DONGFENG MOTOR GROUP COMPANY LIMITED*
東風汽車集團股份有限公司
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 489)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to the annual report of Dongfeng Motor Group Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2022 (the "**2022 Annual Report**") which was published on 28 April 2023. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those set out in the 2022 Annual Report.

The announcement is made to provide supplemental information on the Group's financing service business.

FINANCING SERVICE BUSINESS

The financing service business of the Group is primarily conducted through a subsidiary of the Company, Dongfeng Motor Finance Co., Ltd. ("**Dongfeng Finance**") under a financial permit granted by the China Banking and Insurance Regulatory Commission (國家金融監督管理總局).

Business Models

The scope of the Group's financing service business covers the upstream and downstream of the automobile industry supply chain and is mainly divided into four main categories: (i) supply chain financing, mainly comprising financing services including accounts receivable factoring and commercial bill discount to upstream suppliers of members related parties of the Group; (ii) Group members financing, mainly comprising loans, commercial draft discount, acceptance bills, statistics and entrusted loans to related parties of the Group; (iii) distributor financing, mainly comprising loans, acceptance bills and other services to vehicle distributors and wholesalers of vehicles of the Dongfeng brand; and (iv) end customers financing, mainly comprising consumer credit loans, financial leasing and other services to end users for the purchase of Dongfeng brand automobiles.

Loan Impairment Policies

According to the International Financial Reporting Standards requirements in respect of financial instruments, the provision for expected credit losses are divided into three stages. The first stage is the "normal credit quality" stage, and only the expected credit losses in the next year need to be calculated. The second stage is the "significant increase in credit risk" stage, and the third stage is the "credit impairment" stage, during which stages the expected credit losses need to be calculated throughout the life cycle. The Group has developed an impairment model to calculate expected credit losses in accordance with such reporting requirements based on macroeconomic factors such as the cumulative year-on-year growth rate of GDP and the year-on-year growth rate of consumer price index. A regression model was established with the business climate index to regularly predict three macro scenarios, namely benchmark, optimistic and pessimistic, and applies the impairment model to calculate the expected credit loss under different scenarios.

Credit Assets and Impairment Losses

As at 31 December 2022, the balance of the credit assets of Dongfeng Finance was approximately RMB77.9 billion, approximately 84.87% of which was due from end customers, approximately 13.38% of which was due from Group members and their respective suppliers and approximately 1.75% of which was due from distributors. In terms of the number of customers, the number of end customers amounted to 1,144,331, the number of distributors amounted to 267 and the number of Group members and their respective suppliers amounted to 97. In terms of customer types, approximately 82.15% and 17.85% of the financing balance of the Dongfeng Finance was due from individual borrowers and corporate borrowers, respectively. The loans provided to the five largest borrowers, which were all Group members, accounted for approximately 6.45% of the loans.

To reduce the risk for the Group, in general, Dongfeng Finance required vehicles as collaterals for its financing services to end customers and may require a guarantor depending on the end customer's qualifications. For financing services to vehicle distributors, Dongfeng Finance required vehicle pledges and custody of the vehicles, vehicle qualification certificates and car keys. For the related parties of the Group, the Company determined the guarantee conditions according to different business types and customer qualifications. The major terms of loans granted include loan amount, interest rate, term of loan, maturity date and guarantee conditions.

The ageing analysis of credit assets of Dongfeng Finance is as follows: (i) the balance of credit assets with maturity of less than one year (including one year) is RMB33,043 million; (ii) the balance of credit assets with maturity of more than one year to less than three years (including three years) is RMB31,987 million; (iii) the balance of credit assets with maturity of more than three years is RMB8,803 million; and (iv) the balance of credit assets with uncertain maturity is RMB4,156 million, which mainly consisted of overdue credit assets, of which the balance overdue for more than 60 days amounted to RMB519 million, accounting for 12.49% of the total balance. Such overdue loans are subject to the impairment and debt collection policies of the Group as disclosed under sections headed "Loan Impairment Policies" and "Impairment Assessment and Risk Management", respectively, in this announcement.

The Company's auto retail financial pricing standards are demand-oriented with main focus on customer needs and competitiveness of the financial products, and taking into account factors such as loan prime rate (LPR), capital cost, risk cost, and operating expenses.

The Group has recognised provision for impairment of loans and receivables of approximately RMB3,430 million for the financial year ended 31 December 2022, as compared to that of RMB2,738 million as at 31 December 2021. To the best information, knowledge and belief of the directors of the Company (the "**Directors**"), the increase was mainly because (i) the relevant regulatory authorities encourage forward looking provisioning in accordance with the principle of substance over form to enhance risk resistance; (ii) the expected credit loss model is adjusted and provision is made more prudently; (iii) by the end of 2022, relevant financial institutions are relatively cautious about the forecast values of future macroeconomic indicators, and the expected credit losses are adjusted upwards accordingly; and (iv) the upward impairment adjustments made by the Company to some of its customers with risks as a result of uncertainty arising from the deferred debt repayment. It is respectfully submitted that the Company has relevant risk prevention measures in place to monitor the repayment status of such customers with risks.

Impairment Assessment and Risk Management

The board (the "**Board**") of Directors is responsible for formulating strategies, making decisions, and preventing risks for the Group, and the audit and compliance committee of the Board (the "**Audit and Compliance Committee**") is responsible for deliberating matters relating to the Company's internal audit supervision system, comprehensive risk management system, and internal control system.

The Group adheres to a set of comprehensive standards, guidelines and procedures to assess and manage credit risk, the details of which are set out below:

a) a risk and compliance management committee was set up to review the credit policies and operating guidelines of each business line and formulate the benchmark conditions and approval standards for the Group's financing services;

b) a specific review department was set up to conduct credit risk assessment within the predetermined credit limit in accordance with the hierarchical authorization approval procedures, while material loan applications are passed to the credit review committee for more detailed review and approval;

c) an intelligent approval model is adopted for each individual customer, which reviews loan applications based on credit information and data from the People's Bank of China and independent third parties;

d) the repayment ability and willingness of a corporate borrower is assessed comprehensively by a scorecard model based on factors including on-site due diligence, the borrower's financial strength, credit performance record and guarantee ability;

e) quality inspection work is conducted regularly to ensure the effective implementation of risk assessment procedures;

f) risk performance is constantly monitored to optimise the loan review models;

g) the recoverability of loans are continuously monitored by means of information technology, including (i) monitoring the industrial and commercial, administrative, judicial and credit investigation changes of corporate customers through the post-loan management platform; (ii) monitoring the operating efficiency of the end customers segment through the vehicle operation monitoring platform; and (iii) implementing debt collection by customer category through the Group's collection system; and

h) detailed operating rules are in place for overdue loan collection, and there are specialised teams and resources to collect debt by SMS, telephone, demand letter, engaging third-party debt collectors, disposal of mortgaged vehicles and legal means.

In order to ensure that the Board and the Audit and Compliance Committee perform effective risk management functions and internal control management responsibilities, at the system and planning level, the Company's "Comprehensive Risk Management Measures", "Internal Control Management Measures" and other internal polices of risk management and internal control management must be implemented after deliberation and approval by the Board. Furthermore, the Company has prepared the "Annual Comprehensive Risk Management Plan" (the "**Plan**"), which includes risk preference matrix (including risk limit indicators) for seven categories of risks and management matters such as capital, profit and service group level, risk supervision indicators, comprehensive risk management plan and control measures. Such Plan was evaluated and approved by the Board before implementation.

In terms of comprehensive risk management and control, the management regularly presents to the Board the "Comprehensive Risk Management Report" which has been reviewed by the Audit and Compliance Committee, and reports to the Board the Company's overall risk management situation, including the management of various types of risks and management matters and the implementation results, the next stage risk management measures and important risk management matters, for the Board's deliberation and decision-making. The Board is responsible for formulating and amending the management measures for lending services. The Audit and Compliance Committee carries out comprehensive checks and inspections of financial guarantees on a regular or occasional basis.

The Board has fulfilled its obligations in overseeing lending transactions to safeguard the Company's assets in the following manners:

a) the Group has in place an effective risk management and internal control system to evaluate and manage credit risks which is regularly reviewed by the Board and the Audit and Compliance Committee;

b) within the internal control policies and systems established by the Board and the Audit and Compliance Committee, the day-to-day operation of the financing business of the Group is delegated to the management of Dongfeng Finance. For material business decisions, the board of directors of Dongfeng Finance shall determine the credit line and clarify the credit conditions based on the pre-lending investigation of the credit business, the operating conditions of the credit business object, the trade background of the credit business, and the use of funds;

c) on the Company level, the Group has established a financial industry management committee comprising the department head and managers of the Company's finance department which is primarily responsible for signing off on decisions concerning the financing service business of the Group, reviewing complex loan projects, and signing other relevant legal documents; and

d) when a transaction triggers the disclosure requirements under Chapters 14 and 14A of the Listing Rules, it will be presented to the Board for deliberations and approval.

The Board believes that through the above delegation and division of work, the Company is able to ensure that there is solid commercial rationale for entering into lending transactions on terms that are fair and reasonable, and that the use of funds is in the interests of the Company and its shareholders.

The above additional information does not affect other information contained in the 2022 Annual Report and, save as disclosed in this announcement, all other information in the 2022 Annual Report remains unchanged.

Shareholders of the Company and potential investors are advised to exercise caution in dealing in the shares of the Company.

By order of the board of directors
ZHU YANFENG
Chairman

Wuhan, the PRC, 14 July 2023

As at the date of this announcement, Mr. Zhu Yanfeng, Mr. Yang Qing and Mr. You Zheng are the executive directors of the Company, Mr. Leung Wai Lap, Philip, Mr. Zong Qingsheng and Mr. Hu Yiguang are the independent non-executive directors of the Company.

* *For identification purposes only*