 These Rules shall be interpreted by the board of directors of the Company.

11th Meeting of the First Board of Directors of Dongfeng Motor Group Company Limited

Proposal V

To the annual general meeting of the Company:

Pursuant to Resolution No. 3 to be considered and approved at the 11th meeting of the first board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors decides to propose the following motions for consideration at the annual general meeting of the Company:

To approve and grant a general mandate to the board of directors to issue, allot and deal with, either seperately or concurrently, additional domestic shares not exceeding 20% of the domestics shares in issue and additional H shares not exceeding 20% of the H shares in issue of the Company:

"THAT

(A) (a) subject to paragraph (c) and subject to 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 of directors 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 of the Company 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 of directors 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 of directors pursuant to the approval granted in paragraph (a) shall not exceed 20% of each of the aggregate nominal amounts of Domestic Shares and H shares in issue at the date of passing this resolution, otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; and

(d) for the purposes of this resolution:

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by its Articles of Association or by law to be held; or

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

"Rights Issue" means an offer of shares open for a period fixed by the directors to 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 of directors 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."

We wish to submit the above proposal for discussion at the annual general meeting.

Board of directors of
Dongfeng Motor Group Company Limited

18 April 2007

11th Meeting of the First Board of Directors of Dongfeng Motor Group Company Limited

Proposal VI

To the annual general meeting of the Company:

Pursuant to Resolution No. 2 to be considered and approved at the 11th meeting of the first board of directors of Dongfeng Motor Group Company Limited (hereinafter referred to as the "Company"), the board of directors decides to submit the following proposals for consideration at the annual general meeting of the Company:

To authorise the Board of the Company to issue short-term debentures as it thinks fit to improve the debt structure of the Company and to lower its finance costs:

"**THAT**

(A) given that the general meeting held on 16 June 2006 approved the Company to issue public short-term debentures with a maximum maturity term of 365 days and a maximum outstanding amount of RMB4 billion through a book-building and centralised placing process in the PRC inter-bank debenture market on a discounted basis, which were underwritten by the underwriting syndicate led by China Construction Bank Corporation, being the lead underwriter, and the Company has issued short-term debentures of RMB1.9 billion, the Board is authorised to continuingly appoint China Construction Bank Corporation as the lead underwriter to organize the issuance of short-term debentures with a maximum outstanding amount of RMB2.1 billion and a maximum maturity term of 365 days with reference to the financial and operational conditions of the Company within twelve (12) months of the passing of this resolution; and

(B) (a) in addition to the issuance of short-term debentures proposed in paragraph (A) above, the Board is authorised to apply to relevant authorities in the PRC with reference to the financial and operational conditions of the Company for a public issuance of short-term debentures with a maximum outstanding amount of RMB4 billion and a maximum maturity term of 365 days in the PRC inter-bank debenture market on a discounted basis within twelve months from the passing of this resolution; and

(b) the approval granted to the Board in paragraph (a) authorises the Board to determine the exact issuance time and amount of the short-term debentures as it thinks fit and to deal with such issues as the registration of the issuance of short-term debentures with relevant authorities in the PRC."

We wish to submit the above proposal for discussion at the annual general meeting.

Board of directors of
Dongfeng Motor Group Company Limited

18 April 2007

Definitions

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

"Asset Management Companies"	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
"Associates"	has the meaning ascribed thereto under the Listing Rules
"Company"	東風汽車集團股份有限公司 (Dongfeng Motor Group Company Limited), a joint stock limited company registered in the PRC on 12 October 2004 in accordance with the laws of the PRC or where the context refers to any time prior to the date of incorporation, those entities and businesses which were contributed to and conducted by the Company upon its establishment
"Dongfeng Joint Venture Companies"	Jointly-controlled Entities in which the Company, its subsidiaries or Jointly-controlled Entities (including their respective subsidiaries and Jointly-controlled Entitles) have equity interests as at 31 December 2006 and "Dongfeng Joint Venture Company" shall be construed accordingly. Please refer to page 212 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group and the Group
"Dongfeng Motor Corporation" or "DMC"	東風汽車公司 (Dongfeng Motor Corporation), a state-owned enterprise incorporated under the laws of the PRC
"Dongfeng Motor Group"	the Group, the Dongfeng Joint Venture Companies and their respective subsidiaries and associates. All information given in this annual report with respect to the Dongfeng Motor Group includes information of the Group and all such companies collectively, without regard to the ownership level of the members of the Group in such companies. Please refer to further page 212 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group and the Group

"Group"	the Company and its subsidiaries. Please refer to page 212 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group and the Group
"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

Definitions

"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 recognizing a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements of the joint venture party on a line-by-line basis. When the profit sharing ratio is different to the joint venture party's equity interests in the Jointly-controlled Entities, the joint venture party's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio. The results of Jointly-controlled Entities are included in the joint venture party's profit and loss account to the extent of dividends received and receivable. The joint venture party's investments in Jointly-controlled Entities are treated as long term assets and are stated at cost less impairment losses
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Parent Group"	Dongfeng Motor Corporation and its subsidiaries (excluding the Group)
"PRC" or "China"	the People's Republic of China. Except where the context requires, geographical references in this prospectus to the PRC or China exclude Hong Kong, Macau or Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

In this annual report, unless otherwise specified, all references to revenues, profits and other financial information of the Group include those of the relevant Dongfeng Joint Venture Companies to the extent that such information has been proportionately consolidated or otherwise reflected in the financial information set out in this annual report. Subject to the above and unless otherwise specified, all information in this annual report relating to the Dongfeng Motor Group includes information of the Group and all companies (including Dongfeng Joint Venture Companies and Associates) in which the members of the Group have direct or indirect equity interests, without regard to the ownership level of, or the proportion of interest held by, the members of the Group in such companies. It should be noted that the Company and its subsidiaries only hold up to 50% of interest in the Dongfeng Joint Venture Companies.