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DONGFENG MOTOR GROUP COMPANY LIMITED*

東風汽車集團股份有限公司

(於中華人民共和國註冊成立的股份有限公司)

(股份代號：489)

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司(「**聯交所**」)證券上市規則(「**上市規則**」)第13.10B條作出。

茲提述東風汽車集團股份有限公司(「**本公司**」)日期為二零一八年十月十八日有關債券發行的公告(「**該公告**」)。除另有界定者，本公告所用詞彙與該公告所界定者具相同涵義。

請參閱隨附日期為二零一八年十月十八日日有關債券發行的發售備忘錄(「**發售備忘錄**」),該發售備忘錄已於二零一八年十月二十三日於愛爾蘭證券交易所的辦公室以印刷版發佈。

於聯交所網站登載發售備忘錄,僅為向香港投資者進行同等的資訊傳達及遵守上市規則第13.10B條的規定,此外並無任何其他目的。

發售備忘錄並不構成向任何司法管轄權區之公眾要約出售任何證券的發售章程、通告、通函、宣傳冊或廣告,亦不構成對公眾認購或購買任何證券的要約邀請,亦不被視為邀請公眾作出認購或購買任何證券的要約。發售備忘錄不得被視為對認購或購買本公司任何證券的勸誘,亦無意進行有關勸誘。投資決策不應以發售備忘錄所載之資訊為基準。

承董事會命
董事長
竺延風

中國武漢,二零一八年十月二十九日

於本公告公佈之日,執行董事為竺延風先生及李紹燭先生,獨立非執行董事為馬之庚先生、張曉鐵先生、曹興和先生及陳雲飛先生。

* *僅供識別*

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to Bank of China Limited, Deutsche Bank AG, London Branch, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, Industrial and Commercial Bank of China (Europe) S.A., BNP Paribas, Bank of Communications Co., Ltd. Hong Kong Branch and Société Générale (the "**Joint Lead Managers**") that you and any customers you represent are not, and the e-mail address that you gave to the Joint Lead Managers to which this e-mail has been delivered is not, located in the United States and that you consent to delivery of such Offering Circular and any amendments or supplements thereto by electronic transmission.

The Offering Circular is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described therein.

The Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents (each as defined in the Offering Circular) to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of any of them is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

MiFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in section 309A of the SFA), that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Offering Circular has been sent to you in an electronic form. Documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents, nor any person who controls any of them, nor their respective directors, officers, employees, representatives, agents, or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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STRICTLY CONFIDENTIAL

DONGFENG MOTOR (HONG KONG) INTERNATIONAL CO., LIMITED

東風汽車 (香港) 國際有限公司

(incorporated with limited liability in Hong Kong)

EUR500,000,000 1.150 per cent. Guaranteed Notes due 2021
EUR100,000,000 1.606 per cent. Guaranteed Notes due 2023
unconditionally and irrevocably guaranteed by

DONGFENG MOTOR GROUP COMPANY LIMITED

東風汽車集團股份有限公司

(incorporated with limited liability in the People's Republic of China)
(Hong Kong Stock Exchange Stock Code: 489)

Issue Price for the 2021 Notes: 99.947 per cent.
Issue Price for the 2023 Notes: 100.00 per cent.

The EUR500,000,000 1.150 per cent. Guaranteed Notes due 2021 (the "**2021 Notes**") and the EUR100,000,000 1.606 per cent. Guaranteed Notes due 2023 (the "**2023 Notes**", and together with the 2021 Notes, the "**Notes**") will be issued by Dongfeng Motor (Hong Kong) International Co., Limited (the "**Issuer**") and are in registered form in the denomination of EUR100,000 and integral multiples of EUR1,000 in excess thereof. Each series of Notes will be unconditionally and irrevocably guaranteed (the "**Guarantee of the Notes**") by Dongfeng Motor Group Company Limited (the "**Guarantor**"). The Issuer is an indirect, wholly-owned subsidiary of the Guarantor.

In this Offering Circular, references to the Notes are to the 2021 Notes and the 2023 Notes, and references to "a series of the Notes" or "a series" are to the 2021 Notes or the 2023 Notes separately. References to the section "Terms and Conditions of the Notes" are to the section "Terms and Conditions of the 2021 Notes" and/or the section "Terms and Conditions of the 2023 Notes", as the case may be. References to the "Terms and Conditions" are to the Terms and Conditions of the 2021 Notes or, as the case may be, the Terms and Conditions of the 2023 Notes.

The 2021 Notes will bear interest from 23 October 2018 (the "**2021 Notes Issue Date**") at the rate of 1.150 per cent. per annum. The 2023 Notes will bear interest from 23 October 2018 (the "**2023 Notes Issue Date**" and together with the 2021 Notes Issue Date, the "**Issue Date**") at the rate of 1.606 per cent. per annum. Interest on the 2021 Notes and 2023 Notes is payable annually in arrear on 23 October in each year, commencing with the first Interest Payment Date (as defined in Terms and Conditions of the Notes (the "**Terms and Conditions**")) falling on 23 October 2019.

Each series of Notes will constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantor will enter into a deed of guarantee (each a "**Deed of Guarantee**" together, the "**Deeds of Guarantee**") on or around the Issue Date in respect of each series of Notes. The Guarantor will be required to register or cause to be registered with the Hubei Branch of the State Administration of Foreign Exchange ("**SAFE**") the Deeds of Guarantee within 15 PRC Business Days after execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE. The Guarantor shall use its best endeavours to complete the registration for the execution of each Deed of Guarantee with SAFE as soon as practicable and in any event before the Registration Deadline (being 60 PRC Business Days (as defined in the Terms and Conditions) after the Issue Date).

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "**NDRC Circular**") issued by National Development and Reform Commission ("**NDRC**") on 14 September 2015 which came into effect on the same day, the Guarantor has registered the issuance of each of the 2021 Notes and the 2023 Notes with the NDRC and obtained a certificate from NDRC on 17 August 2018 evidencing such registration and intends to provide information on the issuance of each of the 2021 Notes and the 2023 Notes to the NDRC as soon as practicable and in any event within the prescribed timeframe in accordance with the NDRC Circular.

The Guarantee of the Notes will constitute direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments on the Notes will be made without withholding or deduction for taxes of Hong Kong or the PRC to the extent described in "*Terms and Conditions of the Notes – Taxation*".

Unless previously redeemed, or purchased and cancelled as provided herein, the Issuer will redeem the 2021 Notes at its principal amount on 23 October 2021 (the "**2021 Notes Maturity Date**") and the 2023 Notes at its principal amount on 23 October 2023 (the "**2023 Notes Maturity Date**", and together with the "**2021 Notes Maturity Date**", the "**Maturity Dates**" and each, a "**Maturity Date**"). At any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (as defined in the Terms and Conditions) (which notice shall be irrevocable), the Issuer may redeem the Notes in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that the Issuer or the Guarantor has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions) as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC (as the case may be) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such law or regulation and such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it. At any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions), each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of such Noteholder's Notes on the Put Settlement Date (as defined in the Terms and Conditions) at 101 per cent. (in the case of redemption for a Change of Control (as defined in the Terms and Conditions) or 100 per cent. (in the case of redemption for a No Registration Event (as defined in the Terms and Conditions)) of their principal amount together with accrued interest to such Put Settlement Date. See "*Terms and Conditions of the Notes – Redemption and Purchase*". The Notes may also be redeemed at the option of the Issuer in whole but not in part at any time at a price equal to their Make Whole Amount together with accrued interest (collectively, the "**Make Whole Redemption Price**") on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders. See "*Terms and Conditions of the Notes – Redemption and Purchase – Make whole redemption*".

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented Directive 2003/71/EC (as amended including by Directive 2010/73/EU) (the "**Prospectus Directive**") (each, a "**Relevant Member State**") must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer, the Guarantor or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, the Guarantor or any Joint Lead Manager has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or any Joint Lead Manager to publish or supplement a prospectus for such offer.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (the "**Euronext Dublin**") for the approval of this Offering Circular as listing particulars ("**Listing Particulars**"). Application has been made to the Euronext Dublin for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Euronext Dublin. The Global Exchange Market of the Euronext Dublin is not a regulated market for the purposes of Directive 2014/65/EU.

Each of the Issuer and the Guarantor accepts full responsibility for the information contained in this Listing Particulars. To the best of the knowledge of each of the Issuer and the Guarantor, having taken all reasonable care to ensure that such is the case, the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 13 for a description of certain factors to be considered in connection with an investment in the Notes.

The Notes and the Guarantee of the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States and are only being offered and sold outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of these and certain restrictions on offers and sales of the Notes and the Guarantee of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Notes or the Guarantee of the Notes in lieu of the Issuer or (as the case may be) the Guarantor. See "Risk Factors – Risks relating to the Notes and the Guarantee of the Notes – The PRC government has no obligations under the Notes or the Guarantee of the Notes".

MiFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in 309A of the SFA), that the Notes are "prescribed capital markets products" (as defined in the Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Each series of Notes will be represented by beneficial interests in a global note certificate (each, a "**Global Note Certificate**" and together, the "**Global Note Certificates**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**", together with Euroclear, the "**Clearing Systems**"). Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, individual certificates for each series of the Notes will not be issued in exchange for interests in the relevant Global Note Certificate.

The Notes are expected to be rated "A2" by Moody's Investors Service, Inc. ("**Moody's**") and "A" by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Global Coordinators
(in alphabetical order)

Bank of China **Deutsche Bank** **HSBC** **ICBC**

Joint Bookrunners and Joint Lead Managers
(in alphabetical order)

Bank of China **Bank of Communications** **BNP PARIBAS**

Deutsche Bank **HSBC** **ICBC** **Société Générale Corporate & Investment Banking**

Offering Circular dated 16 October 2018

IMPORTANT NOTICE

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirm that (i) this Offering Circular (including any amendments and supplements thereto, at the respective dates of their publication) contains all information with respect to the Issuer, the Guarantor, and its subsidiaries taken as a whole (the "**Group**"), the Notes and the Guarantee of the Notes which is material in the context of the issue, offering, sale, marketing or distribution of the Notes (including all information which is required by applicable laws, rules and regulations or information which, according to the particular nature of the Issuer, the Guarantor and the Group and of the Notes or the Guarantee of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor, the Group and of the rights attaching to the Notes and the Guarantee of the Notes); (ii) this Offering Circular does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iii) the statements of fact contained in this Offering Circular were used by or with the consent of the Issuer and the Guarantor in connection with the issue, offering, sale, marketing and distribution of the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Guarantor, the Group, the Notes and the Guarantee of the Notes, the omission of which would in the context of the issue, offering, sale, marketing and distribution of the Notes make any statement in this Offering Circular misleading; (iv) the statements of intention, opinion, belief or expectation contained in this Offering Circular are honestly and reasonably made or held and have been reached after considering all relevant circumstances and based on reasonable assumptions; (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements; (vi) to the best knowledge of the Issuer and the Guarantor, all statistical, industry and market related data included in this Offering Circular are derived from sources which are accurate and reliable; and (vii) all descriptions of contracts or other material documents described in this Offering Circular are accurate descriptions in all material respects and fairly summarise the contents of such contracts or documents.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee and the Agents (as defined in the Terms and Conditions) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised in connection with the issue, offer or sale of the Notes to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Notes or the Guarantee of the Notes, other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Group, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group, or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates to subscribe for or purchase, any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer and the Guarantor in connection with the offering of the Notes exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Guarantor and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Circular is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Notes or the Guarantee of the Notes and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates. The Joint Lead Managers, the Trustee and the Agents and their respective affiliates have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, employees, agents or advisers accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Guarantor, the Group, the issue and offering of the Notes or the giving of the Guarantee of the Notes. Each of the Joint Lead Managers, the Trustee, the Agents and their respective affiliates, directors, employees, agents or advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, employees, agents or advisers undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates, directors, employees, agents, or advisors.

Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisors as it deems necessary.

Any of the Joint Lead Managers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult his or her advisor.

IN CONNECTION WITH THE ISSUE OF THE NOTES, ANY OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING IN ITS CAPACITY AS A STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION

ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Listing of the Notes on the Euronext Dublin is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group, the Notes or the Guarantee of the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the Group and the terms of the offering of the Notes, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. The Issuer, the Guarantor, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors, employees, agents, or advisors are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, employees, agents, or advisors in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer and the Guarantor believe this information to be reliable, this information has not been independently verified by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or their respective affiliates, directors, employees, agents or advisers, and none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or their respective affiliates, directors, employees, agents or advisers makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

Presentation of Financial Information

This Offering Circular contains the audited consolidated financial statements of the Guarantor as at and for the two years ended 31 December 2016 and 2017, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and have been audited by PricewaterhouseCoopers, Certified Public Accountants, and the unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2018, which were prepared in accordance with International Accounting Standards ("**IAS**") 34 "Interim Financial Reporting" and have been reviewed by PricewaterhouseCoopers, Certified Public Accountants in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

There are certain newly amended accounting standards adopted by the Guarantor since 1 January 2018. Please refer to note 1.5 of the unaudited interim condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2018 on pages F-3 to F-36. Consequently, historical financial information as at and for the years ended 31 December 2016 and 2017 may not be directly comparable against their respective financial information after 1 January 2018. Investors must therefore exercise caution when making comparisons of any financial figures after 1 January 2018 against the historical financial figures of the Guarantor prior to 1 January 2018 and when evaluating its financial condition, results of operations and results.

This Offering Circular contains the audited financial statements of the Issuer as at and for the two years ended 31 December 2016 and 2017, which were prepared in accordance with Hong Kong Financial Reporting Standards and have been audited by PricewaterhouseCoopers, Certified Public Accountants.

Rounding

In this Offering Circular, amounts may have been rounded up or down. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. References to information in billions of units are to the equivalent of a thousand million units.

Certain Definitions and Conventions

In this Offering Circular, unless otherwise indicated or the context otherwise requires, references to:

- "we", "us", "our company", the "Group", the "Company", "our", "DFG" and words of similar import refers to Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) itself, or to Dongfeng Motor Group Company Limited and its consolidated subsidiaries, as the context requires;

- the "Issuer" refers to Dongfeng Motor (Hong Kong) International Co., Limited (東風汽車(香港)國際有限公司), our wholly-owned subsidiary;

- "DFM" refers to Dongfeng Motor Corporation;

- "China" or the "PRC" refers to the People's Republic of China, excluding, for purposes of this Offering Circular only, Taiwan, Hong Kong and the Macau Special Administrative Region;

- "Hong Kong" refers to Hong Kong Special Administrative Region of the PRC;

- "MIIT" refers to the Ministry of Industry and Information Technology of the PRC;

- "MOFCOM" refers to the Ministry of Commerce of the PRC;

- "NDRC" refers to the National Development and Reform Commission of the PRC;

- "PBOC" refers to the People's Bank of China, the central bank of the PRC;

- the "PRC government" refers to the central government of China and its political subdivisions, including provincial, municipal and other regional or local government entities, and instrumentalities thereof, or where the context requires, any of them;

- "SAFE" refers to the State Administration of Foreign Exchange of the PRC or its competent local counterpart;

- "SASAC" refers to the State-owned Assets Supervision and Administration Commission of the PRC;

- "SAT" refers to the State Administration of Taxation of the PRC;

- "CNY", "RMB" or "Renminbi" refers to the legal currency of the PRC;

- "HK$" refers to the legal currency of Hong Kong;

- "US$" or "U.S. dollars" refers to the legal currency of the United States;

- "EUR," "Euro" or "€" refers to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union; and

- "SGD" or "S$" refers to the legal currency of Singapore.

As used in this Offering Circular, total aggregated revenue, total aggregated gross profit, total aggregated cash flows from operations and total aggregated debt represent the revenue, the gross profit, the cash flows from operations and total debt of the Group as well as the Group's share of the revenue, gross profit, cash flows from operations and total debt of joint ventures during the respective financial year/period. Information concerning total aggregated revenue, gross profit, cash flows from operations and total debt has been included in the Group's financial information and is used by many industries and investors as one measure of results from operations. The Group considers total aggregated revenue, gross profit, cash flows from operations and total debt to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. Total aggregated revenue, gross profit, cash flows from operations and total debt are not measures of financial performance under generally accepted accounting principles and total aggregated revenue, gross profit, cash flows from operations and total debt measures used by the Group may not be comparable to other similarly titled measures of other companies. Total aggregated revenue, gross profit, cash flows from operations and total debt should not necessarily be construed as an alternative to results from operations, cash flows or total debt as determined in accordance with generally accepted accounting principles.

EBITDA represents EBITDA of the Group during the respective financial year/period. EBITDA is defined as net profit before taxation, finance costs, depreciation and amortisation of intangible assets and lease prepayments, and includes dividends from joint ventures and associates but exclude share of profits and losses of joint ventures and associates. Information concerning EBITDA has been included in the Group's financial information and is used by many industries and investors as one measure of our performance and our ability to generate cash flow from operations to service debt and pay taxes. The Group considers EBITDA to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDA is not a measure of liquidity or financial performance under generally accepted accounting principles and the EBITDA measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDA should not necessarily be construed as an alternative to cash flows or results of operations as determined in accordance with generally accepted accounting principles.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this Offering Circular, all translations from Renminbi into U.S. dollars were made at the rate of RMB6.6171 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on 29 June 2018, and all translations from Euro into U.S. dollars were made at the rate of €1.00 to US$1.1677, the noon buying rate in New York City for cable transfers payable in Euro as certified for customs purposes by the Federal Reserve Bank of New York on 29 June 2018. All such translations in this Offering Circular are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars, or *vice versa*, at any particular rate, or at all. For further information relating to the exchange rates, see "*Exchange Rate Information*".

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

FORWARD-LOOKING STATEMENTS

We have made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "target", "believe", "can", "would", "could", "estimate", "expect", "aim", "intend", "may", "plan", "will", "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to our company discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by us or by any third party) involve known and unknown risks, including those disclosed under the caption "Risk Factors", assumptions, uncertainties and other factors that may cause the actual results, performance or achievements of our company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Circular. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause our actual results, performance and achievements of to be materially different include, among others:

- risks associated with our business activities;
- general economic and political conditions, including those related to the PRC;
- our ability to implement our business strategy and plan of operation;
- our ability to expand and manage our growth;
- our financial condition and results of operations;
- fluctuations in foreign currency exchange rates; and
- those other risks identified in the "Risk Factors" section of this Offering Circular.

We do not undertake any obligation to update or revise publicly any of the opinions or forward-looking statements expressed in this Offering Circular as a result of any new information, future events or otherwise.

CONTENTS

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should, therefore, read this Offering Circular in its entirety.

Overview

We are a leading automobile manufacturer in China. Our parent company, DFM, is a state-owned enterprise directly administrated by the central SASAC and one of the three largest auto manufacturers in China. According to China Association of Automobile Manufacturers ("**CAAM**"), DFM ranked second in terms of sales volume among all PRC automobile manufacturers in 2017 with leading market positions in various sub-categories of both commercial vehicles and passenger vehicles. DFM also ranked 65th on the 2018 "Fortune Global 500" list, rising from 113th on the "Fortune Global 500" in 2014. As DFM's largest subsidiary, we contributed approximately 80 per cent. of vehicle sales volume to DFM for the year ended 31 December 2017. We have been listed on the Stock Exchange of Hong Kong since 2005 and, as at 30 June 2018, we had a total market capitalisation of approximately RMB60.3 billion.

Our main businesses consist of the manufacturing and sale of commercial vehicles, passenger vehicles, auto engines and parts. We also engage in finance and other automobile-related businesses. We produced approximately 3.3 million units and sold approximately 3.3 million units of automobiles during the year ended 31 December 2017. According to CAAM, since 2003, we ranked first or second for 14 consecutive years in the PRC medium and heavy trucks market in terms of sales volume.

We primarily conduct our operations in the following four business segments:

- **Commercial Vehicles** – Through our commercial vehicles subsidiaries, we manufacture and sell vehicles, including heavy, medium and light trucks, large and medium sized buses, special purpose vehicles and military vehicles, and engines and auto parts for commercial vehicles. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our revenue generated from sales of commercial vehicles was approximately RMB36,389 million, RMB43,298 million, RMB59,826 million, RMB30,013 million and RMB31,483 million, respectively. According to CAAM, for the three years ended 31 December 2015, 2016 and 2017, we commanded a market share of approximately 10.0 per cent., 10.1 per cent. and 10.9 per cent., respectively, in the PRC commercial vehicle market in terms of sales volume.

- **Passenger Vehicles** – Through our passenger vehicle subsidiaries, we manufacture and sell vehicles, including basic passenger cars, MPVs (Multi-Purpose Vehicles), sports SUVs (Sports Utility Vehicles) and crossover passenger vehicles, and engines and auto parts for passenger vehicles. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the revenue generated from sales of passenger vehicles was approximately RMB88,226 million, RMB76,656 million, RMB61,732 million, RMB26,160 million and RMB24,474 million, respectively. According to CAAM, for the three years ended 31 December 2015, 2016 and 2017, we commanded a market share of approximately 11.9 per cent., 11.4 per cent. and 11.4 per cent., respectively, in the PRC passenger vehicle market in terms of sales volume.

- **Financing Service** – Through our finance business subsidiaries we provide automotive industry related financial services, including intra-group collective fund management, intra-group loans and entrusted loans, acceptance and discounting of bills, intra-group settlement, inter-group loans, distributors financing, sales credit, buyer credit and financial leasing. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the revenue generated from our financing service segment was approximately RMB1,911 million, RMB2,338 million, RMB3,047 million, RMB1,445 million and RMB1,866 million, respectively.

- **Corporate and Others –** We are also engaged in other automobile-related businesses, including the production of new energy vehicle as well as related battery, motor and vehicle control technology, the production of vehicle manufacturing equipment and equipment maintenance services, import and export of vehicles and equipment vehicle, insurance and used car trading businesses. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our revenue generated from the automobile-related businesses segment amounted to approximately RMB140 million, RMB351 million, RMB539 million, RMB184 million and RMB147 million, respectively. In addition, we have launched the mobility business covering different products and services in this industry.

Our total consolidated revenue for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 was approximately RMB126,566 million, RMB122,535 million, RMB125,016 million, RMB57,749 million and RMB57,922 million, respectively. Our total consolidated gross profit for the same periods was approximately RMB16,929 million, RMB17,515 million, RMB16,112 million, RMB8,016 million and RMB8,050 million, respectively.

Our total aggregated revenue, including share of revenue of joint ventures, for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 was approximately RMB226,863 million, RMB245,556 million, RMB273,243 million, RMB121,191 million and RMB128,160 million, respectively. Our total aggregated gross profit, including share of gross profit of joint ventures for the same periods was approximately RMB43,523 million, RMB46,867 million, RMB51,305 million, RMB22,970 million and RMB24,656 million, respectively.

Our Competitive Strengths

- Strategically important enterprise within the PRC.

- Well-established leading position in the PRC automobile industry.

- Comprehensive product portfolio with an optimal mix of product offerings and strategically located manufacturing facilities allowing for the development of a well-balanced business.

- Stable business operation with stringent cost control allowing improved efficiency.

- Innovative four megatrends with the aim to develop full value chain in the PRC automobile industry.

- Excellent financial performance with highly sustainable profitability and strong operating cash flows.

- Highly experienced management team and outstanding corporate culture.

Our Strategies

We seek to become a world-class integrated automobile manufacturing group with world-leading technologies and international recognition. In order to achieve this goal, we intend to pursue the following strategies:

- Further expand our proprietary brand and offer new vehicle models.

- Expand our global operations and explore oversea markets.

- Enhance strategic cooperation with our partners and explore new cooperation opportunities.

- Improve our own research and development capabilities and collaborate with international research institutions to form a strong and integrated research and development system.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF THE GUARANTOR

The following tables set forth the selected consolidated financial information of the Guarantor as at and for the periods indicated. The consolidated financial information of the Guarantor as at and for the year ended 31 December 2015 set forth below has been extracted from the Guarantor's audited consolidated financial statements for the year ended 31 December 2016. The consolidated financial information of the Guarantor as at and for the years ended 31 December 2016 and 2017 set forth below has been extracted from the Guarantor's audited consolidated financial statements for the year ended 31 December 2017. The audited consolidated financial statements were prepared in accordance with IFRS and audited by PricewaterhouseCoopers, Certified Public Accountants. The consolidated financial information of the Guarantor for the six months ended 30 June 2017 and 2018 set forth below has been extracted from the Guarantor's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 which were prepared in accordance with IAS 34 Interim Financial Reporting and have been reviewed by PricewaterhouseCoopers, Certified Public Accountants in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

*In January 2017, the Group acquired 100% equity interest of Dongfeng Motor Engineering Co., Ltd. ("**Dongfeng Engineering**"), from a subsidiary of DFM (the "**2017 Acquisition**"). For this business combination under common control, the financial information of the Group and that of Dongfeng Engineering has been combined, by using the pooling of interests method, as if the Group acquired Dongfeng Engineering from the beginning of the earliest financial period presented. The effect of the 2017 Acquisition has been disclosed in the Guarantor's consolidated financial statements as at and for the year ended 31 December 2017. We accounted for the 2017 Acquisition retrospectively by restating the financial information as at and for the year ended 31 December 2016 contained in the audited consolidated financial information as at and for the year ended 31 December 2017 and have presented such restated financial information throughout this Offering Circular (other than in the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2016). See note 2.2 "Business Combination Under Common Control" of the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2017 for details of the restatement aforesaid.*

The audited consolidated financial information of the Guarantor as at and for the year ended 31 December 2017 and related comparatives as at and for the year ended 31 December 2016 appearing on pages F-37 to F-144 of this Offering Circular have been prepared with the abovementioned impact of the 2017 Acquisition.

*In March 2018, the Group acquired 100% equity interest of Dongfeng Motor Trading Co., Ltd. ("**Dongfeng Trading**"), from DFM (the "**2018 Acquisition**"). For this business combination under common control, the financial information of the Group and that of Dongfeng Trading has been combined, by using the pooling of interests method, as if the Group acquired Dongfeng Trading from the beginning of the earliest financial period presented. The effect of the 2018 Acquisition has been disclosed in the Guarantor's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2018. We account for the 2018 Acquisition retrospectively by restating the financial information as at 31 December 2017 and for the six months ended 30 June 2017 contained in the unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2018, and have presented such restated financial information throughout this Offering Circular (other than in the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2017). See note 1.3 "Business Combination Under Common Control" of the unaudited interim condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2018 for details of the restatement aforesaid.*

The unaudited interim condensed consolidated financial information of the Guarantor as at and for the six months ended 30 June 2018 and related comparatives for the six months ended 30 June 2017 and as at 31 December 2017 appearing on pages F-3 to F-36 of this Offering Circular have been prepared with the abovementioned impact of the 2018 Acquisition.

As the financial information as at and for the year ended 31 December 2015 presented in this Offering Circular has not been restated to reflect the impact of the 2017 Acquisition and the 2018 Acquisition, and the financial information as at and for the year ended 31 December 2016 and the year ended 31 December 2017 presented in this Offering Circular has not been restated to reflect the impact of the 2018 Acquisition, potential investors must exercise caution when using the consolidated financial information of the Guarantor as at and for the years ended 31 December 2015, 2016 and 2017 and as at and for the six months ended 30 June 2018 to evaluate the Group's financial condition.

SUMMARY CONSOLIDATED INCOME STATEMENTS OF THE GUARANTOR

	Year Ended 31 December			Six Months Ended 30 June	
	2015	2016	2017	2017	2018
	(Audited)	(Restated)	(Audited)	(Unaudited and Restated)	(Unaudited)
			(RMB in million)		
Revenue	126,566	122,535	125,016	57,749	57,922
Cost of sales	(109,637)	(105,020)	(108,904)	(49,733)	(49,872)
Gross profit	16,929	17,515	16,112	8,016	8,050
Other income	1,897	2,201	2,775	1,043	1,254
Selling and distribution costs	(7,144)	(7,634)	(7,270)	(3,670)	(2,839)
Administrative expenses	(3,691)	(3,767)	(4,608)	(1,953)	(1,983)
Net impairment losses of financial assets	–	–	–	(94)	(197)
Other expenses	(5,834)	(5,701)	(6,423)	(2,363)	(2,907)
Finance income/(costs)	189	(445)	(592)	(467)	(1)
Share of profits and losses of:					
Joint ventures	10,422	11,665	13,574	6,101	6,088
Associates	1,297	1,897	2,207	1,218	1,749
PROFIT BEFORE INCOME TAX	14,065	15,731	15,775	7,831	9,214
Income tax expense	(1,353)	(1,276)	(1,141)	(517)	(933)
PROFIT FOR THE YEAR/PERIOD	12,712	14,455	14,634	7,314	8,281
Profit attributable to:					
Equity holders of the company	11,550	13,345	14,063	7,023	8,068
Non-controlling interests	1,162	1,110	571	291	213
	12,712	14,455	14,634	7,314	8,281
Earnings per share attributable to ordinary equity holders of the Company					
Basic for the year/period	134.05 cents	154.89 cents	163.22 cents	81.51 cents	93.64 cents
Diluted for the year/period[(1)]	134.05 cents	154.89 cents	163.22 cents	81.51 cents	93.64 cents

(1) The Guarantor did not have any dilutive potential ordinary shares outstanding during the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018. Diluted earnings per share is equal to the basic earnings per share.

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GUARANTOR

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	(Audited)	(Restated)	(Restated)	(Unaudited)
		(RMB in million)		
ASSETS				
Non-current assets				
Property, plant and equipment	12,929	13,873	15,088	15,343
Lease prepayments	936	1,296	1,224	1,180
Intangible assets	2,798	3,618	4,237	4,247
Goodwill	1,792	1,798	1,763	1,763
Investments in joint ventures	39,166	40,549	39,858	46,929
Investments in associates	10,525	12,598	14,614	15,738
Available-for-sale financial assets	190	174	174	–
Financial assets at fair value through other comprehensive income	–	–	–	102
Other non-current assets	8,908	14,337	18,269	19,250
Deferred tax assets	1,803	2,134	2,532	2,598
Total non-current assets	79,047	90,417	97,759	107,150
Current assets				
Inventories	8,665	8,735	10,657	10,888
Trade receivables	3,664	4,138	6,354	7,352
Bills receivables	13,015	15,416	14,730	14,859
Prepayments, deposits and other receivables	14,756	20,205	26,760	30,049
Due from joint ventures	6,073	8,672	13,590	6,423
Pledged bank balances and time deposits	3,760	6,645	10,617	5,157
Financial assets at fair value through profit or loss	–	–	–	9,627
Cash and cash equivalents	31,806	30,851	33,441	25,709
Total current assets	81,739	94,662	116,149	110,064
TOTAL ASSETS	160,786	185,079	213,908	217,214
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the company				
Issued capital	8,616	8,616	8,616	8,616
Reserves	10,569	12,716	14,605	15,198
Retained profits	63,742	73,412	83,140	89,082
Proposed final/interim dividend	1,723	1,982	2,154	862
	84,650	96,726	108,515	113,758
Non-controlling interests	6,834	6,912	6,809	6,771
TOTAL EQUITY	91,484	103,638	115,324	120,529
Non-current liabilities				
Interest-bearing borrowings	7,559	7,087	2,398	2,528
Other long term liabilities	954	1,320	1,438	1,555
Government grants	543	872	771	761
Provisions	578	674	652	635
Deferred income tax liabilities	1,032	1,302	1,555	1,803
Total non-current liabilities	10,666	11,255	6,814	7,282
Trade payables	17,170	21,501	21,571	18,510
Bills payable	10,980	14,867	22,563	23,832
Other payables and accruals	13,981	16,206	17,512	15,770
Contract liabilities	–	–	–	2,658
Due to joint ventures	8,066	8,529	13,630	11,371
Interest-bearing borrowings	6,950	7,310	14,381	15,509
Income tax payables	541	688	828	627
Provisions	948	1,085	1,285	1,126
Total current liabilities	58,636	70,186	91,770	89,403
TOTAL LIABILITIES	69,302	81,441	98,584	96,685
TOTAL EQUITY AND LIABILITIES	160,786	185,079	213,908	217,214
Net current assets	23,103	24,476	24,379	20,661
Total assets less current liabilities	102,150	114,893	122,138	127,811

EBITDA DATA OF THE GUARANTOR

	Year Ended 31 December			Six Months Ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
			(RMB in millions, except percentages)		
EBITDA[(1)]	13,310	13,865	13,493	8,598	10,062
EBITDA margin[1]	10.5%	11.3%	10.8%	14.9%	17.4%
EBITDA to total interest expense ratio	5,139.0%	5,659.2%	8,227.4%	11,464.0%	8,983.9%
Ratio of total debt to EBITDA[2]	1.09	1.04	1.24	0.90	1.21

(1) EBITDA for any period is calculated as net profit, adding back taxation, finance expenses, depreciation and amortization of intangible assets and lease prepayments, and includes dividends from joint ventures and associates but excludes share of profits and losses of joint ventures and associates. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as selling and distribution costs and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to service debt and pay taxes. EBITDA presented in this Offering Circular may not be comparable to similarly titled measures presented by other companies. You should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition.

The following table reconciles our EBITDA to our profit for the period, which is the most directly comparable IFRS measure:

	Year Ended 31 December			Six Months Ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	(Audited)	(Restated)	(Audited)	(Unaudited and Restated)	(Unaudited)
			(RMB in millions)		
Net Profit	12,712	14,455	14,634	7,314	8,281
Adjustments:					
Add:					
Taxation	1,353	1,276	1,141	517	933
Finance costs	(189)	445	592	467	1
Depreciation	1,383	1,672	1,758	872	894
Amortization of intangible assets and lease prepayments	317	387	503	248	270
Dividends from joint ventures and associates	9,453	9,192	10,646	6,499	7,520
Deduct:					
Shares of profits and losses of:					
Joint ventures	(10,422)	(11,665)	(13,574)	(6,101)	(6,088)
Associates	(1,297)	(1,897)	(2,207)	(1,218)	(1,749)
EBITDA	13,310	13,865	13,493	8,598	10,062

1 EBITDA margin is calculated by dividing EBITDA by revenue.

2 Total debt to EBITDA ratio is calculated by dividing total debt by EBITDA. Total debt is the sum of current and non-current interest-bearing borrowings. Please note that the total debt as at 31 December 2017 has been restated, the total debt as at 30 June 2017 has not been restated.

Total debt to EBITDA ratio as at and for the six months ended 30 June 2017 is calculated by dividing total debt as at 30 June 2017 by EBITDA for the six months ended 30 June 2017 plus EBITDA for the year ended 31 December 2016 minus EBITDA for the six months ended 30 June 2016. Total debt to EBITDA ratio as at and for the six months ended 30 June 2018 is calculated by dividing total debt as at 30 June 2018 by EBITDA for the six months ended 30 June 2018 plus EBITDA for the year ended 31 December 2017 minus EBITDA for the six months ended 30 June 2017.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The following tables set forth the selected financial information of the Issuer as at and for the periods indicated. The consolidated financial information of the Issuer as at and for the year ended 31 December 2015 set forth below has been extracted from the Issuer's audited consolidated financial statements for the year ended 31 December 2016. The consolidated financial information of the Issuer as at and for the years ended 31 December 2016 and 2017 set forth below has been extracted from the Issuer's audited consolidated financial statements for the year ended 31 December 2017.

*In January 2017, the Issuer acquired 100% equity interest of T Engineering AB from a subsidiary of DFM (the "**T Engineering Acquisition**"). For this business combination under common control, the financial information of the Issuer and its subsidiaries and that of T Engineering AB has been combined, by using the pooling of interests method, as if it acquired T Engineering AB from the beginning of the earliest financial period presented. The effect of the T Engineering Acquisition has been disclosed in the Issuer's consolidated financial statements as at and for the year ended 31 December 2017. We accounted for the T Engineering Acquisition retrospectively by restating the financial information as at and for the year ended 31 December 2016 contained in the audited consolidated financial information as at and for the year ended 31 December 2017 and have presented such restated financial information throughout this Offering Circular (other than in the Issuer's audited financial statements as at and for the year ended 31 December 2016). See note 2.2 "Business Combination Under Common Control" of the consolidated financial statements of the Issuer as at and for the year ended 31 December 2017 for details of the restatement aforesaid.*

As the financial information of the Issuer as at and for the year ended 31 December 2015 presented in this Offering Circular has not been restated to reflect the impact of the T Engineering Acquisition, such financial information is not directly comparable to the financial information as at and for the years ended 31 December 2016 and 2017. Potential investors must exercise caution when using the consolidated financial information of the Issuer as at and for the years ended 31 December 2015, 2016 and 2017 to evaluate the Issuer's financial condition.

CONSOLIDATED INCOME STATEMENTS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE ISSUER

	Year Ended 31 December		
	2015	**2016**	**2017**
	(Audited) (RMB)	**(Restated) (RMB)**	**(Audited) (RMB)**
Revenue	–	84,630,292	100,818,890
Administrative expenses	(10,571,327)	(95,492,755)	(103,345,798)
Other income	8,515	6,717	413,251,716
Other (loss)/gains – net	(307,713,657)	25,771,404	19,091,078
Operating (loss)/gains	(318,276,469)	14,915,658	429,815,886
Finance income/(expenses) – net	376,044,290	(318,075,722)	(531,067,869)
Profit/(loss) from investment accounted for using the equity method	2,782,710	10,175,441	(14,171,728)
Profit/(Loss) before income tax	60,550,531	(292,984,623)	(115,423,711)
Income tax expense	–	(1,012,534)	(123,828,693)
Profit/(Loss) for the year	60,550,531	(293,997,157)	(239,252,404)
Other comprehensive income for the year, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Transfer to equity upon the de-recognition of investment in associate	65,780,930	–	–
Items that may be reclassified to profit or loss			
Reclassification to income statement of previously recognised other comprehensive income upon the de-recognition of investment in associate	837,866,782	–	–
Change in value of available-for sale financial assets	4,310,513,389	(198,492,326)	2,109,469,549
Currency translation differences	1,241,000	2,571,477	(3,091,301)
Other comprehensive income/(loss) for the year, net of tax	5,215,402,101	(195,920,849)	2,106,378,248
Total comprehensive income/(loss) for the year	5,275,952,632	(489,918,006)	1,867,125,844

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ISSUER

	As at 31 December		
	2015	**2016**	**2017**
	(Audited) (RMB)	**(Restated) (RMB)**	**(Audited) (RMB)**
Assets			
Non-current assets			
Investment accounted for using the equity method	48,657,710	61,081,747	87,188,060
Available-for-sale financial assets	12,723,014,628	12,524,522,303	14,633,991,852
Property, plant and equipment	–	2,646,042	5,116,991
Intangible assets	–	847,337	660,258
Goodwill	–	5,626,861	5,626,861
Deferred tax assets	–	442,019	163,793
Total non-current assets	12,771,672,338	12,595,166,309	14,732,747,815
Current assets			
Cash and cash equivalents	1,227,711,505	356,145,760	376,012,765
Trade and other receivables	–	6,175,093	70,197,228
Other assets	–	2,009,180	744,514
Total current assets	1,227,711,505	364,330,033	446,954,507
Total assets	13,999,383,843	12,959,496,342	15,179,702,322
Equity and liabilities			
Equity attributable to owners of the company			
Share capital	6,000,000	6,000,000	6,000,000
Other reserves	4,362,791,317	4,173,374,136	6,269,182,480
Retained earnings	2,518,663,891	2,230,031,408	1,990,779,004
Total equity	6,887,455,208	6,409,405,544	8,265,961,484
Liabilities			
Non-current liabilities			
Borrowings	7,081,685,102	6,494,079,650	2,262,667,000
Total non-current liabilities	7,081,685,102	6,494,079,650	2,262,667,000
Current liabilities			
Trade and other payables	30,243,533	55,096,272	48,165,641
Borrowings	–	914,876	4,602,908,197
Total current liabilities	30,243,533	56,011,148	4,651,073,838
Total liabilities	7,111,928,635	6,550,090,798	6,913,740,838
Total equity and liabilities	13,999,383,843	12,959,496,342	15,179,702,322

THE OFFERING

The following summary contains some basic information about the Notes and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this summary. For a complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular.

Issuer	Dongfeng Motor (Hong Kong) International Co., Limited. The Legal Entity Identifier of the Issuer is 30030005VDXV3TILVP93.
Guarantor	Dongfeng Motor Group Company Limited.
2021 Notes	EUR500,000,000 1.150 per cent. Guaranteed Notes due 2021.
2023 Notes	EUR100,000,000 1.606 per cent. Guaranteed Notes due 2023.
Guarantee of the Notes	Payment of all sums from time to time payable by the Issuer in respect of each series of Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price	2021 Notes: 99.947 per cent. 2023 Notes: 100.00 per cent.
Form and Denomination	Each series of Notes will be issued in registered form in the denomination of EUR100,000 and integral multiples of EUR1,000 in excess thereof.
Interest	The 2021 Notes will bear interest from and including 23 October 2018 at the rate of 1.150 per cent. per annum, payable annually in arrear on 23 October in each year subject as provided in Condition 6 (*Payments*) of the Terms and Conditions. The 2023 Notes will bear interest from and including 23 October 2018 at the rate of 1.606 per cent. per annum, payable annually in arrear on 23 October in each year subject as provided in Condition 6 (*Payments*) of the Terms and Conditions.
Issue Date	23 October 2018.
Maturity Dates	2021 Notes: 23 October 2021 2023 Notes: 23 October 2023
Status of the Notes	Each series of Notes will constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Status of the Guarantee of the Notes	The Guarantee of the Notes will constitute direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. See "*Risk Factors – Risks relating to the Notes and the Guarantee of the Notes*".
Negative Pledge	Each series of Notes will contain a negative pledge provision as further described in Condition 3(a) *(Negative Pledge)* of the Terms and Conditions.
Redemption at Maturity	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the relevant Maturity Date, subject as provided in Condition 6 (*Payments*) of the Terms and Conditions.
Taxation	All payments of principal and interest in respect of each series of Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where such withholding or deduction is made by the Issuer or (as the case may be) the Guarantor by or within the PRC at the rate applicable on 16 October 2018 (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in receipt by the Noteholder after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. If the Issuer or (as the case may be) the Guarantor is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate; or (ii) by or within Hong Kong, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the "**Additional Tax Amounts**") as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note in the circumstances set out in Condition 7 (*Taxation*) of the Terms and Conditions.

Redemption for Taxation Reasons......................................	Each series of Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with the Terms and Conditions (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (i) (A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or (ii) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Tax Amounts as provided or referred to in the Guarantee of the Notes as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it, **provided**, **however**, **that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.
Redemption for Relevant Event...	At any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions), each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of that Noteholder's Notes on the Put Settlement Date at 101 per cent. (in the case of a Change of Control) or 100 per cent. (in the case of a No Registration Event) of their principal amount, together with accrued interest to such Put Settlement Date, as further described in Condition 5(c) (*Redemption for Relevant Event*) of the Terms and Conditions.
Make Whole Redemption.............	The Issuer may redeem the Notes in whole, but not in part, at any time upon giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), at a redemption price equal to their Make Whole Amount together with interest accrued but unpaid to the date fixed for redemption, as described in Condition 5(d) (*Make whole redemption*) of the Terms and Conditions.

Events of Default	Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions, the Trustee at its discretion may and, if so requested in writing by Noteholders of at least one quarter of the aggregate principal amount of the outstanding Notes of the relevant series or if so directed by an Extraordinary Resolution (as defined in the Terms and Conditions), shall (subject to the Trustee having been indemnified and/or provided with security and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Notes of the relevant series to be immediately due and payable, whereupon the Notes shall become immediately due and payable at their principal amount together with accrued interest (if any) without further action or formality. See *"Terms and Conditions of the Notes – Events of Default"*.
Cross-Default	Each series of Notes will contain a cross-default provision as further described in Condition 8(c) (*Events of Default – Cross-default of Issuer, Guarantor or Subsidiary*) of the Terms and Conditions.
Clearing Systems	Each series of Notes will be represented by beneficial interests in a Global Note Certificate in registered form, which will be registered in the name of a nominee of, and deposited on or about the Issue Date with a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Note Certificates will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, certificates for the relevant series of Notes will not be issued in exchange for beneficial interests in the relevant Global Note Certificate.
Clearance and Settlement	The Notes have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: 2021 Notes: XS1886120168 2023 Notes: XS1886122453 Common Code: 2021 Notes: 188612016 2023 Notes: 188612245
Governing Law	English law.
Trustee, Principal Paying Agent, Paying Agent, Registrar and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
Listing	Application has been made to the Euronext Dublin for the approval of this Offering Circular as Listing Particulars. Application has been made to the Euronext Dublin for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU.

Rating	The Notes are expected to be rated "A2" by Moody's and "A" by S&P. Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agencies.
Further Issues................................	Subject to compliance with Condition 3(b) and 3(c) where applicable, the Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deeds, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing for reporting to the NDRC and the registration deadline for SAFE) so as to form a single series with the Notes of the relevant series, as the case may be, as further described in Condition 14 (*Further Issues*) of the Terms and Conditions.
Use of Proceeds	See "*Use of Proceeds*".

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. PRC laws and regulations may differ from the laws and regulations in other countries. Additional risks not described below or not currently known to us or that we currently deem immaterial may also adversely affect the value of the Notes. We believe that the risk factors described below represent the principal risks inherent in investing in the Notes, but we may not be able to pay interest, principal or other amounts on or in connection with any Notes or to satisfy our obligations under the Notes or transaction documents in connection with the Notes for reasons which we may not consider as significant risks based on information currently available to us, which we may not currently be able to anticipate or which we may currently deem immaterial. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

We do not represent that the statements below regarding the risk factors of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Risks Relating to Our Business

If our products are unable to gain market acceptance, our sales and profitability may be adversely affected, which will have a negative impact on our market position, financial condition and results of operations.

Introducing products that appeal to customers is critical to our success. We must modify our existing products and develop new models which meet our customers' preferences in a timely manner. We develop new products through upgrading and modifying existing models and introducing new models. If any of our new products are not well received by the market, or if we are unable to develop and manufacture competitive products in a timely manner, our market position and financial situation could be significantly undermined. In particular, we have significant investment in the development of our own proprietary brands. The development of a new brand is highly dependent on the success of our marketing strategies which we believe will require our consistent monitoring and of which we need to react with flexibility to accommodate changes to our customers' preferences. The benefits of our efforts are likely to be realised only in the long term. If our proprietary brands of vehicles fail to achieve the expected sales, we may be unable to recover our development, production and marketing costs, thereby leading to a decline in our profitability.

The expansion of our production capacity may exceed the demand for our products if the anticipated growth in the automobile markets fails to materialise or if our products do not achieve satisfactory sales. Conversely, our expansion of production capacity may fail to meet the increasing demand for our products, in which case, our market share may be eroded by other vehicle manufacturers who provide competitive products. Any failure to properly align production capacity with customer demand could result in an adverse effect on our market position and financial results. If the demand for any of our products is lower than anticipated or if there are unforeseen changes to consumer preferences, our sales and profitability could suffer, we may not achieve satisfactory or sustainable returns from our investments in the expansion of production capacity and our development of new products and we could incur higher production costs, all of which could have a material adverse effect on our market position, financial condition and results of operations.

If we fail to market and distribute our products successfully through our sales and service stations, our results of operations and market position could be adversely affected.

Our success in selling automobiles depends on our ability to market and distribute our products effectively through our distribution networks. As of 30 June 2018, we had established a strong sales network with a presence in 31 provinces, autonomous regions and municipalities in the PRC. We have more than 7,200 dealers and 12,000 service stations as at 30 December 2017. We cannot assure you that all such dealers and service stations will comply with our services level and other specifications and the contractual obligations imposed on them. In addition, we cannot assure you that we will be able to effectively manage our rapidly growing distribution network. Sales of our passenger vehicles may be adversely affected if any of these sales and service stations fails to meet our requirements or provide quality services to our customers, or if we fail to adequately manage such sales and service stations. If we are unable to build or maintain well-developed, well-managed distribution networks, our market position, financial condition and results of operations may be adversely affected.

If we fail to protect or cultivate our brand image, or if our joint venture partners fail to protect their brands or corporate images, our financial results and market position may be adversely affected.

We rely heavily on the cultivation and maintenance of brand image, including our proprietary brand and the brands owned by our joint venture partners, in the development of our business. The success of our brand and corporate image depends in part on a number of factors that are beyond our control, such as evolving customer demands and changing market trends. In addition, our joint venture partners' businesses involve extensive production and sales on a global basis and are, therefore, exposed to a wide range of product liability and other claims or disputes on a global basis over which we may not have control. Any major claim or dispute against any of our brands or those of our joint venture partners or any significant adverse change to the operations or financial condition of our Group or our joint venture partners may damage our brand and corporate image, which in turn could adversely affect the market acceptance, sales and profitability of our vehicles. If our joint venture partners fail to protect their brands or corporate image or if we are unable to protect our own brand image, our market position, financial condition and results of operations may be adversely affected.

The operations of our principal joint venture companies may be adversely affected if our Company and its subsidiaries fail to reach consensus on important decisions with our joint venture partners.

We operate some of our business through jointly-controlled entities ("**JCEs**"), such as Dongfeng Motor Co., Ltd (a joint venture with Nissan Motor Co., Ltd), Dongfeng Peugeot Citroën Automobile Company Ltd ("**DPCA**") (a joint venture with the PSA Peugeot Citroën Group ("**PSA**")), Dongfeng Honda Automobile Co., Ltd (a joint venture with Honda Motor Co., Ltd), and Dongfeng Renault Automobile Company Limited (a joint venture with Renault S.A.). These JCEs were jointly established by our Company and joint venture partners that are not under our control.

Under the joint venture agreements governing our JCEs, the number of directors appointed by us and the relevant joint venture partner are proportionate to our respective equity interests in the relevant JCE. Important decisions, including those relating to production volume, the selection and introduction of new products and production capacity expansion, can only be made with the unanimous consent of the directors of each JCE. We cannot assure you that the future strategies, policies or objectives we propose will be adopted entirely by all of our JCEs. Moreover, in the event that we fail to resolve any differences with our joint venture partners in the decision-making process of the relevant JCEs, the business and results of operations of such JCEs may suffer, which may in turn delay the implementation of our business plan or adversely affect our market position. Our joint venture partners may also decide to terminate their relationships with us in any joint venture or sell their interest in any of these joint ventures and we may be unable to replace such joint venture partners or raise the necessary financing to purchase such joint venture partner's interest. Although we have not had any material disputes with our joint venture partners, we cannot assure you that material disputes will not arise in the future. Any such material dispute could have an adverse effect on our financial condition and results of operations.

Deterioration in the business performance of our principal JCEs could adversely affect our consolidated financial condition and results of operations.

Our businesses are conducted primarily through our principal JCEs, which contribute to a substantial portion of our consolidated revenue and profit on a proportionate consolidated basis. If the business operations of any principal JCE encounters serious problems, or fails to achieve expected results, our consolidated financial condition and results of operation may be materially adversely affected.

In addition, our principal JCEs rely on our joint venture partners' technical resources to upgrade our products. If our JCEs are unable to access the technical resources of our joint venture partners or if our joint venture partners provide such resources to our competitors, our JCEs' ability to upgrade existing models and launch new models may be adversely affected. Failure to update our existing models or introduce new models could negatively affect our competitiveness and sales of our products.

We may not be able to protect our intellectual property rights.

Our commercial success depends in part on our ability to obtain and maintain trade secrets, patents and other intellectual property rights for our products, technologies, designs and know-how as well as our ability to successfully protect our intellectual property rights and to defend ourselves against third-party challenges. If we fail to protect our intellectual property rights, we may lose our competitiveness, or be required to incur additional development or production costs to maintain our competitiveness. We rely on trade secret protection and confidentiality and non-competition agreements to safeguard proprietary know-how that is not patentable or for which patents are difficult to enforce, and we cannot assure you that we will be able to enter into new trade secret protection and confidentiality and non-competition agreements where necessary or desirable or renew the existing ones upon expiration.

In addition, the protection of our intellectual property rights in the PRC may not be as effective or certain as in more developed countries. Although the PRC has established laws and regulations to protect intellectual property rights, the enforcement of such laws and regulations may be insufficient to provide adequate protection of our intellectual property rights. Our business may be adversely affected if we are unable to effectively protect our patents from unauthorised use by third parties. Moreover, we cannot assure you that any patent or registered trademark owned by, or licensed to, us will be enforceable or will not be invalidated, circumvented or otherwise challenged in the PRC or foreign countries or that the rights granted thereby will provide competitive advantages to us or that any of our pending or future patent applications will be issued within the scope sought by us, if at all.

Furthermore, we have historically obtained, and may continue to obtain, technologies and other intellectual property from third parties through acquisition or licensing arrangements. We cannot assure you that there will not be any dispute between our Group and a foreign vendor of technologies, which may have a material and adverse effect on our business prospects, results of operations and financial condition. If we cannot use any of such technologies or intellectual properties as we expect, there could be a material adverse effect on our ability to keep up with technological developments. In addition, if we fail to maintain or renew any significant technology or other intellectual property licensing arrangements for any reason, our business, results of operations and financial condition could be materially and adversely affected.

In the course of our business, we may receive claims of infringement or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties. If any claims are brought against us for such infringement, irrespective of whether such claims have merit, we could be required to expend significant resources in defending against such claims. Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert the attention of our management and key personnel from our business operations. If there is a successful claim of intellectual property infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sales of certain products, develop non-infringing technology or enter into costly royalty or license agreements on an ongoing basis. Parties asserting infringement claims may also be able to obtain injunctions against us, our dealers or our end-user customers regarding certain products or services we offer.

Any of these events or occurrences may materially and adversely affect our business, financial condition and results of operations.

We rely on technology owned by our joint venture partners, the loss of which could adversely affect our business.

A number of our joint venture agreements contain non-competition provisions that restrict, subject to certain exceptions and limitations, our joint venture partners from engaging in the production and distribution of joint venture products in specific markets during the term of the agreement and for a limited period following the termination of such agreement. Our joint venture agreements generally contain provisions for termination under certain circumstances. If a termination were to occur, we may not be able to find an equivalent partner or achieve the affected joint venture's objectives on our own, which could have an adverse effect on our business, financial condition or results of operations.

If we fail to obtain the necessary PRC government approvals and consents in respect of our future expansion projects or new Sino-foreign joint venture companies, our financial condition and results of operations may be adversely affected.

Automobile companies in the PRC are required to obtain various permits, approvals and consents from PRC government authorities for establishing Sino-foreign joint venture companies, launching new plants or increasing production capacity in existing plants. Any change to the business scope of any existing Sino-foreign joint ventures must be approved by the relevant PRC government authorities. We cannot assure you that we will be able to obtain all relevant permits, approvals and consents for our future projects or our future plans for expanding our production capacity. If the required permits, approval or consents are not granted or are otherwise delayed, the establishment and operation of our new Sino-foreign joint ventures or expansion of our existing businesses or production capacity may not materialise or may be delayed, which may adversely affect our future development, financial condition and results of operations.

Our operations and financial performance could be adversely affected if we fail to manage our purchase costs or obtain raw materials and auto parts on a timely basis or at reasonable prices.

In general, we reduced our costs in purchasing auto parts and raw material through the implementation of cost control policies such as streamlining the supply chain and localisation of our production. We have also adopted certain cost control measures such as technological improvement and enhancing production efficiency. As a result, we have generally been able to manage price fluctuations of raw material and auto parts without having to pass on any additional costs to our customers. Although we have been able to maintain our profit margin through implementing this cost control policy, we cannot assure you that our cost reduction measures in connection with our operations, such as managing inventory and raw material, reducing waste, and implementing energy conservation policies will be successful or sustainable. In particular, our ability to maintain cost efficiencies will depend on our ability to source raw materials and auto parts in a timely manner and at reasonable prices.

Raw materials and auto parts for our automobile manufacturing activities and operations are, and will continue to be, sourced from companies within our Group, our associated companies and third party suppliers. Although we usually source our important raw materials or components from several suppliers for each raw material or component in order to ensure a stable supply, we cannot assure you that our suppliers will always adequately serve our needs in a timely manner or at reasonable prices. If there is any significant increases in the price of raw materials or auto parts or if the supply of such raw materials or auto parts is disrupted, we may incur additional costs to maintain our production schedules, thereby decreasing our profitability. These factors could materially and adversely affect the results of our operations.

Our development of businesses such as the new energy vehicles business may not be successful, which may adversely affect our results of operations.

We have made significant investments and will continue to invest resources in the development of new technologies, such as new energy vehicles. Although the revenue and profit contributed by such new energy vehicles was not significant to our revenue and net profit, there are commercial risks associated with these vehicles. In particular, a change in favourable government policies towards new energy vehicles in China could increase the costs of investing in and reduce our revenues and profits from new energy vehicles. We cannot assure you that we will succeed in expanding into this and other business segments to realise and maintain profits in these businesses. If any of these new businesses and operations fail to meet our expectations, our financial condition and results of operations may be adversely affected.

We may not be able to obtain adequate financing for our business in the future.

Our business requires significant capital investment. We made consolidated capital expenditures of approximately RMB3,795 million, RMB3,920 million, and RMB4,475 million for the years ended 31 December 2015, 2016 and 2017, respectively. As we continue to expand our existing production facilities and construct new plants and research and development facilities, we expect that our capital expenditures will continue to increase. In the future, we may be unable to obtain necessary financing or obtain such financing on favourable terms due to various factors beyond our control. Such inability to obtain financing could hinder our expansion plans which could, in turn, adversely affect our results of operations and financial condition.

We may face uncertainties associated with our growth strategy.

Our growth strategy includes organic growth and potential acquisitions. There are uncertainties and risks associated with our growth strategy, including whether we will be able to:

- obtain sufficient funding for our expansion and the enlarged operation;
- obtain necessary permits, licenses and approvals from relevant PRC government authorities on a timely basis;
- recruit, train and retain sufficient qualified personnel;
- identify attractive acquisition targets;
- negotiate acquisitions on favourable terms; and
- integrate the acquired assets or business successfully.

In addition, there are inherent risks with acquisitions and business expansions, and there can be no assurance that we will be able to achieve the strategic purpose of any organic growth or acquisition.

We may be unable to consummate or successfully integrate acquisitions and strategic alliances.

We may from time to time pursue acquisitions and strategic alliances that we believe will complement our current business by expanding into new geographic areas, diversifying our customer base and enabling us to specialise in, expand or enhance technological capabilities. We cannot assure you that we will be able to find suitable acquisition targets or partners with whom to form strategic alliances, and failure to do so in a timely manner or at all may affect our ability to realise our growth objectives. In addition, there are risks and uncertainties related to these activities, including the difficulty of integrating acquired operations, technology and products, diversion of our management's attention from other business concerns, potential unknown liabilities associated with an acquired company, undisclosed risks affecting an acquired company and potential adverse effects on existing business relationships with current customers and suppliers. In addition, any acquisitions could involve the incurrence of substantial additional indebtedness or dilution of the equity interests of our shareholders. We cannot assure you that we will be able to successfully integrate any acquisitions that we undertake or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flow. Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

Any negative impact on the transportation of our products and raw materials could adversely affect our operations and our financial condition.

We depend on a combination of water and land transportation to obtain raw materials and deliver products to our customers. If we cannot secure water and land transportation necessary for the delivery of raw materials to us and our products to our customers or if we are unable to secure economically-feasible alternative methods to transport our products and raw materials during disruptions of transportation systems that are beyond our control, our results of operations may be adversely affected. Any disruption of raw material supply may interrupt our production and could have a negative effect on the competitiveness of our products and our financial conditions.

Our labour costs may increase for reasons such as the implementation of more stringent requirements regarding fixed-term employment, the minimum wage and paid annual leave.

In the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our labour costs were RMB5,599 million, RMB6,184 million, RMB7,292 million, RMB3,465 million and RMB3,550, respectively, equalling 4.4 per cent., 5.0 per cent., 5.8 per cent., 6.0 per cent. and 6.1 per cent., respectively, of our revenue for the same periods. Our labour costs include, among other things, contributions to various defined contribution pension schemes, contributions to medical benefits plans, housing subsidies, termination and early retirement benefits and share-based payments. There have been instances of shortages in the labour supply in industries, including manufacturing, in the PRC. In the event of future labour shortages, we may have difficulties recruiting or retaining labour for our production facilities or may face increasing labour costs. In such event, our business and results of operations may be adversely affected. Labour costs in the PRC are generally expected to increase. As a result of the PRC Labour Contract Law, which became effective on 1 January 2008, the requirements of employers in relation to entry into fixed and non-fixed term employment contracts, dismissal of employees and minimum wage became more stringent. In addition, the National Leisure and Tourism Outline 2013-2020 (the "**Tourism Outline**"), which became effective on 2 February 2013, sets out a timetable regarding mandatory annual leave requirements, according to which all workers in the PRC must be provided with paid annual leave by 2020. As a result of the PRC Labour Contract Law, the Regulations on Paid Annual Leave for Employees and the National Leisure and Tourism Outline 2013-2020, the Group's labour costs (inclusive of those incurred by contractors) may increase. If there is a shortage of labour, or for any reason labour costs in the PRC rise significantly, our expenses are likely to increase and we may have to provide additional benefits to current and future employees, which could materially and adversely affect our business, financial condition and results of operations.

In addition, inflation in the PRC has increased in recent years. Inflation in the PRC increases the costs of labour and the costs of raw materials the Group must purchase for production. Rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's PRC based operations and therefore negatively impact the Group's profitability.

Attracting and retaining senior management and key technical experts may be a challenge for us.

We rely on experienced and talented senior managers and highly skilled technical personnel to operate our businesses and to develop our new products, including our proprietary brand of products. We expect increased competition for senior managers and skilled technical personnel from other automobile companies in the future, driven partly by strong growth in the PRC automobile industry. We cannot assure you that we will be able to recruit suitable candidates or retain our existing senior managers and technical personnel. High turnover of senior management could adversely affect our existing customer relationships, our operations and our development as well as hinder our future recruiting efforts. In addition, we must successfully integrate any new management personnel in order to achieve our operating objectives. Changes in key management positions may temporarily affect our operations as new management will need time and further effort to become familiar with our businesses and our operations. We expect to increase our effort to recruit more industry and technical experts to fulfil our future business plans. If we are unable to recruit and retain experienced senior management and key technical experts in the future, our business operations could be adversely affected.

We may be subject to fines, penalties or other actions resulting from future examinations by PRC regulatory authorities.

We are subject to a wide range of inspections by PRC regulatory authorities from time to time. Accordingly, we may incur fines, penalties or other actions as a result of examinations by PRC regulatory authorities that could adversely affect our reputation, business, financial condition and results of operations. In February 2015, the Communist Party of China's Central Commission for Discipline Inspection ("**CCDI**") announced the result of its inspection of state-owned enterprises in the PRC. In CCDI's announcement, we were named for practices by certain of our officers, including the alleged abuse of public funds and opening business by relatives of senior management staffs in violation of disciplines. In November 2015, Mr. Zhu Fushou, the former executive director and president of the Group, was under investigation for suspected serious disciplinary violations. Mr. Zhu has since been removed from his position as executive director and president. In January 2017, Mr. Zhong Bing, the former employee supervisor of the Group, was removed from his position for suspected violation of laws. While we have disciplined and/or dismissed the relevant individuals and implemented management reforms, and the results of this investigation did not have a material adverse effect on our results of operations and financial condition, we cannot assure you that we will not incur any fines or penalties or be subject to similar actions in the future.

We may not be able to detect and prevent fraud, corruption or other misconduct committed by our employees or third parties. Our Group is exposed to fraud, corruption or other misconduct committed by our employees, agents, customers or other third parties that could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm its reputation. In addition, our employees, agents, customers or other third parties may be subject to investigations by PRC authorities, whose occurrence or outcome may be difficult to predict. In particular, the National Audit Office of the People's Republic of China (the "**NAO**") is currently conducting a routine audit in relation to the Group's financial results for the year ended 31 December 2017, and is expected to make an announcement regarding the same around October or November 2018. As at the date of this Offering Circular, to our best knowledge, we are not aware that the NAO has indicated any material or major defects in the Group's internal control systems or misstatements in its financial statements that require improvement measures to be taken. However, there is no assurance that the announcement will not subsequently set out defects in the Group's internal controls or misstatements in its financial statements, or that the Group's directors and senior management may not be subject to litigation or investigation as a result of the announcement and its contents. Our management information systems and internal control procedures are designed to monitor our operations and overall compliance, and we from time to time examine our internal control and corporate governance policies and procedures in order to strengthen our ability to detect and prevent similar and other misconduct. Nevertheless, we may be unable to identify non-compliance and/or suspicious transactions in a timely manner or at all. Further, it is not always possible to detect and prevent fraud, corruption and other misconduct.

Any failure to implement and maintain effective quality control systems at our manufacturing facilities could subject us to product liability and warranty claims, which could in turn have a material adverse effect on our business and results of operations.

The manufacture and sales of our products subject us to potential product liability claims if we fail to effectively manage quality control and our products fail to perform as expected, are proven to be defective, or if they cause, result in, or are alleged to have caused or resulted in, personal injuries, or asset damages. Any product liability claim, with or without merit, could prove costly and time-consuming to defend and could potentially harm our reputation and image. Successful product liability claims may require us to pay substantial damages. Furthermore, certain product liability claims may be the result of defects from parts and components purchased from third party suppliers. Such third party suppliers may not be able to indemnify us for the losses resulting from such defects and product liability claims in full or at all. In addition, a material design, manufacturing or quality-related failure or defect in our products or other safety issues could each warrant a product recall by us and result in increased product liability claims and/or regulatory actions.

If we fail to maintain an appropriate inventory level, we could incur more inventory carrying costs or lose sales, either of which could materially and adversely affect our business, financial condition and results of operations.

Due to the number of factors affecting the demand for passenger vehicles, including macroeconomic and microeconomic factors beyond our control, it is difficult to accurately estimate market demand for our passenger vehicles and to manage our inventories accordingly. While we must maintain sufficient inventory, especially finished products, to operate our business successfully and meet market demand, we also strive to avoid excess inventory to reduce inventory carrying costs. Changing demands of end-user customers, inaccurate demand forecasts and time lag between when the raw materials are ordered from our suppliers and when our finished products are sold could expose us to inventory risk. We carry a wide variety of inventory and must maintain a reasonable inventory level of the passenger vehicles. If we do not maintain a sufficient inventory of a particular model to fulfil orders, we may lose orders. On the other hand, excessive inventory levels could lead to additional inventory carrying cost. We cannot assure you that we can manage our inventories effectively and any failure to do so could materially and adversely affect our business, financial condition and results of operations.

Complaints or legal actions initiated by customers, employees and other third parties against us may have a negative impact on our reputation, the brand image of our products and our results of operations.

Given the nature of our business, which typically attracts product liability and other claims, we may become the target of complaints or legal actions. Whether or not such claims or legal actions are substantiated or even if such disputes are resolved successfully and without adverse financial consequences, such claims or legal actions could have a negative impact on our reputation and the brand image, which in turn, could have negative impact on our operation results. If resolutions of those lawsuits and claims are unfavourable to us, our financial position and operating results may be adversely affected.

Under PRC law, we may be subject to liability for losses and injury caused by any of our products if they are found to be defective. Under current PRC law, automobile manufacturers are not required to maintain product liability insurance coverage. Thus any serious incident or accident involving our products could result in financial losses to us.

Any incident of product defects could require us to recall our products, which could jeopardise our reputation and our financial performance.

Under the Provisions on the Administration of Recall of Defective Automobiles (缺陷汽車產品召回管理條例), we have voluntarily recalled an aggregate of 1,792,142 vehicles in 37 batches from 1 January 2015 to 30 June 2018. In February 2016, we announced the recall of 533,350 units of Dongfeng Honda due to defective airbags. In September 2017, we announced the recall of 10,194 units of Dongfeng Peugeot and Dongfeng Citroën due to a safety hazard of seat belt. In addition, we cannot assure you that we will not conduct additional recalls or that there will not be any material complaints or legal actions against us regarding our products in the future. Such events may materially and adversely affect our reputation, results of operations and financial condition.

We have limited insurance coverage.

Insurance companies in China offer limited commercial insurance products. Under PRC law, we are not required to maintain business interruption insurance or litigation insurance. Accordingly, we do not maintain business interruption insurance. Any uninsured loss or damage to property, litigation or business disruption may result in us incurring substantial costs or diverting our resources, which could have an adverse effect on our results of operations. The occurrence of certain incidents, including fire, severe weather, earthquake, war, flooding, power outages and the consequences resulting from them may not be covered adequately, or at all, by our insurance policies. If we incur substantial liabilities that are not covered by our insurance policies, or if our business operations are interrupted for a significant period of time, we could incur costs and losses that could materially and adversely affect our financial condition and results of operations.

There may be defects in our title to, or rights to use, certain properties.

As of 30 June 2018, we owned the land use rights of land in the PRC with an aggregate site area of approximately 43 million square meters and other properties. Any dispute or claim concerning title to the properties we occupy, including any litigation involving allegations of illegal or unauthorized use of such properties, may result in us having to relocate our operations and may materially and adversely affect our operations, financial condition, reputation and future growth. In addition, there can be no assurance that the PRC government will not amend or revise existing property laws, regulations or rules to require additional approvals, licenses or permits, or to impose stricter requirements on us to obtain or maintain relevant title certificates for the properties that we occupy.

Defaults by counterparties that we do business with could adversely affect our financial position and results of operations.

We do business and enter into a wide variety of contracts with different counterparties, including our raw material and auto part suppliers, our joint venture partners and our dealers. We may lose revenue and profits and incur additional operating expenses if our counterparties default on their obligations under such contracts. In the past three years, our Group has not experienced any default by counterparties which had any material adverse effect on our Group's operations and financial condition. However, we cannot assure you that all our counterparties are reputable and creditworthy and will not default against us in the future. With the exception of our joint venture partners, there is limited financial or public information on our counterparties and as such, we are exposed to counterparty risks to the extent that our counterparties fail to fulfil their obligations under the contracts.

Furthermore, we provide credit to some of our long-standing customers with good repayment history. Although we grade our counterparties' credit risk by conducting comprehensive annual assessments of their financial condition, we have experienced payment defaults by some of our customers in the engines and automotive parts sector. If we fail to manage default risks properly, any significant default by our customers could adversely affect our financial position and results of operations.

We face litigation risks in the course of our business.

Our business is subject to the risk of litigation by customers, suppliers, intellectual property rights holders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation can be difficult to assess or quantify. Plaintiffs in such lawsuits may seek recovery of large or indeterminate amounts, and the magnitude of potential losses relating to such lawsuits may remain unknown for substantial periods of time. The cost of defending future litigation may be significant and could negatively affect our operating results if changes to our business operations are required. There could also be negative publicity associated with litigation that could decrease customer acceptance of merchandise offerings regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, any significant litigation could adversely affect our business, financial condition, results of operations or liquidity.

We operate in jurisdictions that are the subject of economic and trade sanctions imposed by the United States, the European Union and other jurisdictions, which may subject us to legal and regulatory risks.

Our international operations may be adversely affected by trade and economic sanctions or other restrictions imposed by the United States or other governments or organisations, including the United Nations, the European Union and their member countries. Some of our subsidiaries have conducted sales of goods in certain countries that are or have been the subject of various country-wide trade or economic sanctions ("**Sanctioned Countries**"). The volume of goods sold in Sanctioned Countries in the aggregate represented less than 1 per cent. of the Group's total sales volume for such goods in each of the years ended 31 December 2015, 2016 and 2017 and the six-month period ended 30 June 2018.

Although we have not been notified that any of our past activities may have violated various sanctions, and we have no present intention to undertake any future business that would cause us, our shareholders or investors to violate or become a target of sanctions laws of the United States, European Union, the United Nations or other applicable jurisdictions, we can provide no assurances that our past or future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the United States authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the United States, European Union, the United Nations or any other governmental entity were to determine that any of our activities constitute a violation of the sanctions they impose or provide a basis for a sanctions designation of our Group. Furthermore, because many sanctions programmes are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed sanctionable. Any adverse finding or judgment of our business activities in or with any of the Sanctioned Countries may cause us to suspend such activities or pay an associated penalty, which may have a material adverse impact on our business, results of operations and financial condition. Further, it is possible that we may be subject to negative media or investor attention as a result of our activities or our presence in these Sanctioned Countries.

Our results of operations and manufacturing activities may be adversely affected if there are failures in or inefficient management of our information technology system.

Our information technology system forms a key part of our production, sales and marketing process and any disruptions to it could have a negative impact on our operations. In the past three years, we have not experienced any malfunction of our information technology system that led to any material disruption to our operations. However, we cannot guarantee that we will not incur any damage or interruption caused by power outages, computer viruses, hardware and software failures, telecommunications failures, fires and other similar events to the information technology system in the future. If serious damage or significant interruption occurs, our operations may be disrupted and our financial condition and results of operations may be adversely affected. Furthermore, if our operations are disrupted by the introduction of a new information technology system, including migration from an existing system, our financial condition and results of operation may be similarly adversely affected.

Foreign currency rate fluctuations may have an adverse impact upon our financial conditions and results of operations.

While our revenue is denominated in RMB, certain raw materials and key auto parts used by us are imported from Japan and other foreign countries. We have entered into purchase contracts with suppliers whereby payments for such imports will primarily be settled in U.S. dollars. As a result, depreciation of RMB against the U.S. dollar could increase our costs of raw materials and auto parts, which in turn could adversely affect our financial condition and results of operations. On the other hand, any appreciation of RMB could cause imported products which compete with our products to be relatively less expensive for Chinese consumers, which could impair our competitive advantage in the PRC automobile market. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. The People's Bank of China surprised markets in August 2015 by thrice devaluing the Renminbi, lowering its daily mid-point trading price significantly against the U.S. dollar. The currency devaluation of the Renminbi was intended to bring it more in line with the market by taking market signals into account. The Renminbi depreciated significantly against the U.S. dollar following the August 2015 announcement by the PBOC. In January and February 2016, Renminbi experienced further fluctuation in value against the U.S. dollar. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long-term. Even though substantially all of our revenue and expenses are denominated in RMB, fluctuations in exchange rates may nonetheless in the future adversely affect the value of our net assets, earnings or any declared dividends. Also, any unfavourable movement in the exchange rate may lead to an increase in our costs or a decline in sales, which could materially and adversely affect our business, financial condition and results of operations.

Any loss of, or significant reduction in, preferential tax treatment and government grants in the PRC could adversely affect our financial condition.

We and some of our subsidiaries receive preferential tax treatment as high and new technology enterprises, providing us with a lower tax rate than would not otherwise be subject to. Our effective income tax rate for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 was 9.6 per cent., 8.1 per cent., 7.2 per cent. and 10.1 per cent., respectively. We plan to apply for extension of such preferential tax treatment, but there can be no assurance that we will be granted such extensions. The failure to receive such extensions would result in an increase to our effective income tax rate. To the extent that there are any changes in, or withdrawals of, any preferential tax treatment applicable to us, our tax liability would increase correspondingly. In addition, the PRC government from time to time adjusts or changes its policies on value added tax, business tax and other taxes. Such adjustments or changes, together with any uncertainties resulting therefrom, could have an adverse effect on our results of operations.

Furthermore, we received government grants in the amount of RMB309 million, RMB427 million, RMB771 million and RMB115 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively. The amounts of and conditions (or the lack thereof) attached to such grants were determined at the sole discretion of the relevant government authorities. We cannot assure you that we will be eligible to continue to receive such government grants or that the amount of any such grant will not be reduced in the future. Even if we continue to receive such grants, we cannot assure you that the grants will be unconditional or that any conditions attached to the grants will be as favourable to us as they have been historically. Any decrease in the amounts of government grants we receive or additional conditions attached to such grants could have an adverse effect on our results of operations.

Non-compliance with PRC environmental regulations could result in significant monetary damages, fines or other liabilities as well as negative publicity and damage to our brand name and reputation.

We are subject to national and local environmental regulations applicable to us in the PRC. Our manufacturing processes generate noise, waste water, and gaseous and other industrial wastes. In the event any such processes do not comply with present or future environmental regulations, we may be subject to governmental inspections or penalties, civil liabilities or business interruptions, and our management might be subject to related liabilities. Non-compliance with relevant environmental regulations could subject us to adverse publicity and damage to our brand name and reputation. In addition, the costs of compliance with any more stringent regulations adopted in the future could be substantial and have a negative effect on our results of operations.

Some of the financial information presented in this Offering Circular does not reflect recent acquisitions and, accordingly, the financial information for some periods are not the directly comparable to the financial information for other periods.

The financial information as at and for the year ended 31 December 2015 presented in this Offering Circular has not been restated to reflect the impact of the 2017 Acquisition and the 2018 Acquisition and the financial information as at and for the years ended 31 December 2016 and 2017 presented in this Offering Circular has not been restated to reflect the impact of the 2018 Acquisition. Accordingly, investors must exercise caution when using the consolidated financial information of the Guarantor as at and for the years ended 31 December 2015, 2016 and 2017 and as at and for the six months ended 30 June 2018 to evaluate the Group's financial condition and results of operations.

The financial information of the Issuer as at and for the year ended 31 December 2015 presented in this Offering Circular has not been restated to reflect the impact of the T Engineering Acquisition. Such financial information is not directly comparable to the financial information as at and for the years ended 31 December 2016 and 2017. Accordingly, investors must exercise caution when using the consolidated financial information of the Issuer as at and for the years ended 31 December 2015, 2016 and 2017 to evaluate the Issuer's financial condition and results of operations.

See "Summary Consolidated Financial Information of the Guarantor" and "Summary Financial Information of the Issuer".

Risks Relating to the PRC Automobile Industry

The global economy is facing risks from the prolonged effects of the global financial crisis, which may adversely affect the PRC economy and our business and results of operations.

Our business is inherently subject to general macroeconomic conditions, governmental policies and market fluctuations in the PRC. It is expected that the pace of growth of China's economy will be slower in 2018 and future years as compared to previous years as a result of several factors, which include continued global economic volatility, geopolitical risks as well as the performance of certain major developed economies in the world, such as the United States and the European Union, which have resulted and may continue to result in downward pressure on China's economic growth. For example, on 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union. On 29 March 2017, the United Kingdom notified the European Council of its intention to withdraw from the European Union in accordance with Article 50(2) of the Treaty on European Union. There is still substantial uncertainty relating to the implementation of the United Kingdom's exit or its impact on the economic conditions of other parts of the World, such as China's, including but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling and euro against other leading currencies) and a possible economic recession involving more countries and areas. At the same time, the trade dispute between the PRC and the United States and the increasing amount of the tariff that the United States plans to impose on Chinese imports may have an adverse effect on the global and the PRC economies resulting in continuing uncertainty for the overall prospects for the global and the PRC economies this year and beyond. The reduced demand for exports produced in the PRC, reduced levels of foreign and domestic investment in the PRC and decreased consumer confidence may result in a slowdown in growth in the markets of the PRC. Any slowdown in the PRC economy may adversely affect consumer confidence and disposable income in China, result in a significant reduction in our potential customers and cause a significant increase in default risk of our existing customers, which could in turn have an adverse effect on the Group's businesses, financial conditions and operating results, as well as the Group's future prospects.

Automobile production volume and sales are heavily dependent on economic policies and market sentiment. The Chinese automotive industry has experienced rapid growth in recent years. However, inflation, higher interest rates, tighter bank lending, lifting of consumer subsidies and buying restrictions in congested cities have contributed to a more modest environment, resulting in the sharp slow-down in automobile sales volume growth rate in the first half of 2018. Any significant reduction in automobile production and sales could have a material and adverse effect on our business. There can be no assurance that market conditions, government policies and other factors leading to the existing slowdown in demand for automobiles will not continue. The decline in demand for automobiles could directly and adversely affect demand for our products and hence our business, financial condition and results of operations.

Increasing competition in the PRC automobile market could have an adverse impact on our ability to maintain competitiveness.

Increased consumer purchasing power in China has resulted in significant growth in the demand for automobiles. Such growth has encouraged, and is likely to continue to encourage, foreign competitors, Sino-foreign equity joint ventures established in the PRC and new domestic auto companies to expand their production capacity. Our current market share and profit margin could be diluted or reduced if there are price reductions caused by increased competition. The pricing, recognition and loyalty to our brand of products and the financial and technical resources allocated to our products may be materially and adversely affected if competing automobile products, domestic or foreign, gain a competitive advantage.

Volatility in demand in China for automobiles could adversely affect our results of operations.

Demand for automobiles in China and the rest of the world is cyclical in nature and is affected by various factors, including sales and financing incentives, costs of raw materials, parts and components, cost of fuel, environmental concerns and governmental regulations, including tariffs, import regulation and other taxes. Fluctuations in demand may lead to lower vehicle sales and increased inventory, which may result in further downward price pressure which will inevitably adversely affect our financial condition and results of operations.

Over the years, we have increased our production capacities in anticipation of a continuous increase in demand for automobiles in the PRC. Any slowdown in demand for automobiles in the PRC may lead to an inventory surplus and could result in a significant under-utilisation of our production capacity, which could in turn, result in diminished returns to the substantial resources invested in the expansion of our production capacities. If these events occur, our results of operations and financial condition could be materially and adversely affected.

The production and profitability of PRC automobile manufacturers may be adversely affected by changes in the regulatory environment.

We are subject to various laws, rules and regulations in the PRC imposed at both the national and regional levels that regulate or affect the PRC automobile manufacturing industry and automobile components and parts manufacturing industry, including: (i) crash test requirements and other safety compliance standards in relation to automobile, auto parts and components; (ii) emission standards; (iii) maximum fuel consumption standards; (iv) automobile recall requirements; (v) noise, waste, discharge and other pollution controls relating to manufacturing of automobiles; and (vi) market entry requirements and/or minimum production requirements for automobile and automobile components and parts manufacturers. All models of automobiles manufactured must be submitted to, approved and announced by the MIIT. This approval process can be lengthy and may adversely impact on our ability to introduce new products in a timely manner. Accordingly, any delay in the approval process can limit our flexibility to respond to market conditions or competition in a timely manner. In addition, the expenses of complying with the relevant policies and procedures in the approval process may increase our costs.

Furthermore, existing PRC automobile industry policies impose regulations on investment by foreign vehicle manufacturers in vehicle production projects in the PRC. If these regulations were relaxed, there could be a higher level of participation by foreign vehicle manufacturers in the PRC automobile market, which in turn could increase the level of competition throughout the market. Increased competition could lead to lower vehicle prices and profits for vehicle manufacturers, which could have a material adverse effect on the financial condition and results of operations of PRC domestic automobile manufacturers like us.

Our operations are sensitive to changes in the PRC government's policies relating to all aspects of the automobile industry. The imposition of additional or more stringent requirements for product design could result in substantial increases in the cost to our automobile and/or automobile components and auto parts designs. In addition, our failure to comply with such laws and regulations may result in fines, penalties or lawsuits, which could have a material adverse effect on our financial condition and results of operations.

Volatility in fuel prices may adversely affect demand for automobiles.

Fuel prices are inherently volatile and cyclical. Increases in fuel prices may have an adverse impact on China's economy and thereby result in (i) a slowdown for automobile demand; (ii) an increase in our production costs due to the increase in costs of petrochemical products; (iii) a decrease in demand from customers for purchasing automobiles due to increased operating costs and (iv) change to our customers' preferences. If fuel prices increase or remain at high levels in the future, consumers may choose to use alternative means of transportation which may adversely affect the demand for our products and which may have a negative impact on our sales and profitability.

There has been intensified anti-trust law enforcement activities in China's automobile industry, and should we be subject to such enforcement actions, our reputation may be damaged and our results of operations may be materially and adversely affected.

The PRC government has intensified the enforcement of the Anti-Monopoly Law ("**AML**") in recent years, which has affected a broad range of industries. It has been reported in the media that in anticipation of, or in response to, potential or pending investigations, certain foreign automobile manufacturers have reduced the prices of their passenger vehicles or automobile parts and components sold in China. These and other price reductions as a result of AML enforcement actions could cause a general downward pricing trend in the market, which may in turn negatively affect the profitability of, or otherwise have a material and adverse effect on, the business automobile companies, including us. In addition, certain high-profile investigations have targeted foreign multinational companies and PRC domestic companies, resulting, in some cases, in fines of hundreds of millions of Renminbi. In September 2015, Dongfeng Nissan, our joint venture with Nissan Motor Corp, was fined RMB123 million by the NDRC for alleged price fixing with its dealers. We cannot assure you that we will not be subject to the scrutiny of, or implicated in, any AML enforcement actions in the future. Should we be subject to further investigation or enforcement actions, our reputation may be damaged and our results of operations may be materially and adversely affected.

Stricter emission standards may reduce the demand for automobiles.

In order to control the level of pollution, Chinese cities have recently begun implementing stricter emission standards. For example, on 23 January 2013, the Beijing Municipal Environmental Protection Bureau issued new emission standards for motor vehicles, effective on 1 February 2013, to reduce the city's air pollution. This emission standard is applicable to new automobiles to be sold and those that have yet to receive license plates. Stricter emission standards for automobiles sold in the PRC may also be adopted in other cities in the PRC in the future. The implementation of such standards may reduce the demand for automobiles or increase our costs of compliance and may adversely affect our business, financial condition and results of operations.

Anti-congestion regulations and ordinances in certain Chinese cities may limit local demand for automobiles. To reduce urban traffic congestion, certain Chinese cities have adopted urban regulations and ordinances that limit new automobile registration or restrict automobile use. For example, in December 2010, the Beijing municipal government issued measures limiting the number of new automobile license plates to be issued per year. Other Chinese cities, including Hangzhou, Shanghai, Guangzhou and Guiyang have also imposed similar restrictions on the issuance of automobile license plates. These and any other future anti-congestion ordinances in the markets for our passenger vehicles may limit the ability of potential customers to purchase automobiles and, in turn, could reduce our automobile sales, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the PRC

Changes in political or economic policies, and a slowdown in the PRC's economy may have an adverse effect on our results of operations and financial conditions.

The PRC economy differs from the economies of most developed countries in many aspects, including its structure, amount of government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, rate of inflation, trade balance position and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy, as well as any potential reorganisation or re-allocation of such assets, by the PRC government could materially and adversely affect our business. The PRC government continues to play a significant role in regulating the industry development by imposing relevant policies. It also exercises significant control over PRC economic growth through allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

The growth of our businesses depends significantly upon the continuation of economic development and growth in the PRC. The PRC has experienced rapid economic development in the last decade, but there have been signs of a slowdown in economic growth in recent years, and there is no assurance that economic growth will continue at such rates either in the PRC generally or in the particular areas in which our operations and investments are located. A sustained period of slower growth in the PRC could have a material adverse effect on our financial condition, results of operations and prospects. In the past, the PRC government has implemented various economic reforms and administrative measures to restrain economic growth rates that were considered unsustainably high and to calm inflation fears. Such actions may result in an economic slowdown which could have negative macroeconomic effects in the PRC and PRC-related markets. Specific actions taken by the PRC government in recent years include raising the deposit reserve requirements for banks, directing banks to reduce extending loans to overheating sectors of the economy such as the property industries, tightening and enforcing restrictions on land use to reduce new property investment and infrastructure projects, and taking measures to reduce speculative currency inflows which may be invested in construction and related industries. Some of these reforms and measures benefit the overall PRC economy, but may also have a material adverse effect on us.

An actual slowdown in the economy or any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and our ability to make corresponding adjustments, could result in a material adverse effect on our business and operating results.

Currency exchange restrictions may limit our ability to receive and use our revenues effectively.

Our revenues are denominated in RMB and certain portions of our expenses are denominated in other currencies. We may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including payment of dividends declared, if any. Under the PRC's existing foreign exchange regulations, our Company is able to pay dividends in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements and payment of necessary withholding taxes. However, the PRC government could take further measures in the future to restrict access to foreign currencies for current account transactions.

Our foreign exchange transactions under capital accounts continue to be subject to significant foreign exchange controls and the approval of, or registration with, PRC governmental authorities. In particular, loans from foreign lenders must be registered with SAFE, and capital contributions from joint venture partners financing our joint venture companies must be approved by certain government authorities, including the Ministry of Commerce or its local counterparts. These limitations could affect our ability to obtain foreign exchange through debt or equity financing.

The PRC legal system has inherent uncertainties that could adversely affect our business and results of operations as well as the interest of investors in the relevant series of Notes.

As the majority of our business is conducted, and substantially all of our assets are located, in the PRC, our operations are generally affected by and subject to the PRC legal system and PRC laws and regulations.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. In particular, legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in China. The legal system in China is continuing to evolve. Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited weight as precedents.

For example, on 14 September 2015, the NDRC issued the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號), the "**NDRC Circular**"), which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within 10 working days after such issue. Although the non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law, the NDRC may impose penalties on the Guarantor. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by the NDRC. On 17 August 2018, the Guarantor completed the registration with NDRC before the issue of each series of Notes. However, there is no assurance that the Issuer or the Guarantor will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of each series of Notes to the NDRC within the prescribed timeframe. The NDRC Circular does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, therefore there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Issuer, the Guarantor, the Notes or the investors in the relevant series of Notes. There is also no assurance that the registration with the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. The relative inexperience of China's judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation, implementation and enforcement of these laws and regulations involve uncertainties due to the lack of established practice available for reference. We cannot predict the effect of future legal development in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in the Notes. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation has occurred. This may also limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties.

Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to enforce any judgments obtained from non-PRC courts against us in the PRC.

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other developed countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts. However, according to Article 282 of the Civil Procedure Law of the PRC (中華人民共和國民事訴訟法(2017年修訂), the "**Article 282**"), which came into effect on 1 July 2017, the PRC court may review a non-PRC court's judgement or ruling in accordance with the principle of reciprocity. If, upon such review, PRC court considers that such judgement or ruling neither contradicts the basic principles of the law of the PRC nor violate state sovereignty, security and the public interest, it shall rule to recognize its effectiveness.

Adverse changes in foreign relations between the PRC and the jurisdictions where the joint venture partners of our Company and its subsidiaries are incorporated could have a material adverse effect on our results of operations.

Our business may be adversely affected by the foreign relations between the PRC and the jurisdictions in which the joint venture partners of our Company and its subsidiaries are incorporated. Customers' demand for our products can be affected by their sentiment towards jurisdictions in which the joint venture partners of our Company and its subsidiaries are incorporated. If there are adverse changes in foreign relations between the PRC and the jurisdictions where the joint venture partners of our Company and its subsidiaries are incorporated, our financial condition and results of operations can be adversely affected.

The national and regional economies in the PRC and our prospects may be adversely affected by natural disasters, acts of God and the occurrence of epidemics.

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God or terrorism which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC are under the threat of earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome ("**SARS**"), H5N1 avian flu, human swine flu, also known as Influenza A (H1N1), H7N9, Ebola virus or Middle East Respiratory Syndrome ("**MERS**"). For instance, two serious earthquakes hit Sichuan Province in May 2008 and April 2013, respectively, and resulted in significant loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 or the H7N9 avian flu, especially in the cities where we have operations, may result in material disruption of our business, which in turn may adversely affect our financial condition and results of operations. In the recent years, terrorist attacks have been occurred in Xinjiang Autonomous Region, Yunnan Province and Guangdong Province in the PRC. If such terrorist attack occurs in the cities where we have operations, it may result in material disruption of our business, which in turn may adversely affect our financial condition and results of operations.

Risks Relating to the Notes and the Guarantee of the Notes

The Notes and the Guarantee of the Notes are unsecured obligations.

As the Notes and the Guarantee of the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

If the Guarantor fails to submit the Deeds of Guarantee for registration with SAFE or complete the SAFE registration in connection with the Guarantee of the Notes within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payment under the Guarantee of the Notes.

Under the Guarantee of the Notes, the Guarantor will unconditionally and irrevocably guarantee the due payment in full of all sums expressed to be payable by the Issuer under the relevant series of Notes. The obligations of the Guarantor will be contained in the relevant Deed of Guarantee.

The Guarantor is required by the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) to register the Guarantee of the Notes and will register the relevant Deed of Guarantee with the Hubei Branch of SAFE within 15 PRC Business Days (as defined in the Terms and Conditions) after the date of execution of the relevant Deed of Guarantee. Although the non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law, SAFE may impose penalties on the Guarantor. The Guarantor shall use its best endeavours to complete the registration of the Deeds of Guarantee as soon as practicable and in any event within 60 PRC Business Days (as defined in the Terms and Conditions) after the Issue Date and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes. If the Guarantor fails to complete the SAFE registration, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee of the Notes) as domestic banks would require evidence of SAFE registration in connection with the Guarantee of the Notes in order to effect such remittance, although this does not affect the validity of the Guarantee of the Notes itself.

The Provisions on the Foreign Exchange Administration of Cross-Border Guarantees is a recent regulation and its interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Guarantee of the Notes in the PRC. In addition, the administration of the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees may be subject to a certain degree of executive and policy discretion by SAFE. There is no assurance that the registration of the Guarantee of the Notes with SAFE can be completed by the Guarantor or will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the enforceability of the Guarantee of the Notes in the PRC.

The Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

An active trading market for the Notes may not develop, and liquidity of the Notes may be adversely affected if the Notes are held by or allocated to limited investors.

Each series of Notes is a new issue of securities for which there is currently no trading market. Application has been made to the Euronext Dublin for the approval of this Offering Circular as Listing Particulars. Application has been made to the Euronext Dublin for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Euronext Dublin. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. There can be no assurance that certain of the Joint Lead Managers and/or their affiliates will not initially purchase a significant portion of the Notes for asset management and/or proprietary purposes but not with a view to distribution. Liquidity of the Notes will be adversely affected if the Notes are held by or allocated to limited investors. None of the Joint Lead Managers is obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the department store industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the Euronext Dublin, which standards may be different from those applicable to companies in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Notes to be listed on the Euronext Dublin. The disclosure standards imposed by the Euronext Dublin may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what Noteholders are accustomed to.

The ratings of the Notes may be downgraded or withdrawn.

Each series of Notes are expected to be assigned a rating of "A2" by Moody's and "A" by S&P.

The ratings represent only the opinions of the rating agencies and their assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee of the Notes and their credit risks in determining the likelihood that payments will be made when due under the Notes. Ratings are not recommendations to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawn at any time. Neither the Issuer or the Guarantor is obligated to inform Noteholders if the ratings are lowered or withdrawn. Each rating should be evaluated independently of the other rating. A downgrade or withdrawal of the ratings may materially and adversely affect the market price of the Notes and the Issuer's ability to access the debt capital markets.

Changes in interest rates may have an adverse effect on the price of the Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Investment in the Notes is subject to exchange rate risks.

Investment in the Notes is subject to exchange rate risks. The value of Euro against the Renminbi and other foreign currencies fluctuates and is affected by changes in Europe, the United States and international political and economic conditions and by many other factors. All payments of interest and principal with respect to each series of Notes will be made in Euro. As a result, the value of these Euro-denominated payments may vary with the prevailing exchange rates in the marketplace. If the value of Euro depreciates against the Renminbi or other foreign currencies, the value of a Noteholder's investment in Renminbi or other applicable foreign currency terms will decline.

The Issuer may be unable to redeem the Notes.

On certain dates, including the occurrence of an early redemption event and at maturity of the Notes of the relevant series, the Issuer may, and at maturity, will be required to redeem all of the Notes of the relevant series. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes of the relevant series in such event may also be limited by the terms of other debt instruments. Failure to redeem the Notes by the Issuer, in such circumstances, would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Guarantor and its subsidiaries.

The Notes and the Guarantee of the Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and the Guarantor's secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes and the Guarantee of the Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and the Guarantor's subsidiaries, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or the Guarantor. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under applicable law. Each of the Issuer's and the Guarantor's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or Guarantee of the Notes or make any funds available therefore, whether by dividends, loans or other payments.

The Issuer's and the Guarantor's right to receive assets of any of the Issuer's and the Guarantor's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or the Guarantor are creditors of that subsidiary). Consequently, the Notes and the Guarantee of the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and the Guarantor's subsidiaries, other than the Issuer, and any subsidiaries that the Issuer or the Guarantor may in the future acquire or establish.

The Notes and the Guarantee of the Notes are the Issuer's and the Guarantor's unsecured obligations, respectively, and will (i) rank equally in right of payment with all the Issuer's and the Guarantor's other present and future unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and the Guarantor's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders ratably with all of the Issuer's or the Guarantor's other unsecured creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

The insolvency laws of Hong Kong, the PRC and other local insolvency laws may differ from those of another jurisdiction with which the Noteholders are familiar.

As the Issuer is incorporated under the laws of Hong Kong, any insolvency proceeding relating to the Issuer, even if brought in other jurisdictions, would likely involve the Hong Kong insolvency laws. Similarly, as the Guarantor is incorporated under the laws of the PRC, any insolvency proceeding relating to the Guarantor, even if brought in other jurisdiction, would likely involve the PRC insolvency laws. The procedural and substantive provisions of the laws of Hong Kong or the PRC may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated.

If the Issuer or the Guarantor is unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure holders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure holders that it would be on terms that are favourable or acceptable to them.

Each series of Notes will be represented by a Global Note Certificate and holders of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems.

Each series of Notes will be represented by beneficial interests in a Global Note Certificate. Each Global Note Certificate will be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in the relevant Global Note Certificate, investors of the relevant series of Notes will not be entitled to receive individual Note certificates. The Clearing System will maintain records of the beneficial interests in such Global Note Certificate. While the Notes are represented by a Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While each series of Notes is represented by the Global Note Certificate, the Issuer, or failing which, the Guarantor will discharge its payment obligations under the relevant series of Notes by making payments to the relevant Clearing System for distribution to their accountholders.

A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing System to receive payments under the relevant series of Notes. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any such Global Note Certificate.

Holders of beneficial interests in a Global Note Certificate will not have a direct right to vote in respect of the Notes of the relevant series. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing System to appoint appropriate proxies.

The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies.

As a holding company, the Guarantor depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations, including its obligations under the Notes and the Guarantee of the Notes. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. The Guarantor cannot assure that its subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. Some portfolio companies may conclude that it is in the best interest of their shareholders to retain earnings, if any, for use in the operation and expansion of their businesses. The shareholders or the board of directors of a portfolio company (as the case may be) have the power to determine whether to pay dividends based on conditions then existing, including the Company's earnings, financial condition and capital requirements, as well as economic and other conditions the shareholders or the board may deem relevant. In particular, the Guarantor does not maintain complete control over its jointly controlled entities or associates in which it might hold a minority interest. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments on the Notes.

These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Notes and the Guarantee of the Notes.

The PRC government has no obligations under the Notes or the Guarantee of the Notes.

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Notes or the Guarantee of the Notes in lieu of the Issuer or (as the case may be) the Guarantor. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Investment and Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知,財金[2018]23號) (the "**MOF Circular**") promulgated on 28 March 2018 and took effect on the same day, and the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) (the "**Joint Circular**") promulgated on 11 May 2018 and took effect on the same day.

The PRC government as the ultimate majority shareholder of the Guarantor only has limited liability in the form of its indirect equity contribution in the Guarantor. As such, the PRC government does not have any payment obligations under the Notes or the Guarantee of the Notes. Each series of Notes is solely to be repaid by the Issuer and by the Guarantor pursuant to the Guarantee of the Notes, each as an obligor under the relevant transaction documents and as an independent legal person.

Under the Enterprise Income Tax Law, the Issuer may be classified as a "resident enterprise" of China. Such classification could result in unfavourable tax consequences to the Issuer and its non-Chinese Noteholders.

Under the Enterprise Income Tax Law (the "**EIT Law**") of China, an enterprise established outside China with a "de facto management body" within China is deemed a "resident enterprise", meaning that it can be treated as a Chinese enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation (國家稅務總局) (the "**SAT**") on 22 April 2009 (the "**Circular 82**") provides that a foreign enterprise controlled by a company or a company group in China will be treated as a "resident enterprise" with a "de facto management body" located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within China; and (iv) at least half of the enterprise's directors with voting rights or senior management frequently reside within China. On 1 September 2011, the SAT promulgated the Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a Chinese Enterprise or a Chinese Enterprise Group (the "**Circular 45**") to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a Chinese enterprise or Chinese enterprise group". Circular 45 identifies and defines two ways for a foreign enterprise "controlled by a Chinese enterprise or a Chinese enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in China based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

The Issuer and the Guarantor believe that the Issuer is currently not a "resident enterprise", and as confirmed by the Issuer and the Guarantor, as at the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by tax authorities in China that the Issuer is considered as a "resident enterprise" for the purpose of the EIT Law. However, neither the Issuer nor the Guarantor can assure Noteholders that the Issuer will not be deemed a "resident enterprise" under the EIT Law and other applicable implementation regulations and, therefore, be subject to enterprise income tax at a rate of 25 per cent. on its global income in the future.

If the Issuer is not considered to be a "resident enterprise" for EIT Law purposes, the payment of interest on the Notes to the overseas Noteholders will not be subject to withholding tax in China.

Under the EIT Law and the implementation regulations thereunder, China's withholding tax at a rate of 10 per cent. is normally applicable to income derived in China by non-Chinese resident enterprises or individuals, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as deriving in China if the enterprise or the establishment that pays or bears the interest is situated in China. If the Issuer is deemed a Chinese resident enterprise for tax purposes, interest paid to non-Chinese Noteholders may be regarded as deriving in China and therefore be subject to China's withholding tax at a rate of 10 per cent. for enterprise Noteholders and 20 per cent. for individual Noteholders (or a lower treaty rate, if any).

Any gains realised on the transfer of the Notes by such Noteholders may also be subject to China's income tax at a rate of 10 per cent. for enterprise Noteholders or 20 per cent. for individual Noteholders, if such gains are regarded as having derived in China. According to an arrangement between China and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from China's income tax on capital gains derived from a sale or exchange of the Notes.

If a Noteholder, being a non-Chinese resident enterprise or non-Chinese resident individual, is required to pay any Chinese income tax on capital gains on the transfer of the Notes, the value of the relevant Noteholder's investment in the Notes may be materially and adversely affected.

Due to uncertainties in the interpretation of certain provisions of the new VAT regime, the issuance of the Notes may be treated as provision of loans within China that is subject to VAT, and the Guarantor may be required to withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of China.

On 23 March 2016, China's Ministry of Finance and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (Cai Shui [2016] No. 36) (關於全面推開業稅改徵增值稅試點的通知) ("**Circular 36**") which confirms that business tax will be completely replaced by value added tax ("**VAT**") from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon.

It is not clear from the interpretation of Circular 36, if the provision of loans to the Issuer or the Guarantor could be considered as financial services provided within China, which thus could be subject to VAT.

Furthermore, there is uncertainty as to the application of Circular 36. There is no assurance that the Issuer will not be treated as a Chinese tax resident. China's tax authorities could take the view that the holders of the relevant series of Notes are providing loans within China because the Issuer is treated as Chinese tax resident. In which case, the issuance of the Notes could be regarded as the provision of financial services within China that is subject to VAT.

If China's tax authorities take the view that the holders of the relevant series of Notes are providing loans within China, then the holders of the relevant series of Notes could be regarded as providing financial services within China and consequently, the holders of the relevant series of Notes shall be subject to VAT at the rate up to of 6 per cent. when receiving the interest payments under the relevant series of Notes. In addition, the holders of the relevant series of Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be up to around 6.7 per cent. If the Issuer or the Guarantor pays interest income to Noteholders who are located outside of China, the Issuer (if VAT is applicable) or the Guarantor, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to the relevant Noteholders who are located outside of China.

Where a holder of the relevant series of Notes who is an entity or individual located outside of China resells such Notes to an entity or individual located outside of China and derives any gain, since neither the service provider nor the service recipient is located in China, theoretically the Circular 36 does not apply and the Issuer or the Guarantor does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within China.

The Circular 36 has been issued quite recently and the above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority.

The Notes are redeemable in the event of certain withholding taxes being applicable.

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions, the Issuer and the Guarantor are required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time in the event it has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or the PRC (only where such tax or withholding is in excess of the rate applicable on 16 October 2018) or any political subdivision or any authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018.

We may issue additional Notes in the future.

We may, from time to time, and without prior consultation of the Noteholders, create and issue further Notes in respect of the relevant series (see "*Terms* and *Conditions of the Notes – Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

The Trustee may request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction.

In certain circumstances, including without limitation giving notice to the Issuer pursuant to Condition 8 (*Events of Default*) of the Terms and Conditions and taking enforcement steps pursuant to Condition 13 (*Enforcement*) of the Terms and Conditions, the Trustee may, at its sole discretion, request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Trust Deeds, the Deeds of Guarantee or the Terms and Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders of the relevant series to take such actions directly.

Decisions that may be made on behalf of all Noteholders may be adverse to the interests of individual Noteholders.

The Terms and Conditions contain provisions for calling meetings of Noteholders of the relevant series to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders of the relevant series including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Noteholders of the relevant series may be adverse to the interests of the individuals.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Terms and Conditions and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判斷的安排), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders of the relevant series will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

TERMS AND CONDITIONS OF THE 2021 NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Note Certificates (as defined below) issued in respect of the Notes.

The EUR500,000,000 1.150 per cent. Guaranteed Notes due 2021 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Dongfeng Motor (Hong Kong) International Co., Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 23 October 2018 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) (the "**Guarantor**") and The Hongkong and Shanghai Banking Corporation Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of (a) a deed of guarantee dated 23 October 2018 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by the Guarantor and (b) an agency agreement dated 23 October 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Deed of Guarantee, the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Deed of Guarantee, the Trust Deed and the Agency Agreement applicable to them. Copies of the Deed of Guarantee, the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours upon prior written request at the registered office for the time being of the Trustee, being at the date hereof Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee

(a) *Form and denomination*: The Notes are in registered form in the denomination of EUR100,000 and integral multiples of EUR1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"), and will be exchangeable for individual Note Certificates (as defined below) only in the circumstances set out therein.*

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes, the Deed of Guarantee, the Trust Deed or the Agency Agreement under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Note Certificates*: Within seven business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder at the Specified Offices of the Agents who requests in writing a copy of such regulations.

3. Covenants

(a) *Negative pledge*: So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness outside the PRC or guarantee of Relevant Indebtedness outside the PRC without (i) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Trust Deed).

(b) *Registration with SAFE*: The Guarantor undertakes to file or cause to be filed with the Hubei Branch of the State Administration of Foreign Exchange ("**SAFE**"), the Guarantee of the Notes within 15 PRC Business Days after execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014, which came into effect on 1 June 2014 (the "**Cross-Border Security Registration**"). The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the SAFE Registration Deadline and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes. The Guarantor shall before the SAFE Registration Deadline and within five PRC Business Days after receipt of the registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE), provide the Trustee with the Registration Documents. In addition, the Guarantor shall, within five PRC Business Days after the documents comprising the Registration Documents are delivered to the Trustee, provide to the Trustee for dissemination to the Noteholders in accordance with Condition 15 (*Notices*) a notice confirming the completion of the Cross-Border Security Registration. The Trustee shall have no obligation to monitor and/or ensure or assist with the registration of the Guarantee of the Notes with SAFE on or before the SAFE Registration Deadline or to verify the accuracy, validity and/or genuineness of, or to translate or arrange translation into English of, any documents in relation to or in connection with the Cross-Border Security Registration and shall not be liable to Holders or any other person for not doing so.

(c) *Notification to NDRC*: The Guarantor undertakes to provide or cause to be provided a notification to the NDRC within ten PRC Business Days after the Issue Date (the "**NDRC Post-issue Notification Deadline**") containing the information set forth in the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) issued by NDRC on 14 September 2015, which came into effect on the same date, and any implementation rules as issued by NDRC from time to time (the "**NDRC Post-issue Notification**"). The Guarantor shall complete the NDRC Post-issue Notification within the prescribed timeframe. The Guarantor shall, within 20 PRC Business Days after the Issue Date, provide the Trustee with a certificate signed by a director of the Guarantor confirming the completion of the NDRC Post-issue Notification, and, to the extent the

NDRC had issued a document confirming the completion of the NDRC Post-issue Notification, a certified true copy of such document from the NDRC. In addition, the Guarantor shall, within 20 PRC Business Days after the Issue Date, provide to the Trustee for dissemination to the Noteholders in accordance with Condition 15 (*Notices*) a notice confirming the completion of the NDRC Post-issue Notification. The Trustee shall have no obligation to monitor and/or ensure or assist with the completion of the NDRC Post-issue Notification within the prescribed timeframe or to verify the accuracy, validity and/or genuineness of, or to translate or arrange translation into English of, any documents in relation to or in connection with the NDRC Post-Issue Notification and shall not be liable to Holders or any other person for not doing so.

(d) *Rating Maintenance*: So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution, the Issuer and the Guarantor shall use their best endeavours to maintain a rating on the Notes by at least two Rating Agencies.

(e) *Financial Statements etc.*: So long as any Note remains outstanding, each of the Issuer and the Guarantor shall provide (i) a Compliance Certificate (on which the Trustee may rely as to such compliance) within 14 days from request by the Trustee and at the time of provision of the Issuer Audited Financial Reports and the Guarantor Audited Financial Reports; (ii) a copy of the Issuer Audited Financial Reports prepared in accordance with HKFRS and the Guarantor Audited Financial Reports prepared in accordance with IFRS (each audited by an internationally recognised firm of independent accountants of good repute) within 120 days of the end of each Relevant Period; and (iii) a copy of the Issuer Interim Financial Reports prepared on a basis consistent with the Issuer Audited Financial Reports and the Guarantor Interim Reviewed Financial Reports prepared on a basis consistent with the Guarantor Audited Financial Reports within 90 days of the end of each Relevant Period, and if such statements, in each case, shall be in the Chinese language, together with an English translation of the same translated by (x) an internationally recognised firm of independent accountants of good repute or (y) a professional translation service provider and checked by an internationally recognised firm of independent accountants of good repute, together with a certificate signed by a director of the Issuer, or as the case may be, the Guarantor certifying that such translation is complete and accurate.

In these Conditions:

"**Compliance Certificate**" means a certificate of the Issuer or (as the case may be) the Guarantor signed by any one of its directors certifying that, having made all due enquiries, to the best of the knowledge, information and belief of the Issuer or (as the case may be) the Guarantor as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(a) no Event of Default or an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(b) the Issuer or (as the case may be) the Guarantor has complied with all its respective obligations under the Deed of Guarantee, the Trust Deed, the Agency Agreement and the Notes;

"**Guarantor Audited Financial Reports**" means the annual audited consolidated income statement, statement of comprehensive income, statement of financial position, statement of changes in equity; and statement of cash flows of the Guarantor and its Subsidiaries and company statement of financial position of the Guarantor together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Guarantor Interim Reviewed Financial Reports**" means the semi-annual unaudited but reviewed interim condensed consolidated income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Guarantor and its Subsidiaries, together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them;

"**HKFRS**" means Hong Kong Financial Reporting Standards;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**IFRS**" means International Financial Reporting Standards;

"**Issuer Audited Financial Reports**" means the annual audited consolidated income statement, comprehensive income statement, statement of financial position, statement of changes in equity (if any) and statement of cash flows of the Issuer and its Subsidiaries (if any), together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Issuer Interim Financial Reports**" means the interim unaudited semi-annual condensed consolidated income statement, comprehensive income statement, statement of financial position, statement of changes in equity (if any) and statement of cash flows of the Issuer and its Subsidiaries (if any), together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them (if any);

"**NDRC**" means the National Development and Reform Commission of China;

"**PRC**" means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business in Beijing;

"**Rating Agencies**" means (a) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**"); (b) Fitch Ratings and its successors ("**Fitch**"); (c) Standard & Poor's Rating Services ("**S&P**") and (d) if one or more of Moody's, S&P or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Guarantor, which shall be substituted for Moody's, S&P or Fitch or any combination thereof, as the case may be;

"**Registration Conditions**" means the receipt by the Trustee of the Registration Documents;

"**Registration Documents**" means (i) a certificate substantially in the form set out in the Trust Deed signed by any one director of the Guarantor confirming the completion of the Cross-Border Security Registration and (ii) a certified true copy of the relevant SAFE registration certificate (or any other document evidencing the completion of registration issued by SAFE) relating to such registration in (i) above of this definition;

"**Relevant Indebtedness**" means any present or future indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Period**" means (a) in relation to the Issuer Audited Financial Reports and the Guarantor Audited Financial Reports, each period of twelve months ending on the last day of its financial year (being 31 December of that financial year) and (b) in relation to the Issuer Interim Financial Reports and the Guarantor Interim Reviewed Financial Reports, each period of six months ending on the last day of its first half financial year (being 30 June of that financial year);

"**SAFE Registration Deadline**" means the day falling 60 PRC Business Days after the Issue Date;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove all or a majority of the members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. Interest

The Notes bear interest from 23 October 2018 (the "**Issue Date**") at the rate of 1.150 per cent. per annum, (the "**Rate of Interest**") payable annually in arrear on 23 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR11.50 in respect of each EUR1,000 principal amount of the Notes. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount where

"**Calculation Amount**" means EUR1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 23 October 2021, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by any one director of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by any one director of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances; and

(ii) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) or (as the case may be) (ii)(A) and (ii)(B) above, in which event they shall be conclusive and binding on the Noteholders and the Trustee shall be protected and incur no liability to any Noteholder or any other person for so accepting and rely on such certificate or opinion.

Upon the *expiry* of any such notice period as is referred to in this Condition 5(b), the Issuer shall redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption for Relevant Event*: At any time following the occurrence of a Relevant Event, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. (in the case of a Change of Control) and 100 per cent. (in the case of a No Registration Event) of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day (in the case of a Change of Control) and the fifth day (in the case of a No Registration Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer and the Guarantor shall give notice to Noteholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which either of them becomes aware of the occurrence of a Change of Control or five days from the occurrence of a No Registration Event, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c) (*Redemption for Relevant Event*).

In this Condition 5(c):

a "**Change of Control**" occurs when:

(a) the Guarantor ceases to, directly or indirectly, have Control of the Issuer; or

(b) the Company ceases to, directly or indirectly, have Control of the Guarantor; or

(c) the Controlling Person(s) cease to, directly or indirectly, have Control of the Company; or

(d) the Guarantor consolidates with, merges into or sells or transfers all or substantially all of the Guarantor's assets to any Person or Persons, acting together, unless (i) the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Guarantor or the successor entity or (ii) such Person or Person(s) are Controlled by the Controlling Person(s);

"**Company**" means Dongfeng Motor Corporation;

"**Control**" of any Person means (i) the ownership, acquisition or control of the Relevant Percentage of the voting rights of the issued share capital of such Person, whether obtained directly or indirectly, or (ii) the right to appoint and/or remove the Relevant Percentage of members of such Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

"**Controlling Person(s)**" mean (i) the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China or its successor or (ii) the government of the People's Republic of China;

a “**Relevant Event**” will be deemed to occur if:

(a) there is a Change of Control; or

(b) there is a No Registration Event;

“**Relevant Percentage**” means (i) in the case of Control of the Guarantor over the Issuer, 100 per cent., (ii) in the case of Control of the Company over the Guarantor, at least 51 per cent., (iii) in the case of Control of the Controlling Person(s) over the Company, 80 per cent., or (iv) in the case of Control of the Controlling Person(s) over a Person (which the Guarantor is consolidated with or merged into, or to which the assets of the Guarantor are sold or transferred) or Control of such Person over the Guarantor, more than 50 per cent.; and

a “**No Registration Event**” occurs when the Registration Conditions are not complied with on or before the SAFE Registration Deadline.

(d) *Make whole redemption*: The Issuer may redeem the Notes, in whole, but not in part, at any time upon giving not less than 30 nor more than 60 days’ notice (which notice shall be irrevocable (subject to the proviso below)) (a “**Make Whole Redemption Notice**”), at a redemption price equal to their Make Whole Amount together with interest accrued but unpaid to the date fixed for redemption (collectively, the “**Make Whole Redemption Price**”). Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

In this Condition 5(d):

“**Calculation Agent**” means an Independent Investment Bank as selected by the Issuer or the Guarantor (at the expense of the Issuer, failing which the Guarantor) and notified in writing to the Trustee;

“**Comparable Government Bond**” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of the Independent Investment Bank, a German *Bundesanleihe* security whose maturity is closest to the maturity of the Notes, or if such Independent Investment Bank in its discretion considers that such similar bond is not in issue, such other German *Bundesanleihe* security as such Independent Investment Bank may, with the advice of three brokers of, and/or market makers in, German *Bundesanleihe* securities selected by such Independent Investment Bank, determine to be appropriate for determining the Comparable Government Bond Rate;

“**Comparable Government Bond Rate**” means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield on the Notes, if they were to be purchased at such price on the third London Business Day prior to the date fixed for redemption or the date of accelerated payment, would be equal to the gross redemption yield on such London Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such London Business Day as determined by the Independent Investment Bank;

“**Independent Investment Bank**” means an investment bank of recognised standing that is a primary dealer in German *Bundesanleihe* securities, appointed by the Issuer (and notice thereof is given to the Trustee and to Noteholders by the Issuer in accordance with Condition 15 (*Notices*)) for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

"**London Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London; and

"**Make Whole Amount**" means, in respect of each Note at the relevant date fixed for redemption, (i) the principal amount of such Note or, if this is higher (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (excluding interest accrued to the date of redemption), discounted to the date of redemption on an annual basis (Actual/Actual (ICMA)) at the Comparable Government Bond Rate plus 25 basis points, all as determined by the Calculation Agent.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (Scheduled redemption) to (d) (*Make whole redemption*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(g) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

(h) *No duty to monitor*: Neither the Trustee nor any of the Agents shall be obliged to take any steps to ascertain whether a Relevant Event or Event of Default has occurred or to monitor the occurrence of any Relevant Event or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

(i) *Calculations*: Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

6. Payments

(a) *Principal*: Payments of principal shall be made by Euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by Euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans European Automated Real Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**TARGET System**" means the TARGET2 system.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) *Payments on business days*: Where payment is to be made by transfer to a Euro account (or other account to which Euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph "**business day**" means:

(i) in the case of payment by transfer to a Euro account (or other account to which Euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day and a day on which commercial banks are open for general business (including dealings in foreign currencies) in Hong Kong; and

(ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for general business (including dealings in foreign currencies) in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(f) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(g) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

*Notwithstanding the foregoing, so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

7. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer or (as the case may be) the Guarantor by or within the PRC at the rate applicable on 16 October 2018 (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in receipt by the Noteholder after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

If the Issuer or (as the case may be) the Guarantor is required to make a deduction or withholding (i) by or within the PRC, in excess of the Applicable Rate or (ii) by or within Hong Kong, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the "**Additional Tax Amounts**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no additional amounts referred to in this Condition 7 (*Taxation*) shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Hong Kong or the PRC, respectively, references in these Conditions to Hong Kong or the PRC shall be construed as references to Hong Kong or (as the case may be) the PRC and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. Events of Default

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon the Notes shall become immediately due and payable at their principal amount together with accrued interest (if any) without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 14 days after the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Guarantee or the Trust Deed (other than those the breach of which would give rise to a redemption pursuant to Condition 5(c) (*Redemption for Relevant Event*) and such default is (i) incapable of remedy or (ii) capable of remedy but remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer and the Guarantor; or

(c) Cross-default of Issuer, Guarantor or Subsidiary:

(i) any indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any guarantee of any indebtedness;

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an amount in excess of U.S.$30,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate, is rendered against the Issuer, the Guarantor or any of their respective Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal Subsidiaries and is not discharged within 60 days; or

(f) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any of their respective Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer, the Guarantor or any of their respective Principal Subsidiaries or the whole or part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal

Subsidiaries, (iii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Principal Subsidiary of the Issuer or a Principal Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (otherwise than, in the case of a Principal Subsidiary of the Issuer or a Principal Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(h) *Analogous event*: any event occurs which under the laws of Hong Kong or the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, the Deed of Guarantee or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Note Certificates, the Deed of Guarantee and the Trust Deed admissible in evidence in the courts of Hong Kong and the PRC is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Guarantee or the Trust Deed, as the case may be; or

(k) *Guarantee not in force*: the Guarantee of the Notes or (after the completion of the Cross-Border Security Registration or the SAFE Registration Deadline, whichever is earlier) the Cross-Border Security Registration is not (or is claimed by the Guarantor not to be) in full force and effect or (in the case of the Cross-Border Security Registration), revoked; or

(l) *Government intervention*: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues.

In these Conditions, "**Principal Subsidiary**" in respect of the Guarantor or the Issuer means any Subsidiary:

(a) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue as shown by its latest audited income statement is at least 5 per cent. of the consolidated revenue as shown by the latest published audited consolidated income statement of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries including, for the avoidance of doubt, the Guarantor or the Issuer (as the case may be) and their respective consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(b) whose net profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit as shown by its latest audited income statement is at least 5 per cent. of the consolidated net profit as shown by the latest published audited consolidated income statement of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries including, for the avoidance of doubt, the Guarantor or the Issuer (as the case may be) and their respective consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) total consolidated assets as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the consolidated total assets of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries as being represented by the investment of the Guarantor or the Issuer (as the case may be) in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Guarantor or the Issuer (as the case may be) and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, *provided that* the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate), of the Guarantor or the Issuer (as the case may be) prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor or the Issuer relate, the reference to the then latest consolidated audited accounts of the Guarantor or the Issuer (as the case may be) for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor or the Issuer (as the case may be) for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor or the Issuer (as the case may be) adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Guarantor or the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, the revenue, net profit or gross assets of the Guarantor, the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Guarantor or the Issuer (as the case may be);

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, net profit or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor or the Issuer (as the case may be); and

(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor or the Issuer (as the case may be), then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor or the Issuer (as the case may be).

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or provided with security and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions, the Deed of Guarantee and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders by the Issuer.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, the Guarantor and their respective Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Noteholder shall not rely on the Trustee in respect thereof.

12. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Deed of Guarantee or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes (other than as provided in Condition 12(b) (*Modification and waiver*)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed, holding not less than 90 per cent. in principal amount of the Notes outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree or not object to any modification of these Conditions, the Deed of Guarantee, the Trust Deed or the Agency Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Deed of Guarantee, the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Deed of Guarantee, the Trust Deed or the Agency Agreement (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

(c) *Directions from Noteholders*: Notwithstanding anything to the contrary in these Conditions, the Trust Deed, the Deed of Guarantee or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Deed of Guarantee, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including but not limited to legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

(d) *Certificates and Reports*: The Trustee may rely without liability to Noteholders on a report, confirmation, opinion or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely (without further investigation or enquiry) on any such report, confirmation or certificate or advice and such report, confirmation, opinion or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Noteholders.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Deed of Guarantee or the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

Subject to compliance with Condition 3(b) (*Registration with SAFE*) and Condition 3(c) (*Notification to NDRC*) where applicable, the Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and registration deadlines) so as to form a single series with the Notes, *provided that*, where applicable, the SAFE Registration Deadline for such further notes shall be the day falling 60 PRC Business Days after the issue date of such further notes and the NDRC Post-issue Notification Deadline for such further notes shall be the day falling 10 PRC Business Days after the issue date of such further notes. The Issuer may from time to time, with the consent of the Trustee, create and issue such other series of notes having the benefit of the Trust Deed *provided that* such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed.

15. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Until such time as any definitive certificates are issued and so long as the Global Note Certificate is held in its entirely on behalf of Euroclear and Clearstream any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. Currency Indemnity

If any sum due from the Issuer or the Guarantor in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer and the Guarantor shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of each of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) *Governing law*: The Notes, the Deed of Guarantee and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Guarantee and the Trust Deed are governed by English law.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor has in the Deed of Guarantee and the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the Hong Kong courts shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) consented to the enforcement of any judgment; and (iv) to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Guarantor has designated the Issuer in the Deed of Guarantee and the Trust Deed to accept service of any process on behalf of the Guarantor.

TERMS AND CONDITIONS OF THE 2023 NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Note Certificates (as defined below) issued in respect of the Notes.

The EUR100,000,000 1.606 per cent. Guaranteed Notes due 2023 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Dongfeng Motor (Hong Kong) International Co., Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 23 October 2018 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) (the "**Guarantor**") and The Hongkong and Shanghai Banking Corporation Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of (a) a deed of guarantee dated 23 October 2018 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by the Guarantor and (b) an agency agreement dated 23 October 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Deed of Guarantee, the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Deed of Guarantee, the Trust Deed and the Agency Agreement applicable to them. Copies of the Deed of Guarantee, the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours upon prior written request at the registered office for the time being of the Trustee, being at the date hereof Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee

(a) *Form and denomination*: The Notes are in registered form in the denomination of EUR100,000 and integral multiples of EUR1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"), and will be exchangeable for individual Note Certificates (as defined below) only in the circumstances set out therein.*

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes, the Deed of Guarantee, the Trust Deed or the Agency Agreement under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Note Certificates*: Within seven business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder at the Specified Offices of the Agents who requests in writing a copy of such regulations.

3. Covenants

(a) *Negative pledge*: So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness outside the PRC or guarantee of Relevant Indebtedness outside the PRC without (i) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Trust Deed).

(b) *Registration with SAFE*: The Guarantor undertakes to file or cause to be filed with the Hubei Branch of the State Administration of Foreign Exchange ("**SAFE**"), the Guarantee of the Notes within 15 PRC Business Days after execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014, which came into effect on 1 June 2014 (the "**Cross-Border Security Registration**"). The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the SAFE Registration Deadline and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes. The Guarantor shall before the SAFE Registration Deadline and within five PRC Business Days after receipt of the registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE), provide the Trustee with the Registration Documents. In addition, the Guarantor shall, within five PRC Business Days after the documents comprising the Registration Documents are delivered to the Trustee, provide to the Trustee for dissemination to the Noteholders in accordance with Condition 15 (*Notices*) a notice confirming the completion of the Cross-Border Security Registration. The Trustee shall have no obligation to monitor and/or ensure or assist with the registration of the Guarantee of the Notes with SAFE on or before the SAFE Registration Deadline or to verify the accuracy, validity and/or genuineness of, or to translate or arrange translation into English of, any documents in relation to or in connection with the Cross-Border Security Registration and shall not be liable to Holders or any other person for not doing so.

(c) *Notification to NDRC*: The Guarantor undertakes to provide or cause to be provided a notification to the NDRC within ten PRC Business Days after the Issue Date (the "**NDRC Post-issue Notification Deadline**") containing the information set forth in the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) issued by NDRC on 14 September 2015, which came into effect on the same date, and any implementation rules as issued by NDRC from time to time (the "**NDRC Post-issue Notification**"). The Guarantor shall complete the NDRC Post-issue Notification within the prescribed timeframe. The Guarantor shall, within 20 PRC Business Days after the Issue Date, provide the Trustee with a certificate signed by a director of the Guarantor confirming the completion of the NDRC Post-issue Notification, and, to the extent the

NDRC had issued a document confirming the completion of the NDRC Post-issue Notification, a certified true copy of such document from the NDRC. In addition, the Guarantor shall, within 20 PRC Business Days after the Issue Date, provide to the Trustee for dissemination to the Noteholders in accordance with Condition 15 (*Notices*) a notice confirming the completion of the NDRC Post-issue Notification. The Trustee shall have no obligation to monitor and/or ensure or assist with the completion of the NDRC Post-issue Notification within the prescribed timeframe or to verify the accuracy, validity and/or genuineness of, or to translate or arrange translation into English of, any documents in relation to or in connection with the NDRC Post-Issue Notification and shall not be liable to Holders or any other person for not doing so.

(d) *Rating Maintenance*: So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution, the Issuer and the Guarantor shall use their best endeavours to maintain a rating on the Notes by at least two Rating Agencies.

(e) *Financial Statements etc.*: So long as any Note remains outstanding, each of the Issuer and the Guarantor shall provide (i) a Compliance Certificate (on which the Trustee may rely as to such compliance) within 14 days from request by the Trustee and at the time of provision of the Issuer Audited Financial Reports and the Guarantor Audited Financial Reports; (ii) a copy of the Issuer Audited Financial Reports prepared in accordance with HKFRS and the Guarantor Audited Financial Reports prepared in accordance with IFRS (each audited by an internationally recognised firm of independent accountants of good repute) within 120 days of the end of each Relevant Period; and (iii) a copy of the Issuer Interim Financial Reports prepared on a basis consistent with the Issuer Audited Financial Reports and the Guarantor Interim Reviewed Financial Reports prepared on a basis consistent with the Guarantor Audited Financial Reports within 90 days of the end of each Relevant Period, and if such statements, in each case, shall be in the Chinese language, together with an English translation of the same translated by (x) an internationally recognised firm of independent accountants of good repute or (y) a professional translation service provider and checked by an internationally recognised firm of independent accountants of good repute, together with a certificate signed by a director of the Issuer, or as the case may be, the Guarantor certifying that such translation is complete and accurate.

In these Conditions:

"**Compliance Certificate**" means a certificate of the Issuer or (as the case may be) the Guarantor signed by any one of its directors certifying that, having made all due enquiries, to the best of the knowledge, information and belief of the Issuer or (as the case may be) the Guarantor as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(a) no Event of Default or an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(b) the Issuer or (as the case may be) the Guarantor has complied with all its respective obligations under the Deed of Guarantee, the Trust Deed, the Agency Agreement and the Notes;

"**Guarantor Audited Financial Reports**" means the annual audited consolidated income statement, statement of comprehensive income, statement of financial position, statement of changes in equity; and statement of cash flows of the Guarantor and its Subsidiaries and company statement of financial position of the Guarantor together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Guarantor Interim Reviewed Financial Reports**" means the semi-annual unaudited but reviewed interim condensed consolidated income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Guarantor and its Subsidiaries, together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them;

"**HKFRS**" means Hong Kong Financial Reporting Standards;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**IFRS**" means International Financial Reporting Standards;

"**Issuer Audited Financial Reports**" means the annual audited consolidated income statement, comprehensive income statement, statement of financial position, statement of changes in equity (if any) and statement of cash flows of the Issuer and its Subsidiaries (if any), together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Issuer Interim Financial Reports**" means the interim unaudited semi-annual condensed consolidated income statement, comprehensive income statement, statement of financial position, statement of changes in equity (if any) and statement of cash flows of the Issuer and its Subsidiaries (if any), together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them (if any);

"**NDRC**" means the National Development and Reform Commission of China;

"**PRC**" means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business in Beijing;

"**Rating Agencies**" means (a) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**"); (b) Fitch Ratings and its successors ("**Fitch**"); (c) Standard & Poor's Rating Services ("**S&P**") and (d) if one or more of Moody's, S&P or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Guarantor, which shall be substituted for Moody's, S&P or Fitch or any combination thereof, as the case may be;

"**Registration Conditions**" means the receipt by the Trustee of the Registration Documents;

"**Registration Documents**" means (i) a certificate substantially in the form set out in the Trust Deed signed by any one director of the Guarantor confirming the completion of the Cross-Border Security Registration and (ii) a certified true copy of the relevant SAFE registration certificate (or any other document evidencing the completion of registration issued by SAFE) relating to such registration in (i) above of this definition;

"**Relevant Indebtedness**" means any present or future indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Period**" means (a) in relation to the Issuer Audited Financial Reports and the Guarantor Audited Financial Reports, each period of twelve months ending on the last day of its financial year (being 31 December of that financial year) and (b) in relation to the Issuer Interim Financial Reports and the Guarantor Interim Reviewed Financial Reports, each period of six months ending on the last day of its first half financial year (being 30 June of that financial year);

"**SAFE Registration Deadline**" means the day falling 60 PRC Business Days after the Issue Date;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove all or a majority of the members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. Interest

The Notes bear interest from 23 October 2018 (the "**Issue Date**") at the rate of 1.606 per cent. per annum, (the "**Rate of Interest**") payable annually in arrear on 23 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR16.06 in respect of each EUR1,000 principal amount of the Notes. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount where

"**Calculation Amount**" means EUR1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 23 October 2023, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 16 October 2018; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by any one director of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by any one director of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances; and

(ii) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) or (as the case may be) (ii)(A) and (ii)(B) above, in which event they shall be conclusive and binding on the Noteholders and the Trustee shall be protected and incur no liability to any Noteholder or any other person for so accepting and rely on such certificate or opinion.

Upon the *expiry* of any such notice period as is referred to in this Condition 5(b), the Issuer shall redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption for Relevant Event*: At any time following the occurrence of a Relevant Event, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. (in the case of a Change of Control) and 100 per cent. (in the case of a No Registration Event) of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day (in the case of a Change of Control) and the fifth day (in the case of a No Registration Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer and the Guarantor shall give notice to Noteholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which either of them becomes aware of the occurrence of a Change of Control or five days from the occurrence of a No Registration Event, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c) (*Redemption for Relevant Event*).

In this Condition 5(c):

a "**Change of Control**" occurs when:

(a) the Guarantor ceases to, directly or indirectly, have Control of the Issuer; or

(b) the Company ceases to, directly or indirectly, have Control of the Guarantor; or

(c) the Controlling Person(s) cease to, directly or indirectly, have Control of the Company; or

(d) the Guarantor consolidates with, merges into or sells or transfers all or substantially all of the Guarantor's assets to any Person or Persons, acting together, unless (i) the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Guarantor or the successor entity or (ii) such Person or Person(s) are Controlled by the Controlling Person(s);

"**Company**" means Dongfeng Motor Corporation;

"**Control**" of any Person means (i) the ownership, acquisition or control of the Relevant Percentage of the voting rights of the issued share capital of such Person, whether obtained directly or indirectly, or (ii) the right to appoint and/or remove the Relevant Percentage of members of such Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

"**Controlling Person(s)**" mean (i) the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China or its successor or (ii) the government of the People's Republic of China;

a "**Relevant Event**" will be deemed to occur if:

(a) there is a Change of Control; or

(b) there is a No Registration Event;

"**Relevant Percentage**" means (i) in the case of Control of the Guarantor over the Issuer, 100 per cent., (ii) in the case of Control of the Company over the Guarantor, at least 51 per cent., (iii) in the case of Control of the Controlling Person(s) over the Company, 80 per cent., or (iv) in the case of Control of the Controlling Person(s) over a Person (which the Guarantor is consolidated with or merged into, or to which the assets of the Guarantor are sold or transferred) or Control of such Person over the Guarantor, more than 50 per cent.; and

a "**No Registration Event**" occurs when the Registration Conditions are not complied with on or before the SAFE Registration Deadline.

(d) *Make whole redemption*: The Issuer may redeem the Notes, in whole, but not in part, at any time upon giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable (subject to the proviso below)) (a "**Make Whole Redemption Notice**"), at a redemption price equal to their Make Whole Amount together with interest accrued but unpaid to the date fixed for redemption (collectively, the "**Make Whole Redemption Price**"). Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

In this Condition 5(d):

"**Calculation Agent**" means an Independent Investment Bank as selected by the Issuer or the Guarantor (at the expense of the Issuer, failing which the Guarantor) and notified in writing to the Trustee;

"**Comparable Government Bond**" means, in relation to any Comparable Government Bond Rate calculation, at the discretion of the Independent Investment Bank, a German *Bundesanleihe* security whose maturity is closest to the maturity of the Notes, or if such Independent Investment Bank in its discretion considers that such similar bond is not in issue, such other German *Bundesanleihe* security as such Independent Investment Bank may, with the advice of three brokers of, and/or market makers in, German *Bundesanleihe* securities selected by such Independent Investment Bank, determine to be appropriate for determining the Comparable Government Bond Rate;

"**Comparable Government Bond Rate**" means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield on the Notes, if they were to be purchased at such price on the third London Business Day prior to the date fixed for redemption or the date of accelerated payment, would be equal to the gross redemption yield on such London Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such London Business Day as determined by the Independent Investment Bank;

"**Independent Investment Bank**" means an investment bank of recognised standing that is a primary dealer in German *Bundesanleihe* securities, appointed by the Issuer (and notice thereof is given to the Trustee and to Noteholders by the Issuer in accordance with Condition 15 (*Notices*)) for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

"**London Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London; and

"**Make Whole Amount**" means, in respect of each Note at the relevant date fixed for redemption, (i) the principal amount of such Note or, if this is higher (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (excluding interest accrued to the date of redemption), discounted to the date of redemption on an annual basis (Actual/Actual (ICMA)) at the Comparable Government Bond Rate plus 30 basis points, all as determined by the Calculation Agent.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (Scheduled redemption) to (d) (*Make whole redemption*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(g) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

(h) *No duty to monitor*: Neither the Trustee nor any of the Agents shall be obliged to take any steps to ascertain whether a Relevant Event or Event of Default has occurred or to monitor the occurrence of any Relevant Event or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

(i) *Calculations*: Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

6. Payments

(a) *Principal*: Payments of principal shall be made by Euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by Euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans European Automated Real Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**TARGET System**" means the TARGET2 system.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) *Payments on business days*: Where payment is to be made by transfer to a Euro account (or other account to which Euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph "**business day**" means:

(i) in the case of payment by transfer to a Euro account (or other account to which Euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day and a day on which commercial banks are open for general business (including dealings in foreign currencies) in Hong Kong; and

(ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for general business (including dealings in foreign currencies) in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(f) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(g) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

*Notwithstanding the foregoing, so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

7. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer or (as the case may be) the Guarantor by or within the PRC at the rate applicable on 16 October 2018 (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in receipt by the Noteholder after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

If the Issuer or (as the case may be) the Guarantor is required to make a deduction or withholding (i) by or within the PRC, in excess of the Applicable Rate or (ii) by or within Hong Kong, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the "**Additional Tax Amounts**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no additional amounts referred to in this Condition 7 (*Taxation*) shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Hong Kong or the PRC, respectively, references in these Conditions to Hong Kong or the PRC shall be construed as references to Hong Kong or (as the case may be) the PRC and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. Events of Default

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon the Notes shall become immediately due and payable at their principal amount together with accrued interest (if any) without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 14 days after the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Guarantee or the Trust Deed (other than those the breach of which would give rise to a redemption pursuant to Condition 5(c) (*Redemption for Relevant Event*) and such default is (i) incapable of remedy or (ii) capable of remedy but remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer and the Guarantor; or

(c) Cross-default of Issuer, Guarantor or Subsidiary:

(i) any indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any guarantee of any indebtedness;

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an amount in excess of U.S.$30,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate, is rendered against the Issuer, the Guarantor or any of their respective Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal Subsidiaries and is not discharged within 60 days; or

(f) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any of their respective Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer, the Guarantor or any of their respective Principal Subsidiaries or the whole or part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal

Subsidiaries, (iii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Principal Subsidiary of the Issuer or a Principal Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (otherwise than, in the case of a Principal Subsidiary of the Issuer or a Principal Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(h) *Analogous event*: any event occurs which under the laws of Hong Kong or the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, the Deed of Guarantee or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Note Certificates, the Deed of Guarantee and the Trust Deed admissible in evidence in the courts of Hong Kong and the PRC is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Guarantee or the Trust Deed, as the case may be; or

(k) *Guarantee not in force*: the Guarantee of the Notes or (after the completion of the Cross-Border Security Registration or the SAFE Registration Deadline, whichever is earlier) the Cross-Border Security Registration is not (or is claimed by the Guarantor not to be) in full force and effect or (in the case of the Cross-Border Security Registration), revoked; or

(l) *Government intervention*: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues.

In these Conditions, "**Principal Subsidiary**" in respect of the Guarantor or the Issuer means any Subsidiary:

(a) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue as shown by its latest audited income statement is at least 5 per cent. of the consolidated revenue as shown by the latest published audited consolidated income statement of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries including, for the avoidance of doubt, the Guarantor or the Issuer (as the case may be) and their respective consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(b) whose net profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit as shown by its latest audited income statement is at least 5 per cent. of the consolidated net profit as shown by the latest published audited consolidated income statement of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries including, for the avoidance of doubt, the Guarantor or the Issuer (as the case may be) and their respective consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) total consolidated assets as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the consolidated total assets of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor or the Issuer (as the case may be) and their respective Subsidiaries as being represented by the investment of the Guarantor or the Issuer (as the case may be) in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Guarantor or the Issuer (as the case may be) and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, *provided that* the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate), of the Guarantor or the Issuer (as the case may be) prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor or the Issuer relate, the reference to the then latest consolidated audited accounts of the Guarantor or the Issuer (as the case may be) for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor or the Issuer (as the case may be) for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor or the Issuer (as the case may be) adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Guarantor or the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, the revenue, net profit or gross assets of the Guarantor, the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Guarantor or the Issuer (as the case may be);

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, net profit or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor or the Issuer (as the case may be); and

(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor or the Issuer (as the case may be), then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor or the Issuer (as the case may be).

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or provided with security and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions, the Deed of Guarantee and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders by the Issuer.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, the Guarantor and their respective Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Noteholder shall not rely on the Trustee in respect thereof.

12. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Deed of Guarantee or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes (other than as provided in Condition 12(b) (*Modification and waiver*)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed, holding not less than 90 per cent. in principal amount of the Notes outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree or not object to any modification of these Conditions, the Deed of Guarantee, the Trust Deed or the Agency Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Deed of Guarantee, the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Deed of Guarantee, the Trust Deed or the Agency Agreement (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

(c) *Directions from Noteholders*: Notwithstanding anything to the contrary in these Conditions, the Trust Deed, the Deed of Guarantee or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Deed of Guarantee, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including but not limited to legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

(d) *Certificates and Reports*: The Trustee may rely without liability to Noteholders on a report, confirmation, opinion or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely (without further investigation or enquiry) on any such report, confirmation or certificate or advice and such report, confirmation, opinion or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Noteholders.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Deed of Guarantee or the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

Subject to compliance with Condition 3(b) (*Registration with SAFE*) and Condition 3(c) (*Notification to NDRC*) where applicable, the Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and registration deadlines) so as to form a single series with the Notes, *provided that*, where applicable, the SAFE Registration Deadline for such further notes shall be the day falling 60 PRC Business Days after the issue date of such further notes and the NDRC Post-issue Notification Deadline for such further notes shall be the day falling 10 PRC Business Days after the issue date of such further notes. The Issuer may from time to time, with the consent of the Trustee, create and issue such other series of notes having the benefit of the Trust Deed *provided that* such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed.

15. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Until such time as any definitive certificates are issued and so long as the Global Note Certificate is held in its entirely on behalf of Euroclear and Clearstream any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. Currency Indemnity

If any sum due from the Issuer or the Guarantor in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer and the Guarantor shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of each of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) *Governing law*: The Notes, the Deed of Guarantee and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Guarantee and the Trust Deed are governed by English law.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor has in the Deed of Guarantee and the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the Hong Kong courts shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) consented to the enforcement of any judgment; and (iv) to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Guarantor has designated the Issuer in the Deed of Guarantee and the Trust Deed to accept service of any process on behalf of the Guarantor.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Note Certificate contains provisions which apply to the Notes while they are in global form, some of which modify the effect of the Terms and Conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions.

Each series of Notes will be represented by a Global Note Certificate which will be registered in the name of HSBC Nominees (Hong Kong) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream.

Under each Global Note Certificate, the Issuer, for value received, will promise to pay the amount payable upon redemption under the Terms and Conditions in respect of the relevant series of Notes represented by that Global Note Certificate to the Noteholder in such circumstances as the same may become payable in accordance with the Terms and Conditions.

Each Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates for that series of Notes if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate representing a particular series of Notes is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of that Global Note Certificate within five business days of the delivery, by or on behalf of the registered Noteholder of that Global Note Certificate, Euroclear and/or Clearstream to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the relevant Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Noteholder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, such Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the relevant series of Notes evidenced by such Global Note Certificate. The following is a summary of certain of those provisions:

***Payment Record Date**:* Each payment in respect of a Global Note Certificate will be made to the person shown as the Noteholder in the relevant Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

***Exercise of put option**:* In order to exercise the option contained in Condition 5(c) (*Redemption for Relevant Event*) (the "**Put Option**"), the Noteholder must, within the period specified in the Terms and Conditions for the deposit of the relevant Global Note Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes of the relevant series in respect of which the Put Option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

***Notices**:* Notwithstanding Condition 15 (*Notices*), so long as a Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders of the relevant series represented by such Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds from this offering (representing the gross proceeds of approximately EUR599.7 million minus management and selling commission and offering expenses) will be used to refinance existing indebtedness and for general corporate purposes.

EXCHANGE RATE INFORMATION

Renminbi

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 11 August 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. On 11 December 2015, the China Foreign Exchange Trade System, a sub-institutional organisation of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. In January and February 2016, Renminbi experienced further fluctuation in value against the U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods presented:

	Renminbi per U.S. Dollar Noon Buying Rate(1)			
Period	**End**	**Average(2)**	**High**	**Low**
	(RMB per U.S.$1.00)			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April	6.3325	6.2967	6.3340	6.2655
May	6.4096	6.3701	6.4175	6.3325
June	6.6171	6.4651	6.6235	6.3850
July	6.8038	6.7164	6.8102	6.6123
August	6.8300	6.8453	6.9330	6.8018
September	6.8680	6.8551	6.8880	6.8270
October (through October 12)	6.9182	6.8878	6.9224	6.8680

(1) Exchange rates between the Renminbi and the U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

Euro

The following tables sets forth, for the periods indicated, certain information concerning the exchange rates between Euro and the U.S. dollar. The exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board.

Period	U.S. Dollar per Euro Noon Buying Rate[1]			
	End	Average[2]	High	Low
	(US$ per EUR1.00)			
2013	1.3779	1.3303	1.3816	1.2774
2014	1.2101	1.3210	1.3927	1.2101
2015	1.0859	1.1032	1.2015	1.0524
2016	1.0552	1.1029	1.1516	1.0375
2017	1.2022	1.1396	1.2041	1.0416
2018				
January	1.2428	1.2197	1.2488	1.1922
February	1.2211	1.2340	1.2482	1.2211
March	1.2320	1.2334	1.2440	1.2216
April	1.2074	1.2270	1.2384	1.2074
May	1.1670	1.1823	1.1976	1.1551
June	1.1677	1.1679	1.1815	1.1577
July	1.1706	1.1685	1.1744	1.1604
August	1.1596	1.1547	1.1720	1.1332
September	1.1622	1.1667	1.1773	1.1566
October (through October 12)	1.1559	1.1534	1.1567	1.1482

CAPITALISATION AND INDEBTEDNESS

Guarantor

The following tables set forth the consolidated capitalisation and indebtedness of the Guarantor as at 31 December 2017 and 30 June 2018 on an actual basis and as adjusted on a pro forma basis to give effect to the issuance of the Notes (before deducting the fees and commissions and other estimated transaction expenses payable) as if the issuance of each series of the Notes had occurred on 31 December 2017 and 30 June 2018, respectively.

The following table should be read in conjunction with "*Use of Proceeds*", "*Selected Consolidated Financial Information of the Guarantor*" and related notes included elsewhere in this Offering Circular.

	As at 31 December 2017			
	Actual		As adjusted	
	(RMB in millions)	(Euro in millions)(2)	(RMB in millions)	(Euro in millions)(2)
Short-term borrowings				
– Interest-bearing borrowings	14,381	1,880	14,381	1,880
Long-term borrowings				
– Interest-bearing borrowings	2,398	313	2,398	313
– 2021 Notes to be issued	–	–	3,826	500
– 2023 Notes to be issued	–	–	765	100
Total long-term borrowings	2,398	313	6,989	913
Total Equity	115,324	15,072	115,324	15,072
Total Capitalisation(1)	117,722	15,385	122,313	15,985

(1) Total capitalisation represents total long-term borrowings plus total equity.

(2) Converted at an exchange rate of RMB7.6515 to EUR1.00 on 29 June 2018 published by the People's Bank of China.

	As of 30 June 2018			
	Actual		As adjusted	
	(RMB in millions)	(Euro in millions)(2)	(RMB in millions)	(Euro in millions)(2)
Short-term borrowings				
– Interest-bearing borrowings	15,509	2,027	15,509	2,027
Long-term borrowings				
– Interest-bearing borrowings	2,528	330	2,528	330
– 2021 Notes to be issued	–	–	3,826	500
– 2023 Notes to be issued	–	–	765	100
Total long-term borrowings	2,528	330	7,119	930
Total Equity	120,529	15,752	120,529	15,752
Total Capitalisation(1)	123,057	16,082	127,648	16,682

(1) Total capitalisation represents total long-term borrowings plus total equity.

(2) Converted at an exchange rate of RMB7.6515 to EUR1.00 on 29 June 2018 published by the People's Bank of China.

Except as otherwise disclosed above, there have been no material changes in the consolidated capitalisation and indebtedness of the Guarantor since 30 June 2018.

Issuer

The following table sets forth the consolidated capitalisation and indebtedness of the Issuer as at 31 December 2017 on an actual basis and as adjusted on a *pro forma* basis to give effect to the issuance of the Notes (before deducting the fees and commissions and other estimated transaction expenses payable) as if the issuance of each series of the Notes had occurred on 31 December 2017.

The following table should be read in conjunction with "*Use of Proceeds*", "*Summary Financial Information of the Issuer*" and the Issuer's audited financial statements as at and for the year ended 31 December 2017 and related notes included elsewhere in this Offering Circular.

	As at 31 December 2017			
	Actual		As adjusted	
	(RMB in millions)	(Euro in millions)[(2)]	(RMB in millions)	(Euro in millions)[(2)]
Short-term borrowings				
– Bank borrowings	706	92	706	92
– Guaranteed notes	3,897	509	3,897	509
Long-term borrowings				
– Bank borrowings	2,263	296	2,263	296
– 2021 Notes to be issued	–	–	3,826	500
– 2023 Notes to be issued	–	–	765	100
Total long-term borrowings	2,263	296	6,854	896
Total Equity	8,266	1,080	8,266	1,080
Total Capitalisation[(1)]	10,529	1,376	15,120	1,976

(1) Total capitalisation represents total long-term borrowings plus total equity.

(2) Converted at an exchange rate of RMB7.6515 to EUR1.00 on 29 June 2018 published by the People's Bank of China.

There have been no material changes in the consolidated capitalisation and indebtedness of the Issuer since 31 December 2017.

DESCRIPTION OF THE ISSUER

Formation

The Issuer, Dongfeng Motor (Hong Kong) International Co., Limited, was incorporated in Hong Kong on 24 March 2014 as a company with limited liability under the Companies Ordinance (Chapter 622 of the laws of Hong Kong) with company number 2063146. The Issuer is an indirect wholly-owned subsidiary of the Guarantor. The registered office of the Issuer is located at 2/F, Kam Chung Comm Bldg, 19-21 Hennessy Rd, Wanchai, Hong Kong.

Business Activity

The Issuer was established for the purpose of the investment and financing of the Guarantor's overseas projects and transactions. In 2014, the Issuer subscribed for 14.1 per cent. of the equity interest in PSA Peugeot Citroen Group ("**PSA**"), a company listed on NYSE Euronext Paris for a total subscription amount of EUR800 million. In 2014, the Issuer obtained a bridge loan in the amount of EUR830 million in connection with the foregoing subscription. In 2015, the Issuer and a subsidiary of PSA entered into a joint venture in Singapore, Dongfeng Peugeot Citroën International Co., Ltd.. In October 2015, the Issuer issued EUR500 million in aggregate principal amount of notes due 2018 guaranteed by the Company. In August 2016, the Issuer acquired 50% of the equity interest of Dongfeng Nengdi (Hangzhou) Motor Co., Ltd. (東風能迪(杭州)汽車有限公司) held by UD TRUCKS CORPORATION for a consideration of RMB1.00. In December 2016, the Issuer acquired 100% of the equity interest of T Engineering AB held by Dongfeng Motor Engineering Co., Ltd. for a total consideration of HKD11.16 million. In January 2017, the Issuer and the Company jointly established Chuangge Financial Leasing Co., Ltd., (創格融資租賃有限公司) in which the Issuer held 30% for a capital contribution of RMB90.00 million. In December 2017, the Issuer disposed of 50% of the equity interest of Dongfeng Peugeot Citroën International Co., Ltd., to PSA AUTOMOBILES S.A. for a consideration of SGD11.59 million.

Save as disclosed above, the Issuer has not engaged, since the date of its incorporation, in any other material activities other than the proposed issue of the Notes and the on lending of the proceeds thereof to the Guarantor or its subsidiaries, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party. In the future, the Issuer may, either itself or through its direct and indirect subsidiaries and associated companies, issue further notes or engage in business activities related to the businesses of the Guarantor and may incur substantial liabilities and indebtedness.

As of the date of this Offering Circular, the Issuer does not have any employees, and currently holds 100% of the equity interest of T Engineering AB.

The Issuer has full power and authority to carry out any activities which are not prohibited by the laws of Hong Kong. Copies of the Issuer's articles of association are available for inspection as described in "*General Information*".

Directors and Officers

The directors of the Issuer are Mr. Qiao Yang (喬陽) and Mr. An Tiecheng (安鐵城). The business address of the directors of the Issuer is Special No. 1 Dongfeng Road, Wuhan Economic and Technology Development Zone, Wuhan, Hubei, the PRC. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer. There are no potential conflicts of interest between any duties of the Issuer's directors to the Issuer, and their private interests and/or other duties.

As at the date of this Offering Circular, the telephone number of the Issuer is (86) 8428 5200.

Financial Statements

The Issuer has prepared audited financial statements as at and for the years ended 31 December 2016 and 2017 in accordance with Hong Kong Financial Reporting Standards. As of the date of this Offering Circular, the Issuer has no outstanding borrowings nor major or significant contingent liabilities other than (i) EUR500 million guaranteed notes due in October 2018, (ii) EUR285 million loan due in October 2022 and (iii) HKD842 million loans due in January 2019 and related interest and fees.

Share Capital

As at the date of this Offering Circular, the Issuer's share capital is RMB6 million divided into 6 million ordinary shares of RMB1.00 each and is fully paid. None of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought as at the date of this Offering Circular.

DESCRIPTION OF THE GROUP

Overview

We are a leading automobile manufacturer in China. Our parent company, DFM, is a state-owned enterprise directly administrated by the central SASAC and one of the three largest auto manufacturers in China. According to the China Association of Automobile Manufacturers ("**CAAM**"), DFM ranked second in terms of sales volume among all PRC automobile manufacturers in 2017 with leading market positions in various sub-categories of both commercial vehicles and passenger vehicles. DFM also ranked 65th on the 2018 "Fortune Global 500" list, rising from 113th on the "Fortune Global 500" in 2014. As DFM's largest subsidiary, we contributed approximately 80 per cent. of vehicle sales volume to DFM for the year ended 31 December 2017. We have been listed on the Stock Exchange of Hong Kong since 2005 and, as of 30 June 2018, we had a total market capitalisation of approximately RMB60.3 billion.

Our main businesses consist of the manufacturing and sale of commercial vehicles, passenger vehicles, auto engines and parts. We also engage in finance and other automobile-related businesses. We produced approximately 3.3 million units and sold approximately 3.3 million units of automobiles during the year ended 31 December 2017. According to CAAM, since 2003, we ranked first or second for 14 consecutive years in the PRC medium and heavy trucks market in terms of sales volume.

We primarily conduct our operations in the following four business segments:

- **Commercial Vehicles** – Through our commercial vehicles subsidiaries, we manufacture and sell vehicles, including heavy, medium and light trucks, large and medium sized buses and special purpose vehicles, and engines and auto parts for commercial vehicles. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our revenue generated from sales of commercial vehicles was approximately RMB36,389 million, RMB43,298 million, RMB59,826 million, RMB30,013 million and RMB31,483 million, respectively. According to CAAM, for the three years ended 31 December 2015, 2016 and 2017, we commanded a market share of approximately 10.0 per cent., 10.1 per cent. and 10.9 per cent., respectively, in the PRC commercial vehicle market in terms of sales volume.

- **Passenger Vehicles** – Through our passenger vehicle subsidiaries, we manufacture and sell vehicles, including basic passenger cars, MPVs, sport SUVs and crossover passenger vehicles, and engines and auto parts for passenger vehicles. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the revenue generated from sales of passenger vehicles was approximately RMB88,226 million, RMB76,656 million, RMB61,732 million, RMB26,160 million and RMB24,474 million, respectively. According to CAAM, for the three years ended 31 December 2015, 2016 and 2017, we commanded a market share of approximately 11.9 per cent., 11.4 per cent. and 11.4 per cent., respectively, in the PRC passenger vehicle market in terms of sales volume.

- **Financing Service** – Through our finance business subsidiaries we provide automotive industry related financial services, including intra-group collective fund management, intra-group loans and entrusted loans, acceptance and discounting of bills, intra-group settlement, inter-group loans, distributors financing, sales credit, buyer credit and financial leasing. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the revenue generated from our financing service segment was approximately RMB1,911 million, RMB2,338 million, RMB3,047 million, RMB1,445 million and RMB1,866 million, respectively.

- **Corporate and Others** – We are also engaged in other automobile-related businesses, including the production of new energy vehicles as well as related battery, motor and vehicle control technology, the production of vehicle manufacturing equipment and equipment maintenance services, import and export of vehicles and equipment vehicle, insurance and used car trading businesses. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our revenue generated from the automobile-related businesses segment amounted to approximately RMB140 million, RMB351 million, RMB539 million, RMB184 million and 147 million, respectively. In addition, we have launched the mobility business covering different products and services in this industry.

Our total consolidated revenue for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 was approximately RMB126,566 million, RMB122,535 million, RMB125,016 million, RMB57,749 million and RMB57,922 million, respectively. Our total consolidated gross profit for the same periods was approximately RMB16,929 million, RMB17,515 million, RMB16,112 million, RMB8,016 million and RMB8,050 million, respectively.

Our total aggregated revenue, including share of revenue of joint ventures, for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 was approximately RMB226,863 million, RMB245,556 million, RMB273,243 million, RMB121,191 million and RMB128,160 million, respectively. Our total aggregated gross profit, including share of gross profit of joint ventures for the same periods was approximately RMB43,523 million, RMB46,867 million, RMB51,305 million, RMB22,970 million and RMB24,656 million, respectively.

The following table sets forth a breakdown of our total aggregated revenue, including share of revenue of joint ventures, by business segments for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively.

	Year ended 31 December (RMB in millions)			Six Months ended 30 June (RMB in millions)	
	2015	2016	2017	2017	2018
Commercial Vehicles	46,753	54,424	76,245	36,077	37,541
Passenger Vehicles	180,025	189,403	193,304	83,439	88,343
Financing Service	2,518	3,066	3,828	1,811	2,344
Corporate and Others	2,072	3,293	4,260	1,744	1,820
Elimination	(4,505)	(4,630)	(4,394)	(1,880)	(1,888)
Total Revenue	226,863	245,556	273,243	121,191	128,160

Competitive Strengths

Strategically important enterprise within the PRC.

Our parent company, DFM, is one of the largest state-owned enterprises under the central SASAC. The chairman and general manager of DFM are directly appointed by the PRC central government respectively. Auto manufacturing industry is regarded as the national pillar industry with significant strategic value and for economy growth and have a huge impact to the local economy, employment and national tax revenue. As the flagship enterprise in the industry, DFM undertakes responsibilities to promote international and domestic cooperation, implement national strategies, and responsibilities related to national welfare and people's livelihood. As the core subsidiary of DFM, we have benefited from long-term strategic guidance throughout our development in the auto manufacturing industry. We are also entrusted by the government to implement new energy vehicle research and development on a national level.

As the number of central state-owned enterprises with headquarters located in Hubei province is limited, DFM has a relatively large impact on Hubei's local economy. In return, as a core enterprise supporting the development of the local economy, DFM, including DFG, is the beneficiary of preferential policies from the provincial government. We also enjoy strong support from policy banks in China. For example, the Export-Import Bank of China granted DFG credit of RMB2 billion.

Well-established leading position in the PRC automobile industry.

We are a leading automobile manufacturer in the PRC and have developed well-established brand recognition. Our parent company, DFM, is a state-owned enterprise directly administrated by the central SASAC and one of the three largest auto manufacturers in China. DFM holds 66.86 per cent. of the equity interests in DFG, 50 per cent. of the equity interests in Dongfeng Yulon Motor Co., Ltd., 50 per cent. of the equity interests in Dongfeng Sokon Motor Co., Ltd. and 25 per cent. of the equity interests in Dongfeng Yueda Kia Motor Co., Ltd. According to CAAM, DFM, with an annual sales volume of 4.1 million units, ranked second among all PRC automobile manufacturers in 2017 and has leading market positions in various sub-categories of both commercial vehicles and passenger vehicles. For example, DFM ranked second in SUV, heavy truck, medium truck and micro truck, ranked third in sedan and light truck, and ranked fourth in crossover passenger vehicle in 2017. DFM also ranked 65th on the 2018 "Fortune Global 500" list. As DFM's largest subsidiary, we contributed approximately 80 per cent. of vehicle sales volume to DFM in the year ended 31 December 2017.

We believe that our leading position in the automobile market will enable us to take advantage of, and benefit from, the continued growth of the PRC automobile market. We have established the "Dongfeng" brand with a strong and diversified product portfolio and reinforced our brand image by continually introducing new products. We have also developed international cooperative relationships and strategic alliances with well-known partners, such as PSA, Renault-Nissan, Honda and AB Volvo. Such relationships and alliances have enabled us to provide reliable, popular and competitively priced vehicles.

Comprehensive product portfolio with an optimal mix of product offerings and strategically located manufacturing facilities allowing for the development of a well-balanced business.

Our comprehensive and diverse product portfolio allows us to adapt to market trends on an ongoing basis and to maintain balance while we expand capacity. We have a product offering structure which is very close to the industry average. We also prospectively introduced into the PRC products suitable for the market, such as SUVs. In 2017, our sales volumes of basic passenger cars, MPVs, SUVs, trucks and buses accounted for approximately 39.3 per cent., 5.9 per cent., 41.0 per cent., 12.6 per cent. and 1.3 per cent. of our total sales volume, respectively. For the same period, according to CAAM, the corresponding figures in the PRC domestic market were approximately 41.0 per cent., 7.2 per cent., 35.5 per cent., 12.6 per cent., and 1.8 per cent. We believe that our diversified product offering allows us to flexibly respond to industry trends in a timely manner. For example, according to CAAM, in the first six months of 2018, demand for SUVs in the PRC increased by 9.7 per cent, with sales of mid-to small-sized SUV's increasing by 9.4 per cent. Our diversified product portfolio, which is in line with the average product mix for the automotive industry as a whole, has enabled us to take advantage of the increase in the demand for SUVs without significant lag time.

The contribution from our proprietary brands have been increasing in recent years. The sales volumes from our proprietary brands accounted for approximately 23.9%, 24.4% and 36.0% of our total sales volumes for the years ended 31 December 2015, 2016 and 2017, which is gradually closer to the industry average.

According to CAAM, the market share of passenger vehicles sold in Western and Central China is 16.7 per cent. and 19.0 per cent., respectively. We, together with DFM, have strategically developed seven major manufacturing locations, namely, Wuhan, Shiyan, Xiangyang, Guangzhou, Liuzhou, Zhengzhou and Yancheng, along with several other manufacturing locations, such as Changzhou, Chengdu, Dalian, Hangzhou and Chongqing. These manufacturing locations situated throughout China, particularly those concentrated in Western and Central China, have helped position us to leverage the increase in passenger vehicles sold in Western China and Central China to further develop our business.

Stable business operation with stringent cost control allowing improved efficiency

Despite the slow growth of the PRC automobile industry in 2018, we still managed to generate profit and maintain growth in 2018. The profit generated for the six months ended 30 June 2018 has increased to RMB8,281 million from RMB7,314 million for the six months ended 30 June 2017. It is primarily attributable to the following two factors: (i) we have gradually improved the capacity utilization rate and strictly controls the sales cost. The utilization rate of the annual production capacity of our passenger vehicles increased to 92% for the year ended 31 December 2016 from 85% for the year ended 31 December 2015 and remained stable for the year ended 31 December 2017. We developed and utilized the previously idled Changzhou factory. In addition, as eGT New Energy Automotive Co., Ltd (a company jointly established by Renault S.A., Nissan Motor Co., Ltd and us) shared the production lines with our affiliates, we do not need to incur any additional investment nor depreciation or amortization; (ii) the optimization of the marketing strategy and the improvement of the brand awareness of these joint ventures has significantly reduced marketing expenses. The "Dongfeng" brand name is a well-known vehicle brand in the PRC and enjoys widespread recognition and trust. In 2017, according to the analyst report on the China's 500 Most Valuable Brands, "Dongfeng" was ranked 36th with a brand value of RMB112 billion. The strong brand recognition of the "Dongfeng" brand and the brands of our partnership has in turn improved the brand recognition of the joint ventures which has significantly reduced our advertisement fees.

Innovative four megatrends with aim to develop full value chain in the PRC automobile industry

Innovation and development are our deeply rooted beliefs. Powered by the four megatrends (electrification, intelligence, connectivity and sharing (四化)), we have become a leading automobile manufacturer in the new energy vehicles market and have coverage in the areas of passenger vehicles, commercial vehicles and other infrastructure technology and key auto parts. For example, for the year ended 31 December 2017, the sales volume of the new energy commercial vehicles is 36,000 which is twice more compared to that of the corresponding period in 2016.

In addition, the mobility business in China is of great potential and we have launched the mobility business in the areas of time-sharing, online rider-hailing and ride sharing etc. recently. Leveraging on our strong brand recognition as a state-owned enterprise, good relationship with local governments and distributors, low financing cost as well as a diversified product portfolio, we strive to become a full mobility service provider which will provide online and offline operations, mobility products and other ancillary services. We have launched ride-sharing service platforms DFGo and Lianyou Mobility.

Our financing business is operated under our proprietary brands as well as brands developed by our jointly-controlled entities. Leveraging on our leading position in the industry, we are able to provide distributors with loans with competitive interest rates, as well as provide individual customers and corporate clients with automobile consumer credit and ancillary financing services. The penetration rate for our retail business of the Company increased to 19.3% for the year ended 31 December 2016 from 15.3% for the year ended 31 December 2015 and further increased to 22.5% for the year ended 31 December 2017. The Company has adopted stringent internal control procedures which results in a low overdue rate compared to our industry peers, which has steadily improved the profit generated from the business segment.

Highly diversified long-term joint-venture projects with leading worldwide auto manufacturers allowing us to expand in both domestic and international markets.

We have established diversified joint venture relationships formed through strategic partnerships with the world's leading automobile manufacturers and suppliers. Our diversified and long-term stable relation results in unique advantages in cooperation with JV partners. Our cooperation is with mutual benefits by utilising our local market knowledge and corporate culture, and our partner's technology. We have also formed in-depth strategic alliance with our major partners. Our JVs cover the full value chain in the automobile industry, which is beneficial in training talented professionals.

For example, we have maintained a strategic alliance with PSA for over 20 years, which was one of the first joint ventures in the PRC's automotive market. Furthermore, in 2014, we became one of the three largest shareholders in PSA by acquiring 14.1 per cent. of the equity interests in PSA, in order to establish a global strategic alliance with PSA for cooperation in various aspects, including international market expansion, technology research and development, product planning and procurement. To enhance strategic collaboration in research and development, we have jointly established a research and development centre in the PRC with PSA, capitalising on the synergies of product and vehicle platforms. We have established a Common Modular Platform ("**CMP**") and an electric Common Modular Platform ("**eCMP**") with PSA to fulfill our and PSA's demand for technology for future products and share the intellectual property rights to be developed on the platforms. The CMP is implementable in PSA's, DPCA's and our factories simultaneously, hence saving manufacturing costs. In 2015, we entered into a joint venture with PSA in Singapore that is responsible for the sales of products of DPCA and PSA and the provision of services in the Asia-Pacific region (excluding the PRC) in general, and the ASEAN region in general. Furthermore, in 2017, we and PSA also established cooperation for the production and exportation of PEUGEOT trucks to African region and has exported more than 1,000 vehicles in complete built unit. Our alliance with PSA has helped to improve the competitive edge of our proprietary passenger vehicles. We have developed a joint procurement function with PSA and DPCA to facilitate global supply chain relationship and coordination, and achieve supply chain synergy.

We also have an exclusive partnership with Renault-Nissan Alliance in the PRC that has helped us to diversify our product portfolio to cover all major automobile segments, and we have been able to enter the luxury car market by way of Nissan's Infiniti brand.

In addition, our partnership with Honda and Honda Engine has further expanded our product portfolio with popular Honda vehicle models. The JV between Honda Engine and us is Honda's only engine JV in China. We have also cooperated with Nissan Motor Co. Ltd. under a comprehensive cooperation agreement since 2002.

In 2013, we entered into the Cooperation Master Agreement with Volvo (AB Volvo) for the establishment and operation of the Dongfeng Commercial Vehicle Co., Ltd., a capital joint venture. Dongfeng Commercial Vehicle Co., Ltd. has registered capital of RMB9,200 million, of which 55 per cent. and 45 per cent. is attributable to us and Volvo respectively. Dongfeng Commercial Vehicle Co., Ltd. has been established as a cooperation between the Company and Volvo to develop medium and heavy duty commercial vehicles and other related technologies under the "Dongfeng" brand and to enhance the "Dongfeng" brand value and position. Our cooperative relationship with Volvo has allowed us to jointly develop gearing, transmissions, engines, vehicle platform parts, and technical expertise. Additionally, the collaborative supply chain system and the joint procurement mechanism between Volvo and us has helped us lower procurement costs due to increased bargaining power. As part of the joint marketing between Volvo and us, our exclusively titled sailboat, "Dongfeng" participated in 2015 Volvo Ocean Race Regatta as the only sailboat from China.

We play an active role in our strategic partnerships and we have been able to maintain equal share of control over our joint ventures companies. The strategic partnerships also help us nurture talented personnel which will be beneficial to the future development of the joint ventures.

Excellent financial performance with highly sustainable profitability and strong operating cash flows.

We enjoy a strong liquidity position. With our diversified product portfolio, we have been able to generate stable cash flows from our operations. For the years ended 31 December 2015, 2016 and 2017, our total aggregated cash flows from operations (including the share of cash flows from operations of joint ventures) were approximately RMB19.26 billion, RMB28.03 billion and RMB19.92 billion, respectively. As at 31 December 2015, 2016 and 2017, our cash flows from operations to total debt ratio was approximately 93.8%, 137.7% and 78.6%, respectively. Cash flows from operations to total debt ratio is calculated by dividing the balance of total aggregated cash flows from operations (including the share of cash flows from operations of joint ventures) for the year by the balance of total aggregated debt (including the share of debt of joint ventures) as at year end date. We have been actively seeking debt and equity financing in order to maintain a strong financial profile. As at 30 June 2018, we had an aggregate general credit limit from major banks of approximately RMB26 billion, of which over RMB25.76 billion remains undrawn. As a result, we have access to the funds needed to meet our ongoing capital requirements and to take advantage of expansion opportunities as they arise.

Highly experienced management team and outstanding corporate culture.

Our management has extensive management and operational experience in the automotive industry, and many members of our senior management have been recognised for their managerial achievements. Our core senior management has over 30 years of experience in the PRC automotive industry. Our core senior management team has clear goals for the strategic development of the Company, strong execution capabilities, diversified management experience and stable business operation philosophy which translate to the excellent financial performance of the Company.

To help promote management efficiency, we have implemented a management compensation plan that is linked to our results of operations and the personal performance of our managers. We have also implemented a plan of stock appreciation rights to align the interests of senior management more closely with those of our shareholders.

We place great emphasis on management continuity and the development of future management personnel. To this end, we require employees who have been identified as potential future senior managers to undergo a training program that includes training in management, administration and finance. We have also formulated comprehensive training courses with standardised procedures in order to continuously improve the skills of our employees. We believe that the continuous improvement of our staff provides a solid basis for the sustainable development of our business.

Our Strategies

We seek to become a world-class integrated automobile manufacturing group with world-leading technologies and international recognition. In order to achieve this goal, we intend to pursue the following strategies:

Further expand our proprietary brand and offer new vehicle models.

We plan to further expand our product portfolio by developing and launching new vehicles under our proprietary brand. We believe that our passenger vehicles are technologically advanced and enjoy a competitive advantage compared with those of our domestic competitors. We expect to benefit from preferential government policies in relation to the PRC government's strong support of the development of our domestic proprietary brands. To optimise our production costs, we will continue to increase our in-house production of automotive parts by increasing the production capacity of our automotive parts and equipment manufacturing facilities. We also plan to increase our production capacity through acquisitions as appropriate opportunities arise.

Expand our global operations and explore oversea markets.

We will continuously strengthen our collaboration with leading international automobile manufacturers and institutions. In addition to organic growth, we plan to expand our operations through selective domestic and international acquisitions, which we believe will be key to the continued diversification of our product portfolio and increase of our market share. To strengthen our cooperation with PSA, in 2014, we established a global strategic alliance with PSA through the acquisition of a 14.1 per cent. equity interest in PSA. This cooperation will enable us to adopt PSA's technologies in the development of our proprietary brands and our Peugeot and Citroën products offered. It will also further enhance our position in the global market.

Enhance strategic cooperation with our partners and explore new cooperation opportunities.

We plan to continue building long-standing and globally-oriented strategic alliances that enable cultural integration, mechanical innovation and resource sharing. We intend to continue reducing costs within the entire production chain by sharing product platforms, manufacturing facilities, supplier resources and international distribution channels with our strategic partners. We also expect to continue realising economies of scale by sharing intellectual property globally. We plan to continue to enhance the utilisation of key assembly capacity and reduce research and development costs and industrial investments by creating synergies in powertrain and new energy vehicles.

Improve our own research and development capabilities and collaborate with international research institutions to form a strong and integrated research and development system.

We plan to continue to invest substantial resources in developing our research and development capacity and construct new facilities to develop and design a range of proprietary brands. To cultivate an innovative organisational environment, we will incentivise innovation and seek to improve our human resources efforts to retain innovative talent.

We also plan to continue to collaborate with international research institutions to enhance our research and development capabilities. In particular we will seek to leverage these resources in developing our proprietary models, improving our existing technologies and successfully applying our proprietary technologies to commercial use.

Our History and Development

The following table sets forth the key milestones in the development of DFM and DFG:

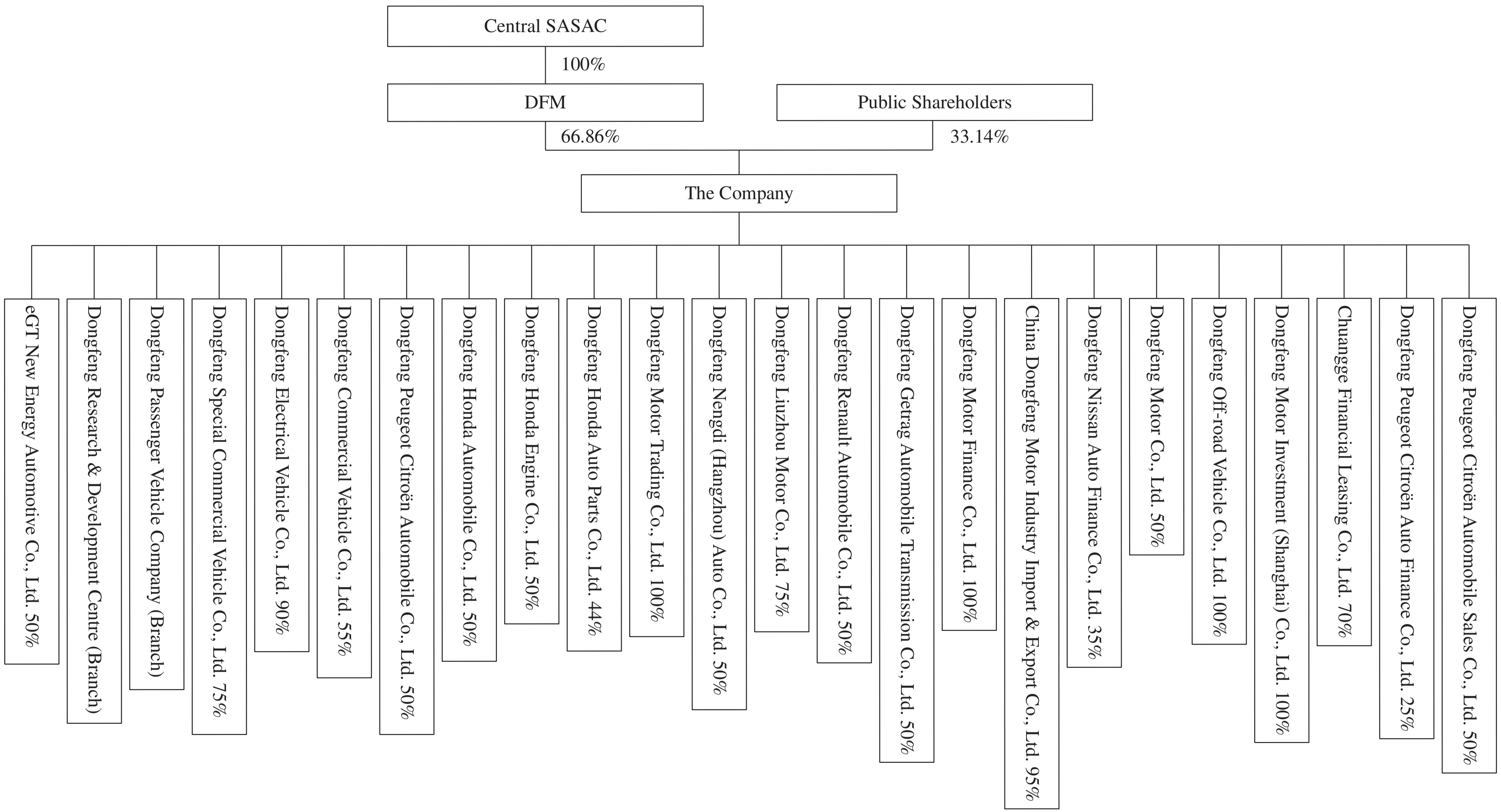
Year	Events
1969	• Second Automotive Works (第二汽車製造廠), the predecessor of DFM, was established by the PRC government in Shiyan, Hubei Province, PRC.
1975	• Second Automotive Works introduced its first model EQ240, a 2.5-ton off-road truck model.
1978	• Second Automotive Works introduced EQ140, a 5-ton civilian car model.
1983	• Second Automotive Works Technical Center was established.
1985	• Second Automotive Works reached an annual production capacity of 100,000 units, becoming the largest auto company in China.
1990	• Second Automotive Works entered into its first joint venture agreement with Automobiles Citroen, a member of PSA, for the manufacture of passenger vehicles.
	• Second Automotive Works introduced its 8-ton heavy truck, representing the best technology in heavy truck then in China.
1992	• Dongfeng Peugeot Citroen Automobiles Company Ltd was incorporated in Wuhan.
	• Second Automotive Works was renamed as DFM.
1997	• "Dongfeng" was recognised as a Renowned Brand Name in China, the first trademark so recognised in the Chinese automobile industry.
1999	• DFM launched a reform framework, transforming our company from a factory operation to a managing company.
	• Dongfeng Automobile Company Limited was listed on the Shanghai Stock Exchange.
	• DFM was inspected by President Jiang Zemin.
2001	• We were incorporated as part of a debt restructuring arrangement by DFM.

Year	Events
2002	• A comprehensive cooperation agreement was entered into with Nissan Motor Co., Ltd. and Dongfeng Motor Co., Ltd was established.
	• Dongfeng Yueda KIA Co., Ltd. was founded as a partnership with Jiangsu Yueda and Hyundai KIA.
2003	• Dongfeng Honda Automobile Co., Ltd was established as a joint venture for the manufacture of Honda series of passenger vehicles with Honda Motor Co., Ltd.
	• Dongfeng Motor Co., Ltd was established as a joint venture, for the manufacture of passenger vehicles and commercial vehicles with Nissan Motor Co., Ltd.
	• DFM moved its headquarters to Wuhan.
2005	• We were listed on Hong Kong Stock Exchange.
2007	• Passenger Vehicle Factory was established in Wuhan to strategically developed proprietary brand vehicles.
2010	• Dongfeng Yulon Motor Co., Ltd. was established in partnership with Yulon Motor Co., Ltd.
2011	• "Tianlong", the trademark for our heavy trucks, was recognised as a Renowned Brand Name in China.
2012	• We established our first overseas research and development base in Sweden.
2013	• We established a joint venture Dongfeng GETRAG Transmission Co., Ltd. in partnership with GETRAG International GmbH.
	• We entered into a Cooperation Master Agreement with Volvo (AB Volvo) for the establishment of a capital strategic alliance, building the biggest alliance in commercial vehicle business in the world.
	• We entered into a joint venture contract with Renault S.A. to form a capital strategic alliance. Dongfeng Renault Automotive Company Limited was established in accordance with the joint venture contract.
2014	• According to World Brand Lab, the brand value of "Dongfeng" was worth approximately RMB67 billion and was ranked among "China's 500 Most Valuable Brands".
	• We subscribed an approximately 14.1 per cent. equity interest in PSA pursuant to a master agreement which we entered into with the French Republic, EPF, FFP and PSA, becoming the largest shareholder of PSA.
	• We established our joint venture Dongfeng Infiniti Motor Co., Ltd. in partnership with Nissan Motor Co., Ltd.

Year	Events
2015	• According to the assessment by the World Brand Laboratory, the brand value of "Dongfeng" was worth approximately RMB80.7 billion in aggregate among "China's 500 Most Valuable Brands". • The joint venture of Dongfeng Motor Group Company Limited and AB Volvo officially commenced operations. • We facilitated the major vehicle projects including product development of E30 and A60-EV of new energy business.
2016	• According to the analysis report on the China's 500 Most Valuable Brands, "Dongfeng" was ranked 36th with a brand value of RMB98,678 million. • In 2016, the Company set up "13th Five Year Plan" new-energy-driven vehicle developing plan, improved processing system of new energy business, clarified main body and responsibility in further and clarified "583" plan of new-energy-driven vehicle including core resource controlling plan of five aspects, key technology developing plan of eight aspects and business mode innovative plan of three aspects.
2017	• We entered into a joint venture with Contemporary Amperex Technology Co., Ltd. for manufacturing and sale of battery system. • We entered into a framework agreement for strategic cooperation with each of FAW and Chang'an to conduct strategic cooperation in the fields of cutting-edge generic technologies innovation, etc. • We jointly established eGT New Energy Automotive Co., Ltd. in partnership with Renault S.A. and Nissan Motor Co., Ltd.
2018	• "DFGo" commenced operation • FAW, Chang'an and us established mobility platform

Corporate Structure

As of 30 June 2018, we had over 22 subsidiaries, jointly-controlled entities and other companies in which we held direct equity interests and 2 branches. The following chart sets forth our shareholding structure, major subsidiaries, joint ventures and branches as of 30 June 2018:



Awards

We have received numerous awards for our products. The table below sets out significant awards that we have received in recent years:

Products	Year	Awards	Awarded By
Research and Successful Practice of Collaborative Innovation Mode of Automotive Lightweight Technology	2017	China Automotive Industry Science and Technology Award (First Class)	China Automotive Industry Technology Progress Rewarding Fund
Development and Manufacture of a New Generation of Light Commercial Vehicle Cabs	2016	China Automotive Industry Science and Technology Award (Second Class)	China Automotive Industry Technology Progress Rewarding Fund
Integrated Development of Zhengzhou Powertrain Processing Production Line	2015	China Automotive Industry Science and Technology Award (Second Class)	China Automotive Industry Technology Progress Rewarding Fund
Development of New Complex Weapons System HMMWV	2014	China Automotive Industry Science and Technology Award (First Class)	China Automotive Industry Technology Progress Rewarding Fund
Research on Precision Spray Forming for Rapid Tooling Process	2013	China Automotive Industry Science and Technology Award (First Class)	China Automotive Industry Technology Progress Rewarding Fund
Application of Military Vehicle Technology	2012	China Automotive Industry Science and Technology Award (First Class)	China Automotive Industry Technology Progress Rewarding Fund

Manufacturing Entities

A number of our subsidiaries and joint ventures are engaged in the manufacturing of commercial vehicles, passenger vehicles and vehicle engines. The following table sets out the details regarding our main manufacturing entities as of 31 December 2017:

Manufacturing Entity	Percentage of Equity Interests	Commercial Vehicle Production Capacity	Passenger Vehicle Production Capacity	Commercial Vehicles Engine Production Capacity	Passenger Vehicle Engine Production Capacity
Dongfeng Motor Co., Ltd. (Dongfeng Automobile Co., Ltd.)	50.0 per cent.	250,000	1,235,000	280,000	1,040,000
Dongfeng Commercial Vehicle Co., Ltd	55.0 per cent.	240,000	N/A	90,000	N/A
Dongfeng Liuzhou Motor Co., Ltd.	75.0 per cent.	60,000	330,000	N/A	80,000
Dongfeng Peugeot Citroën Automobile Co., Ltd	50.0 per cent.	N/A	600,000	N/A	650,000
Dongfeng Honda Automobile Co., Ltd	50.0 per cent.	N/A	480,000	N/A	510,000
DFG Passenger Vehicle Branch	(Branch)	N/A	215,000	N/A	120,000
Dongfeng Honda Engines Co., Ltd.	50.0 per cent.	N/A	N/A	N/A	530,000
Dongfeng Renault Automobile Co., Ltd.	50.0 per cent.	N/A	110,000	N/A	70,000

Our Products

Commercial Vehicles

We manufacture commercial vehicles including heavy, medium and light trucks, large and medium sized buses, special purpose vehicles and military vehicles. As at 30 June 2018, we produced 28 series of major commercial vehicles, including 22 series of trucks and 6 series of buses. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, we produced 336,869 units, 372,695 units, 469,000 units, 231,190 units and 230,517 units of commercial vehicles, and sold 345,225 units, 369,054 units, 455,011 units, 221,384 units and 231,416 units of commercial vehicles, respectively. According to CAAM, our market share in terms of domestic total sales volume of commercial vehicles for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 was approximately 10.0 per cent., 10.1 per cent. and 10.9 per cent., 10.5 per cent. and 10.1 per cent, respectively.

The following table sets out our commercial vehicles sales and production volumes, as well as our domestic market share in terms of sales volume according to CAAM for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018:

	2015			2016			2017		
Category	Production Volumes	Sales Volumes	Market Share	Production Volumes	Sales Volumes	Market Share	Production Volumes	Sales Volumes	Market Share
	(units)	(units)		(units)	(units)		(units)	(units)	
Trucks	288,636	296,372	10.4%	330,587	327,300	10.5%	427,698	413,434	11.4%
Buses	48,233	48,853	8.2%	42,108	41,754	7.7%	41,302	41,577	7.9%
Commercial Vehicles	336,869	345,225	10.0%	372,695	369,054	10.1%	469,000	455,011	10.9%

	Six months ended 30 June 2017			Six months ended 30 June 2018		
Category	Production Volumes	Sales Volumes	Market Share	Production Volumes	Sales Volumes	Market Share
	(units)	(units)		(units)	(units)	
Trucks	213,752	204,344	10.9%	217,824	218,863	10.6%
Buses	17,438	17,040	7.7%	12,693	12,553	5.5%
Commercial Vehicles	231,190	221,384	10.5%	230,517	231,416	10.1%

Certain Models	Name	Category
	DF Tianlong Flagship	Heavy truck/Haulage truck
	DF Tianlong	Heavy truck
	DF Hercules	Heavy truck

Certain Models	Name	Category
	DF Tianjin	Mid-heavy truck
	DF Kaipute	Light truck
	DF Duolika	Light truck
	DF Tuyi	Light truck
	DF Chenglong	Medium truck
	DF Xiaokang	Micro truck
	DF Lianhua	Bus
	DF Teshang	Special purpose vehicle
	DF Yufeng	Light bus

Passenger Vehicles

We manufacture passenger vehicles including basic passenger cars, MPVs, SUVs and crossover passenger vehicles. As of 30 June 2018, we manufactured 91 series of passenger vehicles, including 41 series of sedans, 9 series of MPVs and 38 series of SUVs. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, we produced 2,484,795 units, 2,777,211 units, 2,837,111 units, 1,289,301 units and 1,332,098 units of passenger vehicles, and sold 2,521,812 units, 2,787,756 units, 2,829,227 units, 1,249,907 units and 1,278,720 units of commercial vehicles, respectively. According to CAAM, our market share in terms of domestic total sales volumes of passenger vehicles for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 was approximately 11.9 per cent., 11.4 per cent., 11.4 per cent., 11.1 per cent. and 10.9% per cent, respectively.

The following table sets out our passenger vehicle sales and production volumes, as well as our domestic market share in terms of sales volumes according to CAAM for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018:

	Year ended 31 December								
	2015			2016			2017		
Category	**Production Volumes**	**Sales Volumes**	**Market Share**	**Production Volumes**	**Sales Volumes**	**Market Share**	**Production Volumes**	**Sales Volumes**	**Market Share**
	(units)	**(units)**		**(units)**	**(units)**		**(units)**	**(units)**	
Basic passenger cars	1,322,056	1,352,986	11.5%	1,374,361	1,387,480	11.4%	1,288,062	1,291,372	10.9%
MPVs	227,911	235,852	11.2%	239,037	245,416	9.8%	194,412	192,571	9.3%
SUVs................	934,828	931,808	15.0%	1,163,813	1,154,860	12.8%	1,354,637	1,345,284	13.1%
Crossover	0	1,166	0.1%	0	0	0	0	0	0
Passenger Vehicles	2,484,795	2,521,812	11.9%	2,777,211	2,787,756	11.4%	2,837,111	2,829,227	11.4%

	Six Months ended 30 June					
	2017			2018		
Category	**Production Volumes**	**Sales Volumes**	**Market Share**	**Production Volumes**	**Sales Volumes**	**Market Share**
	(units)	**(units)**		**(units)**	**(units)**	
Basic passenger cars	606,721	585,504	10.8%	619,994	606,719	10.7%
MPVs......................................	93,986	90,695	9.0%	89,331	90,591	10.3%
SUVs	588,594	573,708	12.7%	622,773	581,410	11.7%
Passenger Vehicles..................	1,289,301	1,249,907	11.1%	1,332,098	1,278,720	10.9%

Certain Models	**Name**	**Category**
	DF Infiniti QX50	Mid-to-large size SUV
	DF Peugeot 5008	Mid-to-large size SUV

Certain Models	Name	Category
	DF MURANO	Mid-to-large size SUV
	DF Yueda Kia KX7	Mid-to-large size SUV
	DF AEOLUS AX7	Mid-size SUV
	DF JOYEAR X5	Mid-size SUV
	DF Nissan Venucia T70	Mid-size SUV
	DF Honda CR-V	Compact SUV
	DF Nissan X-Trail	Compact SUV
	DF Renault Kadjar	Compact SUV

Certain Models	Name	Category
	DF Citroen C3-XR	Small SUV
	DF Infiniti Q50L	Sedan (Class E)
	DF A9	Sedan (Class D)
	DF Nissan Sylphy	Sedan (Class C)

Vehicle Manufacturing Equipment

We are also engaged in the design and development of vehicle manufacturing processes and equipment and the production of vehicle manufacturing equipment through Dongfeng Motor Co., Ltd. The vehicle manufacturing equipment produced by Dongfeng Motor Co., Ltd includes machine tools, coating equipment, die and forging molds, and measuring and cutting tools.

Production

As of 30 June 2018, our principal automobile manufacturing facilities are located in more than 6 cities, including Wuhan, Shiyan, Guangzhou, Xiangyang, Liuzhou and Zhengzhou. As of 31 December 2017, we had an aggregate annual production capacity of approximately 3,595,000 vehicles, including approximately 2,970,000 passenger vehicles and 625,000 commercial vehicles.

The following table sets out the annual production capacity, annual production output and utilisation rates of our production facilities for the periods indicated:

	Year ended 31 December								
	2015			2016			2017		
	Annual Production Capacity as of Year End	Annual Production	Utilisation Rate	Annual Production Capacity as of Year End	Annual Production	Utilisation Rate	Annual Production Capacity as of Year End	Annual Production	Utilisation Rate
	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)
Commercial Vehicles	650,000	336,869	51.8	640,000	372,695	58.2	625,000	469,000	75.0
Passenger Vehicles	2,910,000	2,484,795	85.4	3,030,000	2,777,211	91.7	2,970,000	2,837,111	95.5
Total	3,560,000	2,821,664	79.3	3,670,000	3,149,906	85.8	3,595,000	3,306,111	92.0

Production Process

Our production processes vary for different categories of motor vehicles and different types of vehicle-related products. However, our production of motor vehicles generally involves the following key phases:

- *Chassis processing and assembly:* Chassis parts, including the front and rear axles and steering units, are processed and mounted onto the frame to form a complete chassis.

- *Engine processing and powertrain assembly:* Powertrain components, including the engine and the transmission, are processed and assembled into a complete powertrain.

- *Components and auto parts machining and assembly:* Auto parts and components, including metre boards, seats, electronic devices, interior-decoration parts and standard parts are machined and assembled into main parts for final assembly.

- *Stamping:* Steel plates are stamped onto body parts of vehicles.

- *Welding:* Welding is a process whereby the vehicle bodies are formed by welding together the relevant vehicle body parts and other stamped parts and accessories.

- *Painting*: Painting involves the inner and outer painting processes, including midelectrophoresis painting, layer painting and surface coating to withstand corrosion.

- *Final assembly*: At final assembly, the complete chassis, engine unit and auto parts are assembled into a complete vehicle.

- *Final quality inspection*: Final quality inspection involves road tests and final product inspections, including the inspection of exhaust emissions, tightness, steering, braking, engine, transmission and electrical appliances performance. This also involves an inspection of the vehicle's interior and exterior.

Procurement of Raw Materials and Auto Parts

Selection of suppliers

Each of our independently operated enterprises maintains a comprehensive management process for its selection of suppliers. In general, each of our operating entities procures its own raw materials, auto parts and other consumables separately and purchases such items from pre-selected suppliers. We have implemented stringent controls over our supplier selection process to ensure the quality of raw materials and auto parts. The selection of our suppliers is generally determined with consideration of, among other things, quality, cost, delivery standards, research and development ability, development potential and management quality. We have also introduced a quality assurance vetting system to ensure that all raw materials and auto parts delivered to our operating entities conform to our specific quality control requirements. In addition, we also require our suppliers to pass a probationary period prior to providing large quantities of raw materials or auto parts as to ensure that they have the capacity to deliver the required products in a timely manner. We also assist and encourage our suppliers to establish a specific response team to promptly resolve any problems that may arise in the production process.

Relationship and cooperation with suppliers

We have established long-term relationships with our suppliers and negotiate supply agreements with favourable terms and stable pricing policies. Generally, we notify our suppliers of our demand for the next three months at a fixed time each month to organise production and logistics and to ensure timely supply. The suppliers must report to us in advance if any of our requirements cannot be satisfied. Other than engines and transmissions, which we are required to source from designated providers due to market practice and requirement of our joint venture partners, we source each raw material or component from more than one supplier in order to minimise reliance on a single supplier and maintain stability and flexibility of our supplies.

We have developed mutually beneficial relationships with our suppliers. The terms and conditions for the provision of products and services by our suppliers are based on arm's length negotiation and no less favourable to us than the terms and conditions available to independent third parties. Our suppliers are responsible for ensuring that the products provided are in line with the agreed upon standards. The exclusivity and warranty terms vary by supplier and are negotiated individually with each supplier.

Risk Management System

We have implemented a comprehensive risk management system that helps us maintain high standards for our products and services, minimise any deviation from pre-approved budgets and identify and resolve potential problems as early as possible in the production development cycle. Such risk management system includes a set of detailed policies and guidelines in relation to various issues, including but not limited to, repayment default and increased costs of compliance associated with the auto insurance brokerage business and auto financing business, failure in information technology system and failure to integrate acquired businesses. These policies benefit from the substantial input from, and constant monitoring and supervision by, various departments in each stage of our selection of suppliers, production development and sales and services.

Quality Control

Quality control is an integral part of our procurement, production and distribution process. Benefiting from our close cooperation with major international automobile manufacturers, we have established and implemented quality assurance systems in compliance with domestic and international standards. The quality control procedures applied to our production process are formulated according to the latest domestic and international automobile production standards, specific requirements for individual products and feedback from our quality control staff and customers. We also introduce various quality control techniques into every stage of our operation, such as error correction equipment, to avoid product defects. Generally, we require our suppliers to implement supervision and control under relevant quality management assurance systems, such as ISO9001, TS16949 and IATF16949.

Finished products are subject to stringent quality control tests on quality assurance test lines before they receive quality certification. Finished products are tested in a variety of aspects, including mechanical performance, quality of appearance, interior systems, lighting and brake force emissions.

Qualification

All of our joint venture companies, subsidiaries and associated companies have been awarded or are in the process of applying for ISO series accreditation with respect to their quality management assurance systems.

The table below sets forth quality recognitions we have received as of 30 June 2018.

Company	Year	Qualification	Awarded By	Expiry Date
DFM/Dongfeng Motor Group Company Limited	2017	ISO9001: 2015	CAQC Certification Inc.	03/01/2020
Dongfeng Motor Company Limited	2016	ISO9001: 2015	CAQC Certification Inc.	19/06/2019
Dongfeng Passenger Vehicle Co., Ltd.	2016	ISO9001: 2015	CAQC Certification Inc.	31/01/2019
Dongfeng Commercial Vehicle Co., Ltd.	2017	ISO9001: 2008	CAQC Certification Inc.	14/09/2018
Dongfeng Commercial Vehicle Co., Ltd.	2018	TS16949: 2016	China Jiuding Automotive Supplier Certification Co., Ltd.	02/09/2021
Dongfeng Peugeot Citroen Automobile Co., Ltd.	2017	ISO9001: 2015	CAQC Certification Inc.	01/01/2020
Dongfeng Honda Automobile Co., Ltd.	2016	ISO9001: 2008	China Quality Certification Center	31/10/2019
Dongfeng Yueda Kia Motor Co., Ltd.	2018	ISO/TS16949: 2016	China Jiuding Automotive Supplier Certification Co., Ltd.	24/01/2021
Dongfeng Liuzhou Motor Co., Ltd.	2018	ISO9001: 2015	China Quality Certification Center	07/04/2021
Dongfeng Liuzhou Motor Co., Ltd.	2018	IATF16949: 2016	China Jiuding Automotive Supplier Certification Co., Ltd.	12/04/2021
Dongfeng Yulon Motor Co., Ltd.	2018	ISO9001: 2015	CAQC Certification Inc.	28/05/2021
Dongfeng Xiaokang Automotive Co., Ltd.	2018	ISO9001: 2015	CAQC Certification Inc.	14/03/2021
Dongfeng Xiaokang Automotive Co., Ltd.	2018	IATF16949: 2016	China Jiuding Automotive Supplier Certification Co., Ltd.	18/03/2021

Pursuant to the Regulations for Compulsory Product Certification of PRC, the PRC government has promulgated a unified product catalogue along with unified national standards and implementing procedures. The products listed in the catalogue as required by such regulations are required to pass the relevant qualification tests before being dispatched to customers. As at 30 June 2018, all of our commercial and passenger vehicles have obtained China Compulsory Certificates and Energy Saving and Environmentally friendly Automotive Products Certification.

Under the Provisions on the Administration of Recall of Defective Automobiles (《缺陷汽車產品召回管理條例》), we have voluntarily recalled an aggregate of 1,792,142 vehicles in 37 batches from 1 January 2015 to 30 June 2018. In February 2016, we announced the recall of 533,350 units of Honda (Dongfeng) due to defective airbags. In September 2017, we announced the recall of 10,194 units of Dongfeng Peugeot and Dongfeng Citroën due to a safety hazard of seat belt. Although we believed that there was no immediate safety risk in these products, we recalled these vehicles to ensure that the quality standards of our products meet or exceed all applicable regulatory requirements.

Inventory Control

Raw materials and auto parts

We implement just-in-time inventory policy to minimise inventory costs for all of our manufacturing entities. Generally, the raw materials and auto parts are placed into the production process only when they are used. We minimize the volume of semi-manufactured products and seek to maintain an appropriate level to facilitate the production process. Finished goods are retained for examination purposes only. Detailed data on inventory levels is timely updated into a central database and can be checked and monitored at all times. Under the just-in-time inventory system, raw materials and auto parts procured are delivered directly to the production lines or delivered to a centralized temporary storage area for further delivery to the relevant production lines. In addition to the just-in-time inventory policy, we issue detailed guidelines in order to conduct a proper review of the inventory levels.

Finished products

In order to reduce the lead time for delivery of our products, each of our joint venture companies, subsidiaries and associated companies adjusts its planned inventory levels according to its current inventory level and the estimates of demand for the coming month.

Our finished passenger vehicles inventory level is generally monitored and managed by our sales department. We also implement detailed guidelines on the recording of finished products. Generally, the sales and service centres of our passenger vehicles provide us with a proposal of the volume of vehicles that have been or are likely to be ordered on a monthly basis. Based on such proposal, we will adjust our production and finished vehicle products inventory level accordingly. For the six months ended 30 June 2018, our total inventory coefficient of whole vehicles was 2.5; while our inventory coefficient of passenger vehicles and commercial vehicles was 2.5 and 2.1, respectively.

Sales and Services

Our sales and after-sales services are provided through sales and service networks under different brands in China. Each of the sales and service networks provides sales and after-sales services of vehicles of a particular whole vehicle manufacturing unit and is independently managed by the relevant whole vehicle manufacturing unit, which are not connected with any member of our Group.

Commercial vehicles

As of 31 December 2017, sales and after-sales services of commercial vehicles are mainly provided through four major sales and service networks:

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Motor Co., Ltd. (Dongfeng Automobile Co., Ltd.)	Dongfeng (high-end light truck, light truck, mini truck, pickup)	457	879	31
Dongfeng Liuzhou Motor Co., Ltd.............................	Dongfeng (heavy and medium truck)	420	823	31
Dongfeng Commercial Vehicle Co., Ltd................	Dongfeng (heavy and medium truck)	366	877	31
Dongfeng Special Commercial Vehicle Co., Ltd.............................	Dongfeng	128	781	31

Passenger Vehicles

Sales and service network

As of 31 December 2017, sales and after-sales services of passenger vehicles are mainly provided through ten major sales and service networks:

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Peugeot Citroën Automobile Company Ltd..	Dongfeng Citroën	380	587	31
Dongfeng Peugeot Citroën Automobile Company Ltd..	Dongfeng Peugeot	440	582	31
Dongfeng Motor Co., Ltd (Dongfeng Nissan Passenger Vehicle Company)..........................	Dongfeng Nissan	750	973	31
Dongfeng Infiniti Motor Company Limited..............	Dongfeng Infiniti	119	110	30
Dongfeng Motor Co., Ltd (Dongfeng Nissan Passenger Vehicle Company)..........................	Venucia	265	232	31
Dongfeng Liuzhou Motor Co., Ltd.............................	Dongfeng Future	500	495	31
Dongfeng Honda Automobile Co., Ltd.............................	Dongfeng Honda	471	588	31
Dongfeng Renault Automobile Co., Ltd	Dongfeng Renault	194	196	30
Dongfeng Passenger Vehicle Company	Dongfeng Fengshen	308	415	31

Sales and service centres

Our passenger vehicle sales and service centres provide convenient "one-stop shop" full service to our customers and generally operate with the "4S" concept. The "4S" concept is widely adopted by automobile manufacturers in China. It enables our customers to experience a comprehensive range of services from purchasing vehicles to enjoying our after-sale services and buying spare parts and automobile-related consumables. The "4S" concept focuses on the "sales, service, spare parts and survey" process provided to the customers.

Services provided at the sales and service centres

The principal services provided at the sales and service centres include a 12-hour service, 24-hour urgent assistance, urgent repair service, consulting services, specific customer services and regular inspections. We have standardised our service and implemented stringent programs to ensure that our customers are provided with a set of high quality and comprehensive services. The distribution region of each sales and service centre is determined by its geographic location.

Customers

A significant portion of our vehicle sales is conducted through dealers that sell the vehicles to consumers through sales and services networks. During the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, our exports attributed to approximately 1.27 per cent., 0.98 per cent., 1.24 per cent. and 1.87 per cent., of our total vehicle sales volumes, respectively. Our export sales are primarily settled in U.S. dollars.

Customers for our commercial vehicles include commercial entities, corporations and individuals. We sell our commercial vehicles on a made-to-order basis both directly to our end-users or through our dealers.

The commercial and passenger vehicle engines we manufacture are for both internal use and external sales.

Warranty periods

Warranty periods for our passenger vehicles are usually for up to three years or 100,000 kilometres, whichever occurs first. Warranty periods for our commercial vehicles are generally 24 months or 200,000 kilometres, whichever occurs first.

In conjunction with the above warranty services, we pay the costs of services to the relevant service centres or sales and service centres on a pre-determined fee basis, which can vary extensively based on vehicle model, different labour costs in different regions and the types of parts and components to be replaced or repaired. The pre-determined fee is determined by reference to the fee provided for similar products and the market rate. For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, our total amounts of warranty provision charged to our other expenses amounted to approximately RMB1,371 million, RMB1,471 million, RMB1,381 million and RMB551 million, respectively. The estimate is reviewed on an ongoing basis and subject to revision revised if necessary.

Payment terms

Passenger vehicles

We adopt a cash on delivery policy for our passenger vehicles. Following selection of our passenger vehicles in the sales and service centres, our consumers are required to place a deposit. The sales and service centres then provide us with the relevant invoices detailing the requirements that enable us to supply our dealers the relevant product. Only upon receiving the full payment do we deliver the required products to the customers.

Commercial vehicles

We provide a variety of payment terms to our customers when they purchase our commercial vehicles, e.g., full payment prior to delivery, deposit while making order and payment in instalments after delivery, or payment in instalments after delivery without any deposit.

Finance Business

Our finance business includes intra-group collective fund management, intra-group loans and entrusted loans, acceptance and discounting of bills, intra-group settlement, inter-group loans, distributors financing, sales credit, buyer credit and financial leasing.

We conduct our finance business mainly through Dongfeng Motor Finance Co., Ltd., Dongfeng Nissan Auto Finance Co., Ltd., and Dongfeng Peugeot Citroën Auto Finance Co., Ltd.:

	Year of Establishment	Main Businesses
Dongfeng Motor Finance Co., Ltd........	1987	Passenger and commercial vehicle finance, wholesale and retail finance
Dongfeng Peugeot Citroën Auto Finance Co., Ltd	2006	Dealer inventory finance, terminal client loan service, insurance and product service to dealers and terminal clients
Dongfeng Nissan Auto Finance Co., Ltd...	2007	Dealer inventory finance, terminal client retail finance and related services

Other Businesses

We are also engaged in other automobile-related businesses, including production of vehicle manufacturing equipment, equipment maintenance services, the import and export of vehicles and equipment, insurance agency and used car trading businesses.

We produce vehicle manufacturing equipment and provide equipment maintenance services through Dongfeng Motor Co., Ltd. Vehicle manufacturing equipment produced by Dongfeng Motor Co., Ltd includes machine tools, coating equipment, die and forging molds, and measuring and cutting tools.

Marketing and Promotion

We place great emphasis on promoting recognition of our brand and products. Although the marketing and promotion of our different branded vehicles are managed independently by the respective subsidiaries, joint ventures and associated companies, decisions on such marketing activities are made after careful consultation with their respective joint venture partners or management teams.

For the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, our Group's advertising and marketing expenses totalled approximately RMB4,430 million, RMB4,419 million, RMB3,722 million and RMB1,291 million, respectively.

Research and Development

Our research and development efforts include the development of our independent research and development facilities and our strategic alliances with our strategic partners.

We have established a comprehensive and innovative research and development system for our proprietary brand products. Our team focuses on the development of key technologies such as emissions and fuel consumption, new energy, powertrain technology, lightweight materials, safety and electronics. For example, we have clear strategies on new energy vehicles research and development: as for vehicle electronic control technology, we focus on improving industry capacity and supply chain for electronic control system and mastery of advanced electronic control system research and development and manufacturing technology; as for battery research and development and manufacturing, we currently select pure EV and PHEV as the main direction, and plan to gradually possess or control research and development and manufacturing technology of battery group; as for motor technology and manufacturing, we mainly seek partners to ensure motor supply and plan to further strengthen motor vehicle research and development capabilities and to acquire the relevant technologies. Our research and development covers the entire vehicle development process, including program determination, design freeze, project release, prototype production and manufacturing.

Our research and development expenses for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 were approximately RMB2,894 million, RMB3,004 million, RMB3,385 million and RMB2,120 million, respectively.

Intellectual Property Rights

Our intellectual property rights are of fundamental importance to the operation of our business. As of 30 June 2018, we had registered 1,666 trademarks, 9,056 patents and 92 copyright works and were licensed to use 1,666 trademarks, 9,056 patents and 92 copyright works in the PRC. We also possesses unregistered trade secrets, technologies, know-how, processes and other intellectually property rights.

Environmental, Occupational Health and Safety

Waste generated from our manufacturing process include, among others, solid waste, liquid waste, cyclooctadiene, dust, toluene and dimethylbenzene. We have adopted measures at all of our production facilities to control the emissions of wastes and pollutants. Our major manufacturing entities conduct annual examinations of our suppliers and assist our suppliers in replacing hazardous material with proper substitutes if any raw materials and auto parts supplied to us contain any excessive hazardous material. Furthermore, we have adopted environmental friendly coatings for our products and installed advanced dust removal equipment in our facilities.

We also pay particular attention to health and safety of our employees in our production facilities and have adopted various measures to ensure safe production processes, such as establishing health and safety management departments, implementing safe production guidelines, undertaking accountability systems and releasing various health and safety policies.

Employees

As at 31 December 2017, we had a total of 146,843 full-time employees. The following table sets out the number of employees by the divisions indicated:

Division	Employees	Percentage of total employees
	(number)	(%)
Manufacturing workers	97,722	66.6
Engineering and technology	17,031	11.6
Management	30,756	20.9
Services	1,334	0.9
Total	146,843	100

Properties

As of 30 June 2018, we owned land use rights of land in the PRC with an aggregate site area of approximately 17.6 million square meters as well as other properties.

Insurance

We centralise the management of commercial property insurance, review and assess our risk exposure and risk portfolio on an ongoing basis and make necessary and appropriate adjustments to our insurance policies in accordance with our needs and the practices of the insurance industry in China, and in order to provide coverage for various types of risks.

Legal Proceedings

As of 30 June 2018, we were not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial conditions and results of operations, taken as a whole.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Directors

The following table sets forth certain information with respect to our directors as of the date of this Offering Circular:

Name	Age	Position
Mr. Zhu Yanfeng	56	Chairman
Mr. Li Shaozhu	57	Executive Directors
Mr. Ma Zhigeng	73	Independent Non-executive Director
Mr. Zhang Xiaotie	65	Independent Non-executive Director
Mr. Cao Xinghe	68	Independent Non-executive Director
Mr. Chen Yunfei	47	Independent Non-executive Director

Mr. Zhu Yanfeng, aged 56, was appointed as an Executive Director on 19 June 2015. He is the Chairman and Party Secretary of the Company. Mr. Zhu graduated from Zhejiang University with a Bachelor's degree in Engineering specializing in Chemical Automation and Instruments in 1983 and graduated from Harbin Institute of Technology with a Master's degree in Engineering specializing in Control Engineering in 2002. He is a senior postgraduate engineer. He started his career in 1983 at FAW (First Automobile Works) manufacturing plant. He was the vice general manager of FAW Group Corporation from March 1997 to November 1998 and concurrently served as the general manager and party secretary of FAW Car Co., Ltd. (一汽轎車股份有限公司) from April 1997 to November 1998. Mr. Zhu served as the executive deputy general manager and committee member of the communist party of FAW Group Corporation from November 1998 to February 1999, and served as the general manager and committee member of the communist party of FAW Group Corporation from February 1999 to August 2000. He became the general manager and deputy party secretary of FAW Group Corporation from August 2000 to November 2007, and served as the committee member of the provincial party committee of Jilin Province from November 2007 to December 2007. He was a standing committee member of the provincial party committee and standing deputy governor of Jilin Province from December 2007 to May 2012. He was a deputy party secretary of the provincial party committee of Jilin Province from May 2012 to May 2015. He has been the chairman and party secretary of DFM since May 2015. He was appointed as the chairman and party secretary of Dongfeng Motor Group Company Limited in May 2015, the chairman and party secretary of Dongfeng Motor Co., Ltd. in May 2015 and November 2015 respectively, and the chairman of the commitment of Global Strategic Alliance of DFG-PSA in May 2015. Mr. Zhu has more than 30 years of business and management experience in the automotive industry.

Mr. Li Shaozhu, aged 57, was appointed as an Executive Director on 5 August 2005. He is an Executive Director and President of the Company. Mr. Li graduated from Tsinghua University in 1983 with a Bachelor's degree in Engineering Science, specializing in Casting Engineering and Equipment. He also graduated from Zhongnan University of Finance and Economics with a Master's degree in Business Administration in 1996. He is a senior postgraduate engineer. Mr. Li joined DFM in 1983. Mr. Li served as a deputy general manager of DFM from July 1997 to June 2016, and the general manager of Dongfeng Automobile Co., Ltd. From July 1999 to November 2001 and was appointed as a committee member of the communist party of DFM from July 2001 to June 2016. He was the vice president of Dongfeng Motor Co., Ltd. from July 2003 to September 2005. Mr. Li was the general manager of Dongfeng Passenger Vehicle Company from July 2007 to July 2011. He was the party secretary of Dongfeng Design Institute Co., Ltd. from August 2011 to September 2016. He has been a director, the general manager and deputy party secretary of DFM since June 2016 as well as the president of Dongfeng Motor Group Company Limited since August 2016. He was appointed as a committee member of the communist party and a director of Dongfeng Motor Co., Ltd. in August 2003 and August 2016, respectively, the chairman of Dongfeng Commercial Vehicle Co., Ltd. in August 2016, the chairman of Dongfeng Renault Automobile Company Limited in August 2016, and the chairman of Dongfeng Infiniti Motor Company Limited in August 2016. Mr. Li has more than 30 years of business and management experience in the automotive industry.

Mr. Ma Zhigeng, aged 73, was appointed as an Independent Non-executive Director of the Company on 23 January 2013. He has served as the external director of DFM and China Three Gorges Corporation since March 2011. Mr. Ma graduated from Yangzhou Institute of Technology majoring in mechanical manufacturing in 1968. Mr. Ma has worked in various positions since September 1968, including the deputy head of Sichuan Ordnance Bureau of the Ordnance Ministry (兵器部四川兵工局), deputy head of the Southwest regional department of China North Industries Group (中國北方工業(集團)總公司), as well as deputy head, chief economist, deputy general manager and deputy party secretary of the Southwest Ordnance Bureau of China North Industries Corporation (中國兵器工業總公司). He served as the general manager and party secretary of China North Industries Group Corporation from June 1999 to June 2007, and as the general manager of China North Industries Group Corporation from June 2007 to October 2008. Mr. Ma has served as the external director of Shanghai Electric Group, China Three Gorges Corporation and DFM since June 2010, December 2010 and March 2011 respectively. Mr. Ma became a Director of the Third Session of the Board of Directors of the Company in January 2013 and Director of Four Session from 10 October 2013 with a term of three years commencing from 10 October 2013.

Mr. Zhang Xiaotie, aged 65, was appointed as an Independent Non-executive Director of the Company on 10 October 2013. He is the external director of DFM and China National Travel Service (HK) Group Corporation. Mr. Zhang graduated from the School of Economics and Management of Tsinghua University as a part-time postgraduate in Industrial Management Engineering and received a Master's degree in Engineering in 1989. Mr. Zhang had worked in various positions since 1969, including the deputy director general of the Finance Department of the Ministry of Posts and Telecommunications, deputy director general and director general of the Department of Financial Adjustment and Communications Clearance of the Ministry of Information Industry, assistant to president, general manager and deputy general manager of the Planning and Financial Division and a member of leading party group of China Netcom Group Corporation, and director and senior vice president of China Netcom Group Corporation (Hong Kong) Limited. From May 2008 to June 2010, he served as the deputy general manager and a member of leading party group of China Mobile Communications Corporation. He became the external director of China Electronics Corporation and DFM in June 2010 and March 2011 respectively.

Mr. Cao Xinghe, aged 68, a senior economist, was appointed as an Independent Non-executive Director of the Company on 10 October 2013. He is the external director of DFM. Mr. Cao graduated from Tianjin Politics and Law Management College majoring in Economic Laws and Capital University of Economics and Business as a postgraduate majoring in Business Administration. Mr. Cao had worked in various positions since 1965, including the deputy general manager, general manager and secretary of the communist party of China Offshore Oil Bohai Corporation, and assistant to general manager of China National Offshore Oil Corporation. From 2004 to 2010, he served as the deputy general manager and member of leading party group of China National Offshore Oil Corporation. He served as the executive vice chairman of China Petroleum Enterprise Association and honorary chairman of China Petroleum and Chemical Enterprise Association (中國石油化工企業聯合會) in 2007. He became an independent director of China Yangtze Power Co., Ltd. in 2010, external director of DFM in 2011 and external director of China Shipping (Group) Company in 2012.

Mr. Chen Yunfei, aged 47, was appointed as an Independent Non-executive Director of the Company on 10 October 2013. He lives in Hong Kong. Mr. Chen received his Bachelor's degree in law from Wuhan University in July 1992 and JD from Southern Illinois University in the United States in December 1996. In early 1997, he joined Sullivan & Cromwell, an American law firm based in New York, and started practicing securities law. He moved to Hong Kong in 1998 and continued legal practice in the Hong Kong office of Sullivan & Cromwell. He left Sullivan & Cromwell in July 2001 and joined the Asian investment banking division of Deutsche Bank. During his service as a managing director in the Asian investment banking division of Deutsche Bank, he took charge of its Asian general industry (such as automobile industry) and metal and mining groups in different periods. In August 2007, he left Deutsche Bank and became an independent investor engaged in investment and consultation. He served as the board chairman of Asia Coal Limited, a company listed in Hong Kong, and is currently the independent director of China Gold International Resources Corp. Ltd., a company listed in Toronto, Canada and Hong Kong.

Senior Management

The following table sets forth certain information with respect to our senior management as of the date of this Offering Circular:

Name	Age	Position
Mr. Yang Qing	51	Vice President
Mr. An Tiecheng	54	Vice President
Mr. Cai Wei	59	Vice President
Mr. Qiao Yang	55	Vice President
Mr. Lu Feng	50	Secretary of the Board of Directors Company Secretary, the general manager of Investor Relationship Department
Ms. Lo Yee Har Susan	59	Joint Company Secretary

Mr. Yang Qing, aged 51, is the Vice President of the Company. Mr. Yang graduated from Wuhan Technical Institute in 1988 with a Bachelor's degree in Engineering Science, majoring in Internal Combustion Engines. He is a senior engineer. He started working for DFM in 1988. From November 2012 to June 2016, he was the general manager of Dongfeng Automobile Co., Ltd.. Mr. Yang has been the general manager of Dongfeng Commercial Vehicles Co., Ltd. since June 2016, and the vice president of Dongfeng Motor Group Company Limited since August 2016. He was a director of Dongfeng Commercial Vehicles Co., Ltd. in August 2016. Mr. Yang was a standing committee member of the communist party and a deputy general manager of DFM in March 2017, chairman of Dongfeng Motor Trade Corporation in December 2017 and the secretary of the community party committee of Dongfeng Commercial Vehicle Co., Ltd. in February 2018.

Mr. An Tiecheng, aged 54, is the Vice President of the Company. Mr. An graduated from Jilin Institute of Technology in 1984 with a Bachelor's degree in Engineering Science, majoring in Advanced Molecular Chemical Engineering. He also graduated from Jilin University of Technology in 2002 with a Master's Degree of Management Science, majoring in Management Science and Engineering. From July 1984 to March 2017, he worked at FAW manufacturing plant, and then entered into DFM in March 2017 serving as the standing committee member of the communist party and deputy general manager. Mr. An became the vice president of the Company in June 2017.

Mr. Cai Wei, aged 59, is the Vice President of the Company. Mr. Cai graduated from Hefei Industrial University in 1982 with a Bachelor's degree in Engineering Science, specializing in internal combustion engines. He is a senior postgraduate engineer. Mr. Cai joined DFM in 1982. He was the general manager and party secretary of the auto parts division of DFM from November 2001 to July 2003, and the head of the Planning Department of DFM from July 2003 to September 2005. He has been the vice president of Dongfeng Motor Group Company Limited since October 2004, and the assistant to the general manager of DFM since October 2006. Mr. Cai concurrently served as the secretary to the board of directors of Dongfeng Motor Group Company Limited from October 2004 to August 2016, the secretary to the party committee of Dongfeng Honda Automobile Co., Ltd. from December 2009 to June 2016, and the secretary to the board of directors of DFM from July 2011 to August 2016. Mr. Cai was appointed as a director of Dongfeng Honda Automobile Co., Ltd. in July 2003, the vice chairman of Dongfeng Peugeot Citroën Automobile Co., Ltd. in August 2016, and a director of Dongfeng Peugeot Citroën Automobile Sales Co., Ltd. in August 2016.

Mr. Qiao Yang, aged 55, is a Vice President of the Company. Mr. Qiao graduated from Hubei Radio & TV University in 1986, specializing in Industrial Accounting. He is a senior accountant. In 1982, he started working for DFM. Mr. Qiao was the director general of the general office for finance and accounting of Dongfeng Motor Co., Ltd. from July 2003 to March 2015, and the party secretary of finance & accounting office of Dongfeng Motor Co., Ltd. from July 2006 to December 2009. He was the head of the finance planning department of DFM from December 2008 to July 2011. He has been the head of the department for finance and accounting of the same company since July 2011, the assistant to the general manager of DFM since December 2015, and a vice president of Dongfeng Motor Group Company Limited since August 2016. In addition, he was the deputy chief accountant of DFM in February 2002, the chairman of the board of directors of Dongfeng Peugeot Citroën Auto Finance Co., Ltd. in October 2011, a director of Dongfeng Renault Automobile Co., Ltd. in May 2013, a supervisor of Dongfeng Motor Investment (Shanghai) Co., Ltd. (東風汽車投資(上海)有限公司) in March 2014, a director of Dongfeng Commercial Vehicle Co., Ltd. in August 2014, a director of Dongfeng Motor (Hong Kong) International Co., Ltd. in March 2015, the chairman of Dongfeng Motor Finance Co., Ltd. in November 2015, the chairman of Dongfeng Nissan Auto Finance Co., Ltd. in November 2015, an executive director of Dongfeng Asset Management Co., Ltd. (東風資產管理有限公司) in November 2015, Chairman of Chuangge Financial Leasing Company in December 2016 and the chairman of Dongfeng Yulon Motor Co., Ltd. in July 2017.

Mr. Lu Feng, aged 50, is the Secretary of the Board of Directors, Joint Company Secretary, the general manager of Investor Relationship Department of the Company and the general manager of Dongfeng Assets Management Company Limited. Mr. Lu served as the deputy general manager of Dongfeng Automobile Co., Ltd. from June 2002 to December 2009 and the general manager of Dongfeng Automobile Co., Ltd. from December 2009 to November 2012. Mr. Lu served as the general manager of Legal and Securities Affairs Department from November 2012 to August 2016.

Ms. Lo Yee Har Susan, aged 59, is the Joint Company Secretary and the executive director of Tricor Services Limited ("**Tricor**"). Ms. Lo is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2011.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow has been increased in September 2015.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted to use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "foreign debt") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "cross-border security"). Under current rules promulgated by SAFE and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financings denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market. Circular of the State Administration of Foreign Exchange on Further Advancing Foreign Exchange Administration Reform to Enhance Authenticity and Compliance Reviews (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) issued by the SAFE on January 26, 2017, emphasizes the authenticity and compliance examination of cross-border transactions and cross-border capital flows, especially capital outbound.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

Cross-border Security Laws

On 12 May 2014, the SAFE promulgated the Circular concerning Promulgation of the Foreign Exchange Administration Rules on Cross-Border Guarantees and the Relating Implementation Guidelines (國家外匯管理局關於發佈《跨境擔保外匯管理規定》的通知) (collectively the "**Circular 29**"). The Circular 29, which came into force on 1 June 2014, replace twelve other regulations regarding cross-border security and introduce a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross-border security; (ii) requiring SAFE registration or filing for two specific types of cross-border security only; (iii) removing eligibility requirements for providers of cross-border security; (iv) the validity of any cross-border security agreement is no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; (v) removing SAFE verification requirement for performance of cross-border security. A cross-border guarantee is a form of security under the Circular 29. The Circular 29 classify cross-border security into three types:

- Nei Bao Wai Dai (內保外貸) ("**NBWD**"): security/guarantee provided by an onshore security provider for a debt owing by an offshore debtor to an offshore creditor.

- Wai Bao Nei Dai (外保內貸) ("**WBND**"): security/guarantee provided by an offshore security provider for a debt owing by an onshore debtor to an onshore creditor.

- Other Types of Cross-border Security (其他形式跨境擔保): any cross-border security/guarantee other than NBWD and WBND.

In respect of NBWD, in the case where the onshore security provider is a non-financial institution, it shall conduct a registration of the relevant security/guarantee with SAFE within 15 business days after the execution of the relevant Deed of Guarantee. In the event of changes to the major clauses of the relevant Deed of Guarantee, it shall conduct a change registration for the relevant security/guarantee. According to the Circular 29, the funds borrowed offshore shall not be directly or indirectly repatriated to or used onshore by means of loans, equity investments or securities investments without SAFE approval. According to Circular of the State Administration of Foreign Exchange on Further Advancing Foreign Exchange

Administration Reform to Enhance Authenticity and Compliance Reviews (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) issued by the SAFE on January 26, 2017, funds for overseas loans under domestic guarantees are allowed to be repatriated into the PRC for domestic use. Debtors can repatriate, directly or indirectly, the funds under guarantees for domestic use through issuing loans to or equity participation in domestic institutions. Further, according to the Policy Q&As (Issue II) on the Circular of the State Administration of Foreign Exchange on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance, in the case where the offshore debtor transfers the funds borrowed offshore by means of foreign loans onshore, the onshore borrower shall meet the relevant requirements for foreign debt administration and control the scale of funds repatriated according to the relevant requirements of the mode of macro-prudential management of full-covered cross-border financing or the mode required in the Administration Measures for Registration of Foreign Debts. In the case where the offshore debtor transfers the funds by means of equity investment onshore, it shall meet the requirements from the competent authorities in the area of foreign direct investment.

Upon enforcement, the onshore security provider can pay to the offshore creditor directly (by effecting remittance through an onshore bank) where the NBWD has been registered with SAFE. In addition, if any onshore security provider under a NBWD provides any security or guarantee for an offshore bond issuance, the offshore issuer's equity shares must be fully or partially held directly or indirectly by the onshore security provider. Moreover, the proceeds from any such offshore bond issuance must be applied towards the offshore project(s), where an onshore entity holds equity interest, and in respect of which the related approval, registration, record, or confirmation have been obtained from or made with the competent authorities subject to PRC Laws.

The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes of the relevant series and the relevant Trust Deed. The Guarantor's obligations in respect of the Notes of the relevant series and the relevant Trust Deed are contained in the relevant Deed of Guarantee. The relevant Deed of Guarantee will be executed by the Guarantor on or before the Issue Date. Under the Circular 29, the Deeds of Guarantee does not require any pre-approval by SAFE and is binding and effective upon execution.

The Guarantor is required to submit the relevant Deed of Guarantee to the local SAFE for registration within 15 business days after its execution. The SAFE registration is merely a post signing registration requirement, which is not a condition to the effectiveness of the Guarantee of the Notes.

Under the Circular 29, the local SAFE will go through a procedural review (as opposed to a substantive examination process) of the Guarantor's application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the Guarantor to confirm the completion of the registration.

Under the Circular 29:

- non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law although SAFE may impose penalties on the Guarantor if submission for registration is not carried out within the stipulated time frame of 15 business days; and

- there may be logistical hurdles at the time of remittance (if any cross-border payment is to be made by the Guarantor under the Guarantee of the Notes) as domestic banks require evidence of SAFE registration in order to effect such remittance, although this does not affect the validity of the Guarantee of the Notes itself.

The Terms and Conditions of the Notes provide that the Guarantor will register, or cause to be registered, the Deeds of Guarantee with SAFE in accordance with, and within the time period prescribed by, the Circular 29 and use its best endeavours to complete the registration and obtain a registration record from SAFE on or before the date following 60 PRC Business Days after the Issue Date (the "**Registration Deadline**"). If the Guarantor fails to complete the SAFE registration and deliver the registration records to the Trustee before the Registration Deadline, the Noteholders will have a put option to require the issuer to redeem the Notes held by them at their principal amount together with accrued interest (see Condition 5(c) *(Redemption for Relevant Event)* of the Terms and Conditions of the Notes).

NDRC Filing

On 14 September 2015, NDRC promulgated the NDRC Circular which became effective on the same day. According to the NDRC Circular, before the issuance of foreign debts, domestic enterprises and their controlled overseas enterprises or branches shall first apply to NDRC for the handling of the record-filing and registration procedures and shall provide information of the issuance to the NDRC within 10 business days of completion of each issuance. The Circular 2044 itself is silent on the legal consequences of non-compliance with the pre-issue registration requirement. Although the Issuer obtained the preissuance registration certificate in respect of the offering of the Notes from NDRC on 17 August 2018, if NDRC finds the Issuer to be guilty of maliciously obtaining quota of foreign debts or providing false information, NDRC may blacklist or publish on the national credit information platform a bad credit record against the Issuer, or even punish the Issuer with other related authorities.

TAXATION

The following summary of certain Hong Kong and PRC tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of the PRC, Hong Kong and their country of citizenship, residence or domicile.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Enterprise Income Tax

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of China shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer and the Guarantor, as at the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that the Issuer is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on the income sourced inside the PRC, unless a preferential rate is provided by tax treaties or arrangements entered into between the country or region where the non-resident is established and the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC Noteholder. However, despite the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions.

In addition, in the event that the Guarantor is required to discharge its obligations under the Guarantee of the Notes, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10 per cent. on the payments of interest made by it under the Guarantee of the Notes to non-PRC Noteholders as such payments of interest will be regarded as being derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC Noteholders. Repayment of the principal made by the Issuer or the Guarantor will not be subject to PRC withholding tax.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, any gain realised by the non-PRC Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax.

Value Added Tax

On 23 March 2016, the MOF and the SAT jointly issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within PRC shall be subject to VAT. The services are treated as being provided within PRC where either the service provider or the service recipient is located in PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the interpretation of "loans" under the Circular 36, the issuance of Notes may be treated as the holders of the Notes providing loans to the Issuer and the Guarantor, which thus could be regarded as the provision of financial services that could be subject to VAT. If the PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC (due to the Issuer being treated as PRC tax residents or due to the fact that the Guarantor is located in the PRC), then the holders of the Notes could be regarded as providing financial services within PRC and consequently, the holders of the Notes shall be subject to VAT at the rate up to 6 per cent. when receiving the interest payments under the Notes from the Guarantor. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.7 per cent. Hence, if the Issuer or the Guarantor pays interest income to Noteholders who are located outside the PRC, the Issuer (if VAT applicable) or the Guarantor, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer or the Guarantor does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within the PRC.

Circular 36 has been issued quite recently and the above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

Pursuant to the EIT Law, the Business Tax Laws and the VAT reform detailed above, the Issuer or the Guarantor may need to withhold EIT (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer or the Guarantor may need to withhold business tax or VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside the PRC. However, in the event that the Issuer or the Guarantor is required to make such a deduction or withholding (whether by way of EIT, business tax, VAT or otherwise), the Issuer and the Guarantor have agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required.

For more information, see "*Terms and Conditions of the Notes – Condition 7 (Taxation)*".

Stamp Duty

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal, premium or interest on the Notes or in respect of any gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes will be subject to profits tax.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

United States' Foreign Account Tax Compliance Act Tax Provisions

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements.

The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU

Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 16 October 2018 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer and the Guarantor have undertaken, among other things, that the Notes of the relevant series will be issued on the Issue Date, and the Joint Lead Managers have severally and not jointly agreed with the Issuer to subscribe and pay for, or procure subscribers to subscribe and pay for, the 2021 Notes at an issue price of 99.947 per cent. of their principal amount and the 2023 Notes at an issue price of 100.00 per cent. of their principal amount in the amounts set forth below:

	Principal Amount of 2021 Notes	Principal Amount of 2023 Notes
Bank of China Limited	EUR113,000,000	EUR22,600,000
Deutsche Bank AG, London Branch	EUR113,000,000	EUR22,600,000
The Hongkong and Shanghai Banking Corporation Limited	EUR113,000,000	EUR22,600,000
ICBC International Securities Limited	EUR56,500,000	EUR11,300,000
Industrial and Commercial Bank of China (Europe) S.A	EUR56,500,000	EUR11,300,000
BNP Paribas	EUR16,000,000	EUR3,200,000
Bank of Communications Co., Ltd. Hong Kong Branch	EUR16,000,000	EUR3,200,000
Société Générale	EUR16,000,000	EUR3,200,000
Total	EUR500,000,000	EUR100,000,000

The Subscription Agreement provides that the Issuer (failing which, the Guarantor) has agreed to pay the Joint Lead Managers certain fees and commissions and to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes of the relevant series, and the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes of the relevant series. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and certain of their subsidiaries or affiliates may have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with, the Issuer, the Guarantor or any other member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor or any other member of the Group and/or their respective subsidiaries and affiliates in the ordinary course of their business.

The Joint Lead Managers and their respective affiliates may purchase any Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Certain of the Joint Lead Managers and/or their affiliates will initially purchase a significant portion of the Notes for asset management and/or proprietary purposes but not with a view to distribution and may therefore be able to exercise certain rights and powers on their own which will be binding on all holders. Additionally, this may reduce the liquidity of the Notes in the secondary trading market. References herein to the Notes being offered should be read as including any offering of the Notes to the Joint Lead Managers and/or their affiliates acting in such capacity. In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this Offering Circular, or any offering material, and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular, or any offering material, are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

General

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes this Offering Circular or any other offering material relating to the Notes. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction, except in circumstances which will result in compliance with any applicable laws and regulations and will not, save as disclosed in this Offering Circular, impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of that Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

United States of America

The Notes and the Guarantee of the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered or sold within the United States. Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Hong Kong

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

People's Republic of China

Each of the Joint Lead Managers has represented, warranted and undertaken that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

GENERAL INFORMATION

(1) **Legal Entity Identifier**: The legal entity identifier of the Issuer is 30030005VDXV3TILVP93.

(2) **General Information of the Guarantor**: the Guarantor was incorporated in the PRC on 18 May 2001 as a company with limited liability under the laws of the PRC. The registered office of the Guarantor is at Special No. 1 Dongfeng Road, Wuhan Economic and Technology Development Zone, Wuhan, Hubei, the PRC. The business address of the Guarantor's directors is at Special No. 1 Dongfeng Road, Wuhan Economic and Technology Development Zone, Wuhan, Hubei, the PRC. The Guarantor's telephone number is (86) 27 8428 5555. There are no potential conflicts of interest between any duties of the Guarantor's directors to the Guarantor, and their private interests and/or other duties.

(3) **Clearing Systems**: The Notes have been accepted for clearance through Euroclear and Clearstream. The ISIN and the Common Code for the 2021 Notes are XS1886120168 and 188612016, respectively. The ISIN and Common Code for the 2023 Notes are XS1886122453 and 188612245, respectively.

(4) **Authorisations**: The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the provision of the Guarantee of the Notes (as the case may be). The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 25 September 2018. The Guarantee of the Notes was authorised by resolutions of the Board of Directors of the Guarantor passed on 24 January 2018. The Guarantor undertakes to register or cause to be registered with the Hubei Branch of the SAFE each Deed of Guarantee within 15 PRC Business Days after execution of the relevant Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees promulgated by SAFE. The Guarantor shall use its best endeavors to complete the registration for the execution of each Deed of Guarantee with SAFE as soon as practicable and in any event before 60 PRC Business Days after the Issue Date. The Guarantor shall also file the requisite information and documents with the NDRC as soon as practicable and in any event within the prescribed timeframe in accordance with the NDRC Circular.

(5) **No Material Adverse Change**: Save as disclosed in this Offering Circular, since 31 December 2017, there has been no material adverse change in the prospects or results of operations of the Issuer and since 31 December 2017, there has been no significant change in the financial or trading position of the Issuer. Save as disclosed in this Offering Circular, since 31 December 2017, there has been no material adverse change in the prospects or results of operations of the Guarantor and since 31 December 2017, there has been no significant change in the financial or trading position of the Guarantor.

(6) **Litigation**: Save as disclosed in this Offering Circular, neither of the Issuer nor the Guarantor is involved in any governmental, legal or arbitration proceedings that could have a material adverse effect on our financial conditions and results of operations, taken as a whole, nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened. Each of the Issuer and the Guarantor may from time to time become a party to various legal, governmental or administrative proceedings arising in the ordinary course of its business.

(7) **Available Documents**: Copies of the Guarantor's audited consolidated financial statements as at and for the two years ended 31 December 2016 and 2017, the Guarantor's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2018, the Issuer's audited financial statements as at and for the two years ended 31 December 2016 and 2017, the Articles of Association of the Issuer and the Guarantor, the Trust Deed of each series of Notes, the Agency Agreement of each series of Notes and the Deed of Guarantee of each series of Notes will be available for inspection in electronic form from the Issue Date at the specified office of the Issuer at Special No. 1 Dongfeng Road, Wuhan Economic and Technology Development Zone, Wuhan, Hubei, the PRC, and upon prior written request at the specified office of the Principal Paying Agent (subject to the Principal Paying Agent having been provided with the same by the Issuer or the Guarantor) during normal business hours, so long as any Note is outstanding.

(8) **Independent Auditor of the Guarantor**: The Guarantor's consolidated financial statements as at and for the two years ended 31 December 2016 and 2017, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, the independent auditor of the Guarantor, who is Certified Public Accountants in Hong Kong.

PricewaterhouseCoopers has also reviewed the unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

(9) **Independent Auditors of the Issuer**: The Issuer's financial statements as at and for the two years ended 31 December 2016 and 2017 which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, the independent auditor of the Issuer, who is Certified Public Accountants in Hong Kong.

(10) **Listing of Notes**: Application has been made to the Euronext Dublin for the approval of this Offering Circular as Listing Particulars and for the Notes to be admitted to the Official List and to trading on the Global Exchange Market, which is the exchange regulated market of the Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU. It is expected that dealing in, and listing of, the Notes on the Euronext Dublin will commence on or around 24 October 2018. Maples and Calder is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to trading on the Global Exchange Market of the Euronext Dublin.

INDEX TO FINANCIAL INFORMATION

(1) The Report on Review of Interim Financial Information of the Guarantor as at and for the six months ended 30 June 2018 and the Independent Auditor's Report on the consolidated financial statements of the Guarantor as at and for the years ended 31 December 2016 and 2017 set out herein are reproduced from the Guarantor's interim report for the six months ended 30 June 2018 and the Guarantor's annual reports for the years ended 31 December 2016 and 2017, respectively. Page references referred to in such reports are to pages set out in such interim report and annual reports.

(2) The Independent Auditor's Report on the financial statements of the Issuer set out herein is reproduced from the Issuer's financial statements for the years ended 31 December 2016 and 2017, respectively, and page references included in the Independent Auditor's Report refer to pages set out in such financial statements.

Report on Review of Interim Financial Information

To the Board of Directors of Dongfeng Motor Group Company Limited
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 57, which comprises the interim condensed consolidated statement of financial position of Dongfeng Motor Group Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2018

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

		Six months ended 30 June	
	Notes	**2018** ***RMB million*** **(Unaudited)**	2017 *RMB million* (Unaudited and Restated) (Note 1.3)
Revenue	2	**57,922**	57,749
Cost of sales		**(49,872)**	(49,733)
Gross profit		**8,050**	8,016
Other income	3	**1,254**	1,043
Selling and distribution expenses		**(2,839)**	(3,670)
Administrative expenses		**(1,983)**	(1,953)
Net impairment losses on financial assets		**(197)**	(94)
Other expenses		**(2,907)**	(2,363)
Finance expenses – net	5	**(1)**	(467)
Share of profits and losses of:			
Joint ventures		**6,088**	6,101
Associates		**1,749**	1,218
PROFIT BEFORE INCOME TAX	4	**9,214**	7,831
Income tax expense	6	**(933)**	(517)
PROFIT FOR THE PERIOD		**8,281**	7,314
Profit attributable to:			
Equity holders of the company		**8,068**	7,023
Non-controlling interests		**213**	291
		8,281	7,314
Earnings per share attributable to ordinary equity holders of the Company:	8		
Basic and diluted for the period		**93.64 cents**	81.51 cents

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated) (Note 1.3)
PROFIT FOR THE PERIOD	**8,281**	7,314
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss		
Share of other comprehensive income of investments accounted for using the equity method	**134**	70
Others	**(20)**	61
	114	131
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**(235)**	641
Share of other comprehensive expense of investments accounted for using the equity method	**(96)**	(169)
	(331)	472
Income tax effect		
Item that will not be reclassified subsequently to profit or loss	**5**	(15)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(212)**	588
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**8,069**	7,902
Total comprehensive income attributable to:		
Equity holders of the Company	**7,868**	7,587
Non-controlling interests	**201**	315
	8,069	7,902

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	**30 June 2018** ***RMB million*** **(Unaudited)**	31 December 2017 *RMB million* (Restated) (Note 1.3)
ASSETS			
Non-current assets			
Property, plant and equipment	9	**15,343**	15,088
Lease prepayments		**1,180**	1,224
Intangible assets		**4,247**	4,237
Goodwill		**1,763**	1,763
Investments in joint ventures		**46,929**	39,858
Investments in associates		**15,738**	14,614
Available-for-sale financial assets		**–**	174
Financial assets at fair value through other comprehensive income		**102**	–
Other non-current assets		**19,250**	18,269
Deferred income tax assets		**2,598**	2,532
Total non-current assets		**107,150**	97,759
Current assets			
Inventories		**10,888**	10,657
Trade receivables	10	**7,352**	6,354
Bills receivable		**14,859**	14,730
Prepayments, deposits and other receivables		**30,049**	26,760
Due from joint ventures		**6,423**	13,590
Pledged bank balances and time deposits	11	**5,157**	10,617
Financial assets at fair value through profit or loss		**9,627**	–
Cash and cash equivalents	11	**25,709**	33,441
Total current assets		**110,064**	116,149
TOTAL ASSETS		**217,214**	213,908
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital		**8,616**	8,616
Reserves		**15,198**	14,605
Retained profits		**89,944**	85,294
Non-controlling interests		**6,771**	6,809
TOTAL EQUITY		**120,529**	115,324

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2018

	Notes	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Restated) (Note 1.3)
Non-current liabilities			
Interest-bearing borrowings	13	**2,528**	2,398
Other long term liabilities		**1,555**	1,438
Government grants		**761**	771
Deferred income tax liabilities		**1,803**	1,555
Provisions		**635**	652
Total non-current liabilities		**7,282**	6,814
Current liabilities			
Trade payables	12	**18,510**	21,571
Bills payable		**23,832**	22,563
Other payables and accruals		**15,770**	17,512
Contract liabilities		**2,658**	–
Due to joint ventures		**11,371**	13,630
Interest-bearing borrowings	13	**15,509**	14,381
Income tax payables		**627**	828
Provisions		**1,126**	1,285
Total current liabilities		**89,403**	91,770
TOTAL LIABILITIES		**96,685**	98,584
TOTAL EQUITY AND LIABILITIES		**217,214**	213,908

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Issued capital	Capital reserves	Statutory reserves	Retained profits	Total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the six months ended 30 June 2018							
As at 31 December 2017							
As previously reported	8,616	3,062	11,503	85,020	108,201	6,795	114,996
Restatement for business combination under common control (Note 1.3)	–	20	20	274	314	14	328
As restated	8,616	3,082	11,523	85,294	108,515	6,809	115,324
Change in accounting policy – IFRS 9	–	(47)	–	(18)	(65)	(6)	(71)
As at 1 January 2018	8,616	3,035	11,523	85,276	108,450	6,803	115,253
2017 final dividend	–	–	–	(2,154)	(2,154)	–	(2,154)
Total comprehensive income for the period	–	(200)	–	8,068	7,868	201	8,069
Transfer to reserves	–	–	1,229	(1,229)	–	–	–
Share of associates' other equity changes	–	(14)	–	–	(14)	–	(14)
Dividends paid to non-controlling shareholders	–	–	–	–	–	(258)	(258)
Consideration for business combination under common control (Note 1.3)	–	(375)	–	–	(375)	–	(375)
Changes in ownership interests in subsidiaries without change of control	–	–	–	(17)	(17)	25	8
As at 30 June 2018	8,616	2,446	12,752	89,944	113,758	6,771	120,529

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

	Attributable to owners of the Company						
	Issued capital *RMB million* (Unaudited and Restated)	Capital reserves *RMB million* (Unaudited and Restated)	Statutory reserves *RMB million* (Unaudited and Restated)	Retained profits *RMB million* (Unaudited and Restated)	Total *RMB million* (Unaudited and Restated)	Non-controlling interests *RMB million* (Unaudited and Restated)	Total equity *RMB million* (Unaudited and Restated)
For the six months ended 30 June 2017							
As at 1 January 2017							
As previously reported	8,616	2,809	9,907	75,394	96,726	6,912	103,638
Restatement for business combination under common control (Note 1.3)	–	20	18	279	317	17	334
As restated	8,616	2,829	9,925	75,673	97,043	6,929	103,972
2016 final dividend	–	–	–	(1,982)	(1,982)	–	(1,982)
Total comprehensive income for the period	–	564	–	7,023	7,587	315	7,902
Transfer to reserves	–	–	1,190	(1,190)	–	–	–
Contributions from non-controlling shareholders	–	–	–	–	–	75	75
Share of associates' other equity changes	–	9	–	–	9	–	9
Dividends paid to non-controlling shareholders	–	–	–	–	–	(797)	(797)
Consideration for business combination under common control	–	(63)	–	–	(63)	(3)	(66)
As at 30 June 2017	8,616	3,339	11,115	79,524	102,594	6,519	109,113

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018	2017
	Note	***RMB million***	*RMB million*
		(Unaudited)	(Unaudited and Restated) (Note 1.3)
Cash flows from operating activities			
Cash flows used in operating activities		**(10,291)**	(2,009)
Income tax paid		**(948)**	(784)
Cash flows used in operating activities – net		**(11,239)**	(2,793)
Cash flows from investing activities			
Acquisition of subsidiaries, joint ventures and associates		**(460)**	(67)
Dividends from joint ventures and associates		**7,520**	6,499
Other investing cash flows – net		**(5,881)**	(7,147)
Cash flows generated from/(used in) investing activities – net		**1,179**	(715)
Cash flows from financing activities			
Proceeds from borrowings and bonds		**4,189**	1,077
Repayments of borrowings and bonds		**(2,703)**	(1,806)
Dividends paid to minority shareholders		**(258)**	(797)
Other finance cash flows – net		**–**	77
Cash flows generated from/(used in) financing activities – net		**1,228**	(1,449)
Net decrease in cash and cash equivalents		**(8,832)**	(4,957)
Cash and cash equivalents at beginning of the period		**31,641**	29,782
Cash and cash equivalents at end of the period	11	**22,809**	24,825

The notes on pages 32 to 57 form an integral part of this interim consolidated financial information.

1.1 CORPORATE INFORMATION

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

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of automobiles, engines and other automotive parts and rendering of financing services.

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.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 29 August 2018.

1.2 BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial information has been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board ("IASB").

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial information, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

1.3 BUSINESS COMBINATION UNDER COMMON CONTROL

In March 2018, the Group acquired 100% equity interest of Dongfeng Motor Trading Co., Ltd. ("Dongfeng Trading") from DMC. For this business combination under common control, the financial information of the Group and that of Dongfeng Trading has been combined, by using the pooling of interests method, as if the Group had acquired Dongfeng Trading from the beginning of the earliest financial period presented. The net assets of the Group and Dongfeng Trading are combined using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of the Group's interest in the net fair value of Dongfeng Trading's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of common control combination. The difference between the consolidation and book value of Dongfeng Trading at the time of common control combination is taken to the reserves of the Group. Accordingly, the comparative figures of this interim condensed consolidated financial information have been restated.

1.4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial information of the Group for the year ended 31 December 2017 (referring to the annual financial statements in the relevant year), as described in those annual financial information except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2018.

(i) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The impact of adopting following standards are disclosed below:

- IFRS 9 Financial instruments and
- IFRS 15 Revenue from contracts with customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 1.5 below.

The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted

		Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRS 17	Insurance contracts	1 January 2021

1.4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted (Continued)

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB4,330 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

1.5 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(i) Impact on the financial statements

IFRS 9 Financial Instruments was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting IFRS 9. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and the comparatives figures for the year ended 31 December 2017 will not be restated.

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(i) Impact on the financial statements (Continued)

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more detail by standard below:

	31 December 2017 As originally presented *RMB Million*	**IFRS 9**	**IFRS 15**	**1 January 2018 Restated** ***RMB Million***
ASSETS				
Non-current assets				
Property, plant and equipment	15,088	–	–	**15,088**
Lease prepayments	1,224	–	–	**1,224**
Intangible assets	4,237	–	–	**4,237**
Goodwill	1,763	–	–	**1,763**
Investments in joint ventures	39,858	30	–	**39,888**
Investments in associates	14,614	(23)	–	**14,591**
Available-for-sale financial assets	174	(174)	–	**–**
Financial assets at fair value through other comprehensive income	–	121	–	**121**
Other non-current assets	18,269	–	–	**18,269**
Deferred income tax assets	2,532	–	–	**2,532**
Total non-current assets	97,759	(46)	–	**97,713**
Current assets				
Inventories	10,657	–	–	**10,657**
Trade receivables	6,354	(25)	–	**6,329**
Bills receivable	14,730	–	–	**14,730**
Prepayments, deposits and other receivables	26,760	–	–	**26,760**
Due from joint ventures	13,590	–	–	**13,590**
Pledged bank balances and time deposits	10,617	(6,202)	–	**4,415**
Financial assets at fair value through profit or loss	–	6,202	–	**6,202**
Cash and cash equivalents	33,441	–	–	**33,441**
Total current assets	116,149	(25)	–	**116,124**
TOTAL ASSETS	213,908	(71)	–	**213,837**

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(i) Impact on the financial statements (Continued)

	31 December 2017 As originally presented *RMB Million*	**IFRS 9**	**IFRS 15**	**1 January 2018 Restated** ***RMB Million***
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Company				
Issued capital	8,616	–	–	**8,616**
Reserves	14,605	(47)	–	**14,558**
Retained profits	85,294	(18)	–	**85,276**
Non-controlling interests	6,809	(6)	–	**6,803**
TOTAL EQUITY	115,324	(71)	–	**115,253**
Non-current liabilities				
Interest-bearing borrowings	2,398	–	–	**2,398**
Other long term liabilities	1,438	–	–	**1,438**
Government grants	771	–	–	**771**
Deferred income tax liabilities	1,555	–	–	**1,555**
Provisions	652	–	–	**652**
Total non-current liabilities	6,814	–	–	**6,814**
Current liabilities				
Trade payables	21,571	–	–	**21,571**
Bills payable	22,563	–	–	**22,563**
Other payables and accruals	17,512	–	(2,963)	**14,549**
Contract liabilities	–	–	2,963	**2,963**
Due to joint ventures	13,630	–	–	**13,630**
Interest-bearing borrowings	14,381	–	–	**14,381**
Income tax payables	828	–	–	**828**
Provisions	1,285	–	–	**1,285**
Total current liabilities	91,770	–	–	**91,770**
TOTAL LIABILITIES	98,584	–	–	**98,584**
TOTAL EQUITY AND LIABILITIES	213,908	(71)	–	**213,837**

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(ii) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of International Accounting Standard 39 ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate IFRS 9 categories, the majority of the Group's financial assets include:

- investments in companies previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income ("FVOCI"), because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. There is no longer any reclassification of accumulated amounts from reserves to profit or loss on the disposal of these investments;

- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost except for bills receivable;

- bills receivable which are held both by collecting contractual cash flows and selling of these assets, was classified as FVOCI; and

- certain investments in financial products issued by bank were classified to financial assets at fair value through profit or loss. They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

The Group mainly has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables for sales of goods or provision of services; and

- loans to related and third parties.

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(ii) IFRS 9 Financial Instruments – Impact of adoption (Continued)

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather than only incurred credit losses model as is the case under IAS 39. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For loans to related party and third parties, the Group applies the general approach under IFRS 9, as there is no significant increase in credit risk since initial recognition, a 12-month expected credit loss approach that results from possible default event within 12 months the reporting date is adopted by management. The impact of adoption of IFRS 9 has been disclosed in Note 1.5(i).

While cash and cash equivalents, pledged bank balances, time deposits and bills receivable are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(iii) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(iii) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(iii) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(iv) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that has been affected:

Some contracts include multiple deliverables. In these cases, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on the expected cost plus margin.

Advance from customers for sale of vehicles which was related to sale contracts previously in other payables and accruals were reclassified to contract liabilities.

As evaluated by management, the adoption of IFRS 15 did not result in a material impact on the financial statements as the Group did not have any complex sales transactions or long term contracts and the adoption of IFRS 15 did not have significant impact on timing and amount of revenue recognition on sales of products.

1.5 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(v) IFRS 15 Revenue from Contracts with Customers – Accounting policies

Sale of goods

The Group manufactures and sells a range of passenger and commercial vehicles and related key parts and components, including engines, cabins, axles, steel frames and gearboxes in the market. Depending on the contractual arrangement with customers, sales are recognised when control of the products has transferred, being when the risk and rewards have been transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Vehicles are often sold with discounts. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts.

Services

Revenue from providing services is recognised in the accounting period in which the services are rendered.

1.6 ESTIMATES

The preparation of this condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

2. REVENUE AND SEGMENT INFORMATION

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

– The commercial vehicles segment mainly manufactures and sells commercial vehicles, and its related engines and other automotive parts;

– The passenger vehicles segment mainly manufactures and sells passenger vehicles, and its related engines and other automotive parts;

– The financing service segment mainly provides financing services to external customers and companies within the Group; and

– The corporate and others segment mainly manufactures and sells other automobile related products.

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

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

During the six months ended 30 June 2017 and 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 June 2018

	Commercial vehicles *RMB million* (Unaudited)	Passenger vehicles *RMB million* (Unaudited)	Financing service *RMB million* (Unaudited)	Corporate and others *RMB million* (Unaudited)	Elimination *RMB million* (Unaudited)	Total *RMB million* (Unaudited)
Segment revenue						
Sales to external customers	31,480	24,469	1,826	147	–	57,922
Sales to internal customers	3	5	40	–	(48)	–
	31,483	24,474	1,866	147	(48)	57,922
Results						
Segment results	1,126	(682)	887	(884)	383	830
Interest income	358	143	1	459	(413)	548
Finance expenses – net						(1)
Share of profits and losses of:						
Associates	–	1,422	308	19	–	1,749
Joint ventures	(1,033)	7,346	146	(371)	–	6,088
Profit before income tax						9,214
Income tax expense						(933)
Profit for the period						8,281

2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 June 2017

	Commercial vehicles RMB million (Unaudited) (Restated)	Passenger vehicles RMB million (Unaudited) (Restated)	Financing service RMB million (Unaudited) (Restated)	Corporate and others RMB million (Unaudited) (Restated)	Elimination RMB million (Unaudited) (Restated)	Total RMB million (Unaudited) (Restated)
Segment revenue						
Sales to external customers	29,981	26,156	1,428	184	–	57,749
Sales to internal customers	32	4	17	–	(53)	–
	30,013	26,160	1,445	184	(53)	57,749
Results						
Segment results	882	(857)	817	(635)	336	543
Interest income	241	176	1	370	(352)	436
Finance expenses – net						(467)
Share of profits and losses of:						
Associates	–	938	264	16	–	1,218
Joint ventures	222	6,185	145	(451)	–	6,101
Profit before income tax						7,831
Income tax expense						(517)
Profit for the period						7,314

3. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Interest income	**548**	436
Government grants and subsidies	**115**	135
Rendering of other services	**102**	110
Stationing fee received from the joint ventures	**136**	105
Others	**353**	257
	1,254	1,043

4. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Cost of inventories recognized as expense	**47,483**	47,475
Interest expense for financing services (included in cost of sales)	**233**	108
Provision against inventories	**82**	139
Depreciation	**894**	872
Amortisation of intangible assets	**226**	204
Amortisation of lease prepayment	**44**	44
Impairment of trade and other receivables	**197**	94

5. FINANCE EXPENSES-NET

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Interest on bank loans and other borrowings	**68**	46
Interest on short term notes and discounted bills	**44**	29
Exchange net (gains)/losses of financing activities	**(111)**	392
Finance expenses-net	**1**	467

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Current income tax	**746**	607
Deferred income tax	**187**	(90)
Income tax expense for the period	**933**	517

Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the Company, its subsidiaries and jointly controlled entities is calculated at the rates ranging from 15% to 25%, on their estimated assessable profits for the existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2018 and 30 June 2017.

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

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

7. DIVIDEND

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Proposed interim dividend RMB0.10 (2017:RMB0.10) per ordinary share	**862**	862

On 29 August 2018, the Board of Directors has declared an interim dividend of RMB0.10 per share (2017: RMB0.10 per share), amounting to RMB862 million (2017: RMB862 million). The interim financial information does not reflect this liability.

A dividend of RMB2,154 million that was related to the period to 31 December 2017 will be distributed on or about Friday, 31 August 2018.

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

The calculation of basic earnings per share is based on:

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Earnings:		
Profit for the period attributable to ordinary equity holders of the Company	**8,068**	7,023
	Number of shares	
	million	*million*
Shares:		
Weighted average number of ordinary shares in issue during the period	**8,616**	8,616
Earnings per share	**93.64 cents**	81.51 cents

Diluted earnings per share equals basic earnings per share as the Company has no dilutive potential ordinary shares for the six months ended 30 June 2018 and 30 June 2017.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment in an aggregate amount of approximately RMB1,214 million (2017: RMB1,255 million) and disposed of property, plant and equipment with an aggregate net book value of approximately RMB56 million (2017: RMB74 million), resulting in a net gain on disposal of approximately RMB1 million (2017: a net gain RMB7 million). Depreciation was approximately RMB894 million (2017: RMB872 million) and RMB9 million impairment was accrued for the six months ended 30 June 2018 (2017: nil).

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 offers their customers credit terms that are generally between 30 and 180 days. Trade receivables are non-interest bearing.

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

	30 June 2018	31 December 2017
	RMB million	*RMB million*
	(Unaudited)	(Restated)
Within three months	**4,208**	4,224
More than three months but within one year	**2,671**	1,595
More than one year	**473**	535
	7,352	6,354

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

	Notes	**30 June 2018** *RMB million* **(Unaudited)**	31 December 2017 *RMB million* (Restated)
Cash and bank balances		**17,906**	18,161
Time deposits	(a)	**12,960**	25,897
Fixed term deposits (within one year)	(b)	**1,300**	1,000
Fixed term deposits (more than one year)	(c)	**700**	2,000
		32,866	47,058
Less: Pledged bank balances and time deposits for securing general banking facilities		**(5,157)**	(10,617)
Less: Fixed term deposits (within one year)	(b)	**(1,300)**	(1,000)
Less: Fixed term deposits (more than one year)	(c)	**(700)**	(2,000)
Cash and cash equivalents in the interim condensed consolidated statement of financial position		**25,709**	33,441
Less: Non-pledged time deposits with original maturity of three months or more when acquired		**(2,900)**	(1,800)
Cash and cash equivalents in the interim condensed consolidated statement of cash flow		**22,809**	31,641

(a) As at 30 June 2018, time deposits included RMB200 million (31 December 2017: RMB200 million) placed by the Company in an associate which is involved in the provision of financing services and RMB2,600 million (31 December 2017: RMB1,600 million) placed by the Company in a joint venture which is involved in the provision of financing services.

(b) As at 30 June 2018, fixed term deposits (within one year) included RMB1,300 million (31 December 2017: nil) placed by the Company in an associate which is involved in the provision of financing services and no deposit (31 December 2017:RMB1,000 million) placed by the Company in a joint venture.

(c) As at 30 June 2018, fixed term deposits (more than one year) included RMB700 million (31 December 2017: RMB2,000 million) placed by the Company in an associate which is involved in the provision of financing services.

12. TRADE PAYABLES

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

	30 June 2018	31 December 2017
	RMB million	*RMB million*
	(Unaudited)	(Restated)
Within three months	**16,591**	19,262
More than three months but within one year	**1,518**	1,696
More than one year	**401**	613
	18,510	21,571

13. INTEREST-BEARING BORROWINGS

Interest expense on borrowings for the six months ended 30 June 2018 was RMB112 million (2017: RMB75 million).

New unsecured bonds (the "Bonds") were issued in the aggregate principal amount of RMB300,000,000 on 30 January 2018 and were offered in the denomination of RMB100 each and to be expired in 3 years. The Bonds bear interest from 31 January 2018 at a rate of 5.49% per annum. Interest on the Bonds is payable annually on 31 January in each year, commencing with the first interest payment date falling on 31 January 2019. The Bonds have been listed on the centralized quotation trading system and fixed-income securities comprehensive electronic trading platform of Shanghai Stock Exchange.

The guaranteed notes (the "Notes") were issued in the aggregate principal amount of EUR500,000,000 (equivalent to approximately RMB3,825,750,000) on 28 October 2015 and were registered in the denomination of EUR100,000 each and to be expired in 3 years. The Notes bear interest from 28 October 2015 at a rate of 1.60% per annum. Interest on the Notes is payable annually on 28 October each year, commencing with the first interest payment date falling on 28 October 2016. The Notes have been listed on the Irish Stock Exchange.

14. COMMITMENTS

(a) Operating lease commitments as lessee

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

	30 June 2018	31 December 2017
	RMB million	*RMB million*
	(Unaudited)	(Restated)
Within one year	**131**	193
After one year but not more than five years	**509**	687
More than five years	**3,690**	5,069
	4,330	5,949

(b) Capital commitments

In addition to the operating lease commitments detailed in note 14(a) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2018	31 December 2017
	RMB million	*RMB million*
	(Unaudited)	(Restated)
Contracted, but not provided for:		
Property, plant and equipment	**1,529**	1,755

15. RELATED PARTY TRANSACTIONS

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates, non-controlling shareholders of a subsidiary and their subsidiaries

Save as disclosed elsewhere in this condensed interim financial information, during the six months ended 30 June 2018, the Group had the following significant transactions with its related parties:

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Purchases of automotive parts/raw materials from and the payment of royalty fee to:		
DMC, its subsidiaries, associates and joint ventures	**314**	359
Joint ventures	**8,521**	8,224
Subsidiaries' joint ventures	**42**	38
	8,877	8,621
Purchases of automobiles from joint ventures	**13,636**	13,662
Purchases of water, steam and electricity from DMC	**276**	327
Purchases of items of property, plant and equipment and intangible assets from:		
DMC, its subsidiaries, associates and joint ventures	**25**	5
Joint ventures	**55**	131
Non-controlling shareholders of a subsidiary and their subsidiaries	**3**	20
	83	156
Rental expenses to DMC	**68**	58

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates, non-controlling shareholders of a subsidiary and their subsidiaries (Continued)

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Purchases of services from:		
DMC, its subsidiaries, associates and joint ventures	**182**	201
Joint ventures	**105**	142
Non-controlling shareholders of a subsidiary and their subsidiaries	**86**	153
	373	496
Sales of automotive parts/raw materials to:		
DMC, its subsidiaries, associates and joint ventures	**108**	94
Joint ventures	**2,194**	1,867
	2,302	1,961
Sales of automobiles to:		
DMC, its subsidiaries, associates and joint ventures	**1,225**	617
Joint ventures	**186**	146
Subsidiaries' joint ventures	**2**	13
Non-controlling shareholder of a subsidiary and their subsidiaries	**694**	694
	2,107	1,470
Provision of services to joint ventures	**86**	71

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates, non-controlling shareholders of a subsidiary and their subsidiaries (Continued)

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited and Restated)
Interest expense paid to:		
DMC, its subsidiaries, associates and joint ventures	**3**	16
Joint ventures	**145**	49
	148	65
Interest incomes from:		
DMC, its subsidiaries, associates and joint ventures	**14**	38
Joint ventures	**5**	9
Associates	**1**	1
	20	48
Fee and commission incomes from:		
DMC, its subsidiaries, associates and joint ventures	**–**	1
Joint ventures	**3**	4
	3	5
Stationing fee received from the joint ventures	**136**	105

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties

	30 June 2018 *RMB million* (Unaudited)	31 December 2017 *RMB million* (Restated)
Receivables from related parties included in trade receivables:		
DMC, its subsidiaries, associates and joint ventures	**204**	134
Associates	**7**	12
Non-controlling shareholders of a subsidiary and their subsidiaries	**106**	76
	317	222
Receivables from related parties included in prepayments, deposits and other receivables:		
DMC, its subsidiaries, associates and joint ventures	**420**	627
Associates	**16**	19
Non-controlling shareholders of a subsidiary and their subsidiaries	**7**	7
	443	653
Payables to related parties included in trade payables:		
DMC, its subsidiaries, associates and joint ventures	**166**	323
Associates	**–**	31
Non-controlling shareholders of a subsidiary and their subsidiaries	**8**	57
	174	411
Payables to related parties included in other payables and accruals:		
DMC, its subsidiaries, associates and joint ventures	**72**	66
Non-controlling shareholders of a subsidiary and their subsidiaries	**146**	135
	218	201

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2018	2017
	RMB thousand	*RMB thousand*
	(Unaudited)	(Unaudited and Restated)
Short-term employee benefits	**2,571**	2,624
Post-employment benefits	**168**	136
Total compensation to key management personnel	**2,739**	2,760

Independent Auditor's Report

羅兵咸永道

To the shareholders of Dongfeng Motor Group Company Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Dongfeng Motor Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 189, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit are summarised as follows:

- Warranty provisions;

- Impairment assessment of Property, plant and equipment.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Warranty provisions	
Refer to Note 3 "Significant Accounting Estimates", Note 6 "Profit Before Income Tax", Note 17 "Investments in Joint Ventures" and Note 29 "Provisions" to the consolidated financial statements. As at 31 December 2017, the balance of warranty provisions in the consolidated statement of financial position of the Group amounted to RMB1,848 million, and warranty provisions made for the year of RMB1,381 million were recorded in the consolidated income statement of the Group. Provisions for warranties granted by the Group and its joint ventures ("JVs") for the passenger and commercial vehicles sold are recognised based on sales volume and past experience of the cost of repair and replacement. The key judgement adopted by management as part of the process includes determining the estimated unit cost of warranty provisions of passenger and commercial vehicles sold. Meanwhile, the Group's share of profits of JVs for the year which were accounted for using the equity method amounted to RMB13,598 million. The warranty provisions made by JVs during the year were significant to the JVs' profit, therefore it had significant impact on the consolidated income statement of the Group. We focused on this area because of the magnitude of the amount of warranty provisions and the significant involvement of management's judgement and assumptions applied in estimating of costs in respect of future warranty claims.	With regard to the warranty provisions of the Group and JVs audited by us: • We understood, evaluated and validated the key controls over the estimation of the warranty provisions. In addition, we tested the information technology environments of the Group's system and the specific automatic controls related to the maintenance of data which was used to calculate the warranty provisions. • We assessed management's warranty provision models using our knowledge of the Group and experience of the passenger and commercial vehicles industry. We also tested the mathematical accuracy of calculations therein by re-performing the calculations. • We compared management's estimation on the warranty cost per unit with the historical actual claims on a sample basis and checked the selected historical actual claims to supporting documents. • In addition, we assessed management's estimation on the warranty cost per unit by discussing with management and performing analysis on actual claims during the year and subsequent to the year-end to identify any indicators of significant quality defect, significant changes of labours and parts costs, and significant changes of expected occurrence of repair or replacement that would significantly affect the estimates of the year end warranty provisions.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)

Warranty provisions (Continued)

With regard to the warranty provisions made during the year of two significant JVs audited by non-PricewaterhouseCoopers auditors ("Other Auditors"):

- We communicated with Other Auditors to have an understanding of Other Auditors' compliance with the ethical requirements that are relevant to us and Other Auditors' professional competence.

- We sent instructions to Other Auditors and communicated with them to understand their risk assessment and audit responses to the risk identified on warranty provisions.

- We communicated with Other Auditors to understand their audit procedures performed and evaluated Other Auditors' work by reviewing the relevant audit documentation on their audits of warranty provisions.

- We obtained and evaluated Other Auditors' communications to us in accordance with our instructions.

We found that management's judgement and assumptions applied in estimating the Group's warranty provisions were supported by available evidence.

In the context of our audit of consolidated financial statements of the Group, the JVs' management's judgements and estimates associated with their respective warranty provisions noted in respect of the Group's share of the profit and net assets of JVs were supported by available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
Impairment assessment of Property, plant and equipment	
Refer to Note 3 "Significant Accounting Estimates", Note 6 "Profit Before Income Tax", Note 13 "Property, plant and equipment" and Note 17 "Investments in Joint Ventures" to the consolidated financial statements. As at 31 December 2017, certain Property, plant and equipment ("PP&E") of the Group and its JVs had impairment indicators, either because manufacturing of certain products has been ceased, or the economic performance of the production and operation of the Group and its JVs were continuously below expectation. As a result, the Group recorded a total impairment provision charge of RMB268 million against these PP&E to the consolidated income statement of the Group for the year then ended. In assessing the recoverability of the PP&E that had impairment indicators, management of the Group and the JVs identified the relevant cash generation units ("CGU") to which these PP&E belong, respectively, and estimated the recoverable amounts of these CGUs based on the higher of their fair value less costs of disposal ("FVLCOD") and value in use ("VIU") calculation. Management used VIU to assess the recoverability of the CGUs and applied significant judgements in determining the VIU calculation. The judgements included: • growth rates to extrapolate revenue and cash flows within and beyond the budget period; • gross margin; and • discount rate	With regard to the impairment assessment of PP&E of the Group: We evaluated the appropriateness of management's grouping of these PP&E with the relevant CGUs. We assessed the discounted cash flow method used by management to determine the VIU by reference to industry practices, and tested the mathematical accuracy of the VIU calculations. We compared the input data used in the cash flow forecasts against the historical figures and the approved budget and business plans. We challenged management's key assumptions by: • Comparing the revenue growth rates within the budget period with the relevant CGUs' historical growth rates; and those beyond the budget period with our independent expectation based on economic data; • Comparing the gross margin with the relevant CGUs' past performance, taking into consideration of market trends; and • Assessing the discount rate by considering and recalculating the weighted average cost of capital for the CGUs and comparable companies in the relevant industry, as well as considering territory specific factors, such as risk free interest rate and debt ratio prevailing in China market as at base.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)

Impairment assessment of Property, plant and equipment (Continued)

Meanwhile, the Group's share of profits of JVs for the year which were accounted for using the equity method amounted to RMB13,598 million. The impairment charged over PP&E made by JVs during the year were significant to the JVs' profit, therefore it had significant impact on the consolidated income statement of the Group.

We focused on this area due to the magnitude of the impairment provision and the significance of management judgements adopted in assessing the recoverable amount.

With regard to the impairment assessment of PP&E of JVs audited by non-PricewaterhouseCoopers auditors ("Other Auditors"):

- We communicated with Other Auditors to have an understanding of Other Auditors' compliance with the ethical requirements that are relevant to us and Other Auditors' professional competence.
- We sent instructions to Other Auditors and communicated with them to understand their risk assessment and audit responses to the risk identified on impairment assessment.
- We communicated with Other Auditors to understand their audit procedures performed and evaluated Other Auditors' work by reviewing the relevant audit documentation on their audit of impairment assessment.
- We obtained and evaluated Other Auditors' communications to us in accordance with our instructions.

We found that management's judgements applied in the Group's impairment assessment were supported by available evidence.

In the context of our audit of consolidated financial statements of the Group, the JVs' management's judgements associated with its impairment assessment noted in respect of the Group's share of the profit and net assets of JVs were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB million	2016 RMB million (Restated) (Note 2.2)
Revenue	4	**125,016**	122,535
Cost of sales		**(108,904)**	(105,020)
Gross profit		**16,112**	17,515
Other income	5	**2,775**	2,201
Selling and distribution expenses		**(7,270)**	(7,634)
Administrative expenses		**(4,608)**	(3,767)
Other expenses		**(6,423)**	(5,701)
Finance expenses	7	**(592)**	(445)
Share of profits and losses of:			
Joint ventures	17	**13,574**	11,665
Associates	18	**2,207**	1,897
PROFIT BEFORE INCOME TAX	6	**15,775**	15,731
Income tax expense	10	**(1,141)**	(1,276)
PROFIT FOR THE YEAR		**14,634**	14,455
Profit attributable to:			
Equity holders of the Company		**14,063**	13,345
Non-controlling interests		**571**	1,110
		14,634	14,455
Earnings per share attributable to ordinary equity holders of the Company:	12		
Basic for the year		**163.22 cents**	154.89 cents
Diluted for the year		**163.22 cents**	154.89 cents

The notes on pages 100 to 189 form an integral part of the consolidated financial information

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
		(Restated)
		(Note 2.2)
PROFIT FOR THE YEAR	**14,634**	14,455
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss		
Share of other comprehensive income of investments accounted for using the equity method	**(70)**	43
Others	**119**	(33)
	49	10
Items that may be reclassified to profit or loss		
Currency translation differences	**659**	257
Share of other comprehensive income of investments accounted for using the equity method	**(252)**	(19)
	407	238
Income tax effect		
Item that will not be reclassified subsequently to profit or loss	**(26)**	14
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**430**	262
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**15,064**	14,717
Total comprehensive income attributable to:		
Equity holders of the Company	**14,448**	13,619
Non-controlling interests	**616**	1,098
	15,064	14,717

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 RMB million	31 December 2016 RMB million (Restated) (Note 2.2)
ASSETS			
Non-current assets			
Property, plant and equipment	13	**15,005**	13,873
Lease prepayments		**1,207**	1,296
Intangible assets	14	**4,237**	3,618
Goodwill	15	**1,763**	1,798
Investments in joint ventures	17	**39,858**	40,549
Investments in associates	18	**14,614**	12,598
Available-for-sale financial assets	25	**174**	174
Other non-current assets	19	**18,257**	14,377
Deferred income tax assets	10	**2,520**	2,134
Total non-current assets		**97,635**	90,417
Current assets			
Inventories	20	**10,207**	8,735
Trade receivables	21	**6,000**	4,138
Bills receivable	22	**14,605**	15,416
Prepayments, deposits and other receivables	23	**26,611**	20,205
Due from joint ventures	24	**13,573**	8,672
Pledged bank balances and time deposits	26	**10,511**	6,645
Cash and cash equivalents	26	**33,350**	30,851
Total current assets		**114,857**	94,662
TOTAL ASSETS		**212,492**	185,079
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	27	**8,616**	8,616
Reserves		**14,565**	12,716
Retained profits		**85,020**	75,394
		108,201	96,726
Non-controlling interests		**6,795**	6,912
Total equity		**114,996**	103,638

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Consolidated Statement of Financial Position (Continued)

As at 31 December 2017

		31 December	
		2017	2016
	Notes	***RMB million***	*RMB million*
			(Restated)
			(Note 2.2)
Non-current liabilities			
Interest-bearing borrowings	28	**2,398**	7,087
Other long term liabilities		**1,438**	1,320
Government grants	30	**771**	872
Deferred income tax liabilities	10	**1,555**	1,302
Provisions	29	**652**	674
Total non-current liabilities		**6,814**	11,255
Current liabilities			
Trade payables	31	**21,512**	21,501
Bills payable	32	**21,526**	14,867
Other payables and accruals	33	**17,414**	16,206
Due to joint ventures	24	**13,620**	8,529
Interest-bearing borrowings	28	**14,498**	7,310
Income tax payable		**827**	688
Provisions	29	**1,285**	1,085
Total current liabilities		**90,682**	70,186
TOTAL LIABILITIES		**97,496**	81,441
TOTAL EQUITY AND LIABILITIES		**212,492**	185,079

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Li Shaozhu
Director

Liu Weidong
Director

Consolidated Statement of Changes In Equity

For the year ended 31 December 2017

	Attributable to equity holders of the Company					Non-	
	Issued capital *RMB million*	Capital reserve *RMB million*	Statutory reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*	controlling interests *RMB million*	Total equity *RMB million*
Year ended 31 December 2016 (Restated)							
As at 1 January 2016							
Past reported	8,616	2,378*	8,191*	65,465	84,650	6,834	91,484
Business combination involving enterprises under common control (Note 2.2)	–	55	–	37	92	5	97
As restated	8,616	2,433	8,191	65,502	84,742	6,839	91,581
Profit for the year	–	–	–	13,345	13,345	1,110	14,455
Other comprehensive income for the year	–	274	–	–	274	(12)	262
Total comprehensive income for the year	–	274	–	13,345	13,619	1,098	14,717
Transfer to reserves	–	–	1,716	(1,716)	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	98	98
Share of capital reserve of investments accounted for using the equity method	–	102	–	–	102	–	102
Final 2015 dividend declared and paid	–	–	–	(1,737)	(1,737)	(1,123)	(2,860)
As at 31 December 2016	8,616	2,809*	9,907*	75,394	96,726	6,912	103,638

* These reserve accounts comprise the consolidated reserves of RMB12,716 million (2015: RMB10,624 million) in the consolidated statement of financial position.

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Consolidated Statement of Changes In Equity (Continued)

For the year ended 31 December 2017

	Attributable to equity holders of the Company					Non-	
	Issued capital *RMB million*	Capital reserve *RMB million*	Statutory reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*	controlling interests *RMB million*	Total equity *RMB million*
Year ended 31 December 2017							
As at 1 January 2017							
Past reported	8,616	2,746*	9,907*	75,381	96,650	6,908	103,558
Business combination involving enterprises under common control (Note 2.2)	–	63	–	13	76	4	80
As restated	8,616	2,809	9,907	75,394	96,726	6,912	103,638
Profit for the year	–	–	–	14,063	14,063	571	14,634
Other comprehensive income for the year	–	385	–	–	385	45	430
Total comprehensive income for the year	–	385	–	14,063	14,448	616	15,064
Transfer to reserves	–	–	1,596	(1,596)	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	75	75
Business combination involving enterprises under common control	–	(63)	–	–	(63)	(3)	(66)
Share of capital reserve of investments accounted for using the equity method	–	(97)	–	–	(97)	–	(97)
Final 2016 and interim 2017 dividend declared and paid	–	–	–	(2,841)	(2,841)	(804)	(3,645)
Others	–	28	–	–	28	(1)	27
As at 31 December 2017	8,616	3,062*	11,503*	85,020	108,201	6,795	114,996

* These reserve accounts comprise the consolidated reserves of RMB14,565 million (2016: RMB12,716 million) in the consolidated statement of financial position.

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB million	2016 RMB million (Restated) (Note 2.2)
Cash flows from operating activities			
Profit before income tax		**15,775**	15,731
Adjustments for:			
Share of profits and losses of joint ventures and associates		**(15,781)**	(13,562)
Gain/(Loss) on disposal of items of property, plant and equipment and lease prepayments, net	6	**13**	(3)
Amortisation of lease prepayments	6	**87**	66
Provision/(Reversal of) provision against inventories	6	**216**	(64)
Impairment of trade and other receivables	6	**165**	533
Exchange losses/(gains), net	6	**24**	(60)
Depreciation	6	**1,758**	1,672
Impairment of items of property, plant and equipment	6	**268**	2
Amortisation of intangible assets	6	**416**	321
Finance expenses	7	**592**	445
Interest income	5	**(1,031)**	(834)
Government grants	30	**(121)**	(90)
Gain on other equity interest transaction		**(2)**	(64)
		2,379	4,093
Increase in trade and bills receivables and prepayments,deposits and other receivables		**(1,456)**	(3,662)
(Increase)/Decrease in inventories		**(1,687)**	14
Decrease/(Increase) in amounts due from joint ventures		**233**	(1,330)
Increase in trade and bills payables, and other payables and accruals		**8,404**	10,528
Increase in loans and receivables from financing services		**(8,762)**	(7,309)
Increase in cash deposits received from financing services		**1,986**	1,104
Increase in a mandatory reserve with the People's Bank of China		**(894)**	(329)
Increase in amounts due to joint ventures		**5,091**	1,696
Increase in provisions		**178**	252
Cash generated from operations		**5,472**	5,057
Interest paid		**(161)**	(237)
Income tax paid		**(1,161)**	(1,182)
Net cash flows from operating activities		**4,150**	3,638

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB million	2016 RMB million (Restated) (Note 2.2)
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(3,269)**	(2,382)
Increase in lease prepayments and other long term assets		**(166)**	(396)
Purchases of intangible assets		**(1,040)**	(1,142)
Payment for acquisition of subsidiary, net of cash acquired	16	**(67)**	(1,203)
Investments in joint ventures	17	**(50)**	–
Proceeds from disposal of items of property, plant and equipment		**47**	29
Proceeds from disposal of intangible assets		**–**	3
Proceeds from disposal of available-for-sale financial assets		**–**	34
Dividends from joint ventures and associates		**10,646**	9,192
Government grants received		**20**	408
Interest received		**823**	1,012
Increase in pledged bank balances and time deposits	26	**(3,866)**	(2,885)
(Increase)/Decrease in non-pledged time deposits with original maturity of three months or more when acquired	26	**(673)**	1,947
Cash decreased relating to disposal of subsidiaries		**(174)**	–
Cash paid relating to other investing activities		**(1,062)**	(3,214)
Net cash flows from investing activities		**1,169**	1,403

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB million	2016 RMB million (Restated) (Note 2.2)
Cash flows from financing activities			
Proceeds from borrowings		**2,628**	4,939
Repayment of borrowings		**(2,563)**	(6,314)
Capital contribution from non-controlling shareholders		**75**	98
Dividends paid to non-controlling shareholders		**(792)**	(1,116)
Dividends paid to the equity holders of the Company		**(2,841)**	(1,762)
Net cash used in financing activities		**(3,493)**	(4,155)
Net increase in cash and cash equivalents		**1,826**	886
Cash and cash equivalents at beginning of year		**29,724**	28,838
Cash and cash equivalents at end of year	26	**31,550**	29,724

The notes on pages 100 to 189 form an integral part of the consolidated financial information.

1. GENERAL 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 and Technology 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 and rendering of financing services.

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

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets on liabilities.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.2 BUSINESS COMBINATION UNDER COMMON CONTROL

In January 2017, the Group acquired 100% equity interest of Dongfeng Motor Engineering Co., Ltd. ("Dongfeng Engineering") from a subsidiary of DMC. For this business combination under common control, the financial information of the Group and that of Dongfeng Engineering have been combined, by using the pooling of interests method, as if the Group acquired Dongfeng Engineering from the beginning of the earliest financial period presented. The net assets of the Group and Dongfeng Engineering are combined using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of the Group's interest in the net fair value of Dongfeng Engineering's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of common control combination. The difference between the consideration and book value of Dongfeng Engineering at the time of common control combination is taken to the reserves of the Group. The comparative figures of this consolidated financial information have been restated.

2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2017.

- Amendments to IAS 12 "Income taxes" on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7 "Statement of cash flows" introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendment to IFRS 12 "Disclosure of interest in other entities" is part of the annual improvements to IFRSs 2014–2016 cycle. It clarifies that the disclosure requirement of IFRS 12 is applicable to interest in entities classified as held for sale except for summarized financial information (para B17 of IFRS 12).

The adoption of these standards did not have any significant impact on the Group's results and financial position.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are not effective for periods beginning after 1 January 2017, and have not been early adopted in preparing these consolidated financial statement. The Group has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the new standards and amendments. The new standards and amendments to standards and interpretations are set out below:

IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(ii) New standards and interpretations not yet adopted (Continued)

IFRS 9 Financial Instruments (Continued)

Impact

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- A fair value through other comprehensive income (FVOCI) election is available for the equity instruments which are currently classified as available-for-sale (AFS).

- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. It is expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparative figures for 2017 will not be restated.

2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(ii) New standards and interpretations not yet adopted (Continued)

IFRS 15 Revenue from Contracts with Customers

Nature of change

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has identified the following areas that are likely to be affected:

- Bundle sales – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue;

- Accounting for costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognized as an asset under IFRS 15, and

- Rights of return – IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group will adopt the standard using the modified retrospective approach. The Group has assessed the adoption of this standard and concluded that it will not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(ii) New standards and interpretations not yet adopted (Continued)

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB5,943 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Nature of change

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(ii) New standards and interpretations not yet adopted (Continued)

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Continued)

Date of adoption by the Group

Mandatory application date has not been determined by IASB, and the Group will not adopt the standard before mandatory application date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Group's voting rights and potential voting rights.

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 in the Company's statement of financial position.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. If the Group holds less than 20% of the equity voting rights of the investee but can clearly demonstrate it has significant influence over the investee, the Group accounts such investees as associates. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (Continued)

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's investments in associates and joint ventures include goodwill identified on acquisition. Upon the acquisition, any difference between the cost of the associates and joint ventures and the Group's share of the net fair value of the associates and joint ventures, identifiable assets and liabilities is accounted for as goodwill or share of profit of associates and joint ventures.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates and joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations (except for business combination under common control in 2.2) are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange of control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at face value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognized in profit or loss or as a change to other comprehensive income. If the contingent consideration is not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after assessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same Group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal Group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal Groups held for sale". 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. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

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

	Estimated useful life
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 the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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

Intangible assets (other than goodwill)

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

(i) Patents and licenses

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

(ii) Research and development costs

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

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

(iii) Customer relationships

Customer relationships are stated at cost less any impairment losses and are amortised on straight-line basis over their estimated useful lives of 17 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease prepayments

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

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the 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

(i) Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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.

(ii) Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

(ii) Subsequent measurement (Continued)

Available-for-sale financial investments

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

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

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

(i) Financial assets carried at amortized cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

(i) Financial assets carried at amortized cost (Continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

(ii) Assets carried at cost

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

(iii) Available-for-sale financial instruments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

(iii) Available-for-sale financial instruments (Continued)

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

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

The Group's financial liabilities include trade and other payables, amounts due to joint ventures and interest-bearing loans and borrowings.

(ii) Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized 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 recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Inventories

Inventories are valued at the lower of cost and net realizable 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 labor and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

(i) Current income tax

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

(ii) Deferred income tax

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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 recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when 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

- deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

(ii) Deferred income tax (Continued)

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

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

Government grants

Government grants are recognized 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 recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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 instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Sale of goods

Revenue is recognized 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.

(ii) Rendering of services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

(iii) Interest income

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

(iv) Dividend income

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

Employee benefits

(i) Retirement benefits

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

(ii) Medical benefits

The Group's contributions to various defined contribution medical benefit plans organized by the relevant municipal and provincial governments in the PRC and a supplemental medical benefit plan organized 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.

(iii) Cash housing subsidies

Cash housing subsidies represented payments to the housing subsidy plans implemented by the Group in 2000. Cash housing subsidies related to past services of employees were fully recognized 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 recognized in the income statement when incurred. Further details of the housing subsidy plans are set out in note 6(c) below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

(iv) Termination and early retirement benefits

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed either to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to providing 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.

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 capitalized as part of the cost of those assets. The capitalization 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 capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the company's functional and the Group's presentation currency.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

(i) Warranty provisions

Provisions for warranties granted by the Group and its JVs for the passenger and commercial vehicles sold are recognized based on sales volume and past experience of the cost of repair and replacement. The key judgement adopted by management as part of the process includes determining the estimated unit cost of warranty provisions of passenger and commercial vehicles sold. The calculation of the estimated unit cost includes a number of variable factors and assumptions including changes of expected occurrence of repair or replacement and the changes of labor and parts costs.

3. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

(ii) Deferred tax assets

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iii) Income tax

The Group need to pay the income tax in several jurisdiction. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(iv) Impairment assessment of Property, plant and equipment and Intangible assets impairment assessments

As at 31 December 2017, certain Property, plant and equipment ("PP&E") of the Group and its JVs had impairment indicators, either because manufacturing of certain products has been ceased, or the economic performance of certain production lines of the Group and its JVs were continuously below expectation. In assessing the recoverability of the PP&E that had impairment indicator, management of the Group and the JVs identified the relevant cash generation units ("CGUs") to which these PP&E belong, respectively, and estimated the recoverable amounts of these CGUs based on the higher of their fair value less costs of disposal ("FVLCOD") and value in use ("VIU") calculation. Management used VIU to assess the recoverability of the CGUs and applied significant judgements in determining the VIU calculation. The judgements include growth rates to extrapolate revenue and cash flows within and beyond the budget period gross margin and discount rate.

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

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.

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

- The commercial vehicles segment mainly manufactures and sales of commercial vehicles, and its related engines and other automotive parts

- The passenger vehicles segment mainly manufactures and sales of passenger vehicles, and its related engines and other automotive parts

- The financing service segment mainly provides financing services to external customers and companies within the Group

- The corporate and others segment mainly manufactures and sales of other automobile related products

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

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

During the year ended 31 December 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

Year ended 31 December 2017

	Commercial vehicles *RMB million*	Passenger vehicles *RMB million*	Financing service *RMB million*	Corporate and others *RMB million*	Elimination *RMB million*	Total *RMB million*
Segment revenue						
Sales to external customers	59,747	61,732	2,998	539	–	125,016
Sales to internal customers	79	–	49	–	(128)	–
	59,826	61,732	3,047	539	(128)	125,016
Results						
Segment results	1,667	(2,014)	1,632	(2,452)	722	(445)
Interest income	574	369	–	857	(769)	1,031
Finance expenses						(592)
Share of profits and losses of:						
Joint ventures	210	14,035	231	(902)	–	13,574
Associates	–	1,664	504	39	–	2,207
Profit before income tax						15,775
Income tax expense						(1,141)
Profit for the year						14,634
Other segment information						
Capital expenditure:						
– Property, plant and equipment	1,422	1,781	8	58	–	3,269
– Intangible assets	672	347	21	–	–	1,040
– Lease prepayments	9	12	120	25	–	166
Depreciation of property, plant and equipment	798	884	4	72	–	1,758
Amortisation of intangible assets	264	13	4	135	–	416
(Reversal of)/provision against inventories	(7)	223	–	–	–	216
Impairment losses	144	173	116	–	–	433
Warranty provisions	852	529	–	–	–	1,381

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

Year ended 31 December 2016

	Commercial vehicles *RMB million* (Restated)	Passenger vehicles *RMB million* (Restated)	Financing service *RMB million* (Restated)	Corporate and others *RMB million* (Restated)	Elimination *RMB million* (Restated)	Total *RMB million* (Restated)
Segment revenue						
Sales to external customers	43,218	76,656	2,310	351	–	122,535
Sales to internal customers	80	–	28	–	(108)	–
	43,298	76,656	2,338	351	(108)	122,535
Results						
Segment results	266	1,384	1,279	(1,717)	568	1,780
Interest income	340	371	–	726	(603)	834
Finance expenses						(445)
Share of profits and losses of:						
Joint ventures	335	11,759	219	(648)	–	11,665
Associates	–	1,466	399	32	–	1,897
Profit before income tax						15,731
Income tax expense						(1,276)
Profit for the year						14,455
Other segment information						
Capital expenditure:						
– Property, plant and equipment	750	1,600	5	27	–	2,382
– Intangible assets	779	353	7	3	–	1,142
– Lease prepayments	115	188	–	–	–	303
Depreciation of property, plant and equipment	743	857	3	69	–	1,672
Amortisation of intangible assets	204	4	2	111	–	321
(Reversal of)/provision against inventories	(84)	18	–	2	–	(64)
Impairment losses	325	37	149	24	–	535
Warranty provisions	678	793	–	–	–	1,471

5. OTHER INCOME

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

	2017 RMB million	2016 RMB million (Restated)
Net income from disposal of other materials	**128**	121
Government grants and subsidies	**771**	427
Rendering of services	**237**	122
Interest income	**1,031**	834
Management dispatch fee received from joint ventures	**253**	283
Others	**355**	414
	2,775	2,201

6. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Notes	2017 RMB million	2016 RMB million (Restated)
Cost of inventories recognized as expense		**108,137**	103,647
Interest expense for financing services (included in cost of sales)		**275**	151
Provision/(reversal of) against inventories		**216**	(64)
Depreciation	13	**1,758**	1,672
Amortization of intangible assets	14	**416**	321
Amortization of lease prepayments		**87**	66
Auditors' remuneration		**19**	21
Lease payments under operating leases in respect of land and buildings		**154**	148
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
– Wages and salaries		**6,274**	5,283
– Pension scheme costs	(a)	**640**	618
– Medical benefit costs	(b)	**372**	346
– Cash housing subsidy costs	(c)	**1**	2
– Reversal of expense of stock appreciation rights		**–**	(71)
		7,287	6,178

6. PROFIT BEFORE INCOME TAX (CONTINUED)

	Notes	2017 RMB million	2016 RMB million (Restated)
Included in other expenses:			
Gains/(losses) on disposal of items of property, plant and equipment, net		**12**	(2)
Gains/(losses) on disposal of lease prepayments		**1**	(1)
Impairment of items of property, plant and equipment	13	**268**	2
Impairment of trade and other receivables		**165**	533
Warranty provisions	29	**1,381**	1,471
Research costs		**3,385**	3,004
Royalty fee		**1,146**	1,051
Other exchange gains/(losses), net		**24**	(60)

(a) Retirement benefits

The Group's employees in the PRC are covered by various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC pursuant to which the municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and retired employees.

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

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

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

6. PROFIT BEFORE INCOME TAX (CONTINUED)

(b) Medical benefits

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

In addition, the Hubei Entities also participate in a supplemental medical benefit plan regulated by DMC pursuant to which the Hubei Entities are required to contribute certain percentages of the wages of their qualified employees to the plan, on a monthly basis, and DMC undertakes to assume the supplemental medical benefit obligations payable to the qualified employees of the Hubei Entities. The Group has no further obligations for supplemental medical benefits beyond the contributions made. The contributions made by the Hubei 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 qualified employees of the Hubei Entities and such companies shall continue to make monthly contributions to the supplemental medical benefit plan based on certain percentages of the wages of their qualified employees. DMC has also agreed to indemnify the Company against any losses which may arise if the employees of the Hubei Entities claim against the Hubei Entities for their supplemental medical benefits.

(c) Cash housing subsidies

In 2000, the Group implemented cash housing subsidy plans, pursuant to which the Group undertook the obligation to pay cash housing subsidies to its eligible employees who had not been allocated housing quarters or who had not been allocated housing quarters up to the prescribed standards. Retired employees of the Group existed at the time of the implementation of the cash housing subsidy plans were entitled to the benefits under these plans. Employees who joined the subsidiaries and joint ventures from 1 January 2003 onwards and the retired employees of these subsidiaries and joint ventures were not entitled to any benefits under the cash housing subsidy plans.

For cash housing subsidies related to service periods before 1 January 2000, they were fully recognised as expenses upon implementation of the plans in year 2000. For cash housing subsidies related to service periods starting from 1 January 2000, the payments are made on a monthly basis commencing from January 2000 for a period of up to 20 years for employees without being allocated housing quarters and for a period of 15 years for employees being allocated housing quarters which are 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 these employees.

6. PROFIT BEFORE INCOME TAX (CONTINUED)

(d) Termination and early retirement benefits

The Group implemented termination and early retirement plans for certain qualified employees, pursuant to which the Group has the obligations to pay early retirement benefits on a monthly basis to the relevant early retired employees until these employees reach their normal retirement age at which time they can draw their pension from the governmental regulated pension schemes and the DMC regulated supplemental pension scheme.

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

7. FINANCE EXPENSES

	2017 ***RMB million***	2016 *RMB million* (Restated)
Interest on bank loans and other borrowings	**87**	151
Interest on short term notes and discounted bills	**77**	94
Exchange net losses of financing activities	**439**	200
Less: Amount capitalized	**(11)**	–
Finance expenses	**592**	445

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and supervisors' remuneration for the year, disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules, are as follows:

	Directors		Supervisors	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fees	**327**	650	**48**	54
Other emoluments:				
– Salaries	**644**	848	**527**	163
– Discretionary bonuses	**2,040**	2,531	**430**	595
– Estimated money value of other benefits	**163**	225	**58**	52
– Employer's contribution to a retirement benefit scheme	**230**	310	**80**	72
Total charged to the income statement	**3,404**	4,564	**1,143**	936

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

Name	**Fees** ***RMB'000***	**Salary** ***RMB'000***	**Discretionary bonuses** ***RMB'000***	**Estimated money value of other benefits** ***RMB'000***	**Employer's contribution to a retirement benefit scheme** ***RMB'000***	**Total** ***RMB'000***
Executive directors:						
Zhu Yanfeng	–	195	402	47	66	710
Li Shaozhu (Chief Executive)	–	195	494	47	66	802
Liu Weidong	–	172	516	47	66	801
	–	562	1,412	141	198	2,313

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

The remuneration of every director and the chief executive is set out below (Continued):

For the year ended 31 December 2017 (Continued):

Name	Fees *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Estimated money value of other benefits *RMB'000*	Employer's contribution to a retirement benefit scheme *RMB'000*	Total *RMB'000*
Non-executive directors:						
Tong Dongcheng	–	41	319	11	16	387
Ouyang Jie	–	41	309	11	16	377
	–	82	628	22	32	764
Independent non-executive directors:						
Ma Zhigeng	60	–	–	–	–	60
Zhang Xiaotie	60	–	–	–	–	60
Cao Xinghe	60	–	–	–	–	60
Chen Yunfei	147	–	–	–	–	147
	327	–	–	–	–	327
	327	644	2,040	163	230	3,404
Supervisors:						
Ma Liangjie	–	–	278	–	–	278
Wen Shuzhong	–	101	152	29	40	322
He Wei	–	426	–	29	40	495
	–	527	430	58	80	1,095
Independent supervisors:						
Zhao Jun	48	–	–	–	–	48
	48	527	430	58	80	1,143

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

The remuneration of every director and the chief executive is set out below (Continued):

For the year ended 31 December 2016:

Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive directors:						
Zhu Yanfeng	–	186	209	45	62	502
Li Shaozhu (Chief Executive)	–	173	588	45	62	868
	–	359	797	90	124	1,370
Non-executive directors:						
Tong Dongcheng	–	163	576	45	62	846
Ouyang Jie	–	163	563	45	62	833
Liu Weidong	–	163	595	45	62	865
	–	489	1,734	135	186	2,544
Independent non-executive directors:						
Ma Zhigeng	164	–	–	–	–	164
Zhang Xiaotie	166	–	–	–	–	166
Cao Xinghe	155	–	–	–	–	155
Chen Yunfei	165	–	–	–	–	165
	650	–	–	–	–	650
	650	848	2,531	225	310	4,564
Supervisors:						
Ma Liangjie	–	163	595	52	72	882
Independent supervisors:						
Zhao Jun	54	–	–	–	–	54
	54	163	595	52	72	936

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

No retirement benefits or termination benefits were paid to directors or supervisors during the year ended 31 December 2017. No considerations were provided to third parties for making available directors' services (2016: same).

During the year, no loans, quasi-loans or other dealings was entered into by the company in favor of directors or supervisors (2016: same).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include directors (2016: nil directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2016: five) highest paid employees who are neither a director nor a supervisor of the Company are as follows:

	2017	2016
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**3,898**	3,366
Bonuses	**5,530**	7,545
Pension scheme contributions	**551**	449
	9,979	11,360

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	
	2017	2016
RMB1,500,001 – RMB2,000,000	**4**	1
RMB2,000,001– RMB2,500,000	**1**	4
	5	5

10. INCOME TAX EXPENSE AND DEFERRED INCOME TAX

	2017 *RMB million*	2016 *RMB million* (Restated)
Current income tax	**1,300**	1,325
Deferred income tax	**(159)**	(49)
Income tax expense for the year	**1,141**	1,276

(a) Corporate income tax

Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the Company and its subsidiaries and joint ventures is calculated at rates 15% or 25%, on their estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax (tax rate: 16.5%) has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) Deferred income tax

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

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

10. INCOME TAX EXPENSE AND DEFERRED INCOME TAX (CONTINUED)

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

	2017		2016	
	RMB million	*%*	*RMB million* (Restated)	*%*
Profit before income tax	**15,775**		15,731	
At the PRC statutory corporate income tax rate of 25% (2016: 25%)	**3,944**	**25.0**	3,933	25.0
Tax concessions and lower tax rates for specific provinces or locations	**(259)**	**(1.6)**	(240)	(1.5)
Income not subject to corporate income tax	**(3,538)**	**(22.4)**	(3,059)	(19.4)
Expenses not deductible for corporate income tax	**50**	**0.3**	29	0.2
Tax losses not recognized	**944**	**6.0**	613	3.9
Income tax expense at the Group's effective income tax rate	**1,141**	**7.3**	1,276	8.2

10. INCOME TAX EXPENSE AND DEFERRED INCOME TAX (CONTINUED)

The Group's deferred income tax is analyzed as follows:

	Consolidated statement of financial position As at 31 December		Consolidated income statement and statement of comprehensive income Year ended 31 December	
	2017	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*
		(Restated)		(Restated)
Deferred tax assets:				
Assets impairment	**222**	197	**(25)**	(74)
Accrued expenses	**1,542**	1,248	**(294)**	(152)
Warranty provisions	**325**	288	**(37)**	(44)
Wages payable	**146**	179	**33**	(26)
Tax losses carry-forwards	**–**	–	**–**	118
Interest received in advance	**215**	163	**(52)**	(163)
Others	**70**	59	**(11)**	11
Gross deferred tax assets	**2,520**	2,134	**(386)**	(330)
Deferred tax liabilities:				
Fair value adjustments arising from acquisition of controls in subsidiaries	**(90)**	(103)	**(13)**	(13)
Reallocation subsidy received from government	**(99)**	–	**99**	–
Unremitted earnings of oversea businesses	**(1,366)**	(1,199)	**167**	280
Gross deferred tax liabilities	**(1,555)**	(1,302)	**253**	267
			(133)	(63)
Represented by:				
Deferred tax credited to consolidated income statement			**(159)**	(49)
Deferred tax credited to consolidated other comprehensive income			**26**	(14)
			(133)	(63)

10. INCOME TAX EXPENSE AND DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets and deferred income tax liabilities are analysed as follows:

	2017	2016
	RMB million	*RMB million*
		(Restated)
Deferred income tax assets:		
– Deferred income tax assets to be recovered over 12 months	**450**	310
– Deferred income tax assets to be recovered within 12 months	**2,070**	1,824
	2,520	2,134
Deferred income tax liabilities:		
– Deferred income tax liabilities settled over 12 months	**(1,541)**	(1,282)
– Deferred income tax liabilities settled within 12 months	**(14)**	(20)
	(1,555)	(1,302)
	965	832

11. DIVIDEND

	2017	2016
	RMB million	*RMB million*
		(Restated)
Proposed final – RMB0.25 (2016: RMB0.23) per ordinary share	**2,154**	1,982

The proposed final dividend for year 2017 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividends paid in 2017 amounted to RMB2,841 million, being RMB0.33 per share (2016: RMB1,723 million, being RMB0.20 per share).

11. DIVIDEND (CONTINUED)

In accordance with the articles of association of the Company, the net profit after income 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 ("PRC GAAP") and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, the net profit after tax can only be distributed as dividends after an allowance has been made for the following:

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

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

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

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

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

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

The calculation of basic earnings per share is based on:

	2017	2016
	RMB million	*RMB million*
		(Restated)
Earnings:		
Profit for the year attributable to ordinary equity holders of the Company	**14,063**	13,345
	Number of shares	
	million	*million*
Shares:		
Weighted average number of ordinary shares in issue during the year	**8,616**	8,616
Earnings per share	**163.22 cents**	154.89 cents

The Group had no potentially dilutive ordinary shares in issue during these years, so the diluted earnings per share equals the basic earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB million*	Plant and equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
At 31 December 2016 and 1 January 2017:				
Cost	1,027	20,314	2,210	23,551
Accumulated depreciation and impairment	(288)	(9,390)	–	(9,678)
Net carrying amount	739	10,924	2,210	13,873
At 1 January 2017, net of accumulated				
Depreciation and impairment	739	10,924	2,210	13,873
Additions	13	569	2,645	3,227
Disposal of subsidiaries	(2)	(5)	–	(7)
Disposals	(22)	(36)	(4)	(62)
Reclassification	79	2,139	(2,218)	–
Impairment	–	(268)	–	(268)
Depreciation during the year	(57)	(1,701)	–	(1,758)
At 31 December 2017, net of accumulated depreciation and impairment	750	11,622	2,633	15,005
At 31 December 2017:				
Cost	1,091	22,724	2,633	26,448
Accumulated depreciation and impairment	(341)	(11,102)	–	(11,443)
Net carrying amount	750	11,622	2,633	15,005

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings *RMB million*	Plant and equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
At 31 December 2015 and 1 January 2016 (Restated):				
Cost	1,077	17,749	2,436	21,262
Accumulated depreciation and impairment	(328)	(8,005)	–	(8,333)
Net carrying amount	749	9,744	2,436	12,929
At 1 January 2016, net of accumulated				
Depreciation and impairment	749	9,744	2,436	12,929
Additions	11	463	2,100	2,574
Gain of control in subsidiaries	5	66	–	71
Disposals	(16)	(8)	(3)	(27)
Reclassification	45	2,278	(2,323)	–
Impairment	–	(2)	–	(2)
Depreciation during the year	(55)	(1,617)	–	(1,672)
At 31 December 2016, net of accumulated depreciation and impairment	739	10,924	2,210	13,873
At 31 December 2016:				
Cost	1,027	20,314	2,210	23,551
Accumulated depreciation and impairment	(288)	(9,390)	–	(9,678)
Net carrying amount	739	10,924	2,210	13,873

14. INTANGIBLE ASSETS

	Patents and licenses *RMB million*	Customer relationships *RMB million*	Research and development costs *RMB million*	Others *RMB million*	Total *RMB million*
For the year ended 31 December 2017					
Cost:					
At 1 January 2017	1,707	1,336	1,180	834	5,057
Additions	52	–	884	102	1,038
Reclassification	122	–	(149)	27	–
Disposal of control in subsidiaries	–	–	–	(5)	(5)
At 31 December 2017	1,881	1,336	1,915	958	6,090
Accumulated amortization:					
At 1 January 2017	491	276	–	560	1,327
Amortization	256	79	–	81	416
Disposal of control in subsidiaries	–	–	–	(2)	(2)
At 31 December 2017	747	355	–	639	1,741
Impairment:					
At 1 January 2017	112	–	–	–	112
At 31 December 2017	112	–	–	–	112
Net book value:					
At 1 January 2017	1,104	1,060	1,180	274	3,618
At 31 December 2017	1,022	981	1,915	319	4,237

14. INTANGIBLE ASSETS (CONTINUED)

	Patents and licenses *RMB million*	Customer relationships *RMB million*	Research and development costs *RMB million*	Others *RMB million*	Total *RMB million*
For the year ended 31 December 2016 (Restated):					
Cost:					
At 1 January 2016	844	1,336	1,060	674	3,914
Additions	390	–	593	156	1,139
Gain of control in subsidiaries	–	–	–	4	4
Reclassification	473	–	(473)	–	–
At 31 December 2016	1,707	1,336	1,180	834	5,057
Accumulated amortization:					
At 1 January 2016	294	197	–	513	1,004
Amortization	197	79	–	45	321
Gain of control in subsidiaries	–	–	–	2	2
At 31 December 2016	491	276	–	560	1,327
Impairment:					
At 1 January 2016	112	–	–	–	112
At 31 December 2016	112	–	–	–	112
Net book value:					
At 1 January 2016	438	1,139	1,060	161	2,798
At 31 December 2016	1,104	1,060	1,180	274	3,618

15. GOODWILL

	2017 *RMB million*	2016 *RMB million* (Restated)
At 1 January	**1,798**	1,798
Loss	**(35)**	–
At 31 December	**1,763**	1,798

The recoverable amounts of the cash-generating units, to which the goodwill is allocated, have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 13%-15% (2016: 13%-15%).

16. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2017 were as follows:

Name	Place of establishment and business	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	 Indirect	Principal activities
Dongfeng Commercial Vehicles Co., Ltd.	PRC	RMB9,200,000,000	55	–	Manufacturing and sales of commercial vehicles
Dongfeng Liuzhou Motor Co., Ltd.	PRC	RMB1,224,700,000	75	–	Manufacturing and sale of automobiles, automotive parts and components
Dongfeng Motor Finance Co., Ltd. ("DFF")	PRC	RMB3,500,000,000	100	–	Provision of finance services
China Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB200,000,000	95	2.6	Marketing and sale of automobiles
Dongfeng Electric Vehicle Co., Ltd.	PRC	RMB90,580,000	90.07	–	Manufacturing and sale of electric vehicles, parts and components
Dongfeng Off-road Vehicle Co., Ltd.	PRC	RMB155,000,000	100	–	Manufacturing and sale of off-road vehicles, parts and components

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of establishment and business	Paid-up and registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Dongfeng Special Commercial Vehicle Co., Ltd.	PRC	RMB343,314,200	75.08	–	Manufacturing and sale of special commercial vehicles, parts and components
Dongfeng Peugeot Citroën Automobile Sales Co., Ltd.	PRC	RMB100,000,000	50	–	Marketing and sale of automobiles
Dongfeng Nengdi (Hangzhou) Motor Co., Ltd.	PRC	RMB289,900,700	50	50	Manufacture and sale of automotive parts and components

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.

Summarized financial information on subsidiaries with non-controlling interests

There is no subsidiary with individually material non-controlling interest within the Group. Considering all the subsidiaries with non-controlling interest are automobile industry related companies, their principal activities are manufacturing and sale of automobile, automotive parts as well as components and they all operate their businesses in China mainland, the summarized aggregated financial information for all the subsidiaries that has non-controlling interests are set out below:

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Summarized statement of financial position

	2017	2016
	RMB million	*RMB million*
Current assets	**62,920**	53,474
Current liabilities	**62,317**	51,597
Net current assets	**603**	1,877
Non-current assets	**20,679**	18,673
Non-current liabilities	**2,993**	2,602
Net non-current assets	**17,686**	16,071
Net assets	**18,289**	17,948

Summarized statement of comprehensive income

	2017	2016
	RMB million	*RMB million*
Revenue	**114,587**	115,443
Profit before income tax	**2,120**	3,224
Income tax expense	**(420)**	(654)
Profit for the year	**1,700**	2,570
Other comprehensive income	**93**	(28)
Total comprehensive income for the year	**1,793**	2,542
Total comprehensive income attributable to non-controlling interests	**2**	11

17. INVESTMENTS IN JOINT VENTURES

The amounts recognised in the consolidated statement of financial position are as follows:

	2017	2016
	RMB million	*RMB million*
Joint ventures, at carrying value	**39,858**	40,549

The movements in investments in joint ventures are as follows:

	2017	2016
	RMB million	*RMB million*
At 1 January	**40,549**	39,166
Additional investments	**50**	1,518
Share of profits	**13,598**	11,602
Other comprehensive income	**26**	(8)
Other changes in equity	**(33)**	92
Disposals	**(46)**	–
Dividends received	**(14,283)**	(11,823)
Translation reserve	**(3)**	2
At 31 December	**39,858**	40,549

17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Particulars of the principal joint ventures of the Group as at 31 December 2017 were as follows:

Name	Place of establishment and business	Paid-up Registered capital	Percentage of equity interest attributable to the Company	Principal activities
Dongfeng Motor Co., Ltd. ("DFL")	PRC	RMB16,700,000,000	50.00	Manufacture and sale of automotive parts and components
Dongfeng Peugeot Citroën Automobile Co., Ltd. ("DPCA")	PRC	RMB7,000,000,000	50.00	Manufacture and sale of automotive parts and components
Dongfeng Honda Automobile Co., Ltd. ("DHAC")	PRC	USD560,000,000	50.00	Manufacture and sale of automotive parts and components
Dongfeng Honda Engine Co., Ltd.	PRC	USD121,583,517	50.00	Manufacture and sale of automotive parts and components
Dongfeng Honda Auto Parts Co., Ltd.	PRC	USD62,500,000	44.00	Manufacture and sale of automotive parts and components
Dongfeng Renault Automotive Co., Ltd.	PRC	RMB4,706,303,466	50.00	Manufacture and sale of automotive parts and components
Dongfeng Peugeot Citroën Auto Finance Co., Ltd.	PRC	RMB1,000,000,000	50.00	Provision of auto financial services

The financial information of material joint ventures

The following tables illustrate the financial information of the material joint ventures including DFL, DPCA and DHAC, adjusted for differences in accounting policies between the Group and the joint ventures, and before equity method was applied to account for the Group's share of those amounts.

17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The financial information of material joint ventures (Continued)

(i) ***Statement of financial position of material joint ventures***

	DFL		DPCA		DHAC	
	2017	2016	**2017**	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Cash and cash equivalents	**29,982**	21,066	**12,986**	8,941	**24,682**	17,438
Other current assets (excluding cash)	**67,418**	63,075	**5,048**	6,212	**17,899**	18,316
Total current assets	**97,400**	84,141	**18,034**	15,153	**42,581**	35,754
Total non-current assets	**44,009**	42,404	**21,911**	23,728	**9,375**	8,923
Total assets	**141,409**	126,545	**39,945**	38,881	**51,956**	44,677
Current financial liabilities (excluding account payable)	**(621)**	(481)	**(3,930)**	–	**–**	–
Other current liabilities (including account payable)	**(84,161)**	(69,708)	**(21,273)**	(22,668)	**(37,044)**	(31,713)
Total current liabilities	**(84,782)**	(70,189)	**(25,203)**	(22,668)	**(37,044)**	(31,713)
Non-current financial liabilities (excluding account payable)	**(25)**	(58)	**–**	(360)	**–**	–
Other non-current liabilities (including account payable)	**(6,805)**	(4,565)	**(2,243)**	(1,743)	**(2,098)**	(1,667)
Total non-current liabilities	**(6,830)**	(4,623)	**(2,243)**	(2,103)	**(2,098)**	(1,667)
Total liabilities	**(91,612)**	(74,812)	**(27,446)**	(24,771)	**(39,142)**	(33,380)
Non-controlling interests	**(8,541)**	(8,226)	**–**	–	**–**	–
Net assets	**41,256**	43,507	**12,499**	14,110	**12,814**	11,297

17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The financial information of material joint ventures (Continued)

(ii) Statement of comprehensive income of material joint ventures

	DFL		DPCA		DHAC	
	2017	2016	**2017**	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**169,144**	160,118	**34,326**	47,397	**94,447**	79,622
Depreciation and amortization	**(4,751)**	(4,207)	**(2,375)**	(2,130)	**(969)**	(1,065)
Interest income	**1,077**	638	**287**	496	**445**	228
Interest expenses	**(20)**	(44)	**(24)**	(38)	**–**	–
Profit before income tax	**20,872**	18,880	**(246)**	2,276	**13,869**	9,830
Income tax expenses	**(5,134)**	(4,762)	**106**	(449)	**(3,512)**	(2,600)
Profit/(loss) after tax	**15,738**	14,118	**(140)**	1,827	**10,357**	7,230
Non-controlling interests	**(1,878)**	(1,557)	**–**	–	**–**	–
Other comprehensive income	**34**	–	**–**	–	**–**	–
Total comprehensive income	**13,894**	12,561	**(140)**	1,827	**10,357**	7,230
Dividend received	**8,039**	5,593	**735**	847	**4,420**	4,586

17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of financial information

The following table illustrates the reconciliation of share of net assets to carrying amounts of material joint ventures:

	DFL		DPCA		DHAC	
	2017	2016	**2017**	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Opening net assets at 1 January	**43,507**	42,132	**14,110**	13,977	**11,297**	10,542
Profit after tax	**15,737**	14,118	**(140)**	1,826	**10,357**	7,230
Other comprehensive income	**34**	–	**–**	–	**–**	–
Dividend	**(16,078)**	(11,186)	**(1,471)**	(1,693)	**(8,840)**	(9,172)
Non-controlling interests	**(1,877)**	(1,557)	**–**	–	**–**	–
Other equity movement	**(67)**	–	**–**	–	**–**	–
Capital contribution from non-controlling shareholders	**–**	–	**–**	–	**–**	2,697
Closing net assets at 31 December	**41,256**	43,507	**12,499**	14,110	**12,814**	11,297
Interest in joint ventures (50%)	**20,628**	21,754	**6,250**	7,055	**6,407**	5,649
Goodwill	**–**	–	**277**	277	**–**	–
Carrying amount of investments in material joint ventures	**20,628**	21,754	**6,527**	7,332	**6,407**	5,649

17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of financial information (Continued)

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2017	2016
	RMB million	*RMB million*
Share of joint ventures' results		
Profit after tax	**1,560**	793
Other comprehensive income	**5**	(6)
Total comprehensive income	**1,565**	787
Aggregate carrying amount of the Group's investments in the joint ventures	**6,296**	5,814

18. INVESTMENTS IN ASSOCIATES

The amounts recognised in the consolidated statement of financial position are as follows:

	2017	2016
	RMB million	*RMB million*
Associates, at carrying value	**14,614**	12,598

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the principal associates as at 31 December 2017 were as follows:

Name	Place of establishment and business	Percentage of ownership interest attributable to the Group	Principal activities
Dongfeng Nissan Auto Finance Co., Ltd.#	PRC	35.00	Provision of finance services
Wuhan Lear-DFM Auto Electric Co. Ltd.#	PRC	25.00	Manufacture and sale of automotive parts and components
PSA Peugeot Citroën Group ("PSA")	France	12.23	Manufacture and sale of automotive parts and components

Sino-foreign equity joint venture

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.

The Group acquired the equity interests in the PSA Peugeot Citroën Group ("PSA"), a company listed on the Paris Bourse Stocks Exchange, for a consideration of EUR 800 million (approximately RMB6,801 million) in 2014. The investment in PSA is accounted for as an investment in associates using equity method since the Group has significant influence over PSA as the Group has the power to participate in the financial and operating policy decisions of PSA mainly by virtue of the fact that the Group is one of the three equal largest shareholders of PSA and the Group has certain representation on the governing body.

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

The amounts recognised in the consolidated income statement are as follows:

	2017 *RMB million*	2016 *RMB million*
Associates-Share of profits	**2,207**	1,897

The movements in investments in associates are as follows:

	2017 *RMB million*	2016 *RMB million*
1 January	**12,598**	10,525
Increase in investment	**4**	–
Share of profits	**2,207**	1,897
Other comprehensive income	**(348)**	32
Other changes in equity	**(64)**	10
Disposal	**(6)**	(54)
Dividend received	**(445)**	(60)
Translation reserve	**668**	248
31 December	**14, 614**	12,598

19. OTHER NON-CURRENT ASSETS

	Notes	2017 *RMB million*	2016 *RMB million*
Loans and receivables from financing services	23(b)	**13,016**	9,050
Mandatory reserve deposits with the People's Bank of China (the "PBOC")	(a)	**3,029**	2,135
Fixed term deposits	(b)	**2,000**	3,000
Others		**212**	192
		18,257	14,377

(a) The Group's subsidiary, DFF, involved in the provision of financing services is required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the PBOC are not available for use in the Group's daily operations.

(b) Fixed term deposits included RMB2,000 million (2016: RMB2,000 million) placed by the Company in an associate which is involved in the provision of financing services and RMB0 million (2016: RMB1,000 million) placed by the Company in a joint venture which is involved in the provision of financing services.

20. INVENTORIES

	2017 *RMB million*	2016 *RMB million* (Restated)
Raw materials	**1,780**	1,272
Work in progress	**612**	446
Finished goods – at cost	**7,815**	7,017
	10,207	8,735

21. TRADE RECEIVABLES

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

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

	2017 *RMB million*	2016 *RMB million* (Restated)
Within three months	**3,929**	2,071
More than three months but within one year	**1,536**	1,844
More than one year	**535**	223
	6,000	4,138

21. TRADE RECEIVABLES (CONTINUED)

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
At 1 January	**583**	229
Net impairment loss recognized	**37**	360
Amount written off as uncollectible	**(7)**	(6)
At 31 December	**613**	583

As at 31 December 2017, the Group held collateral and other credit enhancements, which mainly included property, plant and equipment, lease prepayments and inventories, amounted to RMB608 million (2016: RMB660 million) over trade receivables amounted to RMB513 million (2016: RMB535 million).

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
Neither past due nor impaired	**3,929**	2,071
Less than three months past due	**512**	615
	4,441	2,686

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

21. TRADE RECEIVABLES (CONTINUED)

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
DMC, its subsidiaries, associates and joint ventures	**171**	299
Non-controlling shareholders of a subsidiary and their subsidiaries	**76**	74
Associates	**12**	14
	259	387

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

22. BILLS RECEIVABLE

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
Within one year	**14,605**	15,416

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		2017	2016
	Notes	***RMB million***	*RMB million*
			(Restated)
Prepayments		**1,872**	2,155
Deposits and other receivables	(a)	**2,291**	1,322
Restricted fixed term deposits within one year	(c)	**1,000**	–
Loans and receivables from financing services	(b)	**21,448**	16,728
		26,611	20,205

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	2017 *RMB million*	2016 *RMB million* (Restated)
At 1 January	**87**	63
Net impairment loss recognized	**(5)**	24
Amount written off as uncollectible	**(1)**	–
At 31 December	**81**	87

(b) Loans and receivables from financing services represented loans granted by DFF, which is involved in the provision of financing services, to individuals and entities when they purchased commercial and passenger vehicles from dealers at an interest rate of 2.28%-15.00% per annum. These loans and receivables from financing services were secured by the vehicle licenses together with guarantees provided by these dealers.

The loans and receivables from financing services are analyzed as follows:

	Note	**2017** *RMB million*	2016 *RMB million* (Restated)
Gross loans and receivables from financing services		**34,577**	26,085
Less: impairment allowances		**(113)**	(307)
		34,464	25,778
Less: current portion		**(21,448)**	(16,728)
Non-current portion	19	**13,016**	9,050

Movements of impairment allowances are as follows:

	2017 *RMB million*	2016 *RMB million* (Restated)
At 1 January	**307**	260
Impairment allowances charged	**133**	149
Amount written off as uncollectible	**(327)**	(102)
At 31 December	**113**	307

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

(b) (Continued)

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
DMC, its subsidiaries, associates and joint ventures	**627**	805
Non-controlling shareholders of a subsidiary and their subsidiaries	**7**	10
Associates	**19**	24
	653	839

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

(c) The balance of restricted fixed term deposits within one year is RMB1,000 million (2016: RMB0 million) placed by the Company in a joint venture which is involved in the provision of financing services.

24. BALANCE WITH JOINT VENTURES

		2017	2016
	Notes	***RMB million***	*RMB million*
			(Restated)
Due from joint ventures, amount			
Interest-bearing loans to joint ventures		**1,152**	111
Dividends receivable from joint ventures		**7,968**	3,875
Others	(a)	**4,453**	4,686
		13,573	8,672
Less: Current portion		**(13,573)**	(8,672)
Non-current portion		**–**	–
Due to joint ventures			
Cash deposits in DFF	(b)	**8,631**	2,783
Arising from acquisition of CV businesses		**–**	–
Others	(a)	**4,989**	5,746
		13,620	8,529
Less: Current portion		**(13,620)**	(8,529)
Non-current portion		**–**	–

24. BALANCES WITH JOINT VENTURES (CONTINUED)

Notes:

(a) Others due from/to joint ventures are unsecured, interest-free and have no fixed terms of repayment.

(b) Cash deposits placed by joint ventures in DFF, a subsidiary of the Company involved in the provision of financing services, bear interest at the prevailing savings interest rate published by the PBOC.

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	RMB million	*RMB million*
		(Restated)
Unlisted investments at cost less impairment:		
Non-current	**174**	174

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

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

	Notes	2017 RMB million	2016 RMB million (Restated)
Cash and bank balances		**18,070**	17,998
Time deposits		**25,791**	19,498
Restricted fixed term deposits within one year	23(c)	**1,000**	–
Restricted fixed term deposits over one year	19(b)	**2,000**	3,000
		46,861	40,496
Less: Pledged bank balances and time deposits for securing general banking facilities		**(10,511)**	(6,645)
Less: Restricted fixed term deposits within one year	23(c)	**(1,000)**	–
Less: Restricted fixed term deposits over one year	19(b)	**(2,000)**	(3,000)
Cash and cash equivalents as stated in the consolidated statement of financial position		**33,350**	30,851
Less: Non-pledged time deposits with original maturity of three months or more when acquired		**(1,800)**	(1,127)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**31,550**	29,724

Time deposits included RMB200 million (2016: RMB200 million) placed by the Company in an associate which is involved in the provision of financing services and RMB1,600 million (2016: RMB500 million) placed by the Company in a joint venture which is involved in the provision of financing services.

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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

27. SHARE CAPITAL

	2017 *RMB million*	2016 *RMB million* (Restated)
Registered, issued and fully paid:		
– 5,760,388,000 (2016: 5,760,388,000) Domestic Shares of RMB1.00 each	**5,760**	5,760
– 2,855,732,000 (2016: 2,855,732,000) H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

28. INTEREST-BEARING BORROWINGS

	2017			2016		
	Effective interest rate ***(%)***	**Maturity**	***RMB million***	Effective interest rate *(%)*	Maturity	*RMB million* (Restated)
Current						
Bank loans – unsecured	**2.00–4.35**	**2018**	**2,394**	2.20–4.35	2017	1,089
Guaranteed notes	**1.60**	**2018**	**3,897**			–
Other loans – unsecured			**8,207**			6,221
			14,498			7,310
Non-Current						
Bank loans – secured	**1.82**	**2022**	**2,273**	1.76	2022	2,850
Bank loans – unsecured	**1.82–5.00**	**2018–2022**	**125**	1.66–4.75	2018–2019	593
Guaranteed notes			**–**	1.60	2018	3,644
			2,398			7,087
			16,896			14,397

28. INTEREST-BEARING BORROWINGS (CONTINUED)

Other loans represented cash deposits placed by DMC, its subsidiaries, associates and joint ventures amounting to RMB4,350 million (2016: RMB3,620 million) and other unrelated third parties in DFF, a subsidiary of the Group which is involved in the provision of financing services. These loans bear interest at the prevailing savings interest rate published by the PBOC.

The Guaranteed notes (the "Notes") were issued in the aggregate principal amount of EUR500,000,000 on 28 October 2015 and were registered in the denomination of EUR100,000 each. The Notes bear interest from 28 October 2015 at the rate of 1.60% per annum. Interest on the Notes is payable annually on 28 October in each year, commencing with the first interest payment date falling on 28 October 2016. The Notes have been listed on the Irish Stock Exchange.

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
Time deposits and bank balances	**4,309**	2,957

28. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
Bank loans repayable:		
Within one year or on demand	**2,394**	1,089
One year to two years	**136**	387
Two years to three years	**–**	206
Three years to five years	**2,262**	–
More than five years	**–**	2,850
	4,792	4,532
Notes repayable:		
Within one year	**3,897**	–
One year to two years	**–**	3,644
	3,897	3,644
Other loans repayable:		
Within one year or on demand	**8,207**	6,221
	16,896	14,397

The carrying amounts of the interest-bearing borrowings approximate their fair values.

28. INTEREST-BEARING BORROWINGS (CONTINUED)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2017	2016
	RMB million	*RMB million*
		(Restated)
RMB	**10,683**	7,766
EUR	**6,213**	6,631
	16,896	14,397

29. PROVISIONS

	2017	2016
	RMB million	*RMB million*
		(Restated)
Non-current	**652**	674
Current	**1,285**	1,085
	1,937	1,759

The movements of the Group's provisions are analyzed as follows:

	Environmental restoration costs	**Warranty provisions**	**Total**
	RMB million	*RMB million*	*RMB million*
At 1 January 2016	113	1,413	1,526
Provisions during the year	–	1,471	1,471
Utilized	(4)	(1,234)	(1,238)
At 31 December 2016	109	1,650	1,759
Provisions during the year	**–**	**1,381**	**1,381**
Utilized	**(20)**	**(1,183)**	**(1,203)**
At 31 December 2017	**89**	**1,848**	**1,937**

29. PROVISIONS (CONTINUED)

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

(a) Environmental restoration costs

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

(b) Warranty provisions

The Group provides warranties for certain automotive products and undertakes the obligation to repair or replace items that fail to perform satisfactorily. The amount of provisions 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.

30. GOVERNMENT GRANTS

The movements of the government grants related to assets are analyzed as follows:

	RMB million
At 1 January 2016	554
Received during the year	408
Recognised as other income during the year	(90)
At 31 December 2016 and 1 January 2017	872
Received during the year	**20**
Recognised as other income during the year	**(121)**
At 31 December 2017	**771**

31. TRADE PAYABLES

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
Within three months	**19,203**	19,856
More than three months but within one year	**1,696**	1,219
More than one year	**613**	426
	21,512	21,501

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
DMC, its subsidiaries, associates and joint ventures	**335**	307
Non-controlling shareholders of a subsidiary and their subsidiaries	**57**	8
Associates	**31**	49
	423	364

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

32. BILLS PAYABLE

The maturity profile of the bills payable is as follows:

	2017	2016
	RMB million	*RMB million*
Within one year	**21,526**	14,867

33. OTHER PAYABLES AND ACCRUALS

	2017 RMB million	2016 RMB million (Restated)
Advances from customers	**2,980**	3,964
Accrued salaries, wages and benefits	**1,879**	1,694
Other payables	**12,555**	10,548
	17,414	16,206

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

	2017 RMB million	2016 RMB million (Restated)
DMC, its subsidiaries, associates and joint ventures	**176**	142
Non-controlling shareholders of a subsidiary and their subsidiaries	**135**	234
	311	376

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

Non-controlling shareholders of a subsidiary and their subsidiaries included payable related to acquisition of intangible assets amounting to RMB43 million, which is expected to be settled within one year since the balance sheet date. The payable amounting to RMB198 million expected to be settled over one year since the balance sheet date are classified as other long term liabilities.

34. NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**2017** *RMB million*	2016 *RMB Million*
Cash and cash equivalents	**33,350**	30,851
Borrowings – repayable within one year (including overdraft)	**(14,498)**	(7,310)
Borrowings – repayable after one year	**(2,398)**	(7,087)
Net debt	**16,454**	16,454

	Cash *RMB million*	**Borrow. due within 1 year** *RMB million*	**Borrow. due after 1 year** *RMB million*	**Total** *RMB million*
Net debt as at 1 January 2016	31,912	(6,951)	(7,565)	17,396
Cash flows	(1,061)	(264)	535	(790)
Foreign exchange adjustments	–	(38)	(114)	(152)
Other non-cash movements	–	(57)	57	–
Net debt as at 31 December 2016	30,851	(7,310)	(7,087)	16,454
Cash flows	**2,499**	**(3,094)**	**1,046**	**451**
Foreign exchange adjustments	**–**	**(43)**	**(408)**	**(451)**
Other non-cash movements	**–**	**(4,051)**	**4,051**	**–**
Net debt as at 31 December 2017	**33,350**	**(14,498)**	**(2,398)**	**16,454**

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets held at fair value through profit or loss.

35. COMMITMENTS

(a) Operating lease commitments as lessee

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

	2017	2016
	RMB million	*RMB million*
		(Restated)
Within one year	**191**	165
After one year but not more than five years	**684**	672
More than five years	**5,068**	5,294
	5,943	6,131

(b) Capital commitments

In addition to the operating lease commitments detailed in Note 35(a) above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	RMB million	*RMB million*
Contracted, but not provided for:		
– Property, plant and equipment	**1,755**	1,929

36. RELATED PARTY TRANSACTIONS

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

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates

	Note	2017 RMB million	2016 RMB million (Restated)
Purchases of automotive parts/raw materials from and payment of royalty fee to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**860**	658
– Joint ventures		**16,611**	13,197
– Associates		**160**	178
– Subsidiaries' joint ventures		**3,728**	2,389
– Non-controlling shareholders of a subsidiary and their subsidiaries		**182**	14
		21,541	16,436
Purchases of automobiles from joint ventures	(i)	**34,654**	41,997
Purchases of water, steam and electricity from DMC	(i)	**574**	519
Purchases of items of property, plant and equipment and intangible assets from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**18**	42
– Joint ventures		**157**	213
– Non-controlling shareholders of a subsidiary and their subsidiaries		**53**	380
		228	635
Rental expenses to DMC		**129**	121

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates (Continued)

	Note	2017 RMB million	2016 RMB million (Restated)
Purchases of services from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**386**	356
– Joint ventures		**280**	272
– Subsidiaries' joint ventures		**1**	–
– Non-controlling shareholders of a subsidiary and their subsidiaries		**226**	171
		893	799
Sales of automotive parts/raw materials to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**384**	346
– Joint ventures		**4,159**	2,737
– Associates		**2**	–
– Subsidiaries' joint ventures		**88**	92
– Non-controlling shareholders of a subsidiary and their subsidiaries		**1**	14
		4,634	3,189
Sales of automobiles to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**4,676**	3,682
– Joint ventures		**783**	1,027
– Subsidiaries' joint ventures		**50**	48
– Non-controlling shareholders of a subsidiary and their subsidiaries		**1,321**	574
		6,830	5,331

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates (Continued)

	Note	2017 *RMB million*	2016 *RMB million* (Restated)
Provisions of services to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**5**	–
– Joint ventures		**63**	172
– Subsidiaries' joint ventures		**8**	3
		76	175
Interest expense paid to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**42**	54
– Joint ventures		**139**	30
		181	84
Interest incomes from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**79**	9
– Joint ventures		**14**	12
– Associates		**2**	–
		95	21
Fee and commission incomes from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**–**	3
– Joint ventures		**9**	9
		9	12
Dispatch Fee from:			
– Joint ventures		**253**	283

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates (Continued)

Note:

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

(b) Outstanding balances with related parties:

(i) Details of the Group's balances with its related parties as at the end of the reporting period are disclosed in notes 21, 23, 26, 28, 31 and 33 to the financial statements.

(ii) Details of the Group's balances with joint ventures as at the end of the reporting period are disclosed in note 24 to the financial statements.

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

	2017	2016
	RMB'000	*RMB'000*
Short term employee benefits	**4,237**	5,118
Post-employment benefits	**310**	382
Total compensation paid to key management personnel	**4,547**	5,500

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

2017

Financial assets

	Loans and receivables *RMB million*	Available-for-sale financial assets *RMB million*	Total *RMB million*
Available-for-sale financial assets	–	174	174
Other non-current assets	18,045	–	18,045
Trade receivables	6,000	–	6,000
Bills receivable	14,605	–	14,605
Financial assets included in prepayments, deposits and other receivables	23,739	–	23,739
Due from joint ventures	11,472	–	11,472
Pledged bank balances and time deposits	10,511	–	10,511
Cash and cash equivalents	33,350	–	33,350
	117,722	174	117,896

Financial liabilities

	Financial liabilities at amortized cost *RMB million*
Trade payables	21,512
Bills payable	21,526
Financial liabilities included in other payables and accruals	11,753
Due to joint ventures	13,327
Interest-bearing borrowings	16,896
Other long term liabilities	714
	85,728

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2016

Financial assets

	Loans and receivables *RMB million* (Restated)	Available-for-sale financial assets *RMB million* (Restated)	Total *RMB million* (Restated)
Available-for-sale financial assets	–	174	174
Other non-current assets	14,185	–	14,185
Trade receivables	4,138	–	4,138
Bills receivable	15,416	–	15,416
Financial assets included in prepayments, deposits and other receivables	17,545	–	17,545
Due from joint ventures	7,182	–	7,182
Pledged bank balances and time deposits	6,645	–	6,645
Cash and cash equivalents	30,851	–	30,851
	95,962	174	96,136

Financial liabilities

	Financial liabilities at amortised cost *RMB million* (Restated)
Trade payables	21,501
Bills payable	14,867
Financial liabilities included in other payables and accruals	9,134
Due to joint ventures	8,529
Interest-bearing borrowings	14,397
Other long term liabilities	580
	69,008

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

1. The Group's interest rate risk mainly arises from long-term interest-bearing borrowings including long-term borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk.

2. The Group's policy is to manage its interest cost using a mix of fixed and variable rate borrowings. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

3. As at 31 December 2017, all the Group's long-term interest-bearing borrowings is mainly euro-denominated contract, the amount is RMB2,398 million (as at 31 December 2016: RMB7,078 million).

(b) Foreign currency risk

The businesses of the Group are principally located in the PRC. While most of the sales of the Group are conducted in RMB, certain of the Group's borrowings were denominated in other currency such as euro dollars (EUR).

As at 31 December 2017 and 31 December 2016, the carrying amounts in RMB equivalent of the Group's liabilities denominated in foreign currencies are summarised below:

	2017	2016
	RMB million	*RMB million*
		(Restated)
Interest-bearing borrowings	**6,213**	6,631

Fluctuations in the exchange rates of RMB against these foreign currency can affect the Group's results of operations.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the euro dollars (EUR), exchange rates, with all other variables held constant, of the Group's post tax profit (due to changes in the fair values of monetary liabilities).

	Increase/(decrease) in post tax profit	
	2017	2016
	RMB million	*RMB million*
		(Restated)
If RMB strengthens against EUR by 5%	**233**	272
If RMB weakens against EUR by 5%	**(233)**	(272)

(c) Credit risk

The cash and bank balances and time deposits of the Group are mainly deposited with state-owned banks in the PRC, such as Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

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

The Group's financing services are primarily focused on supporting the sale of the commercial and passenger vehicles of the Group. As a consequence of these activities, the Group is exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as vehicle licences. Scoring systems are applied for the assessment of the default risk of individual customers. All loans and receivables from financing services are reviewed for objective evidence of impairment and classified based on a ten-tier classification system. Customers' loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk (Continued)

The carrying amount of each financial asset included in these financial statements represents the maximum exposure of the Group to credit risk in relation to its financial assets. In addition, the guarantees given by the Group to banks in favour of banking facilities granted to the Group's joint ventures represent the Group's other exposure to credit risk. The Group has no other financial assets carrying significant exposure to credit risk and has no significant concentration of credit risk.

(d) Liquidity risk

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

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

	2017				
	Within one year or on demand	In the second year	In the third to fifth years	Beyond five years	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Interest-bearing borrowings	14,497	136	2,263	–	16,896
Trade payables	21,512	–	–	–	21,512
Bills payable	21,526	–	–	–	21,526
Other payables	10,810	591	200	84	11,685
Due to joint ventures	13,327	–	–	–	13,327
	81,672	727	2,463	84	84,946

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (Continued)

	2016				
	Within one year or on demand *RMB million* (Restated)	In the second year *RMB million* (Restated)	In the third to fifth years *RMB million* (Restated)	Beyond five years *RMB million* (Restated)	Total *RMB million* (Restated)
Interest-bearing borrowings	7,317	4,031	199	2,850	14,397
Trade payables	21,501	–	–	–	21,501
Bills payable	14,867	–	–	–	14,867
Other payables	9,283	695	177	42	10,197
Due to joint ventures	8,529	–	–	–	8,529
	61,497	4,726	376	2,892	69,491

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Capital management (Continued)

The Group monitors capital using a net debt to equity ratio, which is net debt divided by equity. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Equity represents equity attributable to equity holders of the Company. The net debt to equity ratio as at the end of the reporting period was as follows:

	2017 ***RMB million***	2016 *RMB million* (Restated)
Interest-bearing borrowings	**16,896**	14,397
Less: Cash and cash equivalents	**(33,350)**	(30,851)
Net debt	**(16,454)**	(16,454)
Equity attributable to equity holders of the Company	**108,201**	96,726
Net debt to equity ratio	**-15.21%**	-17.01%

39. EVENTS AFTER THE REPORTING PERIOD

A final dividend in respect of the year ended 31 December 2017 of RMB0.25 per share, amounting to a total dividend of RMB2,154 million, was proposed by the Board of Directors at a meeting held on 27 March 2018, subject to the final approval by the shareholders of the Company at the Annual General Meeting. These financial statements do not reflect this dividend payable.

On 27 March 2018, the Company entered into the Equity Transfer Agreement with Dongfeng Motor Corporation, the controlling shareholder of the Company. Pursuant to the Equity Transfer Agreement, Dongfeng Motor Corporation has agreed to dispose of and the Company has agreed to acquire the 100% equity interests in Dongfeng Motor Trading Co., Ltd. subject to the terms and conditions therein.

40. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2017	2016
	RMB million	*RMB million*
		(Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	**3,369**	3,346
Lease prepayments	**288**	295
Intangible assets	**862**	884
Investments in subsidiaries	**12,619**	12,337
Investments in joint ventures	**16,268**	16,268
Investments in associates	**595**	595
Available-for-sale financial assets	**68**	68
Other non-current assets	**2,000**	3,000
Total non-current assets	**36,069**	36,793
Current assets		
Inventories	**1,345**	1,446
Trade receivables	**2,147**	1,021
Bills receivable	**759**	869
Prepayments, deposits and other receivables	**3,455**	1,479
Due from joint ventures	**8,103**	4,464
Pledged bank balances	**4,295**	2,497
Cash and cash equivalents	**25,416**	25,885
Total current assets	**45,520**	37,661
TOTAL ASSETS	**81,589**	74,454
EQUITY AND LIABILITIES		
Equity		
Issued capital	**8,616**	8,616
Reserves	**10,665**	9,517
Retained profits	**53,676**	45,728
TOTAL EQUITY	**72,957**	63,861

40. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (Continued)

	As at 31 December	
	2017	2016
	RMB million	*RMB million*
		(Restated)
Non-current liabilities		
Interest-bearing borrowings	**–**	250
Other non-current liabilities	**56**	57
Provisions	**276**	262
Government grants	**81**	86
Total non-current liabilities	**413**	655
Current liabilities		
Trade payables	**3,807**	5,034
Bills payable	**666**	1,069
Other payables and accruals	**2,409**	2,467
Due to joint ventures	**732**	663
Interest-bearing borrowings	**250**	370
Income tax payable	**211**	211
Provisions	**144**	124
Total current liabilities	**8,219**	9,938
TOTAL LIABILITIES	**8,632**	10,593
TOTAL EQUITY AND LIABILITIES	**81,589**	74,454

The balance sheet of the Company was approved by the Board of Directors on March 27, 2018 and was signed on its behalf.

Li Shaozhu	**Liu Weidong**
Director	*Director*

40. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Reserve movement of the Company

	Capital reserve *RMB million*	Statutory reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*
1 January 2016	1,363	6,976	37,309	45,648
Total comprehensive income for the year	–	–	11,320	11,320
Transfer to reserve	1,178	–	(1,178)	–
Final 2015 dividend declared and paid	–	–	(1,723)	(1,723)
At 31 December 2016 1 January 2017	**2,541**	**6,976**	**45,728**	**55,245**
Total comprehensive income for the year	**–**	**–**	**11,939**	**11,939**
Transfer to reserve	**1,148**	**–**	**(1,148)**	**–**
Final 2016 and interim 2017 dividend declared and paid	**–**	**–**	**(2,843)**	**(2,843)**
At 31 December 2017	**3,689**	**6,976**	**53,676**	**64,341**

(a) Statutory reserves

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

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

40. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Reserve movement of the Company (Continued)

(b) Distributable reserves

As set out in note 11, for dividend distribution purposes, the Company's distributable profit is based on the lower of the net profit after tax as determined under PRC GAAP and IFRSs following its restructuring into a joint stock limited liability company on 12 October 2004. The amounts that the Company's subsidiaries and joint ventures can legally distribute by way of dividend are 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 PRC Company Law, the net profits after transfers to the SSR can be distributed as dividends by the companies comprising the Group as set out above.

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2018.

羅兵咸永道

To the shareholders of Dongfeng Motor Group Company Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Dongfeng Motor Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 188, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to warranty provisions.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Warranty provisions	
Refer to note 3 "Significant Accounting Estimates", note 6 "Profit Before Income Tax", note 17 "Investment In Joint Ventures" and note 29 "Provisions" to the consolidated financial statements. As at 31 December 2016, the balance of warranty provisions of the Group amounted to RMB1,650 million, and warranty provisions made for the year of RMB1,471 million was recorded in the consolidated income statement of the Group. Provisions for warranties granted by the Group and its joint ventures ("JVs") for the passenger and commercial vehicles sold are recognised based on sales volume and past experience of the cost of repair and replacement. The key judgement adopted by management during the assessment process includes the determination of the estimated unit cost of warranty provisions of passenger and commercial vehicles sold. In addition, the Group's share of profits of the JVs which were accounted for using equity method amounted to RMB11,602 million. The warranty provisions made by JVs during the year were significant to the JVs' profit, therefore were significant to the consolidated income statement of the Group. We focused on this area because of the magnitude of the amount of warranty provisions and the significant involvement of management's judgement and assumptions applied in estimating of costs in respect of future warranty claims.	With regard to the warranty provisions of the Group and the JVs audited by us: • We understood, evaluated and validated the key controls over the estimation of the warranty provisions. In addition, we tested the information technology environments of the Group's system and the specific automatic controls related to the maintenance of data which was used to calculate the warranty provisions. • We assessed management's warranty provision models using our knowledge of the Group and experience of the passenger and commercial vehicles industry. We also tested the mathematical accuracy of calculations therein by re-performing the calculations. • We compared, on a sample basis, management's estimation on the warranty cost per unit with the historical actual claims, and checked the selected historical actual claims to supporting documents. • In addition, we assessed management's estimation on the warranty cost per unit by discussing with management and performing analysis on actual claims during the year and subsequent to the year-end to identify any indicators of significant quality defect, significant changes of labour and parts costs, and significant changes of expected occurrence of repair or replacement that would significantly affect the estimates of the year end warranty provisions.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter *(Continued)*	**How our audit addressed the Key Audit Matter** *(Continued)*
Warranty provisions *(Continued)*	

With regard to the warranty provisions made during the year of two significant JVs audited by non-PricewaterhouseCoopers auditors ("Other Auditors"):

- We communicated with Other Auditors to have an understanding of Other Auditors' compliance with the ethical requirements that are relevant to us and Other Auditors' professional competence.

- We sent instructions to Other Auditors and communicated with them to understand their risk assessment and audit responses to the risk identified on warranty provisions.

- We communicated with Other Auditors to understand their audit procedures performed and evaluated the Other auditors' work by reviewing the relevant audit documentation on their audits of warranty provisions.

- We obtained and evaluated Other Auditors' communications to us in accordance with our instructions.

We found that management's judgement and assumptions applied in estimating the Group's warranty provisions were supported by available evidence.

In the context of our audit of consolidated financial statements of the Group, the JVs' management's judgements and estimates associated with their respective warranty provisions noted in respect of the Group's share of the profit and net assets of JVs were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB million	2015 RMB million
Revenue	4	**122,422**	126,566
Cost of sales		**(104,905)**	(109,637)
Gross profit		**17,517**	16,929
Other income	5	**2,186**	1,897
Selling and distribution expenses		**(7,629)**	(7,144)
Administrative expenses		**(3,754)**	(3,691)
Other expenses		**(5,698)**	(5,834)
Finance (expenses)/income – net	7	**(445)**	189
Share of profits and losses of:			
Joint ventures	17	**11,665**	10,422
Associates	18	**1,897**	1,297
PROFIT BEFORE INCOME TAX	6	**15,739**	14,065
Income tax expense	10	**(1,274)**	(1,353)
PROFIT FOR THE YEAR		**14,465**	12,712
Profit attributable to:			
Equity holders of the Company		**13,355**	11,550
Non-controlling interests		**1,110**	1,162
		14,465	12,712
Earnings per share attributable to ordinary equity holders of the Company:	12		
Basic for the year		**155.00 cents**	134.05 cents
Diluted for the year		**155.00 cents**	134.05 cents

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
PROFIT FOR THE YEAR	**14,465**	12,712
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss		
Share of other comprehensive income of investments accounted for using the equity method	**43**	136
Others	**(33)**	(31)
	10	105
Items that may be reclassified to profit or loss		
Currency translation differences	**250**	(146)
Share of other comprehensive income of investments accounted for using the equity method	**(19)**	18
	231	(128)
Income tax effect		
Item that will not be reclassified subsequently to profit or loss	**14**	4
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**255**	(19)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,720**	12,693
Total comprehensive income attributable to:		
Equity holders of the Company	**13,621**	11,552
Non-controlling interests	**1,099**	1,141
	14,720	12,693

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	31 December 2016 RMB million	2015 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	13	**13,871**	12,929
Lease prepayments		**1,296**	936
Intangible assets	14	**3,617**	2,798
Goodwill	15	**1,792**	1,792
Investments in joint ventures	17	**40,549**	39,166
Investments in associates	18	**12,598**	10,525
Available-for-sale financial assets	25	**174**	190
Other non-current assets	19	**14,377**	8,908
Deferred income tax assets	10	**2,133**	1,803
Total non-current assets		**90,407**	79,047
Current assets			
Inventories	20	**8,734**	8,665
Trade receivables	21	**4,162**	3,664
Bills receivable	22	**15,416**	13,015
Prepayments, deposits and other receivables	23	**20,195**	14,756
Due from joint ventures	24	**8,672**	6,073
Pledged bank balances and time deposits	26	**6,645**	3,760
Cash and cash equivalents	26	**30,728**	31,806
Total current assets		**94,552**	81,739
TOTAL ASSETS		**184,959**	160,786
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	27	**8,616**	8,616
Reserves		**12,653**	10,569
Retained profits		**75,381**	65,465
		96,650	84,650
Non-controlling interests		**6,908**	6,834
Total equity		**103,558**	91,484

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Financial Position (Continued)

As at 31 December 2016

		31 December	
		2016	2015
	Notes	***RMB million***	*RMB million*
Non-current liabilities			
Interest-bearing borrowings	28	**7,080**	7,559
Other long term liabilities		**1,320**	954
Government grants	30	**860**	543
Deferred income tax liabilities	10	**1,299**	1,032
Provisions	29	**674**	578
Total non-current liabilities		**11,233**	10,666
Current liabilities			
Trade payables	31	**21,519**	17,170
Bills payable	32	**14,867**	10,980
Other payables and accruals	33	**16,173**	13,981
Due to joint ventures	24	**8,529**	8,066
Interest-bearing borrowings	28	**7,309**	6,950
Income tax payable		**686**	541
Provisions	29	**1,085**	948
Total current liabilities		**70,168**	58,636
TOTAL LIABILITIES		**81,401**	69,302
TOTAL EQUITY AND LIABILITIES		**184,959**	160,786

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Ouyang Jie	**Liu Weidong**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to equity holders of the Company						
	Issued capital *RMB million*	Capital reserve *RMB million*	Statutory reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
Year ended 31 December 2015							
As at 1 January 2015							
As previously reported	8,616	941	7,837	56,435	73,829	1,623	75,452
Restatement for business combination under common control	–	429	7	(450)	(14)	(2)	(16)
As restated	8,616	1,370	7,844	55,985	73,815	1,621	75,436
Profit for the year	–	–	–	11,550	11,550	1,162	12,712
Other comprehensive income for the year	–	2	–	–	2	(21)	(19)
Total comprehensive income for the year	–	2	–	11,550	11,552	1,141	12,693
Transfer to reserves	–	–	347	(347)	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	1,220	–	–	1,220	4,239	5,459
Business combination under common control	–	(127)	–	–	(127)	207	80
Share of capital reserve of investments accounted for using the equity method	–	(87)	–	–	(87)	1	(86)
Final 2014 dividend declared and paid	–	–	–	(1,723)	(1,723)	(375)	(2,098)
As at 31 December 2015	8,616	2,378*	8,191*	65,465	84,650	6,834	91,484

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2016

	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Issued capital	Capital reserve	Statutory reserves	Retained profits	Total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Year ended 31 December 2016							
As at 1 January 2016	8,616	2,378	8,191	65,465	84,650	6,834	91,484
Profit for the year	–	–	–	13,355	13,355	1,110	14,465
Other comprehensive income for the year	–	266	–	–	266	(11)	255
Total comprehensive income for the year	–	266	–	13,355	13,621	1,099	14,720
Transfer to reserves	–	–	1,716	(1,716)	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	98	98
Share of capital reserve of investments accounted for using the equity method	–	102	–	–	102	–	102
Final 2015 dividend declared and paid	–	–	–	(1,723)	(1,723)	(1,123)	(2,846)
As at 31 December 2016	8,616	2,746*	9,907*	75,381	96,650	6,908	103,558

* These reserve accounts comprise the consolidated reserves of RMB12,653 million (2015: RMB10,569 million) in the consolidated statement of financial position.

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB million	2015 RMB million
Cash flows from operating activities			
Profit before income tax		**15,739**	14,065
Adjustments for:			
Share of profits and losses of joint ventures and associates		**(13,562)**	(11,719)
Gain on disposal of items of property, plant and equipment and lease prepayments, net	6	**(3)**	(72)
Amortisation of lease prepayments	6	**66**	51
(Reversal of)/provision against inventories	6	**(64)**	127
Impairment of trade and other receivables	6	**533**	119
Exchange (gains)/losses, net	6	**(60)**	123
Depreciation	6	**1,672**	1,383
Impairment of items of property, plant and equipment	6	**2**	213
Amortisation of intangible assets	6	**320**	266
Finance expenses/(income) – net	7	**445**	(189)
Interest income	5	**(834)**	(902)
Government grants	30	**(90)**	(116)
Gain on other equity interest transaction		**(64)**	–
		4,100	3,349
(Increase)/decrease in trade and bills receivables and prepayments,deposits and other receivables		**(3,711)**	827
Decrease in inventories		**11**	1,039
Increase in amounts due from joint ventures		**(1,330)**	(3,610)
Increase in trade and bills payables, and other payables and accruals		**10,533**	1,176
Increase in loans and receivables from financing services		**(7,309)**	(3,246)
Increase in cash deposits received from financing services		**1,103**	72
(Increase)/decrease in a mandatory reserve with the People's Bank of China		**(329)**	1,426
Increase in amounts due to joint ventures		**1,696**	1,589
Increase in provisions		**252**	269
Cash generated from operations		**5,016**	2,891
Interest paid		**(236)**	(313)
Income tax paid		**(1,182)**	(2,020)
Net cash flows from operating activities		**3,598**	558

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB million	2015 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(2,379)**	(3,005)
Increase in lease prepayments and other long term assets		**(396)**	(127)
Purchases of intangible assets		**(1,141)**	(663)
Acquisition of subsidiaries	16	**(1,233)**	(1,265)
Investments in joint ventures		**–**	(45)
Proceeds from disposal of items of property, plant and equipment		**29**	300
Proceeds from disposal of intangible assets		**3**	36
Proceeds from disposal of available-for-sale financial assets		**15**	–
Dividends from joint ventures and associates		**9,192**	9,453
Government grants received		**407**	398
Interest received		**1,012**	487
Increase in pledged bank balances and time deposits	26	**(2,885)**	(135)
Decrease/(Increase) in non-pledged time deposits with original maturity of three months or more when acquired	26	**1,947**	(1,074)
Disposal of subsidiaries		**–**	(114)
Cash acquired relating to acquisition of subsidiaries		**30**	–
Cash paid relating to other investing activities		**(3,214)**	–
Net cash flows from investing activities		**1,387**	4,246

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB million	2015 RMB million
Cash flows from financing activities			
Proceeds from borrowings		**4,939**	13,356
Repayment of borrowings		**(6,314)**	(16,057)
Changes in ownership interests in subsidiaries without change of control		**–**	5,501
Capital contribution from non-controlling shareholders		**98**	–
Dividends paid to non-controlling shareholders		**(1,116)**	(370)
Dividends paid to the equity holders of the Company		**(1,723)**	(1,723)
Other finance cash flows – net		**–**	(12)
Net cash flows (used in)/from financing activities		**(4,116)**	695
Net increase in cash and cash equivalents		**869**	5,499
Cash and cash equivalents at beginning of year		**28,732**	23,233
Cash and cash equivalents at end of year	26	**29,601**	28,732

The notes on pages 100 to 188 form an integral part of the consolidated financial information.

Notes to the Financial Statements

For the year ended 31 December 2016

1. GENERAL 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 and rendering of financing services.

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

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets on liabilities.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on 1 January 2016:

- Amendment to IFRS 11 'Accounting for acquisitions of interests in joint operations'
- Amendment to IAS 27 'Equity method in separate financial statements'
- Amendments from annual improvements to IFRSs – 2012 – 2014 Cycle, on IFRS 7 'Financial instruments: Disclosures', IAS 19, 'Employee benefits' and IAS 34, 'Interim financial reporting'
- Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment entities: applying the consolidation exception'
- Amendments to IAS 1 'Disclosure initiative'

The Group assessed the adoption of these standards and concluded that it did not have a significant impact on the Group's results and financial position.

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted

A number of new standards and amendments to standards and interpretations are not effective for annual periods beginning after 1 January 2016, and have not been early adopted in preparing these consolidated financial statements. The Group has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the amendments. The new standards and amendments to standards and interpretations are set out below:

IFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The group does not intend to adopt IFRS 9 before its mandatory date.

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted *(Continued)*

IFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue;

- accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted *(Continued)*

IFRS 16, 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of RMB6,131 million, see note 34. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions', effective for annual periods beginning on or after 1 January 2018.

Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', the amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Group's voting rights and potential voting rights.

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 in the Company's statement of financial position.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. If the Group holds less than 20% of the equity voting rights of the investee but can clearly demonstrate it has significant influence over the investee, the Group accounts such investees as associates. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's investments in associates and joint ventures include goodwill identified on acquisition. Upon the acquisition, any difference between the cost of the associates and joint ventures and the Group's share of the net fair value of the associates and joint ventures, identifiable assets and liabilities is accounted for as goodwill or share of profit of associates and joint ventures.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates and joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange of control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at face value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after assessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its stock appreciation rights each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

	Estimated useful life
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 the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

Intangible assets (other than goodwill)

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

(i) 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.

(ii) Research and development costs

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

(iii) Customer relationships

Customer relationships are stated at cost less any impairment losses and are amortised on straight-line basis over their estimated useful lives of 17 years.

Lease prepayments

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

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the 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

(i) Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

(ii) Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

(ii) Subsequent measurement *(Continued)*

Available-for-sale financial investments (Continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

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 primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

(ii) Assets carried at cost

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

(iii) Available-for-sale financial instruments

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

The Group's financial liabilities include trade and other payables, amounts due to joint ventures and interest-bearing loans and borrowings.

(ii) Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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 the normal operating capacity but excluding borrowing costs

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

Trade and other receivables

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

(i) Current income tax

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

(ii) Deferred income tax

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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

- Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

(ii) Deferred income tax *(Continued)*

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

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

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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 instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) 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.

(ii) 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(iii) Interest income

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

(iv) Dividend income

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

Employee benefits

(i) Retirement benefits

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

(ii) Medical benefits

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

(iii) Cash housing subsidies

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(iv) Termination and early retirement benefits

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed either to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to providing 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.

(v) Share-based payments

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

The cost of cash-settlement transactions is measured initially at fair value at the grant date using a binomial model, taking into account the terms and conditions upon which the instruments were granted (note 6(e)). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value recognised in the income statement.

Borrowing costs

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

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

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the company's functional and the group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

(i) Warranty provisions

Provisions for warranties granted by the Group and its JVs for the passenger and commercial vehicles sold are recognised based on sales volume and past experience of the cost of repair and replacement. The calculation of the warranty provisions includes a number of variable factors and assumptions including: the expected time the free repair or replacement is expected to occur; and the changes of labour and parts costs.

(ii) Deferred tax assets

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iii) Income tax

The Group need to pay the income tax in several jurisdiction. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

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.

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

– The commercial vehicles segment mainly manufactures and sales of commercial vehicles, and its related engines and other automotive parts

– The passenger vehicles segment mainly manufactures and sales of passenger vehicles, and its related engines and other automotive parts

– The financing service segment mainly provides financing services to external customers and companies within the Group

– The corporate and others segment mainly manufactures and sales of other automobile related products

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

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

During the year ended 31 December 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

Year ended 31 December 2016

	Commercial vehicles *RMB million*	Passenger vehicles *RMB million*	Financing service *RMB million*	Corporate and others *RMB million*	Elimination *RMB million*	Total *RMB million*
Segment revenue						
Sales to external customers	43,218	76,656	2,310	238	–	122,422
Sales to internal customers	80	–	28	–	(108)	–
	43,298	76,656	2,338	238	(108)	122,422
Results						
Segment results	266	1,384	1,279	(1,709)	568	1,788
Interest income	340	371	–	726	(603)	834
Finance expenses, net						(445)
Share of profits and losses of:						
Joint ventures	335	11,759	219	(648)	–	11,665
Associates	–	1,466	399	32	–	1,897
Profit before income tax						15,739
Income tax expense						(1,274)
Profit for the year						14,465
Other segment information						
Capital expenditure:						
– Property, plant and equipment	750	1,600	5	24	–	2,379
– Intangible assets	779	353	7	2	–	1,141
– Lease prepayments	115	188	–	–	–	303
Depreciation of property, plant and equipment	743	857	3	69	–	1,672
Amortisation of intangible assets	204	4	2	110	–	320
(Reversal of)/provision against inventories	(84)	18	–	2	–	(64)
Impairment losses	325	37	149	24	–	535
Warranty provisions	678	793	–	–	–	1,471

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

Year ended 31 December 2015

	Commercial vehicles *RMB million*	Passenger vehicles *RMB million*	Financing service *RMB million*	Corporate and others *RMB million*	Elimination *RMB million*	Total *RMB million*
Segment revenue						
Sales to external customers	36,344	88,218	1,864	140	–	126,566
Sales to internal customers	45	8	47	–	(100)	–
	36,389	88,226	1,911	140	(100)	126,566
Results						
Segment results	(464)	2,524	1,070	(2,398)	523	1,255
Interest income	295	352	–	834	(579)	902
Finance income, net						189
Share of profits and losses of:						
Joint ventures	172	10,621	151	(522)	–	10,422
Associates	–	986	283	28	–	1,297
Profit before income tax						14,065
Income tax expense						(1,353)
Profit for the year						12,712
Other segment information						
Capital expenditure:						
– Property, plant and equipment	1,213	1,602	2	188	–	3,005
– Intangible assets	414	187	8	54	–	663
– Lease prepayments	2	12	–	–	–	14
Depreciation of property, plant and equipment	720	581	2	80	–	1,383
Amortisation of intangible assets	186	11	2	67	–	266
Provision against inventories	100	24	–	3	–	127
Impairment losses	143	132	56	1	–	332
Warranty provisions	661	710	–	–	–	1,371

5. OTHER INCOME

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

	2016	2015
	RMB million	*RMB million*
Net income from disposal of other materials	**121**	103
Government grants and subsidies	**427**	309
Rendering of services	**122**	69
Interest income	**834**	902
Management dispatch fee received from joint ventures	**283**	209
Others	**399**	305
	2,186	1,897

6. PROFIT BEFORE INCOME TAX

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

	Notes	2016 RMB million	2015 RMB million
Cost of inventories recognised as expense		**103,317**	108,293
Interest expense for financing services (included in cost of sales)		**151**	150
(Reversal of)/provision against inventories		**(64)**	127
Depreciation	13	**1,672**	1,383
Amortisation of intangible assets	14	**320**	266
Amortisation of lease prepayments		**66**	51
Auditors' remuneration		**21**	23
Lease payments under operating leases in respect of land and buildings		**148**	141
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
– Wages and salaries		**5,283**	4,671
– Pension scheme costs	(a)	**618**	596
– Medical benefit costs	(b)	**346**	319
– Cash housing subsidy costs	(c)	**2**	3
– (Reversal of)/expense of stock appreciation rights	(e)	**(71)**	3
		6,178	5,592
Included in other expenses:			
Gain on disposal of items of property, plant and equipment, net		**(2)**	(41)
Gain on disposal of lease prepayments		**(1)**	(31)
Impairment of items of property, plant and equipment	13	**2**	213
Impairment of trade and other receivables		**533**	119
Warranty provisions	29	**1,471**	1,371
Research costs		**3,004**	2,894
Royalty fee		**1,051**	1,152
Other exchange (gains)/losses, net		**(60)**	123

6. PROFIT BEFORE INCOME TAX *(Continued)*

(a) Retirement benefits

The Group's employees in the PRC are covered by various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC pursuant to which the municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and retired employees.

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

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

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

(b) Medical benefits

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

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

6. PROFIT BEFORE INCOME TAX *(Continued)*

(b) Medical benefits *(Continued)*

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

(c) Cash housing subsidies

In 2000, the Group implemented cash housing subsidy plans, pursuant to which the Group undertook the obligation to pay cash housing subsidies to its eligible employees who had not been allocated housing quarters or who had not been allocated housing quarters up to the prescribed standards. Retired employees of the Group existed at the time of the implementation of the cash housing subsidy plans were entitled to the benefits under these plans. Employees who joined the subsidiaries and joint ventures from 1 January 2003 onwards and the retired employees of these subsidiaries and joint ventures were not entitled to any benefits under the cash housing subsidy plans.

For cash housing subsidies related to service periods before 1 January 2000, they were fully recognised as expenses upon implementation of the plans in year 2000. For cash housing subsidies related to service periods starting from 1 January 2000, the payments are made on a monthly basis commencing from January 2000 for a period of up to 20 years for employees without being allocated housing quarters and for a period of 15 years for employees being allocated housing quarters which are 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 these employees.

(d) Termination and early retirement benefits

The Group implemented termination and early retirement plans for certain qualified employees, pursuant to which the Group has the obligations to pay early retirement benefits on a monthly basis to the relevant early retired employees until these employees reach their normal retirement age at which time they can draw their pension from the governmental regulated pension schemes and the DMC regulated supplemental pension scheme.

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

6. PROFIT BEFORE INCOME TAX *(Continued)*

(e) Stock appreciation rights

The shareholders of the Company have adopted a plan of stock appreciation rights ("SAR") for the senior management of the Group. The plan is designed to link the financial interests of the Group's senior management with the Group's future results of operations and the performance of the Company's 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 SAR.

On 16 July 2013, the Company's board of directors approved a plan of SAR for the senior management of the Group. 40,198,000 SAR units were granted with a term of five years with effect from 16 July 2013. The rights to the SAR units will have an exercise period of two years from the date of grant (i.e., 16 July 2013) and can be exercised in the third, fourth and fifth years following the date of grant and the total number of the rights exercised by an individual shall not in aggregate exceed 33%, 66% and 100%, respectively, of the total rights granted to the individual, respectively. The exercise price of the SAR as approved by the board of directors on 27 March 2012 was HK$9.67 per unit, being the higher of the closing share price of the date of grant and the average share price at the close of trading over the five business days preceding the date of grant.

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

As at 31 December 2016, management assessed previous years' operating results of the Group and concluded the ROE (Rate of Return on Common Stockholders' Equity) of the period from year 2014 to year 2016 did not meet the non-market performance vesting conditions of the SAR. As a result, expenses and liabilities (amounted to RMB71 million) recognised during the previous years were reversed during the year ended 31 December 2016.

The movements of the outstanding SAR are analysed as follows:

	2016		2015	
	Weighted average exercise price *HK$ per share*	**Number of SAR** *units '000*	Weighted average exercise price *HK$ per share*	Number of SAR *units '000*
At 1 January	**9.67**	**37,110**	9.67	37,110
Reversal during the year		**(37,110)**		–
At 31 December		**–**		37,110

7. FINANCE EXPENSES/(INCOME) – NET

	2016	2015
	RMB million	*RMB million*
Interest on bank loans and other borrowings	**150**	163
Interest on short term notes and discounted bills	**95**	96
Exchange net losses/(gains) of financing activities	**200**	(448)
Net finance expenses/(income)	**445**	(189)

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and supervisors' remuneration for the year, disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules, are as follows:

	Directors		**Supervisors**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fees	**650**	686	**54**	81
Other emoluments:				
– Salaries	**848**	769	**163**	358
– Discretionary bonuses	**2,531**	3,535	**595**	905
– Estimated money value of other benefits	**225**	228	**52**	96
– Employer's contribution to a retirement benefit scheme	**310**	355	**72**	149
	4,564	5,573	**936**	1,589
Stock appreciation right expenses recognised in the income statement	**–**	195	**–**	48
Total charged to the income statement	**4,564**	5,768	**936**	1,637

Certain directors and supervisors were granted stock appreciation rights, in respect of their services to the Group, further details of which are set out in note 6(e) to the financial statements.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

Name	Fees	Salary	Discretionary bonuses	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Zhu Yanfeng	–	186	209	45	62	502
Li Shaozhu *(Chief Executive)*	–	173	588	45	62	868
	–	359	797	90	124	1,370
Non-executive directors:						
Tong Dongcheng	–	163	576	45	62	846
Ouyang Jie	–	163	563	45	62	833
Liu Weidong	–	163	595	45	62	865
	–	489	1,734	135	186	2,544
Independent non-executive directors:						
Ma Zhigeng	164	–	–	–	–	164
Zhang Xiaotie	166	–	–	–	–	166
Cao Xinghe	155	–	–	–	–	155
Chen Yunfei	165	–	–	–	–	165
	650	–	–	–	–	650
	650	848	2,531	225	310	4,564
Supervisors:						
Ma Liangjie	–	163	595	52	72	882
Independent supervisors:						
Zhao Jun	54	–	–	–	–	54
	54	163	595	52	72	936

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

The remuneration of every director and the chief executive is set out below: *(Continued)*

For the year ended 31 December 2015:

Name	Fees *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Estimated money value of other benefits *RMB'000*	Employer's contribution to a retirement benefit scheme *RMB'000*	Total *RMB'000*	Stock appreciation right expenses recognised in the income statement *RMB'000*
Executive directors:							
Zhu Yanfeng (appointed on 19 June 2015)	–	93	93	27	35	248	–
Li Shaozhu	–	141	587	43	65	836	32
Xu Ping (resigned on 19 June 2015)	–	53	587	15	26	681	36
	–	287	1,267	85	126	1,765	68
Non-executive directors:							
Tong Dongcheng	–	141	587	43	68	839	32
Ouyang Jie	–	141	587	42	68	838	32
Liu Weidong	–	141	604	42	64	851	32
Zhou Qiang (resigned on 19 June 2015)	–	59	490	16	29	594	31
	–	482	2,268	143	229	3,122	127
Independent non-executive directors:							
Ma Zhigeng	168	–	–	–	–	168	–
Zhang Xiaotie	188	–	–	–	–	188	–
Cao Xinghe	162	–	–	–	–	162	–
Chen Yunfei	168	–	–	–	–	168	–
	686	–	–	–	–	686	–
	686	769	3,535	228	355	5,573	195
Supervisors:							
Ma Liangjie	–	141	574	53	90	858	31
Zhong Bing	–	217	331	43	59	650	17
	–	358	905	96	149	1,508	48
Independent supervisors:							
Feng Guo (resigned on 19 June 2015)	27	–	–	–	–	27	–
Zhao Jun	54	–	–	–	–	54	–
	81	–	–	–	–	81	–
	81	358	905	96	149	1,589	48

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

No retirement benefits or termination benefits were paid to directors or supervisors during the year ended 31 December 2016. No considerations were provided to third parties for making available directors' services (2015: same).

During the year, no loans, quasi-loans or other dealings was entered into by the company in favour of directors or supervisors (2015: same).

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include directors (2015: nil directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2015: five) highest paid employees who are neither a director nor a supervisor of the Company are as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**3,366**	2,881
Bonuses	**7,545**	3,895
Pension scheme contributions	**449**	473
	11,360	7,249

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	
	2016	2015
Nil – RMB1,500,000	**–**	5
RMB1,500,001 – RMB2,000,000	**1**	–
RMB2,000,001– RMB2,500,000	**4**	–
	5	5

10. INCOME TAX EXPENSE

	2016	2015
	RMB million	*RMB million*
Current income tax	**1,323**	1,181
Deferred income tax	**(49)**	172
Income tax expense for the year	**1,274**	1,353

(a) Corporate income tax

Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 25%, on their estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax (tax rate: 16.5%) has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) Deferred income tax

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

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

10. INCOME TAX EXPENSE *(Continued)*

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

	2016		2015	
	RMB million	**%**	*RMB million*	%
Profit before income tax	**15,739**		14,065	
At the PRC statutory corporate income tax rate of 25% (2015: 25%)	**3,935**	**25.0**	3,516	25.0
Tax concessions and lower tax rates for specific provinces or locations	**(238)**	**(1.5)**	(172)	(1.2)
Associates and joint ventures' results reported net of tax	**(2,999)**	**(19.1)**	(2,686)	(19.1)
Income not subject to corporate income tax	**(60)**	**(0.4)**	(16)	(0.1)
Expenses not deductible for corporate income tax	**29**	**0.2**	5	–
Tax losses not recognised	**607**	**3.9**	706	5.0
Income tax expense at the Group's effective income tax rate	**1,274**	**8.1**	1,353	9.6

10. INCOME TAX EXPENSE *(Continued)*

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

	Consolidated statement of financial position		Consolidated income statement and statement of comprehensive income	
	As at 31 December		Year ended 31 December	
	2016	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*
Deferred tax assets:				
Assets impairment	**197**	123	**(74)**	(37)
Accrued expenses	**1,248**	1,096	**(152)**	14
Warranty provisions	**288**	244	**(44)**	(108)
Wages payable	**179**	153	**(26)**	124
Tax losses carry-forwards	**–**	118	**118**	(118)
Interest received in advance	**163**	–	**(163)**	–
Others	**58**	69	**11**	25
Gross deferred tax assets	**2,133**	1,803	**(330)**	(100)
Deferred tax liabilities:				
Fair value adjustments arising from gain of controls in subsidiaries	**(106)**	(119)	**(13)**	(15)
Unremitted earnings of oversea businesses	**(1,193)**	(913)	**280**	283
Gross deferred tax liabilities	**(1,299)**	(1,032)	**267**	268
			(63)	168
Represented by:				
Deferred tax (credited)/charged to consolidated income statement			**(49)**	172
Deferred tax credited to consolidated other comprehensive income			**(14)**	(4)
			(63)	168

10. INCOME TAX EXPENSE *(Continued)*

Deferred income tax assets and deferred income tax liabilities are analysed as follows:

	2016	2015
	RMB million	*RMB million*
Deferred income tax assets:		
– Deferred income tax assets collected over 12 months	**310**	533
– Deferred income tax assets collected within 12 months	**1,823**	1,270
	2,133	1,803
Deferred income tax liabilities:		
– Deferred income tax liabilities collected over 12 months	**(1,282)**	(1,014)
– Deferred income tax liabilities collected within 12 months	**(17)**	(18)
	(1,299)	(1,032)
	834	771

11. DIVIDEND

	2016	2015
	RMB million	*RMB million*
Proposed final-RMB0.23 (2015: RMB0.20) per ordinary share	**1,982**	1,723

The proposed final dividend for year 2016 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividends paid in 2016 amounted to RMB1,723 million, being RMB0.20 per share (2015: RMB1,723 million, being RMB0.20 per share).

11. DIVIDEND *(Continued)*

In accordance with the articles of association of the Company, the net profit after income 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 ("PRC GAAP") and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, the net profit after tax can only be distributed as dividends after an allowance has been made for the following:

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

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

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

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

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

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

The calculation of basic earnings per share is based on:

	2016	2015
	RMB million	*RMB million*
Earnings:		
Profit for the year attributable to ordinary equity holders of the Company	**13,355**	11,550
	Number of shares	
	million	*million*
Shares:		
Weighted average number of ordinary shares in issue during the year	**8,616**	8,616
Earnings per share	**155.00 cents**	134.05 cents

The Group had no potentially dilutive ordinary shares in issue during these years, so the diluted earnings per share equals the basic earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB million*	Plant and equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
At 31 December 2015 and 1 January 2016				
Cost	1,077	17,749	2,436	21,262
Accumulated depreciation and impairment	(328)	(8,005)	–	(8,333)
Net carrying amount	749	9,744	2,436	12,929
At 1 January 2016				
Net of accumulated depreciation and impairment	749	9,744	2,436	12,929
Additions	11	463	2,100	2,574
Gain of control in subsidiaries	5	64	–	69
Disposals	(16)	(8)	(3)	(27)
Reclassification	45	2,278	(2,323)	–
Impairment	–	(2)	–	(2)
Depreciation during the year	(55)	(1,617)	–	(1,672)
At 31 December 2016				
Net of accumulated depreciation and impairment	739	10,922	2,210	13,871
At 31 December 2016				
Cost	1,027	20,312	2,210	23,549
Accumulated depreciation and impairment	(288)	(9,390)	–	(9,678)
Net carrying amount	739	10,922	2,210	13,871

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings *RMB million*	Plant and equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
At 31 December 2014 and 1 January 2015				
Cost	1,052	15,957	2,211	19,220
Accumulated depreciation and impairment	(379)	(6,976)	(3)	(7,358)
Net carrying amount	673	8,981	2,208	11,862
At 1 January 2015				
Net of accumulated depreciation and impairment	673	8,981	2,208	11,862
Additions	17	352	2,562	2,931
Disposals	(107)	(161)	–	(268)
Reclassification	240	2,094	(2,334)	–
Impairment	(1)	(212)	–	(213)
Depreciation during the year	(73)	(1,310)	–	(1,383)
At 31 December 2015				
Net of accumulated depreciation and impairment	749	9,744	2,436	12,929
At 31 December 2015				
Cost	1,077	17,749	2,436	21,262
Accumulated depreciation and impairment	(328)	(8,005)	–	(8,333)
Net carrying amount	749	9,744	2,436	12,929

14. INTANGIBLE ASSETS

	Patents and licences RMB million	Customer relationships RMB million	Research and development costs RMB million	Others RMB million	Total RMB million
For the year ended 31 December 2016					
Cost:					
At 1 January 2016	844	1,336	1,060	674	3,914
Additions	380	–	593	164	1,137
Gain of control in subsidiaries	–	–	–	4	4
Reclassification	473	–	(473)	–	–
At 31 December 2016	1,697	1,336	1,180	842	5,055
Accumulated amortisation:					
At 1 January 2016	294	197	–	513	1,004
Amortisation	173	78	–	69	320
Gain of control in subsidiaries	–	–	–	2	2
At 31 December 2016	467	275	–	584	1,326
Impairment:					
At 1 January 2016	112	–	–	–	112
Additions	–	–	–	–	–
At 31 December 2016	112	–	–	–	112
Net book value:					
At 1 January 2016	438	1,139	1,060	161	2,798
At 31 December 2016	1,118	1,061	1,180	258	3,617

14. INTANGIBLE ASSETS *(Continued)*

	Patents and licences *RMB million*	Customer relationships *RMB million*	Research and development costs *RMB million*	Others *RMB million*	Total *RMB million*
For the year ended 31 December 2015					
Cost:					
At 1 January 2015	501	1,336	1,060	576	3,473
Additions	95	–	248	99	442
Disposals	–	–	–	(1)	(1)
Reclassification	248	–	(248)	–	–
At 31 December 2015	844	1,336	1,060	674	3,914
Accumulated amortisation:					
At 1 January 2015	158	118	–	463	739
Amortisation	136	79	–	51	266
Disposals	–	–	–	(1)	(1)
At 31 December 2015	294	197	–	513	1,004
Impairment:					
At 1 January 2015	112	–	–	–	112
Additions	–	–	–	–	–
At 31 December 2015	112	–	–	–	112
Net book value:					
At 1 January 2015	231	1,218	1,060	113	2,622
At 31 December 2015	438	1,139	1,060	161	2,798

15. GOODWILL

	2016 RMB million	2015 RMB million
At 1 January	**1,792**	1,792
Additions	**–**	–
At 31 December	**1,792**	1,792

The recoverable amounts of the cash-generating units, to which the goodwill is allocated, have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 13%–15% (2015: 13%–15%).

16. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2016 were as follows:

Name	Place of establishment and business	Paid-up and registered capital	Percentage of equity interest attributable to the Company: Direct	Indirect	Principal activities
Dongfeng Commercial Vehicles Co., Ltd.	PRC	RMB9,200,000,000	55	–	Manufacturing and sales of commercial vehicles
Dongfeng Liuzhou Motor Co., Ltd.	PRC	RMB1,224,700,000	75	–	Manufacturing and sale of automobiles, automotive parts and components
Dongfeng Motor Finance Co., Ltd. ("DFF")	PRC	RMB3,500,000,000	100	–	Provision of finance services
China Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB200,000,000	95	2.6	Marketing and sale of automobiles
Dongfeng Electric Vehicle Co., Ltd.	PRC	RMB90,580,000	90.07	–	Manufacturing and sale of electric vehicles, parts and components
Dongfeng Off-road Vehicle Co., Ltd.	PRC	RMB155,000,000	100	–	Manufacturing and sale of off-road vehicles, parts and components
Dongfeng (Shiyan) Special Commericial Vehicle Co., Ltd.	PRC	RMB343,314,200	75.08	–	Manufacturing and sale of special commercial vehicles, parts and components
Dongfeng Peugeot Citroen Automobile Sales Co.,Ltd.	PRC	RMB100,000,000	50	–	Marketing and sale of automobiles
Dongvo (Hangzhou) Truck Co., Ltd.	PRC	RMB289,900,700	50	50	Manufacture and sale of automotive parts and components

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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.

Summarised financial information on subsidiaries with non-controlling interests:

There is no subsidiary with individually material non-controlling interest within the Group. Considering all the subsdiaries with non-controlling interest are automobile industry related companies, their principal activities are manufacturing and sale of automobile, automotive parts as well as components and they all operate their businesses in China mainland, the summarised aggregated financial information for all the subsidiaries that has non-controlling interests are set out below:

Summarised statement of financial position

	2016 ***RMB million***	2015 *RMB million*
Current assets	**53,474**	43,134
Current liabilities	**51,597**	40,417
Net current assets	**1,877**	2,717
Non-current assets	**18,673**	16,475
Non-current liabilities	**2,602**	1,779
Net non-current assets	**16,071**	14,696
Net assets	**17,948**	17,413

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Summarised statement of comprehensive income

	2016 *RMB million*	2015 *RMB million*
Revenue	**115,443**	118,134
Profit before income tax	**3,224**	3,438
Income tax expense	**(654)**	(839)
Profit for the year	**2,570**	2,599
Other comprehensive income	**(28)**	(45)
Total comprehensive income for the year	**2,542**	2,554
Total comprehensive income attributable to non-controlling interests	**11**	5

17. INVESTMENTS IN JOINT VENTURES

The amounts recognised in the consolidated statement of financial position are as follows:

	2016 *RMB million*	2015 *RMB million*
Joint ventures, at carrying value	**40,549**	39,166

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

The movements in investments in joint ventures are as follows:

	2016	2015
	RMB million	*RMB million*
At 1 January	**39,166**	40,145
Additional investments	**1,518**	184
Share of profits	**11,602**	10,432
Other comprehensive income	**(8)**	(5)
Other changes in equity	**92**	1
Disposals	**–**	(139)
Dividends received	**(11,823)**	(11,452)
Translation reserve	**2**	–
At 31 December	**40,549**	39,166

The additional investments in 2016 amounted to RMB1,518 million, of which RMB1,422 million was further capital injection by the Company through profit distribution, RMB54 million was transferred from an associate and RMB42 million was from acquisition of a subsidiary.

Particulars of the principal joint ventures of the Group as at 31 December 2016 were as follows:

Name	**Place of establishment and business**	**Paid-up Registered capital**	**Percentage of equity interest attributable to the Company**	**Principal activities**
Dongfeng Motor Co., Ltd. ("DFL")	PRC	RMB16,700,000,000	50.00	Manufacture and sale of automotive parts and components
Dongfeng Peugeot Citroen Automobile8 Co., Ltd. ("DPCA")	PRC	RMB7,000,000,000	50.00	Manufacture and sale of automotive parts and components
Dongfeng Honda Automobile Co., Ltd. ("DHAC")	PRC	USD560,000,000	50.00	Manufacture and sale of automotive parts and components
Dongfeng Honda Engine Co., Ltd.	PRC	USD121,583,517	50.00	Manufacture and sale of automotive parts and components
Dongfeng Honda Auto Parts Co., Ltd.	PRC	USD62,500,000	44.00	Manufacture and sale of automotive parts and components
Dongfeng Renault Automotive Co., Ltd.	PRC	RMB4,706,303,466	50.00	Manufacture and sale of automotive parts and components
Dongfeng Peugeot Citroen Finance Co., Ltd.	PRC	RMB1,000,000,000	50.00	Provision of Finance services

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

The financial information of material joint ventures

The following tables illustrate the financial information of the material joint ventures including DFL, DPCA and DHAC, adjusted for differences in accounting policies between the Group and the joint ventures, and before equity method was applied to account for the Group's share of those amounts.

(i) Statement of financial position of material joint ventures

	DFL		DPCA		DHAC	
	2016	2015	**2016**	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Cash and cash equivalents	**21,066**	16,244	**8,941**	13,254	**17,438**	7,356
Other current assets (excluding cash)	**63,075**	59,223	**6,212**	5,864	**18,316**	17,542
Total current assets	**84,141**	75,467	**15,153**	19,118	**35,754**	24,898
Non-current assets	**42,404**	41,841	**23,728**	22,196	**8,923**	8,782
Total assets	**126,545**	117,308	**38,881**	41,314	**44,677**	33,680
Current financial liabilities (excluding account payable)	**(481)**	(608)	**–**	(325)	**–**	–
Other current liabilities (including account payable)	**(69,708)**	(62,440)	**(22,668)**	(25,662)	**(31,713)**	(21,835)
Total current liabilities	**(70,189)**	(63,048)	**(22,668)**	(25,987)	**(31,713)**	(21,835)
Non-current financial liabilities (excluding account payable)	**(58)**	(71)	**(360)**	(491)	**–**	–
Other non-current liabilities (including account payable)	**(4,565)**	(3,783)	**(1,743)**	(860)	**(1,667)**	(1,304)
Total non-current liabilities	**(4,623)**	(3,854)	**(2,103)**	(1,351)	**(1,667)**	(1,304)
Total liabilities	**(74,812)**	(66,902)	**(24,771)**	(27,338)	**(33,380)**	(23,139)
Non-controlling interests	**(8,226)**	(8,274)	**–**	–	**–**	–
Net assets	**43,507**	42,132	**14,110**	13,976	**11,297**	10,541

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

The financial information of material joint ventures *(Continued)*

(ii) Statement of comprehensive income of material joint ventures

	DFL		DPCA		DHAC	
	2016	2015	**2016**	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**160,118**	131,980	**47,397**	56,713	**79,622**	53,086
Depreciation and amortisation	**(4,207)**	(4,176)	**(2,130)**	(1,876)	**(1,065)**	(937)
Interest income	**638**	694	**496**	610	**228**	123
Interest expenses	**(44)**	(33)	**(38)**	(61)	**–**	–
Profit before income tax	**18,880**	17,345	**2,276**	3,828	**9,830**	6,252
Income tax expenses	**(4,762)**	(4,187)	**(449)**	(914)	**(2,600)**	(1,568)
Profit after tax	**14,118**	13,158	**1,827**	2,914	**7,230**	4,684
Non-controlling interests	**(1,557)**	(1,548)	**–**	–	**–**	–
Other comprehensive income	**–**	3	**–**	–	**–**	–
Total comprehensive income	**12,561**	11,613	**1,827**	2,914	**7,230**	4,684
Dividend received	**5,593**	5,012	**847**	1,940	**4,586**	3,806

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

Reconciliation of financial information

The following table illustrates the reconciliation of share of net assets to carrying amounts of material joint ventures:

	DFL		DPCA		DHAC	
	2016	2015	**2016**	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Opening net assets at 1 January	**42,132**	40,543	**13,976**	14,941	**10,541**	13,468
Profit after tax	**14,118**	13,158	**1,827**	2,914	**7,230**	4,684
Other comprehensive income	**–**	3	**–**	–	**–**	–
Dividend received	**(11,186)**	(10,024)	**(1,693)**	(3,879)	**(9,171)**	(7,611)
Non-controlling interests	**(1,557)**	(1,548)	**–**	–	**–**	–
Capital contribution from non-controlling shareholders	**–**	–	**–**	–	**2,697**	–
Closing net assets at 31 December	**43,507**	42,132	**14,110**	13,976	**11,297**	10,541
Interest in joint ventures (50%)	**21,754**	21,066	**7,055**	6,988	**5,649**	5,271
Goodwill	**–**	–	**277**	277	**–**	–
Carrying amount of investmetns in material joint ventures	**21,754**	21,066	**7,332**	7,265	**5,649**	5,271

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2016	2015
	RMB million	*RMB million*
Share of joint ventures' results		
Profit after tax	**793**	828
Other comprehensive income	**(6)**	(10)
Total comprehensive income	**787**	818
Aggregate carrying amount of the Group's investments in the joint ventures	**5,814**	5,564

18. INVESTMENTS IN ASSOCIATES

The amounts recognised in the consolidated statement of financial position are as follows:

	2016	2015
	RMB million	*RMB million*
Associates, at carrying value	**12,598**	10,525

Particulars of the principal associates as at 31 December 2016 are as follows:

Name	**Place of establishment and business**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Dongfeng Nissan Auto Finance Co., Ltd.#	PRC	35.00%	Provision of finance services
Wuhan Lear-DFM Auto Electric Co. Ltd.#	PRC	25.00%	Manufacture and sale of automotive parts and components
PSA Peugeot Citroën Group ("PSA")	France	12.86%	Manufacture and sale of automotive parts and components

Sino-foreign equity joint venture

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.

The Group acquired the equity interests in the PSA Peugeot Citroën Group ("PSA"), a company listed on the Paris Bourse Stocks Exchange, for a consideration of EUR 800 million (approximately RMB6,801 million) in 2014. The investment in PSA is accounted for as an investment in associates using equity method since the Group has significant influence over PSA as the Group has the power to participate in the financial and operating policy decisions of PSA mainly by virtue of the fact that the Group is one of the three equal largest shareholders of PSA and the Group has certain representation on the governing body.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

The amounts recognised in the consolidated income statement are as follows:

	2016	2015
	RMB million	*RMB million*
Associates-Share of profits	**1,897**	1,297

The movements in investments in associates are as follows:

	2016	2015
	RMB million	*RMB million*
1 January	**10,525**	9,360
Share of profits	**1,897**	1,297
Other comprehensive income	**32**	159
Other changes in equity	**10**	(88)
Disposal	**(54)**	–
Dividend received	**(60)**	(57)
Translation reserve	**248**	(146)
31 December	**12,598**	10,525

19. OTHER NON-CURRENT ASSETS

	Note	2016 RMB million	2015 RMB million
Loans and receivables from financing services	23(b)	**9,050**	6,939
Mandatory reserve deposits with the People's Bank of China (the "PBOC")	(a)	**2,135**	1,806
Fixed term deposits	(b) 26	**3,000**	–
Others		**192**	163
		14,377	8,908

(a) The Group's subsidiary, DFF, involved in the provision of financing services is required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the PBOC are not available for use in the Group's daily operations.

(b) Fixed term deposits included RMB2,000 million (2015: nil) placed by the Company in an associate which is involved in the provision of financing services and RMB1,000 million (2015: nil) placed by the Company in a joint venture which is involved in the provision of financing services.

20. INVENTORIES

	2016 RMB million	2015 RMB million
Raw materials	**1,272**	1,319
Work in progress	**446**	420
Finished goods	**7,016**	6,926
	8,734	8,665

21. TRADE RECEIVABLES

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

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

	2016	2015
	RMB million	*RMB million*
Within three months	**2,095**	2,661
More than three months but within one year	**1,844**	813
More than one year	**223**	190
	4,162	3,664

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

	2016	2015
	RMB million	*RMB million*
At 1 January	**229**	203
Net impairment loss recognised	**360**	46
Amount written off as uncollectible	**(6)**	(20)
At 31 December	**583**	229

As at 31 December 2016, trade receivables of the Group with an aggregate nominal value of RMB54 million (2015: RMB41 million) were impaired and fully provided for. The remaining individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

As at 31 December 2016, the Group held collateral and other credit enhancements, which mainly included property, plant and equipment, lease prepayments and inventories, amounted to RMB660 million (2015: RMB239 million) over trade receivables amounted to RMB536 million (2015: RMB33 million).

21. TRADE RECEIVABLES *(Continued)*

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

	2016	2015
	RMB million	*RMB million*
Neither past due nor impaired	**2,095**	2,661
Less than three months past due	**615**	271
	2,710	2,932

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

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

	2016	2015
	RMB million	*RMB million*
DMC, its subsidiaries, associates and joint ventures	**299**	645
Non-controlling shareholders of a subsidiary and their subsidiaries	**74**	21
Associates	**14**	19
	387	685

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

22. BILLS RECEIVABLE

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

	2016	2015
	RMB million	*RMB million*
Within one year	**15,416**	13,015

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2016 RMB million	2015 RMB million
Prepayments		**2,150**	2,172
Deposits and other receivables	(a)	**1,317**	905
Loans and receivables from financing services	(b)	**16,728**	11,679
		20,195	14,756

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

	2016 RMB million	2015 RMB million
At 1 January	**63**	52
Net impairment loss recognised	**24**	17
Amount written off as uncollectible	**–**	(6)
At 31 December	**87**	63

(b) Loans and receivables from financing services represented loans granted by DFF, which is involved in the provision of financing services, to individuals and entities when they purchased commercial and passenger vehicles from dealers at an interest rate of 4.20%-15.00% per annum. These loans and receivables from financing services were secured by the vehicle licenses together with guarantees provided by these dealers.

The loans and receivables from financing services are analysed as follows:

	Note	2016 RMB million	2015 RMB million
Gross loans and receivables from financing services		**26,085**	18,878
Less: impairment allowances		**(307)**	(260)
		25,778	18,618
Less: current portion		**(16,728)**	(11,679)
Non-current portion	19	**9,050**	6,939

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

(b) Movements of impairment allowances are as follows:

	2016	2015
	RMB million	*RMB million*
At 1 January	**260**	258
Impairment allowances charged	**149**	56
Amount written off as uncollectible	**(102)**	(54)
At 31 December	**307**	260

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

	2016	2015
	RMB million	*RMB million*
DMC, its subsidiaries, associates and joint ventures	**805**	354
Non-controlling shareholders of a subsidiary and their subsidiaries	**10**	3
Associates	**24**	37
	839	394

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

24. BALANCES WITH JOINT VENTURES

	Notes	2016 RMB million	2015 RMB million
Due from joint ventures, amount			
Interest-bearing loans to joint ventures		**111**	235
Dividends receivable from joint ventures		**3,875**	2,606
Others	(a)	**4,686**	3,232
		8,672	6,073
Less: current portion		**(8,672)**	(6,073)
Non-current portion		**–**	–
Due to joint ventures			
Cash deposits in DFF	(b)	**2,783**	2,164
Arising from acquisition of CV businesses		**–**	1,233
Others	(a)	**5,746**	4,669
		8,529	8,066
Less: current portion		**(8,529)**	(8,066)
Non-current portion		**–**	–

Notes:

(a) Others due from/to joint ventures are unsecured, interest-free and have no fixed terms of repayment.

(b) Cash deposits placed by joint ventures in DFF, a subsidiary of the Company involved in the provision of financing services, bear interest at the prevailing savings interest rate published by the PBOC.

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB million	2015 RMB million
Unlisted investments at cost less impairment:		
Non-current	**174**	190

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

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

	Notes	2016 RMB million	2015 RMB million
Cash and bank balances		**17,875**	26,395
Time deposits		**19,498**	9,171
Fixed term deposits	19(b)	**3,000**	–
		40,373	35,566
Less: Pledged bank balances and time deposits for securing general banking facilities		**(6,645)**	(3,760)
Less: Fixed term deposits	19(b)	**(3,000)**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**30,728**	31,806
Less: Non-pledged time deposits with original maturity of three months or more when acquired		**(1,127)**	(3,074)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**29,601**	28,732

26. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS *(Continued)*

Time deposits included RMB200 million (2015: RMB2,000 million) placed by the Company in an associate which is involved in the provision of financing services and RMB500 million (2015: RMB1,000 million) placed by the Company in a joint venture which is involved in the provision of financing services.

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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

27. SHARE CAPITAL

	2016	2015
	RMB million	*RMB million*
Registered, issued and fully paid:		
– 5,760,388,000 (2015: 5,760,388,000)		
Domestic Shares of RMB1.00 each	**5,760**	5,760
– 2,855,732,000 (2015: 2,855,732,000)		
H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

28. INTEREST-BEARING BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	***RMB million***	Effective interest rate (%)	Maturity	*RMB million*
Current						
Bank loans – unsecured	**2.20–4.35**	**2017**	**1,089**	0.87–5.35	2016	1,833
Other loans – unsecured			**6,220**			5,117
			7,309			6,950
Non-Current						
Bank loans – secured	**1.76**	**2022**	**2,850**	1.6–4.61	2017–2022	3,548
Bank loans – unsecured	**1.66–4.75**	**2018–2019**	**586**	2.9	2018	477
Guaranteed notes	**1.6**	**2018**	**3,644**	1.6	2018	3,534
			7,080			7,559
			14,389			14,509

Other loans represented cash deposits placed by DMC, its subsidiaries, associates and joint ventures amounting to RMB3,620 million (2015: RMB2,552 million) and other unrelated third parties in DFF, a subsidiary of the Group which is involved in the provision of financing services. These loans bear interest at the prevailing savings interest rate published by the PBOC.

The Guaranteed notes (the "Notes") were issued in the aggregate principal amount of EUR500,000,000 on 28 October 2015 and were registered in the denomination of EUR100,000 each. The Notes bear interest from 28 October 2015 at the rate of 1.60% per annum. Interest on the Notes is payable annually on 28 October in each year, commencing with the first interest payment date falling on 28 October 2016. The Notes have been listed on the Irish Stock Exchange.

28. INTEREST-BEARING BORROWINGS *(Continued)*

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

	2016	2015
	RMB million	*RMB million*
Time deposits and bank balances	**2,957**	1,770

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

	2016	2015
	RMB million	*RMB million*
Bank loan repayable:		
Within one year or on demand	**1,089**	1,833
One year to two years	**387**	94
Two years to three years	**199**	383
More than five years	**2,850**	3,548
	4,525	5,858
Notes repayable:		
One year to two years	**3,644**	–
Two years to three years	**–**	3,534
	3,644	3,534
Other loans repayable:		
Within one year or on demand	**6,220**	5,117
	14,389	14,509

The carrying amounts of the interest-bearing borrowings approximate their fair values.

28. INTEREST-BEARING BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2016	2015
	RMB million	*RMB million*
RMB	**7,758**	7,197
Euro dollar	**6,631**	7,247
US dollar	**–**	65
	14,389	14,509

29. PROVISIONS

	2016	2015
	RMB million	*RMB million*
Non-current	**674**	578
Current	**1,085**	948
	1,759	1,526

The movements of the Group's provisions are analysed as follows:

	Environmental restoration costs	**Warranty provisions**	**Total**
	RMB million	*RMB million*	*RMB million*
At 1 January 2015	114	1,143	1,257
Provision during the year	–	1,371	1,371
Utilised	(1)	(1,101)	(1,102)
At 31 December 2015	113	1,413	1,526
Provision during the year	**–**	**1,471**	**1,471**
Utilised	**(4)**	**(1,234)**	**(1,238)**
At 31 December 2016	**109**	**1,650**	**1,759**

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

29. PROVISIONS *(Continued)*

(a) Environmental restoration costs

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

(b) Warranty provisions

The Group provides warranties for certain automotive products and undertakes the obligation to repair or replace items that fail to perform satisfactorily. The amount of provisions 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.

30. GOVERNMENT GRANTS

The movements of the government grants related to assets are analysed as follows:

	RMB million
At 1 January 2015	261
Received during the year	398
Recognised as other income during the year	(116)
At 31 December 2015 and 1 January 2016	543
Received during the year	**407**
Recognised as other income during the year	**(90)**
At 31 December 2016	**860**

31. TRADE PAYABLES

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

	2016 RMB million	2015 RMB million
Within three months	**19,874**	15,425
More than three months but within one year	**1,219**	1,197
More than one year	**426**	548
	21,519	17,170

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

	2016 RMB million	2015 RMB million
DMC, its subsidiaries, associates and joint ventures	**307**	260
Non-controlling shareholders of a subsidiary and their subsidiaries	**8**	55
Associates	**49**	27
	364	342

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

32. BILLS PAYABLE

The maturity profile of the bills payable is as follows:

	2016 RMB million	2015 RMB million
Within one year	**14,867**	10,980

33. OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB million	*RMB million*
Advances from customers	**3,939**	4,381
Accrued salaries, wages and benefits	**1,690**	1,443
Other payables	**10,544**	8,157
	16,173	13,981

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

	2016	2015
	RMB million	*RMB million*
DMC, its subsidiaries, associates and joint ventures	**142**	195
Non-controlling shareholders of a subsidiary and their subsidiaries	**234**	23
	376	218

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

Non-controlling shareholders of a subsidiary and their subsidiaries included payable related to acquisition of intangible assets amounting to RMB89 million, which is expected to be settled within one year since the balance sheet date. The payable amounting to RMB192 million expected to be settled over one year since the balance sheet date are classified as other long term liabilities.

34. COMMITMENTS

(a) Operating lease commitments as lessee

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

	2016	2015
	RMB million	*RMB million*
Within one year	**165**	179
After one year but not more than five years	**672**	722
More than five years	**5,294**	5,706
	6,131	6,607

(b) Capital commitments

In addition to the operating lease commitments detailed in note 34(a) above, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB million	*RMB million*
Contracted, but not provided for:		
– Property, plant and equipment	**1,929**	1,882

35. RELATED PARTY TRANSACTIONS

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

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates

	Note	2016 RMB million	2015 RMB million
Purchases of automotive parts/raw materials from and payment of royalty fee to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**658**	590
– Joint ventures		**13,197**	12,421
– Associates		**178**	99
– Subsidiaries' joint ventures		**2,389**	2,024
– Non-controlling shareholders of a subsidiary and their subsidiaries		**14**	6
		16,436	15,140
Purchases of automobiles from joint ventures	(i)	**41,997**	56,962
Purchases of water, steam and electricity from DMC	(i)	**519**	494

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates *(Continued)*

	Note	2016 RMB million	2015 RMB million
Purchases of items of property, plant and equipment and intangible assets from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**42**	103
– Joint ventures		**213**	85
– Non-controlling shareholders of a subsidiary and their subsidiaries		**380**	77
		635	265
Rental expenses to DMC		**156**	164
Purchases of services from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**356**	459
– Joint ventures		**272**	149
– Non-controlling shareholders of a subsidiary and their subsidiaries		**171**	78
		799	686
Payments of technology services fee and other expenses to DMC's subsidiaries	(i)	**59**	48

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates *(Continued)*

	Note	2016 RMB million	2015 RMB million
Sales of automotive parts/raw materials to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**346**	258
– Joint ventures		**2,737**	2,454
– Subsidiaries' joint ventures		**92**	103
– Non-controlling shareholders of a subsidiary and their subsidiaries		**14**	4
		3,189	2,819
Sales of automobiles to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**3,682**	4,679
– Joint ventures		**1,027**	692
– Subsidiaries' joint ventures		**48**	9
– Non-controlling shareholders of a subsidiary and their subsidiaries		**574**	656
		5,331	6,036
Provisions of services to:	(i)		
– Joint ventures		**172**	114
– Subsidiaries' joint ventures		**3**	3
		175	117
Interest expense paid to:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**54**	50
– Joint ventures		**30**	27
		84	77

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with DMC, its subsidiaries, associates and joint ventures, the Group's joint ventures and associates *(Continued)*

	Note	**2016** *RMB million*	2015 *RMB million*
Interest incomes from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**9**	10
– Joint ventures		**12**	22
		21	32
Fee and commission incomes from:	(i)		
– DMC, its subsidiaries, associates and joint ventures		**3**	–
– Joint ventures		**9**	9
		12	9

Note:

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

(b) Outstanding balances with related parties:

(i) Details of the Group's balances with its related parties as at the end of the reporting period are disclosed in notes 21, 23, 26, 28, 31 and 33 to the financial statements.

(ii) Details of the Group's balances with joint ventures as at the end of the reporting period are disclosed in note 24 to the financial statements.

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2016	2015
	RMB'000	*RMB'000*
Short term employee benefits	**5,118**	6,658
Post-employment benefits	**382**	504
Stock appreciation right expenses recognised in the income statement	**–**	243
Total compensation paid to key management personnel	**5,500**	7,405

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

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets

	Loans and receivables *RMB million*	Available-for-sale financial assets *RMB million*	Total *RMB million*
Available-for-sale financial assets	–	174	174
Other non-current assets	14,185	–	14,185
Trade receivables	4,162	–	4,162
Bills receivable	15,416	–	15,416
Financial assets included in prepayments, deposits and other receivables	17,541	–	17,541
Due from joint ventures	7,182	–	7,182
Pledged bank balances and time deposits	6,645	–	6,645
Cash and cash equivalents	30,728	–	30,728
	95,859	174	96,033

Financial liabilities

	Financial liabilities at amortised cost *RMB million*
Trade payables	21,519
Bills payable	14,867
Financial liabilities included in other payables and accruals	9,629
Due to joint ventures	8,005
Interest-bearing borrowings	14,389
Other long term liabilities	580
	68,989

36. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2015

Financial assets

	Loans and receivables *RMB million*	Available-for-sale financial assets *RMB million*	Total *RMB million*
Available-for-sale financial assets	–	190	190
Other non-current assets	8,745	–	8,745
Trade receivables	3,664	–	3,664
Bills receivable	13,015	–	13,015
Financial assets included in prepayments, deposits and other receivables	12,584	–	12,584
Due from joint ventures	6,073	–	6,073
Pledged bank balances and time deposits	3,760	–	3,760
Cash and cash equivalents	31,806	–	31,806
	79,647	190	79,837

Financial liabilities

	Financial liabilities at amortised cost *RMB million*
Trade payables	17,170
Bills payable	10,980
Financial liabilities included in other payables and accruals	8,157
Due to joint ventures	8,066
Interest-bearing borrowings	14,509
Other long term liabilities	226
	59,108

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

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

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

As at 31 December 2016, all the Group's interest-bearing borrowings bear fixed interest rate and not subject to interest rate risk.

(b) Foreign currency risk

The businesses of the Group are principally located in the PRC. While most of the sales of the Group are conducted in RMB, certain of the Group's borrowings were denominated in other currency such as euro dollars (EUR).

As at 31 December 2016 and 31 December 2015, the carrying amounts in RMB equivalent of the Group's liabilities denominated in foreign currencies are summarised below:

	2016	2015
	RMB million	*RMB million*
Interest-bearing borrowings	**6,631**	7,247

Fluctuations in the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the euro dollars (EUR), exchange rates, with all other variables held constant, of the Group's post tax profit (due to changes in the fair values of monetary liabilities).

	Increase/(decrease) in post tax profit	
	2016	2015
	RMB million	*RMB million*
If RMB strengthens against EUR by 5%	**249**	272
If RMB weakens against EUR by 5%	**(249)**	(272)

(c) Credit risk

The cash and bank balances and time deposits of the Group are mainly deposited with state-owned banks in the PRC, such as Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

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

The Group's financing services are primarily focused on supporting the sale of the commercial and passenger vehicles of the Group. As a consequence of these activities, the Group is exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as vehicle licences. Scoring systems are applied for the assessment of the default risk of individual customers. All loans and receivables from financing services are reviewed for objective evidence of impairment and classified based on a ten-tier classification system. Customers' loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

The carrying amount of each financial asset included in these financial statements represents the maximum exposure of the Group to credit risk in relation to its financial assets. In addition, the guarantees given by the Group to banks in favour of banking facilities granted to the Group's joint ventures represent the Group's other exposure to credit risk. The Group has no other financial assets carrying significant exposure to credit risk and has no significant concentration of credit risk.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk

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

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

	2016				
	Within one year or on demand *RMB million*	**In the second year** *RMB million*	**In the third to fifth years** *RMB million*	**Beyond five years** *RMB million*	**Total** *RMB million*
Interest-bearing borrowings	**7,309**	**4,031**	**199**	**2,850**	**14,389**
Trade payables	**21,519**	**–**	**–**	**–**	**21,519**
Bills payable	**14,867**	**–**	**–**	**–**	**14,867**
Other payables	**10,662**	**115**	**177**	**42**	**10,996**
Due to joint ventures	**8,529**	**–**	**–**	**–**	**8,529**
	62,886	**4,146**	**376**	**2,892**	**70,300**

	2015				
	Within one year or on demand *RMB million*	In the second year *RMB million*	In the third to fifth years *RMB million*	Beyond five years *RMB million*	Total *RMB million*
Interest-bearing borrowings	6,950	–	4,011	3,548	14,509
Trade payables	17,170	–	–	–	17,170
Bills payable	10,980	–	–	–	10,980
Other payables	8,323	139	300	136	8,898
Due to joint ventures	8,066	–	–	–	8,066
Guarantees given to banks in connection with facilities granted to joint ventures	7	–	–	–	7
	51,496	139	4,311	3,684	59,630

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by equity. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Equity represents equity attributable to equity holders of the Company. The net debt to equity ratio as at the end of the reporting period was as follows:

	2016	2015
	RMB million	*RMB million*
Interest-bearing borrowings	**14,389**	14,509
Less: Cash and cash equivalents	**(30,728)**	(31,806)
Net debt	**(16,339)**	(17,297)
Equity attributable to equity holders of the Company	**96,650**	84,650
Net debt to equity ratio	**-16.91%**	-20.43%

38. EVENTS AFTER THE REPORTING PERIOD

A final dividend in respect of the year ended 31 December 2016 of RMB0.23 per share, amounting to a total dividend of RMB1,982 million, was proposed by the Board of Directors at a meeting held on 28 March 2017, subject to the final approval by the shareholders of the Company at the Annual General Meeting. These financial statements do not reflect this dividend payable.

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB million	*RMB million*
ASSETS		
Non-current assets		
Property, plant and equipment	**3,346**	3,222
Lease prepayments	**295**	302
Intangible assets	**884**	781
Investments in subsidiaries	**12,337**	12,288
Investments in joint ventures	**16,268**	14,991
Investments in associates	**595**	595
Available-for-sale financial assets	**68**	68
Other non-current assets	**3,000**	–
Total non-current assets	**36,793**	32,247
Current assets		
Inventories	**1,446**	1,126
Trade receivables	**1,021**	555
Bills receivable	**869**	1,634
Prepayments, deposits and other receivables	**1,479**	1,765
Due from joint ventures	**4,464**	2,647
Pledged bank balances	**2,497**	2,079
Cash and cash equivalents	**25,885**	22,846
Total current assets	**37,661**	32,652
TOTAL ASSETS	**74,454**	64,899

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Balance sheet of the Company *(Continued)*

	As at 31 December	
	2016	2015
	RMB million	*RMB million*
EQUITY AND LIABILITIES		
Equity		
Issued capital	**8,616**	8,616
Reserves	**9,517**	8,339
Retained profits	**45,728**	37,309
TOTAL EQUITY	**63,861**	54,264
Non-current liabilities		
Interest-bearing borrowings	**250**	270
Other non-current liabilities	**57**	57
Provisions	**262**	176
Government grants	**86**	59
Total non-current liabilities	**655**	562
Current liabilities		
Trade payables	**5,034**	3,530
Bills payable	**1,069**	714
Other payables and accruals	**2,467**	2,788
Due to joint ventures	**663**	1,743
Interest-bearing borrowings	**370**	1,000
Income tax payable	**211**	211
Provisions	**124**	87
Total current liabilities	**9,938**	10,073
TOTAL LIABILITIES	**10,593**	10,635
TOTAL EQUITY AND LIABILITIES	**74,454**	64,899

The balance sheet of the Company was approved by the Board of Directors on 28 March 2017 and was signed on its behalf.

Ouyang Jie	**Liu Weidong**
Director	*Director*

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Reserve movement of the Company

	Capital reserve *RMB million*	Statutory reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2015	1,363	6,976	26,576	34,915
Final 2014 dividend declared and paid	–	–	(1,723)	(1,723)
Total comprehensive income for the year	–	–	12,456	12,456
At 31 December 2015 and 1 January 2016	**1,363**	**6,976**	**37,309**	**45,648**
Total comprehensive income for the year	**–**	**–**	**11,320**	**11,320**
Transfer to reserve	**1,178**	**–**	**(1,178)**	**–**
Final 2015 dividend declared and paid	**–**	**–**	**(1,723)**	**(1,723)**
At 31 December 2016	**2,541**	**6,976**	**45,728**	**55,245**

(a) Statutory reserves

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

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

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Reserve movement of the Company *(Continued)*

(b) Distributable reserves

As set out in note 11, for dividend distribution purposes, the Company's distributable profit is based on the lower of the net profit after tax as determined under PRC GAAP and IFRSs following its restructuring into a joint stock limited liability company on 12 October 2004. The amounts that the Company's subsidiaries and joint ventures can legally distribute by way of dividend are 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 PRC Company Law, the net profits after transfers to the SSR can be distributed as dividends by the companies comprising the Group as set out above.

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2017.

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

To the Members of Dongfeng Motor (Hong Kong) International Co., Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Dongfeng Motor (Hong Kong) International Co., Limited (the "Company") and its subsidiary (the "Group) set out on pages 6 to 42, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to compliance with borrowings covenant requirements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Compliance with borrowings covenant requirements	
Refer to note 17 to the financial statements As at 31 December 2017, the Group had listed Euro guaranteed notes with the aggregate principal amount of EUR 500,000,000, the long-term bank borrowings with the principal amount of EUR 290,000,000 and the short-term bank borrowing of RMB 706,072,441 (the "Borrowings") subject to various financial and non-financial covenants. Management performs review of the Group's compliance of the covenants on a periodic basis and as at each relevant measurement date pursuant to the Borrowings terms. This review requires the use of a wide variety of information from different data sources. We focused on this area because any default of covenants may potentially result in significant impact to the financing ability and hence going concern of the Group.	We have performed the following audit procedures in relation to the assessment of the Group's compliance with the covenants requirements of the Borrowings: • we inquired of management whether there were any events triggering default of the Borrowings; • we checked the terms of the Borrowings and management's identification of the financial and non-financial covenants for the Borrowings; • for financial covenants, we checked management's computations and data inputs to the relevant financial statements and the terms of Borrowings; • for non-financial covenants, we checked management's assessment and corroborated it with available evidences including the record of interest payment and share register of the Company. We found no material exceptions in the above procedures performed.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Croup's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2018

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
Consolidated income statement
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB (Restated)
Revenue	5	100,818,890	84,630,292
Cost of sales of goods		-	-
Gross profit		100,818,890	84,630,292
Administrative expenses	8	(103,345,798)	(95,492,755)
Other income	6	413,251,716	6,717
Other gains – net	7	19,091,078	25,771,404
Operating gains/(losses)		429,815,886	14,915,658
Finance costs – net	9	(531,067,869)	(318,075,722)
(Loss)/ Profit from investment accounted for using the equity method	12	(14,171,728)	10,175,441
Loss before income tax		(115,423,711)	(292,984,623)
Income tax expense	10	(123,828,693)	(1,012,534)
Loss for the year		(239,252,404)	(293,997,157)

The notes on pages 13 to 42 are an integral part of these consolidated financial statements.

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
Consolidated statement of comprehensive income
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB (Restated)
Loss for the year		(239,252,404)	(293,997,157)
Other comprehensive income for the year, net of tax			
Items that may be reclassified to profit or loss			
Change in value of available-for-sale financial assets	13	2,109,469,549	(198,492,326)
Currency translation differences		(3,091,301)	2,571,477
Other comprehensive income/(Loss) for the year, net of tax		2,106,378,248	(195,920,849)
Total comprehensive income/(Loss) for the year		1,867,125,844	(489,918,006)

The notes on pages 13 to 42 are an integral part of these consolidated financial statements.

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
Consolidated statement of financial position
As at 31 December 2017

	Note	31 December 2017 RMB	31 December 2016 RMB (Restated)
Assets			
Non-current assets			
Property, plant and equipment		5,116,991	2,646,042
Intangible assets		660,258	847,337
Goodwill		5,626,861	5,626,861
Deferred tax assets		163,793	442,019
Investment accounted for using the equity method	12	87,188,060	61,081,747
Available-for-sale financial assets	13	14,633,991,852	12,524,522,303
Total non-current assets		14,732,747,815	12,595,166,309
Current assets			
Other assets		744,514	2,009,180
Trade and other receivables		70,197,228	6,175,093
Cash and cash balances	14	376,012,765	356,145,760
Total current assets		446,954,507	364,330,033
Total assets		15,179,702,322	12,959,496,342

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
Consolidated statement of financial position (Cont'd)
As at 31 December 2017

	Note	31 December 2017 RMB	31 December 2016 RMB (Restated)
Equity and liabilities			
Equity attributable to owners of the company			
Share capital	15	6,000,000	6,000,000
Other reserves		6,269,182,480	4,173,374,136
Retained earnings		1,990,779,004	2,230,031,408
Total equity		8,265,961,484	6,409,405,544
Liabilities			
Non-current liabilities			
Borrowings	17	2,262,667,000	6,494,079,650
Total non-current liabilities		2,262,667,000	6,494,079,650
Current liabilities			
Trade and other payables	16	48,165,641	55,096,272
Borrowings	17	4,602,908,197	914,876
Total current liabilities		4,651,073,838	56,011,148
Total liabilities		6,913,740,838	6,550,090,798
Total equity and liabilities		15,179,702,322	12,959,496,342

The notes on pages 13 to 42 are an integral part of these consolidated financial statements.

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
Consolidated statement of changes in equity
For the year ended 31 December 2017

	Note	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total equity RMB
As at 1 January 2016					
As previously reported		6,000,000	4,362,791,317	2,518,663,891	6,887,455,208
Restatement for business combination under common control		-	6,503,668	5,364,674	11,868,342
As restated		6,000,000	4,369,294,985	2,524,028,565	6,899,323,550
Profit for the year		-	-	(293,997,157)	(293,997,157)
Other comprehensive income:					
Change in value of available-for-sale financial assets	13	-	(198,492,326)	-	(198,492,326)
Currency translation differences		-	2,571,477	-	2,571,477
Total comprehensive income		-	(195,920,849)	(293,997,157)	(489,918,006)
As at 31 December 2016		6,000,000	4,173,374,136	2,230,031,408	6,409,405,544

The notes on pages 13 to 42 are an integral part of these consolidated financial statements.

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
Consolidated statement of changes in equity (Cont'd)
For the year ended 31 December 2017

	Note	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total equity RMB
As at 1 January 2017					
As previously reported		6,000,000	4,166,547,587	2,221,327,706	6,393,875,293
Restatement for business combination under common control		-	6,826,549	8,703,702	15,530,251
As restated		6,000,000	4,173,374,136	2,230,031,408	6,409,405,544
Profit for the year		-	-	(239,252,404)	(239,252,404)
Other comprehensive income:					
Change in value of available-for-sale financial assets	13	-	2,109,469,549	-	2,109,469,549
Currency translation differences		-	(3,091,301)	-	(3,091,301)
Total comprehensive income		-	2,106,378,248	(239,252,404)	1,867,125,844
Business combination under common control		-	(10,569,904)	-	(10,569,904)
As at 31 December 2017		6,000,000	6,269,182,480	1,990,779,004	8,265,961,484

The notes on pages 13 to 42 are an integral part of these consolidated financial statements.

Dongfeng Motor (Hong Kong) International Co., Limited
(Incorporated in Hong Kong with limited liability)
The statement of cash flows
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB (Restated)
Cash flows used in operating activities			
Cash used in operations	18	6,692,263	(2,479,640)
Interests paid		(99,110,676)	(106,626,515)
Income tax paid		(123,533,664)	(1,454,553)
Net cash used in operating activities		(215,952,077)	(110,560,708)
Cash flows used in investing activities			
Dividends from joint ventures and associates		409,077,430	-
Proceeds from sale of property, plant and equipment		24,755	-
Proceeds from investing activities-other		-	322,880
Acquisition of investment accounted for using the equity method		(100,569,904)	(1)
Payments for property, plant and equipment		(3,317,798)	(2,728,719)
Net cash from/(used in) investing activities		305,214,483	(2,405,840)
Cash flows from financing activities			
Proceeds from borrowings		662,218,565	-
Repayments of borrowings		(735,337,500)	(793,281,471)
Cash payments relating to other financing activities		(5,259,192)	(4,372,585)
Net cash used in financing activities		(78,378,127)	(797,654,056)
Net increase /(decrease) in cash and cash equivalents		10,884,279	(910,620,004)
Cash and cash equivalents at beginning of year		356,145,760	1,240,994,960
Exchange gains on cash and cash equivalents		8,982,726	25,771,404
Cash and cash equivalents at end of the year	14	376,012,765	356,145,760

The notes on pages 13 to 42 are an integral part of these consolidated financial statements.

1 General information

Dongfeng Motor (Hong Kong) International Co., Limited (the "Company") is engaged in assets management, investment holding and financing activities.

The Company is a limited liability company incorporated in Hong Kong on 24 March 2014. The address of its registered office is 2/F, Kam Chung Commbldg, 19-21 Hennessy road, Wanchai, Hong Kong.

These financial statements are presented in RMB, unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the whole year presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Croup have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

As at 31 December 2017, the Group's current liabilities exceed its current assets by RMB 4,204,119,331. Considering the financial position, business and financing plan of the Group and the support from Dongfeng Motor Group Company Limited, the Directors believe that the Group will be able to meet its debts as they fall due at least within the next twelve months after 31 December 2017. Accordingly, these consolidated financial statements are prepared on a going concern basis.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year ended 31 December 2017. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies.

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiary below. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets on liabilities.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2 Summary of significant accounting policies (continued)

2.2 Business combination under common control

In January 2017, the Group acquired 100% equity interest of T Engineering AB from a subsidiary of Dongfeng Motor Corporation, the ultimate parent company of the company. For this business combination under common control, the financial information of the Group and that of T Engineering AB have been combined, by using the pooling of interests method, as if the Group acquired T Engineering AB from the beginning of the earliest financial period presented. The net assets of the Group and T Engineering AB are combined using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of the Group's interest in the net fair value of T Engineering AB's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of common control combination. The difference between the consideration and book value of T Engineering AB at the time of common control combination is taken to the reserves of the Group. The comparative figures of this consolidated financial information have been restated.

2.3 Change in accounting policies and disclosures

(i) New and amended standards adopted by the Croup

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2017.

- Amendments to HKAS 12 'Income taxes' on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- Amendments to HKAS 7 'Statement of cash flows' introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendment to HKFRS 12 'Disclosure of interest in other entities' is part of the annual improvements to HKFRSs 2014-2016 cycle. It clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of HKFRS 12).

The adoption of these standards did not have any significant impact on the Group's results and financial position.

2 Summary of significant accounting policies (continued)

2.3 Change in accounting policies and disclosures (continued)

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these consolidated financial statements. The Group has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the new standards and amendments. The new standards and amendments to standards and interpretations are set out below:

HKFRS15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018.

HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.

HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019.

HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', effective for annual periods beginning on or after 1 January 2019.

HK (IFRIC) 23 "Uncertainty over Income Tax Treatments", effective for annual periods beginning on or after 1 January 2019.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.4 Subsidiary

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2 Summary of significant accounting policies (continued)

2.4 Subsidiary (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(i) the contractual arrangement with the other vote holders of the investee;
(ii) rights arising from other contractual arrangements; and
(iii) the Group's voting rights and potential voting rights.

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

2.5 Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. If the Group holds less than 20% of the equity voting rights of the investee but can clearly demonstrate it has significant influence over the investee, the Group accounts such investees as associates. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's investments in associates and joint ventures include goodwill identified on acquisition. Upon the acquisition, any difference between the cost of the associates and joint ventures and the Group's share of the net fair value of the associates and joint ventures, identifiable assets and liabilities is accounted for as goodwill or share of profit of associates and joint ventures.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2 Summary of significant accounting policies (continued)

2.5 Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates and joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

2 Summary of significant accounting policies (continued)

2.6 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The financial statements are presented in RMB, which is the Group's functional and the presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2 Summary of significant accounting policies (continued)

2.7 Property, plant and equipment (continued)

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

	Estimated useful life
Plant and equipment	Over 5 to 10 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 the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (other than goodwill)

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

Research and development costs

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

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

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are combined at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Trade and other receivables

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

2 Summary of significant accounting policies (continued)

2.11 Financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The main financial assets category of the Group is available for sale. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in consolidated income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in consolidated income statement as part of other income when the Group's right to receive payments is established.

2.12 Impairment of financial assets

Available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a company of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in consolidated income statement on equity instruments are not reversed through consolidated income statement.

2 Summary of significant accounting policies (continued)

2.13 Cash and bank balance

In the consolidated statement of cash flows, cash and bank balance include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the entity consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

Restricted cash including deposit held with banks, which are restricted as to use.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 Summary of significant accounting policies (continued)

2.16 Borrowings (continued)

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Interest income

Interest income is recognised using the effective interest method.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong and is exposed to foreign exchange risk arising primarily with respect to Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31 December 2017, if RMB had strengthened/weakened by 10% against the Euro with all other variables held constant, the total comprehensive income would have been RMB 778,795,443lower/ higher (2016: RMB 636,904,724 lower/higher), mainly as a result of foreign exchange gains/losses on translation of Euro-denominated borrowings, available-for-sale financial assets and cash.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the group to fair value interest rate risk.

At 31 December 2017, if interest rates on Euro-denominated borrowings had been 0.5% higher/lower with all other variables held constant, profit before tax for the year would have been RMB 11,313,335 lower/higher (2016: RMB 14,318,039 lower/higher), mainly as a result of higher/lower interest expense on floating rate borrowings.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk is managed on company basis. Credit risk arises mainly from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Cash flow forecasting is performed in the Group. Company finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions and the continuing financial support from the Group's shareholders.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 Financial risk management (continued)

3.2 Capital management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt. The gearing ratio at 31 December 2017 was as follows:

	31 December 2017 RMB	31 December 2016 RMB
Total borrowings (Note 17)	6,865,575,197	6,494,994,526
Less: cash and bank balances (Note 14)	(376,012,765)	(356,145,760)
Net debt	6,489,562,432	6,138,848,766
Total equity	8,265,961,484	6,409,405,544
Total capital	15,179,702,322	12,959,496,342
Gearing ratio	43%	47%

4 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB	**RMB**	**RMB**	**RMB**
Assets				
Available-for-sale financial assets				
Equity securities	14,633,991,852	-	-	14,633,991,852

5 Revenue

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Consulting business	100,524,100	84,036,023
Other revenue	294,790	594,269
	100,818,890	84,630,292

6 Other income– net

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Dividends	409,077,430	-
Interest from financial assets	4,174,286	6,717
	413,251,716	6,717

7 Other gains– net

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Net foreign exchange gains	8,982,726	25,771,404
Net gains on sale of joint investment (Note 12)	10,108,352	-
	19,091,078	25,771,404

8 Expenses by nature

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Employee benefits expenses	49,547,241	36,605,581
Consulting fees	25,395,229	27,148,043
Testing fees	8,970,418	4,432,052
Bank commission charge	5,259,191	4,372,585
Outlay for personnel abroad	3,315,260	2,370,765
Professional services	2,731,537	9,790,210
Software services	2,380,549	3,195,869
Operating leasehold	2,247,496	1,929,618
Depreciation	1,009,173	885,846
Auditor's remuneration	202,118	267,904
Others	2,287,586	4,494,282
Total administrative expenses	103,345,798	95,492,755

9 Finance costs– net

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Interest expense on borrowings	92,557,782	117,720,187
Net foreign exchange losses on financing activities	438,510,087	200,355,535
Total finance costs-net	531,067,869	318,075,722

10 Income tax expenses

For the year ended 31 December 2017, there was no provision for Hong Kong profits tax since the Company does not have estimated assessable profit for the year. The Hong Kong profits tax rate applicable to the Company is 16.5% (2016:16.5%).

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Current tax	123,533,664	1,454,553
Deferred income tax	295,029	(442,019)
	123,828,693	1,012,534

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Losses before tax	(115,423,711)	(292,984,623)
Tax calculated at domestic tax rates applicable to profits in Hong Kong	(19,044,912)	(48,342,463)
Expenses not deductible for corporate income tax	26,880	55,191
Tax concessions and different rate of subsidiary	55,495,099	239,336
Tax effects of income not subject to tax	87,351,626	49,060,470
Income tax expense	123,828,693	1,012,534

11 Investment in subsidiary

Name	Place of establishment and business	Paid-up and registered capital	Percentage of equity Direct	Percentage of equity Indirect	Principal activities
T Engineering AB	Sweden	100,000 Krona	100%	—	motor vehicle and mechanical engineering consulting services

12 Investment accounted for using the equity method

The amount recognised in the consolidated statement of financial position is as follows:

	31 December 2017 RMB	31 December 2016 RMB
Joint ventures	-	50,069,169
Associate	87,188,060	11,012,578
	87,188,060	61,081,747

The amount recognised in consolidated income statement is as follows:

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Loss from investments in joint ventures	(347,210)	(837,137)
Gain from negative goodwill arising from acquisition of the associate(Note 12(b))	-	11,012,578
Share of loss of the joint ventures and associate	(13,824,518)	-
Total profit from investment accounted for using equity method	(14,171,728)	10,175,441

12 Investment accounted for using the equity method (continued)

12(a) Share of net asset value of a joint venture

The movements in investment in a joint venture are as follows:

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
At 1 January	50,069,169	48,657,710
Initial recognized identifiable assets and liabilities	-	-
Share of loss of the joint venture	-	(837,137)
Currency translation differences	-	2,248,596
Disposal of the joint venture	(50,069,169)	-
At 31 December	-	50,069,169

On 18 July 18 2017, Dongfeng Motor Group (Hongkong) International Co., Limited sold the share the Dongfeng Peugeot Citroen (International) Limited at a price of 11,589,163 Singapore yuan to Peugeot Citroën Group ("PSA"), resulting from the disposal of investment income was RMB 10,108,352 . (Note (7)).

12 Investment accounted for using the equity method (continued)

12(b) Share of net asset value of the associates

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
At 1 January	11,012,578	-
Initial recognized identifiable assets and liabilities	90,000,000	11,012,578
Share of loss of the associates	(13,824,518)	-
At 31 December	87,188,060	11,012,578

Particulars of the principal associates as at 31 December 2017 were as follows:

Name of entity	Place of business/country of incorporation	% of ownership interest	Measurement method
Dongfeng Nengdi(Hangzhou) Motor Co., Ltd	Peoples' Republic of China	50%	Equity
Chuang Ge financing lease Co., Ltd.	Peoples' Republic of China	30%	Equity

In October 2016, Dongfeng Motor Group and Dongfeng Motor (Hongkong) International Co., Limited signed an agreement for the establishment of Chuang Ge financing lease Co., Ltd., Dongfeng Motor (Hongkong) International Co., Limited subscribed 90 million accounting for 30% of the equity. The investment in Chuang Ge is accounted as an investment in associate.

In December 2016, the Company acquired 50% of the equity interests in the Dongfeng Nengdi(Hangzhou) Motor Co., Ltd(Originally name"Dong Vo(Hangzhou) Truck Co., Ltd"), which product and sale trucks in mainland China, for a consideration of RMB 1. The investment in Nengdi was accounted for as an investment in associate. In the year, The loss of Dongfeng Nengdi(Hangzhou) Motor Co., Ltd was RMB 34,424,956. The book value of long-term equity investment was reduced to zero. The loss amounting to 11,012,578 RMB was recognized, and the unrecognized investment loss was RMB 23,412,378.

13 Available-for-sale financial assets

Available-for-sale financial assets include the following:

	31 December 2017	31 December 2016
	RMB	RMB
Listed securities:		
Equity securities	14,633,991,852	12,524,522,303

The movements in investment in available-for-sale financial assets are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
	RMB	RMB
At 1 January	12,524,522,303	12,723,014,629
Fair value adjustment at year end recognized in equity	2,109,469,549	(198,492,326)
At 31 December	14,633,991,852	12,524,522,303

In May 2014 , the Company acquired 14.1% of the equity interests in the PSA Peugeot Citroën Group ("PSA"), a company listed on the Paris Bourse Stocks Exchange, for a consideration of EUR 800 million (approximately RMB 6,801 million). The investment in PSA is accounted for as an investment in associate using equity method since the Company has significant influence over PSA given that the Group has the power to participate in the financial and operating policy decisions of PSA mainly by virtue of the fact that the Group is one of the three equal largest shareholders of PSA and the Group has certain representation on the governing body.

In January 2015, according to a statement signed by the Group, the Group confirmed that it would exercise its shareholder's rights in PSA pursuant to the decisions of Dongfeng Motor Group Company Limited ("DFG"). After that, the Group was regarded as have no significant influence on PSA while maintaining the shareholding in PSA at 14.1%. Therefore, the Group reclassified its investment in PSA from an associate to available-for-sale financial assets in January 2015, and equity accounting was ceased therefrom.

14 Cash and bank balances

	31 December 2017 RMB	31 December 2016 RMB
Cash and cash equivalents	376,012,765	356,145,760

The cash and cash equivalents represent cash at bank and are dominated mainly in Euro. As at 31 December 2017 no cash is pledged (2016:nil).

15 Share capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital
At 31 December 2016	6,000,000	6,000,000
At 31 December 2017	6,000,000	6,000,000

16 Trade and other payables

	31 December 2017 RMB	31 December 2016 RMB
Interests payable	24,461,279	36,203,693
Accrued payroll	4,212,825	4,574,920
Trade payable	7,957,898	6,518,259
Deposit received	3,711,651	3,503,090
Tax payable	5,412,722	2,270,220
Accrual expense	2,409,266	2,026,090
	48,165,641	55,096,272

17 Borrowings

	31 December 2017 RMB	31 December 2016 RMB
Current		
Bank borrowing - guaranteed (a)	702,207,000	-
Bank borrowing - credit	3,865,441	914,876
Euro guaranteed notes (c)	3,896,835,756	-
Non-current		
Bank borrowing - guaranteed (b)	2,262,667,000	2,849,652,000
Euro guaranteed notes (c)	-	3,644,427,650
Total borrowings	6,865,575,197	6,494,994,526

(a) Bank borrowings - guaranteed

The current bank borrowing as at 31 December 2017 comprised a loan of EUR 90,000,000, equivalent to approximately RMB 702,207,000. The bank borrowing is guaranteed by DFG.

(b) Bank borrowings - guaranteed

The non-current bank borrowing as at 31 December 2017 comprised a loan of EUR 290,000,000 (2016:EUR390,000,000), equivalent to approximately RMB 2,262,667,000 (2016: RMB 2,849,652,000), from The Export-Import Bank of China to support overseas development of China enterprises, and will mature in 2022. It bears a floating interest rate based on the six-month European interbank rates (Euribor) plus 2%(2016: floating interest rate based on the six-month European interbank rates (Euribor) plus 2%), and is repriced every half year. The bank borrowing is guaranteed by DFG.

As at 31 December 2017, no cash is pledged (2016:Nil).

The fair value of the bank borrowings equal their carrying amounts as the impact of discounting is not significant.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the year are within 6 months.

17 Borrowings(Continued)

(c) Euro guaranteed Notes

The Euro guaranteed notes (the "Notes") were issued in the aggregate principal amount of EUR 500,000,000 in October 2015 and were registered in the denomination of EUR 100,000 each. The Notes will be due in 2018 and is guaranteed by DFG. The Notes bear interest at the rate of 1.60% per annum. Interest on the Notes is payable annually on 28 October each year. The Notes have been listed on the Irish Stock Exchange.

The fair value of the Notes as at 31 December 2017 was RMB 3,945 Millions, which is estimated by refer to the market price with reference to their market trading price.

18 Cash used in operations

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Loss before income tax	(115,423,711)	(292,984,623)
Adjustments for:		
-Depreciation of fixed assets	846,849	607,998
-Amortization of intangible assets	162,324	277,848
-Finance costs - net (Note 9)	531,067,869	318,075,722
-Net foreign exchange gains(Note 7)	(8,982,726)	(25,771,404)
-Loss of investment accounted for using the equity method (Note 12)	14,171,728	837,137
-Bank commission charge (Note 8)	5,259,192	4,372,585
-(Increase)/decrease in trade and bills receivables and prepayments, deposits and other receivables	(6,018,458)	2,798,823
-Inecrease in trade and bills payables, and other payables and accruals	4,794,978	318,852
-Gain from negative goodwill arising from acquisition of the joint venture (Note 12)	-	(11,012,578)
-Proceeds from disposal of joint venture	(10,108,352)	-
-Proceeds from dividend of available-for-sale financial assets(Note 6)	(409,077,430)	-
Cash used in operations	6,692,263	(2,479,640)

19 Related party transactions

The Company is wholly-owned by Dongfeng Motor Investment (Shanghai) Co., Ltd. incorporated in the People's Republic of China ("PRC")), which is in turn a wholly-owned subsidiary of DFG. The ultimate parent of the Company is Dongfeng Motor Corporation (incorporated in PRC).

(i) Related parties

	Relationship with the group
Technology Center of DFG	Branch of DFG
PSA Peugeot Citroën Group ("PSA")	Associate of DFG

(ii) The following transaction was carried out with related parties:

	31 December 2017 RMB	31 December 2016 RMB
Provided advisory services to Technology Center of DFG	66,275,722	58,871,118
Guarantee from DFG for the Group's bank borrowings (Notes 17)	6,861,709,756	6,494,079,650

(iii) Outstanding balances with related parties:

Trade and other receivables

	31 December 2017 RMB	31 December 2016 RMB
PSA Peugeot Citroën Group ("PSA")	56,591,042	-

20 Balance sheet and reserve movement of the company

	31 December 2017	31 December 2016
	RMB	RMB
Assets		
Non-current assets		
Investment accounted for using the equity method	102,718,309	61,081,747
Available-for-sale financial assets	14,633,991,852	12,524,522,302
	14,736,710,161	12,585,604,049
Current assets		
Cash and bank balances	354,685,830	338,604,587
Other receivables	56,591,042	-
	411,276,872	338,604,587
Total assets	15,147,987,033	12,924,208,636
Equity and liabilities		
Equity attributable to owners of the company		
Share capital	6,000,000	6,000,000
Other reserves	6,277,487,887	4,166,547,587
Retained earnings	1,978,278,111	2,221,327,706
Total equity	8,261,765,998	6,393,875,293
Liabilities		
Non-current liabilities		
Borrowings	2,262,667,000	6,494,079,650
	2,262,667,000	6,494,079,650
Current liabilities		
Borrowings	4,599,042,756	-
Trade and other payables	24,511,279	36,253,693
	4,623,554,035	36,253,693
Total liabilities	6,886,221,035	6,530,333,343
Total equity and liabilities	15,147,987,033	12,924,208,636

The balance sheet of the Company was approved by the Board of Directors on 27 March 2018 and was signed on its behalf:

Director

Director

21 Statement of changes in equity of the company

	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total equity RMB
As at 1 January 2016	6,000,000	4,362,791,317	2,518,663,891	6,887,455,208
Loss for the year	-	-	(297,336,185)	(297,336,185)
Other comprehensive income:				
Change in value of available-for-sale financial assets	-	(198,492,326)	-	(198,492,326)
Currency translation differences	-	2,248,596	-	2,248,596
Total comprehensive income	-	(196,243,730)	(297,336,185)	(493,579,915)
As at 31 December 2016	6,000,000	4,166,547,587	2,221,327,706	6,393,875,293
As at 1 January 2017	6,000,000	4,166,547,587	2,221,327,706	6,393,875,293
Profit for the year	-	-	(243,049,595)	(243,049,595)
Other comprehensive income:				
Change in value of available-for-sale financial assets	-	2,109,469,549	-	2,109,469,549
Currency translation differences	-	(3,489,596)	-	(3,489,596)
Total comprehensive income	-	2,105,979,953	(243,049,595)	1,862,930,358
Business combination under the common control	-	4,960,347	-	4,960,347
Balance at 31 December 2017	6,000,000	6,277,487,887	1,978,278,111	8,261,765,998

22 Segment information

The Group is engaged in one business segment which is assets management, financing and investing holding.

23 Benefits and interests of the directors

(a) Directors' emoluments

During the year ended 31 December 2017, no benefits or interests have been paid by the Company to the directors (2016: nil). The directors of the Company received emoluments from DFG. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Company and their services rendered to DFG and its other subsidiaries.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which the directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

24 Events after the reporting period

In January 2018, As guaranteed by DFG, the Company has obtained a loan of HKD814,500,000 from bank of china(Hong Kong) limited and will mature in one year.

25 Approval of the financial statements

The financial statements were approved and authorised for issue by the directors of the Company on 27 March 2018.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

To the Members of Dongfeng Motor (Hong Kong) International Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Dongfeng Motor (Hong Kong) International Limited (the "Company") set out on pages 6 to 32, which comprise:

- the statement of financial position as at 31 December 2016;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to compliance with borrowings covenant requirements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Compliance with borrowings covenant requirements	
Refer to note 13 to the financial statements As at 31 December 2016, the Company had listed Euro guaranteed notes with the aggregate principal amount of EUR 500,000,000 and the long-term bank borrowings with the principal amount of EUR 390,000,000(the "Borrowings") subject to various financial and non-financial covenants. Management performs review of the Company's compliance of the covenants on a periodic basis and as at each relevant measurement date pursuant to the Borrowings terms. This review requires the use of a wide variety of information from different data sources. We focused on this area because any default of covenants may potentially result in significant impact to the financing ability and hence going concern of the Company.	We have performed the following audit procedures in relation to the assessment of the Company's compliance with the covenants requirements of the Borrowings: • we inquired of management whether there were any events triggering default of the Borrowings; • we checked the terms of the Borrowings and management's identification of the financial and non-financial covenants for the Borrowings; • for financial covenants, we checked management's computations and data inputs to the relevant financial statements and the terms of Borrowings; • for non-financial covenants, we checked management's assessment and corroborated it with available evidences including the record of interest payment and share register of the Company. We found no material exceptions in the above procedures performed.

Other Information

The directors are responsible for the other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

Dongfeng Motor (Hong Kong) International Limited
(Incorporated in Hong Kong with limited liability)
Income statement
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
Turnover		-	-
Administrative expenses	5	(15,274,140)	(10,571,327)
Other income		6,717	8,515
Other gains/(losses) – net	6	25,771,404	(307,713,657)
Operating gains/(losses)		10,503,981	(318,276,469)
Finance costs – net	7	(318,015,606)	376,044,290
Profit from investment accounted for using the equity method	9	10,175,440	2,782,710
(Loss)/Profit before income tax		(297,336,185)	60,550,531
Income tax expense	8	-	-
(Loss)/Profit for the year		(297,336,185)	60,550,531

The notes on pages 12 to 32 are an integral part of these financial statements.

Dongfeng Motor (Hong Kong) International Limited
(Incorporated in Hong Kong with limited liability)
Statement of comprehensive income
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
(Loss)/Profit for the year		(297,336,185)	60,550,531
Other comprehensive income for the year, net of tax			
Item that will not be reclassified subsequently to or loss			
Transfer to equity upon the de-recognition of investment in associate	10	-	65,780,930
Items that may be reclassified to profit or loss			
Reclassification to income statement of previously recognised other comprehensive income upon the de-recognition of investment in associate	10	-	837,866,782
Change in value of available-for-sale financial assets	10	(198,492,326)	4,310,513,389
Currency translation differences	9(a)	2,248,596	1,241,000
Other comprehensive income for the year, net of tax		(196,243,730)	5,215,402,101
Total comprehensive income for the year		(493,579,915)	5,275,952,632

The notes on pages 12 to 32 are an integral part of these financial statements.

Dongfeng Motor (Hong Kong) International Limited
(Incorporated in Hong Kong with limited liability)
Statement of financial position
As at 31 December 2016

	Note	31 December 2016 RMB	31 December 2015 RMB
Assets			
Non-current assets			
Investment accounted for using the equity method	9	61,081,747	48,657,710
Available-for-sale financial assets	10	12,524,522,302	12,723,014,628
		12,585,604,049	12,771,672,338
Current assets			
Cash and cash balances	11	338,604,587	1,227,711,505
		338,604,587	1,227,711,505
Total assets		12,924,208,636	13,999,383,843
Equity and liabilities			
Equity attributable to owners of the company			
Share capital	12	6,000,000	6,000,000
Other reserves		4,166,547,587	4,362,791,317
Retained earnings		2,221,327,706	2,518,663,891
Total equity		6,393,875,293	6,887,455,208
Liabilities			
Non-current liabilities			
Borrowings	13	6,494,079,650	7,081,685,102
		6,494,079,650	7,081,685,102
Current liabilities			
Trade and other payables	14	36,253,693	30,243,533
		36,253,693	30,243,533
Total liabilities		6,530,333,343	7,111,928,635
Total equity and liabilities		12,924,208,636	13,999,383,843

The notes on pages 12 to 32 are an integral part of these financial statements.

Dongfeng Motor (Hong Kong) International Limited
(Incorporated in Hong Kong with limited liability)
Statement of changes in equity
For the year ended 31 December 2016

	Note	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total equity RMB
Balance at 1 January 2015		1,000,000	(852,610,784)	2,523,894,290	1,672,283,506
Profit for the year		-	-	60,550,531	60,550,531
Other comprehensive income:					
Reclassification to income statement of previously recognised other comprehensive income upon the de-recognition of investment in associate	10	-	837,866,782	-	837,866,782
Transfer to equity upon the de-recognition of investment in associate		-	65,780,930	-	65,780,930
Change in value of available-for-sale financial assets	10	-	4,310,513,389	-	4,310,513,389
Currency translation differences	9(a)	-	1,241,000	-	1,241,000
Total comprehensive income		-	5,215,402,101	60,550,531	5,275,952,632
Proceeds from shares issued	12	5,000,000	-	-	5,000,000
Transfer to equity upon the de-recognition of investment in associate	10	-	-	(65,780,930)	(65,780,930)
Balance at 31 December 2015		6,000,000	4,362,791,317	2,518,663,891	6,887,455,208

The notes on pages 12 to 32 are an integral part of these financial statements.

Dongfeng Motor (Hong Kong) International Limited
(Incorporated in Hong Kong with limited liability)
Statement of changes in equity
For the year ended 31 December 2016

	Note	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total equity RMB
Balance at 1 January 2016		6,000,000	4,362,791,317	2,518,663,891	6,887,455,208
Loss for the year		-	-	(297,336,185)	(297,336,185)
Other comprehensive income:					
Change in value of available-for-sale financial assets	10	-	(198,492,326)	-	(198,492,326)
Currency translation differences	9(a)	-	2,248,596	-	2,248,596
Total comprehensive income		-	(196,243,730)	(297,336,185)	(493,579,915)
Balance at 31 December 2016		6,000,000	4,166,547,587	2,221,327,706	6,393,875,293

The notes on pages 12 to 32 are an integral part of these financial statements.

Dongfeng Motor (Hong Kong) International Limited
(Incorporated in Hong Kong with limited liability)
Statement of cash flows
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
Cash flows used in operating activities			
Cash used in operations	15	(10,844,838)	(1,559,236)
Interest paid		(106,566,398)	(42,099,699)
Net cash used in operating activities		(117,411,236)	(43,658,935)
Cash flows used in investing activities			
Acquisition of investment accounted for using the equity method		(1)	(44,634,000)
Net cash used in investing activities		(1)	(44,634,000)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	5,000,000
Proceeds from borrowings		-	9,400,232,434
Decrease in restricted cash balance		-	137,194,147
Repayments of borrowings		(793,094,500)	(8,058,307,810)
Cash payments relating to other financing activities		(3,770,151)	(9,003,576)
Net cash (used in)/from financing activities		(796,864,651)	1,475,115,195
Net (decrease)/increase in cash and cash equivalents		(914,275,888)	1,386,822,260
Cash and cash equivalents at beginning of year		1,227,109,071	1,000,343
Exchange gains/(losses) on cash and cash equivalents		25,771,404	(160,713,532)
Cash and cash equivalents at end of the year	11	338,604,587	1,227,109,071

The notes on pages 12 to 32 are an integral part of these financial statements.

1 General information

Dongfeng Motor (Hong Kong) International Limited (the "Company") is engaged in assets management, investment holding and financing activities.

The Company is a limited liability company incorporated in Hong Kong on 24 March 2014. The address of its registered office is 2/F, Kam Chung Commbldg, 19-21 Hennessy road, Wanchai, Hong Kong.

These financial statements are presented in RMB, unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the whole year presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap.622. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.2 Change in accounting policies and disclosures

(i) New and amended standards adopted by the Company

The following new standards and amendments to standards relevant to the Company are mandatory adopted for the first time for the financial year beginning on 1 January 2016:

- Amendment to HKFRS 11 “Accounting for acquisitions of interests in joint operations”
- Amendment to HKAS 27 “Equity method in separate financial statements”
- Annual improvements 2014 that affect following standards: HKFRS 5 ‘Non-current assets held for sale and discontinued operations’， HKFRS 7 ‘Financial instruments: Disclosures’， HKAS 19 ‘Employee benefits’， HKAS 34 ‘Interim financial reporting’
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 “Investment entities: applying the consolidation exception”
- Amendments to HKAS 1 “Disclosure initiative”

The Company assessed the adoption of these standards and concluded that it did not have a significant impact on the Company’s results and financial position.

(ii) New and amended standards that might be relevant to the Company have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been early adopted in preparing these financial statements. The Company has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the amendments. The new standards and amendments to standards and interpretations are set out below:

Amendments to HKAS 12, 'Income taxes', effective for annual periods beginning on or after 1 January 2017.

Amendments to HKAS 7 - Statement of cash flows, effective for annual periods beginning on or after 1 January 2017.

2 Summary of significant accounting policies (continued)

2.2 Change in accounting policies and disclosures (continued)

(ii) New and amended standards that might be relevant to the Company have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted (continued)

HKFRS15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018.

HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.

HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019.

Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', effective for annual periods beginning on or after 1 January 2019.

2.3 Investments in associates and joint ventures

An associate is an entity in which the Company has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. If the Company holds less than 20% of the equity voting rights of the investee but can clearly demonstrate it has significant influence over the investee, the Company accounts such investees as associates. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2 Summary of significant accounting policies (continued)

2.3 Investments in associates and joint ventures (continued)

The Company's investments in associates and joint ventures are stated in the statement of financial position at the Company's share of net assets under the equity method of accounting, less any impairment losses. The Company's investments in associates and joint ventures include goodwill identified on acquisition. Upon the acquisition, any difference between the cost of the associates and joint ventures and the Company's share of the net fair value of the associates and joint ventures, identifiable assets and liabilities is accounted for as goodwill or share of profit of associates and joint ventures.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in income statement and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and its associates or joint ventures are eliminated to the extent of the Company's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates and joint ventures is included as part of the Company's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in RMB, which is the Company's functional and the presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

2.5 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are combined at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (continued)

2.6 Financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The main financial assets category of the company is available for sale. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in income statement as part of other income when the company's right to receive payments is established.

2.7 Impairment of financial assets

Available-for-sale financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a company of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in income statement on equity instruments are not reversed through income statement.

2 Summary of significant accounting policies (continued)

2.8 Cash and bank balance

In the statement of cash flows, cash and bank balance include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Restricted cash including deposit held with banks, which are restricted as to use.

2.9 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.10 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 Summary of significant accounting policies (continued)

2.11 Borrowings (continued)

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.12 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.13 Interest income

Interest income is recognised using the effective interest method.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Company operates in Hong Kong and is exposed to foreign exchange risk arising primarily with respect to Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31 December 2016, if RMB had strengthened/weakened by 10% against the Euro with all other variables held constant, the total comprehensive income would have been RMB 603,106,305 lower/ higher (2015: RMB 686,822,537 lower/higher), mainly as a result of foreign exchange gains/losses on translation of Euro-denominated borrowings, available-for-sale financial assets and cash.

(ii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the group to fair value interest rate risk.

At 31 December 2016, if interest rates on Euro-denominated borrowings had been 0.5% higher/lower with all other variables held constant, profit before tax for the year would have been RMB 14,318,038 lower/higher (2015: RMB 3,450,405 lower/higher), mainly as a result of higher/lower interest expense on floating rate borrowings.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk is managed on company basis. Credit risk arises mainly from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Cash flow forecasting is performed in the Company. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions and the continuing financial support from the company's shareholders.

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 Financial risk management (continued)

3.2 Capital management (continued)

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt. The gearing ratio at 31 December 2016 was as follows:

	31 December 2016 RMB	31 December 2015 RMB
Total borrowings (Note 13)	6,494,079,650	7,081,685,102
Less: cash and bank balances (Note 11)	(338,604,587)	(1,227,711,505)
Net debt	6,155,475,063	5,853,973,597
Total equity	6,393,875,293	6,887,455,208
Total capital	12,549,350,356	12,741,428,805
Gearing ratio	49%	46%

4 Fair value estimation

The table below analyses the Company's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB	**RMB**	**RMB**	**RMB**
Assets				
Available-for-sale financial assets				
Equity securities	12,524,522,302	-	-	12,524,522,302

5 Expenses by nature

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
Professional fees	9,790,210	1,517,751
Bank commission charge	4,372,585	9,003,576
Auditor's remuneration	50,000	50,000
Others	1,061,345	-
Total administrative expenses	15,274,140	10,571,327

6 Other (gains)/losses– net

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
Net foreign exchange (gains)/losses	(25,771,404)	160,713,532
Loss arising from de-recognition of investment in associate (Note 10)	-	147,000,125
	(25,771,404)	307,713,657

7 Finance costs– net

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
Interest expense on borrowings	117,660,071	72,343,232
Net foreign exchange loss/(gains) on financing activities	200,355,535	(448,387,522)
Total finance costs-net	318,015,606	(376,044,290)

8 Income tax expenses

For the year ended 31 December 2016, there was no provision for Hong Kong profits tax since the Company does not have estimated assessable profit for the year. The Hong Kong profits tax rate applicable to the Company is 16.5% (2015:16.5%).

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
(Loss)/Profit before tax	(297,336,185)	60,550,531
Tax calculated at domestic tax rates applicable to profits in Hong Kong	(49,060,471)	9,990,838
Tax effects of income not subject to tax	49,060,471	(9,990,838)
Income tax expense	-	-

9 Investment accounted for using the equity method

The amount recognised in the statement of financial position is as follows:

	31 December 2016 RMB	31 December 2015 RMB
Joint ventures	50,069,169	48,657,710
Associate	11,012,578	-
	61,081,747	48,657,710

The amount recognised in income statement is as follows:

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
(Loss)/Profit from investments in joint ventures (Note 9(a))	(837,137)	2,782,710
Gain from negative goodwill arising from acquisition of the associate(Note 9(b))	11,012,577	-
Total profit from investment accounted for using equity method	10,175,440	2,782,710

9(a) Share of net asset value of a joint venture

The movements in investment in a joint venture are as follows:

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
At 1 January	48,657,710	-
Initial recognized identifiable assets and liabilities	-	44,634,000
Share of (loss)/profit of the joint ventures	(837,137)	2,782,710
Currency translation differences	2,248,596	1,241,000
At 31 December	50,069,169	48,657,710

9 Investment accounted for using the equity method (continued)

9(a) Share of net asset value of a joint venture (continued)

Particulars of the joint venture as at 31 December 2016 were as follows:

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Dongfeng Peugeot Citroën International Co., Ltd.	Singapore	50%	Note 1	Equity

Note 1: Dongfeng Peugeot Citroën International Co., Ltd. provides automobile sales in the Singapore. It is a strategic partnership of the Company providing supporting for developing overseas market.

Dongfeng Peugeot Citroën International Co., Ltd is a private company and there is no quoted market price available for its shares.

9(b) Share of net asset value of an associate

The movements in investments in associates are as follows:

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
At 1 January	-	7,721,634,582
Initial recognized identifiable assets and liabilities	11,012,578	-
Transfer to available-for-sale financial assets (Note 10)	-	(7,721,634,582)
At 31 December	11,012,578	-

9 Investment accounted for using the equity method (continued)

9(b) Share of net asset value of an associate (continued)

Particulars of the principal associate as at 31 December 2016 were as follows:

Name of entity	Place of business/country of incorporation	% of ownership interest	Measurement method
Dong Vo(Hangzhou) Truck Co., Ltd "(DongVO")	Peoples' Republic of China	50%	Equity

In December 2016, the Company acquired 50% of the equity interests in the Dong Vo(Hangzhou) Truck Co., Ltd(DongVO), which product and sale trucks in mainland China, for a consideration of RMB 1. The investment in DongVO is accounted for as an investment in associate.

A gain before taxation amounting to RMB 11,012,577 arising from the negative goodwill, being the excess of the fair value of the net identifiable assets and liabilities in DongVo as at the date of acquisition over the cost of investment, was recognised in income statement.

10 Available-for-sale financial assets

Available-for-sale financial assets include the following:

	31 December 2016	31 December 2015
	RMB	RMB
Listed securities:		
Equity securities	12,524,522,302	12,723,014,628

The movements in investment in available-for-sale financial assets are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
	RMB	RMB
At 1 January	12,723,014,628	-
Transferred from investment in associate	-	7,721,634,582
Fair value adjustment upon initial recognition	-	690,866,657
Fair value adjustment at year end recognized in equity	(198,492,326)	4,310,513,389
At 31 December	12,524,522,302	12,723,014,628

In May 2014 , the Company acquired 14.1% of the equity interests in the PSA Peugeot Citroën Group ("PSA"), a company listed on the Paris Bourse Stocks Exchange, for a consideration of EUR 800 million (approximately RMB 6,801 million). The investment in PSA is accounted for as an investment in associate using equity method since the Company has significant influence over PSA given that the Company has the power to participate in the financial and operating policy decisions of PSA mainly by virtue of the fact that the Company is one of the three equal largest shareholders of PSA and the Company has certain representation on the governing body.

In January 2015, according to a statement signed by the Company, the Company confirmed that it would exercise its shareholder's rights in PSA pursuant to the decisions of Dongfeng Motor Group Company Limited ("DFG"). After that, the Company was regarded as have no significant influence on PSA while maintaining the shareholding in PSA at 14.1%. Therefore, the Company reclassified its investment in PSA from an associate to available-for-sale financial assets in January 2015, and equity accounting was ceased therefrom.

10 Available-for-sale financial assets(Continued)

In January 2015, the Company recognised the investment in PSA as available-for-sale financial assets at fair value amounting to RMB 8,412,501,239 upon initial recognition and recognized a net loss of RMB 147,000,125 in income statement. The net loss of RMB 147,000,125 comprised of the difference between the fair value of RMB 8.4 billion and the book value of the investment prior to reclassification of RMB 7.7 billion amounting to RMB 690,866,657, which was offset by the reclassification from reserve to the other comprehensive loss previously recognised in reserve of RMB 837,866,782.

11 Cash and bank balances

	31 December 2016 RMB	31 December 2015 RMB
Cash and cash equivalents	338,604,587	1,227,109,071
Restricted cash	-	602,434
Cash and bank balance	338,604,587	1,227,711,505

The cash and cash equivalents represent cash at bank and are dominated mainly in Euro. As at 31 December 2016 no cash is pledged (2015:EUR 83,907, equivalent to approximately RMB 602,434 is pledged in bank as a security for bank borrowing.)

12 Share capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital
At 1 January 2015	1,000,000	1,000,000
– Issue of shares, at par RMB 1	5,000,000	5,000,000
At 31 December 2015	6,000,000	6,000,000
At 31 December 2016	6,000,000	6,000,000

The Company issued 5,000,000 ordinary shares at par value RMB1 for cash of RMB 5,000,000 in September 2015 for the purpose of increasing the net assets of the Company and getting additional funding. The ordinary shares issued have the same rights as the other shares in issue.

13 Borrowings

	31 December 2016 RMB	31 December 2015 RMB
Non-current		
Bank borrowing - guaranteed (a)	2,849,652,000	3,547,600,000
Euro guaranteed notes (b)	3,644,427,650	3,534,085,102
Total borrowings	6,494,079,650	7,081,685,102

(a) Bank borrowings - guaranteed

The non-current bank borrowing as at 31 December 2016 comprised a loan of EUR 390,000,000 (2015:EUR500,000,000),equivalent to approximately RMB 2,849,652,000 (2015: RMB 3,547,600,000), from The Export-Import Bank of China to support overseas development of China enterprises, and will mature in 2022. It bears a floating interest rate based on the six-month European interbank rates (Euribor) plus 2%(2015: floating interest rate based on the six-month European interbank rates (Euribor) plus 2%), and is repriced every half year. The bank borrowing is guaranteed by DFG.

As at 31 December 2016, As at 31 December 2016 no cash is pledged (2015: EUR 83,907, equivalent to approximately RMB 602,434 is pledged in bank as a security for the current bank borrowing).

The fair value of the bank borrowings equal their carrying amounts as the impact of discounting is not significant.

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the end of the year are within 6 months.

(b) Euro guaranteed Notes

The Euro guaranteed notes (the "Notes") were issued in the aggregate principal amount of EUR 500,000,000 in October 2015 and were registered in the denomination of EUR 100,000 each. The Notes will be due in 2018 and is guaranteed by DFG. The Notes bear interest at the rate of 1.60% per annum. Interest on the Notes is payable annually on 28 October each year, commencing with the next interest payment date falling on 28 October 2017. The Notes have been listed on the Irish Stock Exchange.

The fair value of the Notes as at 31 December 2016 was RMB 3,730 Millions, which is estimated by refer to the market price with reference to their market trading price.

14 Trade and other payables

	31 December 2016 RMB	31 December 2015 RMB
Interests payable	36,203,693	30,243,533
Accrual expense	50,000	-
	36,253,693	30,243,533

15 Cash used in operations

	Year ended 31 December 2016 RMB	Year ended 31 December 2015 RMB
(Loss)/Profit before income tax	(297,336,185)	60,550,531
Adjustments for:		
– Finance costs - net (Note 7)	318,015,606	(376,044,290)
– Loss/(Profit) of investment accounted for using the equity method (Note 9)	837,137	(2,782,710)
– Bank commission charge (Note 5)	4,372,585	9,003,576
– Loss arising from de-recognition of investment in associate (Note 6)	-	147,000,125
– Gain from negative goodwill arising from acquisition of the joint venture (Note 9)	(11,012,577)	-
– Foreign exchange (gains)/losses on cash and cash equivalents	(25,771,404)	160,713,532
Cash used in operations	(10,844,838)	(1,559,236)

16 Related party transactions

The Company is wholly-owned by Dongfeng Motor Investment (Shanghai) Ltd., incorporated in the People's Republic of China ("PRC")), which is in turn a wholly-owned subsidiary of DFG. The ultimate parent of the Company is Dongfeng Motor Corporation (incorporated in PRC).

The following transaction was carried out with related party:

	31 December 2016 RMB	31 December 2015 RMB
Guarantee from DFG for the Company's bank borrowings (Notes 13)	6,494,079,650	7,081,685,102

17 Segment information

The Company is engaged in one business segment which is assets management, financing and investing holding.

18 Benefits and interests of the directors

(a) Directors' emoluments

During the year ended 31 December 2016, no benefits or interests have been paid by the Company to the directors (2015: nil). The directors of the Company received emoluments from DFG. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Company and their services rendered to DFG and its other subsidiaries.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which the directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

19 Approval of the financial statements

The financial statements were approved and authorised for issue by the directors of the Company on 28 March 2017.

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