



東風汽車集團股份有限公司
DONGFENG MOTOR GROUP COMPANY LIMITED*

Stock Code: 489



2008
Interim Report



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Chairman's Statement

Dear Shareholders,

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

For the first half of 2008, the development of the automobile industry in the PRC encountered a number of unfavorable factors, including the continued rise in prices of raw materials and energy, and the dampened consumption demand resulted from fluctuations in macro economies, the growth rates in production and sales of vehicles were lower when compared with the corresponding period last year. The accumulated sales volume of vehicles of automobile manufacturers in the PRC for the first half of 2008 were approximately 5,180,000 units, representing a growth of 18.5% over the corresponding period last year, representing a drop of approximately 4.8 percentage points from the growth rate of over the corresponding period last year even though it maintained a higher growth rate. Striving to overcome those unfavorable factors and leverage on its own strengths in the mixed macro and industry background, the Dongfeng Motor Group accomplished an overall progress in its results of operation.

In the first half of 2008, the sales volume of vehicles of the Dongfeng Motor Group were accumulated to approximately 587,400 units, representing a growth of approximately 27.7% over the corresponding period last year, of which commercial vehicles and passenger vehicles accounted for approximately 220,800 units and approximately 366,600 units, representing an increase of approximately 37.4% and approximately 22.5% over the corresponding period last year respectively. During the period, the Group's consolidated sales revenue and consolidated gross profit amounted to approximately RMB37.90 billion and RMB6.54 billion, representing a growth of approximately 31.5% and 31.0%, respectively. If the one-off write-back of deferred tax for previous years arising from the unification of income tax for domestic and foreign enterprises policy of the PRC is excluded, the profit attributable to shareholders for the period would increase approximately 56.7%.

The information from all aspects indicates an overall enhancement of and further improvement in the quality of operation, strength in production and sales and industry position of the Dongfeng Motor Group, mainly due to the following two reasons.

1. Continued business development, particularly the improvement in the commercial vehicles business. On foundation of "Kinland", "T-LIFT" heavy duty trucks series launched in 2006, the Dongfeng Motor Group further introduced "Kingrun" medium trucks series and B07 Generation III light trucks series to the market, and was the first to implement comprehensive upgrade of all products in commercial vehicles series in the industry. With initial success achieved in its structural adjustment and restructuring of the product mix, commercial vehicles saw a substantial enhancement in the quality of operation and profitability. For passenger vehicles, various new models and modified models were launched in the first half of 2008, and effective marketing and sales approaches were implemented to ensure a higher growth of production and sales of passenger vehicles than the general level in the industry.
2. Strengthened the cost control in terms of the management, workflow, technology, procurement and localisation to overcome the surge of prices of raw materials and manpower, fierce market competition and selling price cut of the products, and to optimise the profit mix in order to stabilise the sales gross profit at the level similar to the corresponding period last year and substantially higher than the average of last year.

We need to be aware of the fact that the macro-economic environment will remain tough for the automobile industry in the second half of 2008 despite our outstanding results in operation. Firstly, the market of commercial vehicles will be versatile due to the limitation resulting from the slowing of economic growth and the implementation of national emission III regulation. Secondly, the quantity and structure of demand for passenger vehicles will be changed as affected by the factors such as the expectation of oil price increases, consumption tax adjustment and the weakening of wealth effect due to the depression of the capital market. Thirdly, the industry will continue to expose to cost pressure due to the rise in prices of steel and energy.

Against the above unfavourable factors, the Dongfeng Motor Group will put more effort in the following aspects:

1. Striving to maintaining a higher annual growth than the average level in the industry by launching new products, extending the useful lives of the existing products, strengthening the sales network and improving the satisfaction of customers.
2. Easing the cost pressure by measures such as continuous cost reduction in procurement and by technology advancement, increasing the ratio of localisation and developing a positive price, mutually responsible mechanism with suppliers and customers.
3. Further transforming and optimising the products and business structure to strengthen the existing results and to increase the sales percentage of high value-added products, and to be concerted to maintain the on-going profitability of the Group.

For the second half of 2008, we expect the automobile industry of the PRC to attain a growth of approximately 15%, with a breakthrough in total sales volume of "10 million" units, while a historical breakthrough in sales volume of "1 million" units or over 1.1 million to be achieved by the Dongfeng Motor Group in order to further strengthen our industry position and to further leverage on the advantage of the scale. Facing the challenges and opportunities, the Group's management and staff will put all of their efforts to deliver satisfactory results to the shareholders.

Xu Ping

Chairman

Wuhan, the PRC, 27 August 2008

Corporate Information

REGISTERED NAME

Dongfeng Motor Group Company Limited

REGISTERED ADDRESS

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Wuhan Economic and Technology Development Zone
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PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Wuhan Economic and Technology Development Zone
Wuhan
Hubei 430056
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPANY SECRETARIES

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

QUALIFIED ACCOUNTANT

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

AUDITOR

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PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

00489

Directors, Supervisors and Senior Management

During the Period, the directors, supervisors and senior management of the Company include:

Directors

Xu Ping (徐平)	Chairman of the Board of Directors
Liu Zhangmin (劉章民)	Executive Director and President
Zhou Wenjie (周文杰)	Executive Director and Executive Vice President
Li Shaozhu (李紹燭)	Executive Director
Fan Zhong (范仲)	Executive Director
Tong Dongcheng (董東城)	Non-Executive Director
Ouyang Jie (歐陽潔)	Non-Executive Director
Liu Weidong (劉衛東)	Non-Executive Director
Zhu Fushou (朱福壽)	Non-Executive Director
Sun Shuyi (孫樹義)	Independent Non-executive Director
Ng Lin-fung (吳連烽)	Independent Non-executive Director
Yang Xianzu (楊賢足)	Independent Non-executive Director

Senior Management

Cai Wei (蔡璋)	Vice President and the Secretary of the Board of Directors
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Supervisors

Ye Huicheng (葉惠成)	Chairman of the Supervisory Committee
Wen Shiyang (溫世揚)	Independent Supervisor
Deng Mingran (鄧明然)	Independent Supervisor
Zhou Qiang (周強)	Supervisor
Ren Yong (任勇)	Supervisor
Liu Yuhe (劉裕和)	Supervisor
Li Chunrong (李春榮)	Supervisor
Kang Li (康理)	Supervisor

Directors, Supervisors and Senior Management

Heads of Departments

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

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

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

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

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

The head of the President's Office of the Company is 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. Zhao Shuliang.

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

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

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

FINANCIAL RESULTS OVERVIEW

During the period, revenue of the Group amounted to approximately RMB37,896 million, representing an increase of approximately RMB9,087 million, or approximately 31.5%, when compared with approximately RMB28,809 million for the corresponding period last year. The Group's profit attributable to shareholders amounted to approximately RMB2,472 million for the period, representing an increase of approximately RMB527 million, or 27.1 %, when compared with approximately RMB1,945 million for the corresponding period last year. Earnings per share were approximately RMB28.69 cents, up by approximately RMB6.12 cents, or approximately 27.1%, when compared with approximately RMB22.57 cents for the corresponding period last year.

After the one-time write-back of previous years' deferred tax of approximately RMB367 million during the corresponding period last year arising from the unification of income tax for domestic and foreign enterprises policy of the PRC (the "Tax Unification Policy"), the Group's adjusted profit attributable to shareholders for the corresponding period last year would be approximately RMB1,578 million. The adjusted earnings per share for the corresponding period last year was approximately RMB18.31 cents. The profit attributable to shareholders of the Group for the period increased by approximately RMB894 million, or approximately 56.7%, over the adjusted profit attributable to shareholders for the corresponding period last year. The earnings per share of the Group for the period increased by approximately RMB10.38 cents over the adjusted earnings per share for the corresponding period last year, representing a growth of approximately 56.7%.

For the period, the net cash inflow from operating activities of the Group was strong, amounting to approximately RMB4,282 million.

Revenue

The growth rates in production and sales of vehicles of the automobile industry in the PRC for the period slowed down as compared with the corresponding period last year due to unfavorable factors including the continued rise in the price of raw materials and energy, and the dampened consumption demand resulted from fluctuations in macro economies encountered. The accumulated sales volume of vehicles of automobile manufacturers in the PRC for the period grew by approximately 18.5% over the corresponding period last year, representing a drop of approximately 4.8 percentage points over the corresponding period last year. With its efforts in overcoming those unfavorable factors, sales volume of vehicles of the Dongfeng Motor Group were accumulated to approximately 587,412 units, representing a growth of approximately 27.7% over the same period last year. This was a growth significantly higher than the industry level, and also slightly higher than the approximately 26.4% annual growth of the Dongfeng Motor Group for the previous year.

Management Discussion and Analysis

For the period, the total sales revenue of the Group was approximately RMB37,896 million, representing a growth of approximately RMB9,087 million or approximately 31.5% over approximately RMB28,809 million for the corresponding period last year.

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	Sales revenue RMB million	Number of vehicles (units)	Sales revenue RMB million	Number of vehicles (units)
Passenger vehicles	24,649	366,569	20,727	299,185
Commercial vehicles	12,785	220,843	7,637	160,679
Others	462	N/A	445	N/A
Total	37,896	587,412	28,809	459,864

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

The sales revenue of the Group from passenger vehicles for the period was approximately RMB24,649 million, representing an increase of approximately RMB3,922 million or approximately 18.9% when compared with approximately RMB20,727 million for the corresponding period last year, of which revenue from sales of whole passenger vehicles was approximately RMB21,204 million, representing a growth of approximately RMB3,724 million or approximately 21.3% with compared with approximately RMB17,480 million for the corresponding period last year.

Despite the impact of oil price hikes and auto price decline due to intensifying market competition, revenue from sales of whole passenger vehicles for the period recorded a significant increase of 21.3%. This was mainly attributable to a tremendous growth in sales volume of vehicles for the period. Total sales volume of whole passenger vehicles of the Dongfeng Motor Group increased by approximately 22.5% from 299,185 units for the corresponding period last year to 366,569 units for the period, significantly higher than the growth of approximately 17.1% for whole passenger vehicles industry. The market shares of Dongfeng Motor Group in terms of sales volume increased from 9.7% for the corresponding period last year to approximately 10.2% for the period. In order to cater for changes and demand of the market, the Dongfeng Motor Group has successively launched new products, including models such as Qashqai, LIVINA C-GEAR, 2008 Sylphy and New Teana to become its new growth points. For middle-class vehicles, the sales of "TIIDA+Sylphy" maintained stable. SUV 07 CRV, launched in April 2007, was well received. According to the latest data published by the China Association of Automobile Manufacturers, the sales of SUVs grew the fastest amongst passenger vehicles, which attained a growth of 42.0% over the same period last year and was more than two times faster than that growth of sedan. Sales volume of Dongfeng Honda 07 CRV, ranking top of SUVs, exceeded 39,000 units for the period, a significant increase of over 28,000 units over the corresponding period last year, representing a growth of approximately 256.5%, which is much higher than the growth in the industry. The sales of Dongfeng Honda CIVIC also continued to be strong during the period.

Sales revenue from commercial vehicles for the period was approximately RMB12,785 million, representing an increase of approximately RMB5,148 million or approximately 67.4% when compared with approximately RMB7,637 million for the corresponding period last year. Of which, sales revenue from whole commercial vehicles was approximately RMB11,794 million, representing an increase of approximately RMB4,823 million or approximately 69.2% when compared with approximately RMB6,971 million for the corresponding period last year. Benefited from the rapid growth of the national economies and the automobile industry, the higher growth rate in commercial vehicles market for the first half of 2008 remained. The sales in commercial vehicles for the first half of the year was driven by the national emission policy III to be implemented in the second half of the year. Sales volume in commercial vehicles of the Dongfeng Motor Group increased from 160,679 units for the corresponding period last year to 220,843 units for the period, representing a growth of approximately 37.4%, which exceeded the growth rate of approximately 22.0% of whole commercial vehicles industry. The overall market shares of commercial vehicles of the Dongfeng Motor Group in terms of sales volume also increased from approximately 12.5% for the corresponding period last year to approximately 14.0% for the period, which was mainly attributable to the Dongfeng Motor Group's continued improvement and upgrade of the commercial vehicles business. The sales of "Kinland" and "T-LIFT" heavy duty trucks series, launched in 2006, remained robust.

Costs of Sales and Gross Profit Margin

The total costs of sales of the Group for the period was approximately RMB31,357 million, representing an increase of approximately RMB7,539 million over approximately RMB23,818 million for the corresponding period last year. Gross profit margin for the period was approximately 17.3%, which remained at the same level of the corresponding period last year. Total gross profit of the Group for the period was approximately RMB6,539 million, representing a growth of RMB1,548 million or approximately 31.0% when compared with approximately RMB4,991 million for the corresponding period last year. The Group managed to control the impact of soar in prices of raw materials, energy and labour against the decline in gross profit margin by implementing cost control and optimisation of workflow, accelerating localisation and the benefit from appreciation of Renminbi.

During the period, the gross profit margin of passenger vehicles increased to approximately 18.9% from approximately 18.4% of the corresponding period last year, and that of whole passenger vehicles increased to approximately 18.5% from approximately 17.4% of the corresponding period last year. Apart from the effect arising from cost control and optimisation of workflow, the new products launched by the Group continued to be the best seller, in particular Dongfeng Honda 07 CRV has ranked top of SUVs, enabling the Group to ease its pressure on the gross profit margin due to fierce competition.

During the period, the gross profit margin of commercial vehicles slightly dropped to approximately 14.3% from approximately 14.8% of the corresponding period last year, and that of whole commercial vehicles of the Group dropped to approximately 13.5% from approximately 14.1% of the corresponding period last year. The decrease of the gross profit margin of commercial vehicles is mainly due to the rise in costs of raw materials, energy and labour. Being the first to upgrade all series of products of commercial vehicles and achieve its structural adjustment and restructuring of the product mix, the gross margin of medium and heavy commercial vehicles increased significantly with the growth in sales volume, which has effectively reduced the negative impact of the dropping gross margin of light commercial vehicles on the overall gross margin of the commercial vehicle business.

Management Discussion and Analysis

Other Revenue

During the period, the other revenue of the Group aggregated to approximately RMB589 million, representing an increase of approximately RMB115 million when compared with approximately RMB474 million of the corresponding period last year. The increase in other revenue mainly attributable to: (1) an increase of the grants received from the government for the purpose of supporting the development of automotive technologies and automobile projects of automobiles; (2) an increase in the import and sales of auto parts; and (3) the increase in bank deposit interest due to an increase in fixed bank deposits from goods sales and adequate cash flows for the period, plus the hike in interest rate.

Sales and Distribution Costs

During the period, the selling and distribution costs of the Group amounted to approximately RMB1,883 million, representing an increase of approximately RMB472 million when compared with approximately RMB1,411 million of the corresponding period last year. The sales and distribution costs as a percentage of sales revenue increased by approximately 0.1 percentage points to approximately 5.0% from 4.9% of the corresponding period last year. The increase in the selling and distribution costs was mainly due to the increase in transportation costs resulting from the robust production and sales and the rising fuel cost. Moreover, there was an increase in the advertising and exhibition expenses and the expenses of market development as a result of the significant increase in the sales volume and for the launch of various new models.

Administration Expenses

During the period, the administrative expenses of the Group aggregated to approximately RMB1,227 million, up by approximately RMB64 million when compared with approximately RMB1,163 million of the corresponding period last year. The increase was mainly due to the higher staff costs, depreciation and amortisation expenses. During the period, the administration expenses as a percentage of sales revenues decreased by 0.8 percentage points to approximately 3.2%, down from approximately 4.0% of the corresponding period last year.

Other Expenses

During the period, the other expenses of the Group were approximately RMB840 million, representing an increase of approximately RMB225 million when compared with approximately RMB615 million of the corresponding period last year. The increase was mainly due to the increase in research and development expenses, technology transfer fees and warranty provision in line with the increased production and sales. The increase was partly offset by the exchange gain. During the period, the Group recorded an exchange gain of approximately of RMB209 million when compared with the exchange gain of approximately RMB74 million for the corresponding period last year, recording a decrease of approximately RMB135 million of other expenses. The exchange gain recorded during the period mainly arose from the Group's US dollar bank borrowings due to the continued devaluation of US dollar.

Staff Costs

During the period, the staff costs of the Group amounted to approximately RMB1,528 million, representing an increase of approximately RMB239 million when compared with approximately RMB1,289 million for the corresponding period last year. This was due to higher demand for labour and a general rise in salaries brought about by an increase in market demand for automobiles.

Depreciation and Amortisation Expenses

In recent years, with a view to expanding its business, more investments in land, plant and equipment were made and the depreciation and amortisation expenses for the period amounted to approximately RMB1,063 million, representing an increase of approximately RMB52 million when compared with approximately RMB1,011 million for the corresponding period last year.

Finance Costs

During the period, the finance costs of the Group amounted to approximately RMB210 million, representing an increase of approximately RMB51 million when compared with approximately RMB159 million for the corresponding period last year. Such an increase was mainly attributable to the increase in borrowing interests and loans during the period.

Income Tax

The income tax of the Group during the period amounted to approximately RMB363 million, representing an increase of approximately RMB299 million when compared with approximately RMB64 million for the corresponding period last year. In the corresponding period last year, the one-time write-back of deferred tax for previous years arising from the Tax Unification Policy of the PRC amounted to approximately RMB367 million. Should the one-time expenses be excluded, the effective tax rate would decrease to 12.1% for the period from the adjusted 20.0% for the corresponding period last year. Certain members of the Group still enjoy the tax holiday. A higher effective tax rate was recorded for the corresponding period last year because the Company was subject to additional tax on the differences in tax calculated at the Company's tax rate of 33% for dividends received from the group companies. This requirement was cancelled during the year.

Net Profit

Based on the foregoing reasons, the profit attributable to shareholders of the Group amounted to approximately RMB2,472 million for the period, representing an increase of approximately RMB527 million, or 27.1%, when compared with approximately RMB1,945 million for the corresponding period last year. Earnings per share were approximately RMB28.69 cents, representing an increase of approximately RMB6.12 cents, or 27.1%, when compared with approximately RMB22.57 cents for the corresponding period last year.

Management Discussion and Analysis

After excluding the one-time write-back of deferred tax for previous years of approximately RMB367 million arising from the Tax Unification Policy of the PRC in the corresponding period last year, the Group's adjusted profit attributable to shareholders for the corresponding period last year amounted to approximately RMB1,578 million. The adjusted earnings per share for the corresponding period last year was approximately RMB18.31 cents. The profit attributable to shareholders of the Group for the period increased approximately RMB894 million, or 56.7%, when compared with the adjusted profit attributable to shareholders for the corresponding period last year. The earnings per share of the Group for the period increased by RMB10.38 cents, or 56.7%, when compared with the adjusted earnings per share for the corresponding period last year.

During the period, the Group's net profit margin, as a percentage of profit attributable to shareholders to total revenue, was approximately 6.5%, representing a decrease of approximately 0.3 percentage points when compared with approximately 6.8% for the corresponding period last year. When compared with the adjusted net profit margin of approximately 5.5% for the corresponding period last year after excluding the one-time write-back of deferred tax for previous years arising from the Tax Unification Policy of the PRC, the net profit margin for the period would increase by 1.0 percentage points.

During the period, the Group's return on net assets, as a percentage of profit attributable to shareholders to average net assets, was approximately 26.4%, representing a decrease of 0.6 percentage points when compared with approximately 25.8% for the corresponding period last year. When compared with the adjusted return on net assets of approximately 20.9% for the corresponding period last year after excluding the one-time write-back of deferred tax for previous years arising from the Tax Unification Policy of the PRC, the return on net assets for the period would increase by 5.5 percentage points.

Liquidity and Sources of Capital

	Six months ended 30 June	
	2008	2007
	<i>RMB million</i>	<i>RMB million</i>
Net cash inflows from operating activities	4,282	3,922
Net cash outflows from investing activities	(3,677)	(1,649)
Net cash inflows/(outflows) from financing activities	727	(805)
Net increase in cash and cash equivalents	1,332	1,468

During the period, net cash inflows from operating activities amounted to approximately RMB4,282 million. This principally represents: (1) profit before tax amounting to approximately RMB3,001 million; (2) an increase of approximately RMB3,385 million in trade receivables, bills receivable and prepayments, deposits and other receivables; (3) an increase of approximately RMB4,990 million in trade payables, bills payable and other payables and accrued charges; (4) depreciation and amortisation of approximately RMB1,063 million; and (5) an increase of approximately RMB686 million in inventories. During the period, cash flows generated from operating activities of the Group were strong.

Management Discussion and Analysis

During the period, net cash used in investing activities of the Group amounted to approximately RM3,677 million. This principally represents: (1) the purchase of property, plant and equipment of approximately RMB2,439 million for the expansion of production capacity and development of new products; (2) the proceeds of approximately RMB197 million from the disposal of obsolete property, plant and equipment; (3) an increase of approximately RMB534 million in pledged time deposits; (4) an increase of approximately RMB1,357 million in non-pledged time deposits for more than three months; and (5) land lease prepayment and other long-term assets amounting to approximately RMB389 million.

During the period, net cash outflow from financing activities of the Group amounted to approximately RMB727 million, representing mainly the new net borrowings of approximately RMB777 million.

During the period, the increase in cash and cash equivalents (excluding the time deposits with a maturity of three months or more) of the Group amounted to approximately RMB1,332 million. As at 30 June 2008, cash and cash equivalents amounted to approximately RMB8,435 million; and cash and bank deposit (including the time deposits with a maturity of three months or more) amounted to approximately RMB13,696 million. As at 30 June 2008, net cash (cash and bank deposit less borrowings) of the Group increased to approximately RMB3,944 million from approximately RMB2,559 million as at 30 June 2007.

During the period, the Group's gearing ratio, as a percentage of total borrowings to total shareholders' equity, was approximately 49.3%, representing a slight increase over that of approximately 45.6% as at 30 June 2007.

During the period, the Group's current ratio was approximately 1.06 times, representing an improvement over that of approximately 1.04 times as at 30 June 2007. The Group's quick ratio for the period was approximately 0.83 times, representing an improvement over that of approximately 0.75 times as at 30 June 2007.

During the period, the Group strengthened the inventory control and the turnover days of inventory were 48 days, representing a reduction of approximately 11 days from that of approximately 59 days as at 30 June 2007.

The Group's turnover days of accounts receivable (including bills receivable) increased slightly from approximately 56 days as at 30 June 2007 to approximately 61 days. The Group's turnover days of accounts receivable (excluding bills receivable) were approximately 16 days, in line with the level of that as at 30 June 2007. The turnover days of bills receivable increased from approximately 39 days as at 30 June 2007 to approximately 45 days.

I. MAJOR BUSINESSES

The Dongfeng Motor Group is mainly engaged in manufacture and sales businesses of commercial vehicles and passenger vehicles, and its principal products include commercial vehicles (comprising heavy trucks, medium trucks, light trucks and buses and engines and auto parts of commercial vehicles) and passenger vehicles, which comprise basic passenger vehicles, MPVs, SUVs and engines and auto parts of passenger vehicles). In addition, the Dongfeng Motor Group is engaged in vehicle manufacturing equipment business, import and export of vehicles and equipment, auto finance business, insurance agency businesses and trading of second-hand vehicles.

The Dongfeng Motor Group's engines and auto parts of commercial vehicles businesses are principally operated by Dongfeng Motor Co., Ltd, a joint venture co-established by the Company and Nissan Motor Co., Ltd through Nissan (China) Investment Co., Ltd. As at 30 June 2008, the Dongfeng Motor Group manufactured 34 principal basic series of commercial vehicles, including 28 principal basic series of trucks and 6 principal basic series of buses. The production capacity of commercial vehicles and their engines was 337,000 units and 240,000 units respectively.

The Dongfeng Motor Group's passenger vehicle business is principally operated by the following joint ventures: Dongfeng Motor Co., Ltd (a joint venture co-established by the Company and Nissan Motor Co., Ltd through Nissan (China) Investment Co., Ltd.), Dongfeng Peugeot Citroën Automobiles Company Ltd (a joint venture co-established by the Company and PSA Peugeot Citroën Group), and Dongfeng Honda Automobile Co., Ltd (a joint venture co-established by the Company and Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd). The engines and auto parts of passenger vehicles businesses is mainly 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. As at 30 June 2008, the Dongfeng Motor Group manufactured 22 series of passenger vehicle, including 15 series of sedan, 3 series of MPV and 4 series of SUV. The production capacity of passenger vehicles and their engines was 880,000 units and 1,210,000 units, respectively.

Major Operating Figures in the First Half of 2008

In the first half of 2008, 5,199,631 units and 5,182,221 units of vehicles were manufactured and sold by domestic automobile manufacturers of the PRC, respectively, representing a respective increase of 16.7% and 18.5% over the corresponding period last year. The production and sales volume of passenger vehicles was 3,653,097 units and 3,609,013 units respectively, representing an increase of 16.0% and 17.1% over the corresponding period last year. The production and sales volume of commercial vehicles was 1,546,534 units and 1,573,208 units respectively, representing an increase of 18.9% and 22.0% over the corresponding period last year.

The accumulated vehicle production and sales volume of the Dongfeng Motor Group in the first half of 2008 was 585,419 units and 587,412 units, respectively, representing a respective increase of 20.7% and 27.7% over the corresponding period last year. The production and sales volume of passenger vehicles was 371,950 units and 366,569 units respectively, representing a respective increase of 16.9% and 22.5% over the corresponding period last year. The production and sales volume of commercial vehicles was 213,469 units and 220,843 units respectively, representing a respective increase of 28.8% and 37.4% over the corresponding period last year. The Dongfeng Motor Group held a market share of 11.3% in terms of sales volume among the domestic automobile manufacturers in the PRC, with 10.2% for passenger vehicles and 14.0% for commercial vehicles, respectively.

Revenue from the operation of the Group for the six months ended 30 June 2008:

Business sector	Sales revenue <i>(RMB million)</i>	Contribution to the sales revenue of the Group <i>(%)</i>
Commercial vehicles	12,785	33.7
Passenger vehicles	24,649	65.1
Others	462	1.2
Total	37,896	100.0

Sales volume of commercial and passenger vehicles of the Dongfeng Motor Group and its market share for the six months ended 30 June 2008:

	Sales volume <i>(units)</i>	Market share <i>(%)</i>
Commercial vehicles	220,843	14.0
Trucks	192,177	13.9
Buses	28,666	15.3
Passenger vehicles	366,569	10.2
Basic passenger cars	294,158	11.0
MPVs	15,432	13.9
SUVs	56,979	25.4
Total	587,412	11.3

New Products

In the first half of 2008, the Dongfeng Motor Group launched various new and modified passenger vehicles models, including Dongfeng Nissan LIVINA, New Teana, Qashqai, Dongfeng Citroën c-Elysée, Dongfeng Peugeot 307 and Dongfeng Joyear. In addition, the Dongfeng Motor Group implemented effective sales and marketing approaches, to ensure a higher growth of sales volume of passenger vehicles than the average level in the industry.

On the basis of the platform of “Kinland”, “T-LIFT” heavy trucks series launched in 2006, the Dongfeng Motor Group further introduced “Kingrun” medium trucks series and B07 standard III light model in the first half of 2008. The Dongfeng Motor Group was the first in the industry to implement comprehensive upgrade of all products in commercial vehicles series in the industry. “Kinland” and “T-LIFT” heavy trucks series gradually generated robust sales, represented by the accumulated sales of “Kinland” series and “T-LIFT” series of over 22,000 units and over 6,000 units, respectively in the first half of 2008. For the first half of 2008, the growth rate in sales of commercial vehicles of the Dongfeng Motor Group was substantially higher than the average level of the industry, in particular the sales in heavy trucks, which attained an increase of over 76.0% over the corresponding period last year. With initial success achieved in its structural adjustment and restructuring of the product mix, the quality of operation and profitability of the commercial vehicles represented an overall improvement and enhancement.

Production Safety and Environment Protection

The Dongfeng Motor Group strictly complied with laws and regulations of the PRC in respect of production safety and environmental protection, and was committed to discharging its social responsibilities. The Group established and improved its own management system and responsibility monitoring system, and persisted the principle of continuing improvement.

In the first half of 2008, the Dongfeng Motor Group managed its record of no occurrence of serious accidents causing injuries and deaths; serious fire accidents; explosions of boilers, pressure vessels and pressure pipelines; leakage and explosion of hazardous chemicals; and serious occupational poisoning. The Group also enhanced energy saving and emission reduction. Under the circumstances that the vehicle output significantly increased in the first half of 2008, emission of COD was reduced by approximately 21%. Dongfeng Nissan Passenger Vehicle Co., Ltd. was granted the name of “National Environmental Friendly Enterprise” as factories in Huadu achieved zero emission of sewage. Dongfeng Honda Automobile Co., Ltd. received the top award of “National Environmental Friendly Project” under the environmental protection category of national construction project.

The Dongfeng Motor Group managed to comply with the new automobile national emission policy III by devoting funds, techniques and labour to upgrade and transform the equipment, workflows and product application technologies. As at late June of 2008, all of the Group’s products complied with the national emission policy III, with approximately 50% reduction in pollutants. Clean energy vehicles (hybrid power buses and battery-powered cars) developed by the Group were also used to serve the Beijing Olympics.

Sales and Service Network

Members of the Dongfeng Motor Group established their own independent sales and after-sale service networks under their brands. They distribute and provide after-sale services through these distribution and service networks. The sales outlets comprising the networks are owned and operated by independent third parties.

As at 30 June 2008, the sales and service networks of the Dongfeng Motor Group are as follows:

	Number of sales outlets	Number of service outlets	Number of provinces covered
Commercial vehicles	2,075	2,757	31
Passenger vehicles	2,803	2,348	32
Total	4,878	5,105	32

Business Outlook

It is estimated that in the second half of 2008, the increase in sales of commercial vehicles will become weak as a result of the influence by the national emission policy III. The increase in sales of passenger vehicles in the second half will also be slowing down with even more fierce market competitions. In addition, the soar in the price of raw materials and energy will also bring significant pressure on costs.

In the second half of 2008, the Dongfeng Motor Group intends to relieve the effects of pressure in costs on the Group's production and sales and profitability by putting more efforts in cost control and profitability improvement. Keeping an eye on the movements of commercial vehicles market under the national emission policy III, the Dongfeng Motor Group will focus on effective research and development, new technology application, promoting new products and marketing, as well as expanding into overseas market. In respect of passenger vehicles, the Dongfeng Motor Group will continue to introduce new vehicle models and implement aggressive marketing policies, with an aim to maintain the total sales volume of the Dongfeng Motor Group at a level not less than the growth of the average level in the industry. At the same time, the Dongfeng Motor Group will further enhance the operation risks management, optimize decisions and monitoring procedures, as well as improve the information feedback mechanism, so as to enhance thoroughly the operation management efficiency and strength in risk control.

II. INTERIM RESULTS AND DIVIDENDS

The results for the six months ended 30 June 2008 of the Group and the financial states of affairs of the Group as at that date are set out in the unaudited condensed consolidated interim financial statements on page 23 to 43 of this interim report.

The Board of Directors resolved not to distribute any dividends for the earnings of the Company in the first half of 2008.

III. MATERIAL LEGAL PROCEEDINGS

As at 30 June 2008, Dongfeng Motor Group was not involved in any material litigation or arbitration and, as far as Dongfeng Motor Group was aware, no material litigation or claim was pending or threatened or made against the Dongfeng Motor Group.

IV. SHARE CAPITAL

As at 30 June 2008, the aggregate share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 shares were Domestic Shares, representing approximately 66.86% of the total number of shares in issue, and 2,855,732,000 shares were H Shares, representing approximately 33.14% of the aggregate number of shares in issue.

V. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the interests and short positions of the persons (other than directors and supervisors of the Company) interested in 5% or more in the class of issued share capital, as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance are set out below:

Long positions and lending pool

Name	Class of shares	Number of shares interested	Percentage in the class of issued shares capital (%)	Percentage in the total share capital (%)
Dongfeng Motor Corporation	Domestic Shares	5,760,388,000	100	66.86
JPMorgan Chase & Co.	H Shares	311,904,330 ^(L)	10.92 ^(L)	3.62
		5,674,000 ^(S)	0.20 ^(S)	0.07
		285,709,385 ^(P)	10.00 ^(P)	3.32
Morgan Stanley	H Shares	342,675,373 ^(L)	12.00 ^(L)	3.98
		16,699,785 ^(S)	0.58 ^(S)	0.19
SCMB Overseas Limited	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
Standard Chartered Asia Limited	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
Standard Chartered Bank	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
Standard Chartered Holding Limited	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
Standard Chartered Holdings (International) B.V.	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
Standard Chartered MB Holdings B.V.	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
Standard Chartered Private Equity Limited	H Shares	242,282,000 ^(L)	9.76 ^(L)	2.81
UBS AG	H Shares	259,174,308 ^(L)	9.08 ^(L)	3.01
		4,998,000 ^(S)	0.18 ^(S)	0.06
Templeton Asset Management Ltd.	H Shares	225,258,000 ^(L)	7.89 ^(L)	2.61
Matthews International Capital Management, LLC	H Shares	172,510,000 ^(L)	6.04 ^(L)	2.00
Schroder Investment Management (Hong Kong) Limited	H Shares	145,694,000 ^(L)	5.10 ^(L)	1.69

Note:

L – Long Position

S – Short Position

P – Lending Pool

Save as disclosed above, as at 30 June 2008, the Company had not been notified of any information relating to interests or short positions being held by any other substantial shareholders in the shares or underlying shares of the Company.

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

As at 30 June 2008, the Company had not been notified that the directors and supervisors of the Company were interested in any share capital of the Company, or were involved in any sales and purchase of the interests in the share capital of the Company for the six months ended 30 June 2008.

VII. PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries and jointly controlled entities purchased, sold or redeemed any of the Company's securities during this Reporting Period.

VIII. STOCK APPRECIATION RIGHTS

The shareholders of the Company have 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 price 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.

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 Shares capital. The date of grant was 23 January 2006 and the grant price was HK\$2.01. These SARs were valid for a period of six years from 23 January 2006 to 22 January 2012. The SARs may not be exercised after the above period and lapse upon their expiry. There is a minimum period of two years from the date of such grant of SARs before the SARs can be exercised and the following additional restrictions apply:

- (a) in the third year following the date of grant, a maximum of 30% of the SARs granted may be exercised;
- (b) in the fourth year following the date of grant, a further 35% of the SARs granted may be exercised; and
- (c) in the fifth and sixth years following the date of grant, the remaining 35% of the SARs granted may be exercised.

The above grant plan of the SARs, approved by State-owned Assets Supervision and Administration Commission of the State Council, was approved at the meeting of the Board of Directors held on 29 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, 31,417,387 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 Shares capital, with a grant price of HK\$4.09. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

- (a) in the third year following the date of grant, a maximum of 40% of the SARs granted may be exercised;
- (b) in the fourth year following the date of grant, a further 30% of the SARs granted may be exercised;
- (c) in the fifth year following the date of grant, the remaining 30% of the SARs granted may be exercised.

These SARs were valid for a period of six years from 15 January 2007 to 14 January 2013. The SARs may not be exercised after the above period and lapse upon their expiry.

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

IX. CORPORATE GOVERNANCE

1. Overview of Corporate Governance

The Company has been in compliance with the relevant requirements provided by the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Code on Corporate Governance Practices of the Stock Exchange of Hong Kong. The Company supervises and regulate the daily operation in strict compliance with the Articles of Association of Dongfeng Motor Group Company Limited and various governing system of the Company, and reviews the operation and management of the Company on a timely basis. In addition, the Company recognises the importance of transparency in governance and accountability of shareholders of the Company, and committed to continuously enhancing the standard and effectiveness of actual governance to ensure that the Company is developing steadily on the right path, and the interests of shareholders in the Company will continue to grow and be well protected.

2. Code on Corporate Governance Practices

The Company has fully complied with the requirements of the Code Provisions of the Code on Corporate Governance Practices throughout this Reporting Period.

3. Securities Transaction of the Directors

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

4. Independent Non-executive Directors

The Board of Directors of the Company has been in compliance with minimum requirement of 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 received the written confirmation of independence from each of the independent non-executive directors confirming 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 and believes that all independent non-executive directors are able to faithfully perform their duties in good faith under the requirements of relevant laws and regulations.

5. 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 are to review and supervise the financial reporting process and internal control system of the Company and offer recommendation and advice 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, a qualified public accountant certified by the PRC Institute of Certified Public Accountants. The other members of the audit committee are Mr. Ng Lin Fung and Mr. Ouyang Jie.

The audit committee has reviewed the unaudited financial reports for the six months ended 30 June 2008 of the Company and the Group.

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2008 RMB million (Unaudited)	2007 RMB million (Unaudited)
Revenue — Sale of goods	2	37,896	28,809
Cost of sales		(31,357)	(23,818)
Gross profit		6,539	4,991
Other income	2, 3	589	474
Selling and distribution costs		(1,883)	(1,411)
Administrative expenses		(1,227)	(1,163)
Other expenses, net		(840)	(615)
Finance costs	5	(210)	(159)
Share of profits and losses of associates		33	38
Profit before tax	4	3,001	2,155
Income tax expense	6	(363)	(64)
Profit for the period		2,638	2,091
Attributable to:			
Equity holders of the Parent		2,472	1,945
Minority interests		166	146
		2,638	2,091
Dividend	7	—	—
Earnings per share:	8		
Basic for the period		28.69 cents	22.57 cents

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 RMB million (Unaudited)	31 December 2007 RMB million (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	17,712	16,438
Lease prepayments		491	475
Intangible assets		1,548	1,484
Goodwill		477	477
Investments in associates		721	677
Available-for-sale financial assets		135	136
Other long term assets		1,072	832
Deferred income tax assets		501	333
Total non-current assets		22,657	20,852
Current assets			
Inventories		8,240	7,573
Trade receivables	10	3,382	2,229
Bills receivables		9,203	7,983
Prepayments, deposits and other receivables		3,706	2,717
Due from jointly-controlled entities		363	289
Other financial assets		86	81
Pledged bank balances and time deposits	11	1,465	931
Cash and cash equivalents	11	12,231	9,542
Total current assets		38,676	31,345
TOTAL ASSETS		61,333	52,197

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

Notes	30 June 2008 RMB million (Unaudited)	31 December 2007 RMB million (Audited)
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent		
	8,616	8,616
	4,188	4,155
	6,993	4,554
	—	388
	19,797	17,713
Minority interests	2,771	2,686
Total equity	22,568	20,399
Non-current liabilities		
Interest-bearing borrowings	1,969	2,514
Other long term liabilities	57	44
Provisions	149	163
Government grants	47	53
Deferred income tax liabilities	23	24
Total non-current liabilities	2,245	2,798
Current liabilities		
Trade payables	13,572	9,650
Bills payable	4,717	4,812
Other payables and accrued liabilities	8,899	7,502
Due to jointly-controlled entities	393	288
Interest-bearing borrowings	7,783	5,751
Government grants	35	35
Income tax payables	532	417
Provisions	589	545
Total current liabilities	36,520	29,000
TOTAL LIABILITIES	38,765	31,798
TOTAL EQUITY AND LIABILITIES	61,333	52,197
NET CURRENT ASSETS	2,156	2,345
TOTAL ASSETS LESS CURRENT LIABILITIES	24,813	23,197

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent					Total	Minority interests	Total equity
	Paid-up registered capital	Capital reserves	Statutory reserves	Proposed dividend	Retained profits			
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
As at 1 January 2008	8,616	1,363	2,792	388	4,554	17,713	2,686	20,399
Final 2007 dividend declared	—	—	—	(388)	—	(388)	—	(388)
Profit for the period	—	—	—	—	2,472	2,472	166	2,638
Transfer to a reserve	—	—	33	—	(33)	—	—	—
Dividend paid to minority shareholders	—	—	—	—	—	—	(81)	(81)
As at 30 June 2008	8,616	1,363	2,825	—	6,993	19,797	2,771	22,568
As at 1 January 2007	8,616	1,363	2,012	345	1,952	14,288	2,534	16,822
Final 2006 dividend declared	—	—	—	(345)	—	(345)	—	(345)
Profit for the period	—	—	—	—	1,945	1,945	146	2,091
Transfer to a reserve	—	—	201	—	(201)	—	—	—
Dividend paid to minority shareholders	—	—	—	—	—	—	(100)	(100)
As at 30 June 2007	8,616	1,363	2,213	—	3,696	15,888	2,580	18,468

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008 <i>RMB million</i> <i>(Unaudited)</i>	2007 <i>RMB million</i> <i>(Unaudited)</i>
Net cash flows generated from operating activities	4,282	3,922
Net cash flows used in investing activities	(3,677)	(1,649)
Net cash flows generated from financing activities	727	(805)
Net increase in cash and cash equivalents	1,332	1,468
Cash and cash equivalents at 1 January	7,103	5,659
Cash and cash equivalents at 30 June	8,435	7,127

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2007.

1.2 IMPACTS OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2007, except for the adoption of new and amended International Financial Reporting Standards (“IFRSs”) and International Financial Reporting Interpretations Committee Interpretations (“IFRICs”), as noted below. Adoption of these Standards and Interpretations did not have any effect to the financial position or performance of the Dongfeng Motor Group.

IFRIC 11	IFRS 2 — Group and Treasury Share Transaction
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 11 requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

IFRC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads.

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits.

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

1.3 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 not yet effective, in these financial statements.

IAS 1 (Revised)	Presentation of Financial Statements
IAS 1 Amendment	Puttable Financial Instruments
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 27 Amendment	Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IAS 32 Amendment	Puttable Financial Instruments
IAS 39 Amendment	Eligible Hedged Items
IFRS 1 Amendment	First-time Adoption of IFRSs — Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.
IFRS 2 Amendment	Share-based Payments — Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 15	Accounting for Agreements for the Construction of Real Estate
IFRIC-Int 16	Hedges of a Net Investment in a Foreign Operation

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

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

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

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

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

1.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

IAS 39 Amendment shall be applied for annual periods beginning on or after 1 July 2009. The amendment makes clear that inflation may only be hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument. The amendment also permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item and an entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk).

IFRS 1 Amendment and IAS 27 Amendment shall be applied for annual periods beginning on or after 1 January 2009. This amendment allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of an investment in a subsidiary, jointly controlled entity or associate. the amendment exempts entities from restating business combinations prior to the date of transition to IFRSs and removed from IAS 27 the requirement to distinguish between pre- and post- acquisition dividends and require to present the dividends as income in the separate financial statements of the investor.

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

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

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

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

1.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRIC-Int 13, IFRIC-Int 15 and IFRIC-Int 16 shall be applied for annual periods beginning on or after 1 July 2008, 1 January 2009 and 1 October 2008, respectively.

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

2. 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, consumption tax 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 Dongfeng Motor Group's primary segment reporting basis, by business segment. In determining the Dongfeng Motor 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 Dongfeng Motor Group's revenue is derived from customers based in the PRC, and all of its assets are located in the PRC.

The Dongfeng Motor Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Dongfeng Motor Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of these business segments are as follows:

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

Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2008

2. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION (CONTINUED)

Segment information (CONTINUED)

The following tables present revenue and profit information for the Dongfeng Motor Group's business segments for the six months ended 30 June 2008 and 2007.

For the six months ended 30 June 2008

	Commercial vehicles RMB million (unaudited)	Passenger vehicles RMB million (unaudited)	Corporate and others RMB million (unaudited)	Total RMB million (unaudited)
Revenue				
Sales to external customers	12,785	24,649	462	37,896
Other income	121	355	113	589
Total	12,906	25,004	575	38,485
Results				
Segment results	663	2,837	(322)	3,178
Finance costs				(210)
Share of profit and losses of associates	17	22	(6)	33
Profit before tax				3,001
Income tax expense				(363)
Profit for the period				2,638

For the six months ended 30 June 2007

	Commercial vehicles RMB million (unaudited)	Passenger vehicles RMB million (unaudited)	Corporate and others RMB million (unaudited)	Total RMB million (unaudited)
Revenue				
Sales to external customers	7,637	20,727	445	28,809
Other income	122	242	110	474
Total	7,759	20,969	555	29,283
Results				
Segment results	345	2,322	(391)	2,276
Finance costs				(159)
Share of profit and losses of associates	9	27	2	38
Profit before tax				2,155
Income tax expense				(64)
Profit for the period				2,091

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For the six months ended 30 June 2008

3. OTHER INCOME

	Six months ended 30 June	
	2008	2007
	<i>RMB million</i>	<i>RMB million</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Government grants and subsidies	123	92
Net income from disposal of other materials	165	118
Bank interest income	140	77
Rendering of services	8	2
Others	153	185
	589	474

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2008	2007
	<i>RMB million</i>	<i>RMB million</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of inventories recognised as expense	31,357	23,818
Provision against inventories	19	12
Amortisation of intangible assets	114	114
Depreciation	949	897
Loss on disposal of items of property, plant and equipment, net	17	4
Impairment of property, plant and equipment, net	38	7
Impairment of other financial assets	—	1
Provision/(write-back of provision) for bad and doubtful debts	23	(9)

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5. FINANCE COSTS

	Six months ended 30 June	
	2008 <i>RMB million</i> <i>(Unaudited)</i>	2007 <i>RMB million</i> <i>(Unaudited)</i>
Interest on bank loans, and other borrowings wholly repayable:		
Within 5 years	101	79
Beyond 5 years	63	57
Interest on discounted bills	26	32
Interest on short-term debentures	56	29
	246	197
Less: Amount capitalised in construction in progress	(36)	(38)
Total interest expense	210	159

6. TAXATION

	Six months ended 30 June	
	2008 <i>RMB million</i> <i>(Unaudited)</i>	2007 <i>RMB million</i> <i>(Unaudited)</i>
Current income tax	531	308
Deferred income tax	(168)	(244)
Income tax charge for the period	363	64

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduced a wide range of changes which include, but were not limited to, the unification of the income tax rate for domestic-invested enterprises and foreign-invested enterprises, which results in a reduction of the corporate income tax rate from 33% to 25% and for foreign-invested enterprises that were enjoying the preferential tax rate of 15% or 24%, their applicable tax rate will gradually be phased in to the new 25% tax rate during the 5-years transitional period. This reduction directly reduced the Group effective income tax rate prospectively from 1 January 2008.

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6. TAXATION (CONTINUED)

Under the New CIT 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 9% to 25%, on their estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Dongfeng Motor Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2007 and 2008.

Deferred income tax is calculated on temporary differences under the liability method using the respective applicable rates.

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

7. DIVIDEND

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

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

The calculation of basic earnings per share is based on:

	Six months ended 30 June	
	2008	2007
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	2,472	1,945
	million	million
Shares:		
Weighted average number of shares in issue during the period	8,616	8,616

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9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Dongfeng Motor Group acquired property, plant and equipment in an aggregate amount of approximately RMB2,475 million (six months ended 30 June 2007: RMB1,826 million) and disposed of property, plant and equipment with an aggregate net book value of approximately RMB214 million (six months ended 30 June 2007: RMB389 million), resulting in a net loss on disposal of approximately RMB17 million (six months ended 30 June 2007: RMB4 million). Property, plant and equipment impairment of approximately RMB38 million (six months ended 30 June 2007: RMB7 million) was made during the period.

10. TRADE RECEIVABLES

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

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

	30 June 2008	31 December 2007
	RMB million	RMB million
	(Unaudited)	<i>(Audited)</i>
Within three months	2,990	1,939
More than three months but within one year	340	232
More than one year	52	58
	3,382	2,229

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11. CASH AND CASH EQUIVALENTS

	30 June 2008	31 December 2007
	RMB million (Unaudited)	<i>RMB million (Audited)</i>
Cash and bank balances	9,159	7,117
Time deposits	4,537	3,356
	13,696	10,473
Less: Pledged bank balances and time deposits for securing general banking facilities	(1,465)	(931)
Cash and cash equivalents in the consolidated balance sheet	12,231	9,542
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(3,796)	(2,439)
Cash and cash equivalents in the consolidated cash flow statements	8,435	7,103

12. TRADE PAYABLES

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

	30 June 2008	31 December 2007
	RMB million (Unaudited)	<i>RMB million (Audited)</i>
Within three months	12,489	7,783
More than three months but within one year	887	1,684
More than one year	196	183
	13,572	9,650

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13. COMMITMENTS

(a) Operating lease commitments as lessee

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

	30 June 2008	31 December 2007
	<i>RMB million</i>	<i>RMB million</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within one year or on demand	131	113
After one year but not more than five years	459	463
More than five years	1,748	1,746
	2,338	2,322

(b) Commitments

In addition to the operating lease commitments detailed in note 13(a) above, the Group had the following commitments at the balance sheet date:

	30 June 2008	31 December 2007
	<i>RMB million</i>	<i>RMB million</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Contracted, but not provided for:		
Property, plant and equipment	2,390	3,005
Capital contribution to an associate	—	10
	2,390	3,015
Authorised, but not contracted for:		
Property, plant and equipment	2,252	1,090

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14. CONTINGENT LIABILITIES

At 30 June 2008, the Group has undertaken to provide guarantees to the extent of RMB699 million (31 December 2007: RMB724 million) to banks in connection with facilities granted to its jointly-controlled entities at nil consideration. In addition, the Group's jointly controlled entities has undertaken to provide guarantees to the extent of RMB53 million (31 December 2007: RMB53 million) and RMB12 million (31 December 2007: RMB20 million) attributable to the Group to banks in connection with facilities granted to its associates and other company respectively, at nil consideration.

No financial liabilities were recorded as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 30 June 2008 and 31 December 2007.

15. RELATED PARTY TRANSACTIONS

(a) Transactions with the Dongfeng Motor Corporation ("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.

The Group had the following significant transactions with their related parties:

	Notes	Six months ended 30 June	
		2008 RMB million (Unaudited)	2007 RMB million (Unaudited)
Purchases of automotive parts/raw materials from:	(i)		
DMC		68	26
Joint venture partners and their holding companies		8,501	8,447
Associates		232	305
Jointly-controlled entities		2,751	1,652
Minority shareholders of a jointly-controlled entity's subsidiaries		74	33
		11,626	10,463

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) Transactions with the Dongfeng Motor Corporation (“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. (CONTINUED)

	Notes	Six months ended 30 June	
		2008 RMB million (Unaudited)	2007 RMB million (Unaudited)
Purchases of automobiles from			
Jointly-controlled entities	(i)	472	366
An associate		91	—
		563	366
Purchases of water, steam and electricity from DMC	(ii)	476	404
Rental expenses to DMC	(i)	73	74
Purchases of services from	(i)		
DMC		—	8
A jointly-controlled entity		6	3
		6	11
Purchases of technology know-how from joint venture partners and their holding companies	(i)	1,062	846
Sales of automotive parts/raw materials to:	(i)		
DMC		54	18
Joint venture partners		294	4
Associates		11	10
Jointly-controlled entities		739	477
A minority shareholder of a jointly-controlled entity		—	5
		1,098	514

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with the Dongfeng Motor Corporation (“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. (CONTINUED)

	Notes	Six months ended 30 June	
		2008 RMB million (Unaudited)	2007 RMB million (Unaudited)
Sales of automobiles to:	(i)		
A Joint venture partner and their holding company		—	11
An associate		92	107
Jointly-controlled entities		1	41
		93	159
Provision of services to:	(i)		
Jointly-controlled entities		9	3

Notes:

- (i) These transactions were conducted in accordance with terms agreed between the Dongfeng Motor Group and their related parties.
- (ii) This transaction was conducted according to the prices and conditions regulated by the PRC government.

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties

	30 June 2008 RMB million (Unaudited)	31 December 2007 RMB million (Audited)
Receivables from related parties included in trade receivable:		
Joint venture partners	53	30
Associates	5	9
Receivables from related parties included in prepayment, deposits and other receivables:		
Joint venture partners and their holding companies	13	20
A minority shareholder of a jointly-controlled entity's subsidiary	28	62
Associates	5	3
A fellow subsidiary	2	2
DMC	5	—
Payables to related parties included in trade payable:		
DMC	99	35
Joint venture partners and their holding companies	757	677
Associates	71	62
Minority shareholders of jointly-controlled entity's subsidiaries	22	22
Payables to related parties included in other payables and accrued liabilities:		
DMC	321	304
Joint venture partners	373	53
Associates	2	7
Minority shareholders of jointly-controlled entity's subsidiaries	1	1

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

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2008 <i>RMB'000</i> <i>(Unaudited)</i>	2007 <i>RMB'000</i> <i>(Unaudited)</i>
Short term employment benefits	2,313	11,471
Post-employment benefits	184	90
Total compensation paid/payable to key management personnel	2,497	11,561

16. APPROVAL OF THE INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 27 August 2008.

Definitions

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

“Associates”	has the meaning ascribed thereto under the Listing Rules
“Company”	東風汽車集團股份有限公司 (Dongfeng Motor Group Company Limited), a joint stock limited company registered in the PRC on 12 October 2004 in accordance with the laws of the PRC or where the context refers to any time prior to the date of incorporation, those entities and businesses which were contributed to and conducted by the Company upon its establishment
“Dongfeng Motor Corporation” or “DMC”	東風汽車公司 (Dongfeng Motor Corporation), a state-owned enterprise incorporated under the laws of the PRC
“Group” or “Dongfeng Motor Group”	the Company, its subsidiaries and jointly-controlled entities
“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” or “DMC 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 interim report, unless otherwise specified, all references to revenues, profits and other financial information of the Group include those of the relevant jointly-controlled entities to the extent that such information has been proportionately consolidated or otherwise reflected in the financial information set out in this interim report. Subject to the above and unless otherwise specified, all information in this interim report relating to the Dongfeng Motor Group includes information of the Group and all companies (including jointly-controlled entities 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 relevant jointly-controlled entities.