



東風汽車集團股份有限公司
DONGFENG MOTOR GROUP CO.,LTD

Stock Code: 489

INTERIM REPORT 2006

** For identification purpose only*

Contents

Chairman’s Statement	2
Corporate Information	4
Directors, Supervisors and Senior Management	5
Management’s Discussion and Analysis of Interim Results	6
Integrated Information	13
I. Business Overview	13
II. Interim Results and Dividends	17
III. Material Legal Proceedings	17
IV. Share Capital	18
V. Interests of Substantial Shareholders	18
VI. Directors’ and Supervisors’ Interests in the Share Capital of the Company	19
VII. Purchase, Sale or Redemption of Securities	19
VIII. Stock Appreciation Rights	19
IX. Corporate Governance	20
Unaudited Condensed Consolidated Interim Financial Statements and Notes to Condensed Consolidated Interim Financial Statements	22
Definitions	44



Chairman's Statement

Dear shareholders,

By the order of the Board of Directors, I hereby present the interim report of the Company for the Period for your review.

The Company achieved outstanding results in the Period, contributed by the stable and rapid growth of the domestic economy and automobile industry of the PRC. The sales volume of vehicles of the Dongfeng Motor Group during the Period was approximately 358,000 units, representing an increase of 17.3% over the corresponding period last year. A sales volume of approximately 233,000 units for passenger vehicles was realised, representing an increase of 41.7% over the corresponding period last year, which outperformed the growth rate of the industry. The consolidated revenue and consolidated net profit was approximately RMB23,282 million and RMB1,114 million, representing a respective increase of 9.9% and 68.8% over the corresponding period last year. The position of the Dongfeng Motor Group was further consolidated among the industry.

In the Period, the Dongfeng Motor Group moved a stable step and achieved outstanding results in the construction of production capacities, product development and introduction and market development. In the Period, the sales of Dongfeng Honda Civic, Dongfeng Peugeot 206 and Dongfeng Citroen C-Triomphe, which were introduced to the market together with the partners, achieved satisfactory performance. At the same time, the Dongfeng Motor Group strived to control the quality and costs and to accelerate the rate of localisation, with an aim to maintain sustainable market competitiveness of the products. Dongfeng Peugeot Citroen Automobiles Company Ltd, the joint venture between the Company and PSA, returned to profitability in the Period, which laid a solid foundation for its further development. The Dongfeng Motor Group also took up the responsibility of public interests for energy saving and environmental protection.

We also recognised that we encountered some problems. The major one was that, to a certain extent, the production and sales of commercial vehicles in the Period was decreased when compared with the corresponding period last year. It was mainly due to the product structural adjustment to the commercial vehicle products of the Dongfeng Motor Group. The fluctuation was expected to be short term. The Dongfeng Motor Group has implemented and will continue to implement relevant strategies and tactics to achieve rapid improvements to the sales of both heavy and medium trucks.

Chairman's Statement

In the second half of 2006, all staff of the Dongfeng Motor Group, including the management, will continue to be energetic, aggressive and enthusiastic in promoting each of the businesses by persistently adhering to the strategy of achieving high profitability. We will further enhance the management, optimise business structure, promote technological advancement, improve quality, reduce costs, develop markets and focus on the introduction of the three new passenger vehicle models. We strive to achieve the targets throughout 2006 and present a satisfactory result to our shareholders.

Xu Ping

Chairman of the Board of Directors

Wuhan, the PRC

28 August 2006

Corporate Information

Registered name

Dongfeng Motor Group Company Limited

Registered address

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

Principal place of business in the PRC

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

Principal place of business in Hong Kong

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

Company website

www.dfmfg.com.cn

Company secretaries

Hu Xindong
Lo Yee Har Susan (FCS, FCIS)

Qualified accountant

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

Compliance adviser

China International Capital Corporation
(Hong Kong) Limited

Auditor

Ernst & Young

Hong Kong H Share Registrar

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

Place of listing

The Stock Exchange of Hong Kong Limited

Stock code

00489

Directors, Supervisors and Senior Management

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

Directors

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

Senior Management

Cai Wei (蔡瑋)	Vice President and the Secretary of the Board of Directors
--------------	--

Supervisors

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

Management's Discussion and Analysis of Interim Results

FINANCIAL RESULTS OVERVIEW

The Dongfeng Motor Group has been sticking to its established development tactics, taking full advantage of its scale, networks, business and services, making rational investments and implementing aggressive cost control measures by implementing effective competition strategy and marketing tactics, so as to continue improving budget and evaluation management. For the Period, revenue amounted to approximately RMB23,282 million, representing an increase of approximately RMB2,090 million, or 9.9%, when compared with the figure in the corresponding period in 2005 of approximately RMB21,192 million. During the Period, the profit attributable to shareholders amounted to approximately RMB1,114 million, representing an increase of approximately RMB454 million, or 68.8%, when compared with the figure in the corresponding period in 2005 of approximately RMB660 million.

During the Period, net cash inflows from operating activities of the Dongfeng Motor Group was approximately RMB1,604 million, indicating a strong performance of cash flows generated from operating activities.

Management's Discussion and Analysis of Interim Results

REVENUE

During the Period, total revenue of the Dongfeng Motor Group amounted to approximately RMB23,282 million, representing an increase of approximately RMB2,090 million, or 9.9%, when compared with approximately RMB21,192 million for the corresponding period in 2005, reflecting increases of approximately RMB3,489 million in revenue from the sales of passenger vehicles to external customers of the Dongfeng Motor Group, and decreases of approximately RMB820 million and RMB579 million in revenue from sales of commercial vehicles and other auto-related businesses, respectively.

	For the six months ended 30 June			
	2006		2005	
	<i>Revenue from sales</i>		<i>Revenue from sales</i>	
	<i>RMB million</i>	<i>units sold</i>	<i>RMB million</i>	<i>units sold</i>
Passenger vehicles:	16,339	N/A	12,850	N/A
Whole vehicles	13,255	233,057	10,379	164,490
External sales of engines and other auto parts	3,084	N/A	2,471	N/A
Commercial vehicles:	6,534	N/A	7,354	N/A
Whole vehicles	5,787	124,986	6,821	140,758
External sales of engines and other auto parts	747	N/A	533	N/A
Others	409	N/A	988	N/A
Total	23,282	358,043	21,192	305,248

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

During the Period, revenue of the Dongfeng Motor Group from sales of passenger vehicles increased by approximately RMB3,489 million, or 27.2%, from approximately RMB12,850 million in the corresponding period in 2005 to approximately RMB16,339 million. Of which, revenue from sales of whole passenger vehicles increased by approximately RMB2,876 million, or 27.7%, from approximately RMB10,379 million in the corresponding period in 2005 to approximately RMB13,255 million. Such increases were mainly due to: (1) revenue growth

Management's Discussion and Analysis of Interim Results

brought about by the increase of sales volume of vehicles, the total sales volumes of whole passenger vehicles increased by 41.7% to 233,057 units from 164,490 units in 2005; (2) revenue growth brought about by changes in the product mix; (3) various passenger vehicle models entering a peak sales period; and (4) the Peugeot 206, C-Triomphe and Civic newly released in 2006 being widely recognised by the market.

Revenue from the sale of passenger vehicle engines and other auto parts increased by approximately 24.8% to RMB3,084 million for the Period from RMB2,471 million in the corresponding period in 2005. This overall increase in revenue was primarily due to the revenue growth from sales of related engines brought about by the increase of the sale volume of vehicles of Guangzhou Honda Automobile Co., Ltd.

During the Period, revenue of the Dongfeng Motor Group from sales of commercial vehicles decreased by approximately RMB820 million, or 11.2%, from approximately RMB7,354 million in the corresponding period in 2005 to approximately RMB6,534 million. Of which, revenue from sales of whole commercial vehicles decreased by approximately RMB1,034 million, or 15.2%, from approximately RMB6,821 million in the corresponding period in 2005 to approximately RMB5,787 million, mainly due to: (1) the impact of changes in the product mix; (2) the decrease of the Dongfeng Motor Group's sales volume of commercial vehicles as a result of that, subject to such factors as the cyclical nature of economic growth, higher oil prices and policy factors, the PRC commercial vehicles market as a whole weakened, resulting in a slight decrease in the demand for commercial vehicles. During the Period, sales volume of the Dongfeng Motor Group's heavy trucks decreased from 41,551 units in the corresponding period in 2005 to 33,000 units, and sales volume of medium trucks decreased from 33,076 units in the corresponding period in 2005 to 23,445 units. However, the Dongfeng Motor Group maintained its competitive advantage in the domestic commercial vehicles market. According to the statistics published by the China Association of Automobile Manufacturers, in terms of the market share in the commercial vehicle market sub-segment, the Dongfeng Motor Group was ranked the first in heavy trucks market while maintaining its top position among the players in the medium trucks market; the Dongfeng Motor Group's sales volume of light trucks in 2006 increased from 45,912 units in the corresponding period in 2005 to 51,566 units, ranking the second. An increase in the sales revenue from light trucks partly offset the decrease in sales revenue of heavy trucks and medium trucks.

Management's Discussion and Analysis of Interim Results

COST OF SALES AND GROSS PROFIT MARGIN

During the Period, the total cost of sales of the Dongfeng Motor Group was approximately RMB19,198 million, representing an increase of approximately RMB772 million when compared with approximately RMB18,426 million in the corresponding period in 2005. This increase was due to: (1) an increase in the sales volume of vehicles and other auto parts, and (2) the rise in the price of raw materials, particularly steel, for automobile production.

The gross profit margin of the Dongfeng Motor Group increased to 17.5% from 13.1% in the corresponding period in 2005, primarily due to a number of aggressive cost reduction measures taken, including increasing the localisation ratio, reducing the use of funds and cutting various costs and expenses.

During the Period, the gross profit margin of whole passenger vehicles increased to 18.9% from 11.7% in the corresponding period in 2005. This increase was primarily due to a number of measures taken, including (1) increasing the localisation ratio; (2) adjusting the product mix; (3) reducing costs.

During the Period, the gross profit margin of passenger vehicle engines and other auto parts increased to 22.6%, from 17.9% in the corresponding period in 2005. This increase was primarily due to a number of measures taken, including (1) increasing the localisation ratio; (2) optimising work processes and cutting inputs.

During the Period, the gross profit margin of whole commercial vehicles decreased to 12.6%, from 13.4% in the corresponding period in 2005, primarily due to (1) changes in the product mix; (2) the rise in the price of raw materials, particularly steel.

OTHER INCOME

During the Period, the total other income of the Dongfeng Motor Group was approximately RMB239 million, representing a decrease of approximately RMB166 million when compared with approximately RMB405 million in the corresponding period in 2005. The decrease in other income was mainly attributable to decreases of the sales of other goods and materials as well as grants received from the government for the purpose of supporting the development of automotive technologies and automobile projects.

SELLING AND DISTRIBUTION COSTS

During the Period, the selling and distribution costs of the Dongfeng Motor Group amounted to approximately RMB939 million, representing an increase of approximately RMB137 million when compared with approximately RMB802 million in the corresponding period in 2005. This was due to higher selling and distribution costs resulting from increased sales volume

Management's Discussion and Analysis of Interim Results

of vehicles and the marketing of many new models. During the Period, the sales and distribution costs of the Dongfeng Motor Group as a percentage of sales revenue increased slightly by 0.2% points to 4.0%, up from 3.8% in the corresponding period in 2005, reflecting an effective control over the sales and distribution costs of the Dongfeng Motor Group in spite of an increase of the sale volume of vehicles and the marketing of a number of new models.

ADMINISTRATIVE EXPENSES

During the Period, the total administrative expenses of the Dongfeng Motor Group amounted to approximately RMB1,009 million, representing an increase of approximately RMB136 million when compared with approximately RMB873 million in the corresponding period in 2005. This was due to the increased business volume. During the Period, the administrative expenses of the Dongfeng Motor Group as a percentage of sales revenue increased slightly by 0.2% points to 4.3%, up from 4.1% in the corresponding period in 2005, reflecting administrative expenses of the Dongfeng Motor Group under control.

STAFF COSTS

During the Period, the staff costs of the Dongfeng Motor Group amounted to approximately RMB1,193 million, representing an increase of approximately RMB117 million when compared with approximately RMB1,076 million in the corresponding period in 2005. This was due to an increase in the sales volume of vehicles resulting in a higher demand for labour.

DEPRECIATION CHARGES

With a view to expanding its business, the Dongfeng Motor Group made greater investments in buildings, machinery and equipment for production purposes. During the Period, the Dongfeng Motor Group's depreciation charges amounted to approximately RMB701 million, representing an increase of approximately RMB27 million when compared with approximately RMB674 million in the corresponding period in 2005.

RESEARCH AND DEVELOPMENT COSTS

During the Period, the Dongfeng Motor Group made higher investments in research and development. The research and development costs incurred by the Dongfeng Motor Group increased by approximately RMB107 million or 35.9% to approximately RMB405 million, from approximately RMB298 million in the corresponding period in 2005.

Management's Discussion and Analysis of Interim Results

FINANCE COSTS

During the Period, the finance costs of the Dongfeng Motor Group amounted to approximately RMB195 million, representing a decrease of approximately RMB21 million when compared with approximately RMB216 million in the corresponding period in 2005. Such a decrease is mainly attributable to the bank loans obtained in 2005 for financing the repurchase of shareholdings held by asset management companies being fully repaid within a month after the listing with the proceeds therefrom.

INCOME TAX

The income tax expenses of the Dongfeng Motor Group during the Period amounted to approximately RMB351 million, representing an increase of approximately RMB93 million when compared with approximately RMB258 million in the corresponding period in 2005. This increase is mainly due to a higher taxable income and an increase in deferred income taxes.

NET PROFIT

Based on the above reasons, the net profit of the Dongfeng Motor Group increased by approximately RMB454 million during the Period to approximately RMB1,114 million from approximately RMB660 million in the corresponding period in 2005.

LIQUIDITY AND SOURCE OF CAPITAL

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

	Six months ended 30 June	
	2006	2005
	<i>RMB million</i>	<i>RMB million</i>
Net cash flows generated from operating activities	1,604	3,016
Net cash used in investing activities	(1,807)	(2,708)
Net cash generated from/(used in) financing activities	(47)	25
Net increase/(decrease) in cash and cash equivalents	(250)	333

Management's Discussion and Analysis of Interim Results

During the Period, net cash inflows from operating activities amounted to approximately RMB1,604 million. This principally represents: (1) profit before tax amounting to approximately RMB1,540 million; (2) an increase of approximately RMB1,420 million in trade receivables, bills receivable and other prepayments, deposits and other receivables; (3) an increase of approximately RMB1,940 million in trade, bills and other payables and accrued liabilities; (4) depreciation and impairment of approximately RMB702 million; and (5) an increase of approximately RMB953 million in inventories.

During the Period, net cash used in investing activities of the Dongfeng Motor Group amounted to approximately RMB1,807 million. This is mainly attributable to the purchase of property, plant and equipment to the value of approximately RMB1,879 million, generally relating to the expansion of capacity and development of new products. During the Period, the above outlays together with an increase of approximately RMB39 million in unsecured time deposits was partly offset by proceeds of approximately RMB257 million from the disposal of obsolete property, plant and equipment.

During the Period, net cash outflow from financing activities of the Dongfeng Motor Group amounted to approximately RMB47 million, mainly reflecting the offsetting of borrowings of approximately RMB176 million by repayment of borrowings of approximately RMB205 million.

During the Period, the net decrease in cash and cash equivalents of the Dongfeng Motor Group amounted to approximately RMB250 million. As at 30 June 2006, cash and cash equivalents of the Dongfeng Motor Group amounted to approximately RMB5,336 million.

CHANGES IN SHAREHOLDINGS

During the Period, there were no significant changes in the shareholdings of the Dongfeng Motor Group.

RISK FACTORS

The Dongfeng Motor Group's business, financial condition and results of operations are subject primarily to such external factors as global economic activities, the price of raw materials, exchange rate fluctuations, policies on taxes and duties, regulation in the automobile industry and finance costs, which are not wholly within the Dongfeng Motor Group's control.

I. BUSINESS OVERVIEW

1. Principal Businesses

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

The Dongfeng Motor Group's commercial vehicle business is principally operated by Dongfeng Motor Co., Ltd. (the joint venture between the Company and Nissan Motor Co., Ltd (through Nissan (China) Investment Co., Ltd)). The Dongfeng Motor Group manufactures five main categories of vehicles, including heavy trucks, medium trucks, light trucks, buses and special purpose vehicles. As at 30 June 2006, the annual commercial vehicle production capacity of the Dongfeng Motor Group was 320,000 units.

The Dongfeng Motor Group's passenger vehicle business consists of the following companies: Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroen Automobiles Company Ltd (the joint venture between the Company and the PSA Peugeot Citroen group) and Dongfeng Honda Automobile Co., Ltd (the joint venture between the Company and Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd)). As at 30 June 2006, the members of the Dongfeng Motor Group produced 16 series of passenger vehicles, including 13 series of passenger cars, 1 series of MPV and 2 series of SUV. As at 30 June 2006, the annual passenger vehicle production capacity of the Dongfeng Motor Group was 625,000 units.

The Dongfeng Motor Group's engines and auto parts business principally consists of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroen Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd. As at 30 June 2006, the annual total engine production capacity of the Dongfeng Motor Group was approximately 920,000 units.

Integrated Information

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

2. Business Operations in the Period

The total sales volume of automobiles in the PRC industry in the first half of 2006 benefitted from the rapid growth of the PRC economy and automobile industry, which amounted to 3.535 million units, representing a growth of 26.7% over the corresponding period last year. The sales volume of passenger vehicles and commercial vehicles was 2.511 million and 1.024 million units, representing an increase of 36.5% and 7.7% over the corresponding period last year, respectively.

In the Period, the accumulated sales volume of the Dongfeng Motor Group was approximately 358,000 units, representing a growth of 17.3% over the corresponding period last year and a market share of 10.1%. The sales volume of passenger vehicles and commercial vehicles was approximately 233,000 and 125,000 units, representing an increase of 41.7% and a decrease of 11.2% over the corresponding period last year, and a market share at 9.3% and 12.2%, respectively.

Revenue of the Dongfeng Motor Group for the Period:

	Sales revenue <i>(RMB million)</i>	Contribution to the sales revenue <i>(%)</i>
Commercial vehicles	6,534	28.1
Whole vehicles	5,787	24.9
External sales of engines and auto parts	747	3.2
Passenger vehicles	16,339	70.1
Whole vehicles	13,255	56.9
External sales of engines and auto parts	3,084	13.2
Others	409	1.8
Total	<u>23,282</u>	<u>100.0</u>

Integrated Information

The Dongfeng Motor Group's sales volume of commercial and passenger vehicles and its market share during the Period:

	No. of units sold	Market share (%)
Commercial vehicles	124,986	12.2
Trucks	107,984	12.2
Buses	17,002	12.2
Passenger vehicles	233,057	9.3
Basic passenger cars	205,415	11.4
MPVs	10,560	11.1
SUVs	17,082	14.9
Total	358,043	10.1

In the first half of 2006, the Dongfeng Motor Group introduced certain new passenger vehicle models, including Dongfeng Peugeot 206, Dongfeng Citroen C-Triomphe and Dongfeng Honda Civic, to cater for the market demand. The rate of localisation of Dongfeng Peugeot 206, Dongfeng Citroen C-Triomphe and Dongfeng Honda Civic was substantial upon commercial production during the year and will further be enhanced to a higher level by the end of this year.

The results in introducing new commercial vehicles model of the Dongfeng Motor Group was remarkable. The Dongfeng "Kinland" heavy truck series with power output ranging from 230 to 420 horsepower, which were integrated with all advanced technologies and achieved great innovations, was marketed in the first half of 2006. The Dongfeng Motor Group will strive to develop the commercial vehicles market of even higher tonnage trucks.

3. Environmental Protection

The Dongfeng Motor Group has been relentless in protecting the environment. With "saving energies, minimising consumption, reducing pollution and improving efficiencies" as its missions, the Dongfeng Motor Group aims to be responsible for the enterprises, customers and the society and has fully complied with the environmental requirements stipulated by the laws and regulations of the PRC. The Dongfeng Motor Group was keen to minimise the amount and intensity of pollutants in respect of most aspects such as the product process design, purchase of raw materials, production schedule and project implementation.

Integrated Information

As at 30 June 2006, the coverage of the ISO14001 standards on environmental management systems of the Dongfeng Motor Group was 77.9% and the integrated target rate of pollutant discharge was 99.91%.

4. Sales and Services Network

Members of the Dongfeng Motor Group established their own independent sales and services networks under their brand. They provide after-sales services through these distribution and services networks. The sales outlets which comprise each network are generally owned and operated by independent third parties. As at 30 June 2006, there were a total of 3,638 sales outlets and 4,025 services outlets of the Dongfeng Motor Group.

The sales and services networks of the Dongfeng Motor Group at all levels:

	No. of sales outlets	No. of services outlets	No. of provinces covered
Commercial vehicles	1,819	2,517	31
Passenger vehicles	1,819	1,508	31
	<hr/>	<hr/>	
Total	3,638	4,025	
	<hr/>	<hr/>	

5. Business Outlook

Commercial vehicles: Members of the Dongfeng Motor Group will further develop the commercial vehicles market in order to strengthen and improve the position of the Dongfeng Motor Group for medium and heavy trucks among the industry. At the same time, the members will provide quality and price-competitive light trucks, and place emphasis on the increasing market demand of the rural areas and on the export business.

Passenger vehicles: Leveraging on the rapid development of the passenger vehicles market, the passenger vehicles manufacturing members of the Dongfeng Motor Group will actively conduct market research and further introduce new car models to cater for the market demand. Further to the progress made in the first half of 2006, three new models of passenger vehicles will be introduced in the second half of 2006.

Integrated Information

Meanwhile, the Dongfeng Motor Group will make further investment in the construction of production capacities. As at 30 June 2006, the annual production capacities of passenger vehicles amounted to 625,000 units, representing an increase of 200,000 units when compared with the year 2005. It is expected that the total production capacities of passenger vehicles will exceed 800,000 units by the end of 2008. The Dongfeng Motor Group will continue expanding its engine production capacities.

While introducing new models and production capacities construction on one hand, the Dongfeng Motor Group is dedicated to raise the rate of localisation and control the operation costs on the other hand. By the end of 2006, the rate of localisation of each passenger vehicle model, including new models, will further be enhanced and the supply capacities of auto parts, including engines, will be strengthened. These will be advantageous to the production cost control of whole vehicles.

The Dongfeng Motor Group concerns not only the production and sales of vehicles, but also actively promote the development of vehicles related business, such as auto finance and rental business.

II. INTERIM RESULTS AND DIVIDENDS

The results for the Period of the Dongfeng Motor Group and the financial conditions of the Dongfeng Motor Group as at 30 June 2006 are set out in the Unaudited Condensed Consolidated Interim Financial Statements on page 22 to 43 of this interim report.

The Board of Directors resolved not to distribute any dividends for the earnings of the Company in the first half of 2006.

III. MATERIAL LEGAL PROCEEDINGS

As at 30 June 2006, the Dongfeng Motor Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Dongfeng Motor Group as far as the Dongfeng Motor Group was aware.

Integrated Information

IV. SHARE CAPITAL

As at 30 June 2006, the total share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 shares were Domestic Shares representing approximately 66.86% of the total number of shares in issue, and 2,855,732,000 shares were H Shares representing approximately 33.14% of the total number of shares in issue.

V. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the interests and short positions of the persons (other than directors and supervisors of the Company) interested in 5% or more in the class of issued share capital are set out below, as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance:

Long positions and lending pool

Name	Class of Shares	Number of shares	Percentage in the class of issued share capital (%)	Percentage in the total share capital (%)
Dongfeng Motor Corporation	Domestic Shares	5,760,388,000 ²	100	66.86
JPMorgan Chase & Co.	H Shares	403,557,600 ²	14.13	4.68
		190,927,600 ³	6.69	2.22
The Capital Group Companies, Inc.	H Shares	322,422,000 ²	11.29	3.74
Standard Chartered Holding Limited ¹	H Shares	242,282,000 ²	9.76	2.81
Standard Chartered PLC ¹	H Shares	242,282,000 ²	8.48	2.81
UBS AG	H Shares	237,732,000 ²	8.32	2.76
Temasek Holdings (Private) Limited	H Shares	224,802,000 ²	7.87	2.61
Cheah Cheng Hye	H Shares	199,896,000 ²	6.99	2.32
HSBC Halbis Partners (Hong Kong) Limited	H Shares	176,160,000 ²	6.16	2.04

¹ As Standard Chartered PLC owns 100% interests in Standard Chartered Holdings Limited, which in turn owns 100% interests in Standard Chartered Bank, which in turn owns 100% interests in SCMB Overseas Limited, which in turn owns 100% interests in Standard Chartered Holdings (International) B.V., which in turn owns 100% interests in Standard Chartered MB Holdings B.V., which in turn owns 100% interests in Standard Chartered Asia Limited, which in turn owns 100% interests in Standard Chartered Private Equity Limited, Standard Chartered PLC and Standard Chartered Holding Limited are deemed to be the owners of the interests in the 242,282,000 H Shares in the Company held by Standard Chartered Private Equity Limited.

² Long positions.

³ Lending pool.

Integrated Information

Save as disclosed above, as at 30 June 2006, the Company had not been notified of any interests or short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

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

During the Period, the directors and supervisors of the Company were not interested in any share capital of the Company. They were not involved in any sales and purchase of the interests in the share capital of the Company.

VII. PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, or any of its subsidiaries and jointly-controlled entities purchased, sold or redeemed any of the Company's securities during the Period.

VIII. STOCK APPRECIATION RIGHTS

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

In the first round of SARs, 55,665,783 SAR units were granted, equivalent to approximately 0.65% of the Company's registered share capital, or approximately 1.95% of the Company's H Share capital. The grant price of these first round SARs was the average share price at close of trading over the 30 business days preceding the date of grant, ie. HK\$2.01. The date of grant was the thirty-first business day following the listing of the H Shares, ie. 23 January 2006. These SARs shall be valid for a period of six years from 23 January 2006 to 22 January 2012. The SARs which are not exercised during the above period shall not be exercised and shall be lapsed upon their expiry. There is a minimum period of two years from the date of such grant of SARs before the SARs can be exercised and the following additional restrictions apply:

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

Integrated Information

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

The above grant proposal of the stock appreciation rights was approved at the meeting of the Board of Directors held on 19 April 2006.

IX. CORPORATE GOVERNANCE

1. Overview of Corporate Governance

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

The Board of Directors has reviewed the relevant corporate governance documents adopted by the Company, and is of the view that the documents contain all the Code Provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of code A.1.1. Accordingly, the Articles of Association of the Company were amended in the general meeting held at 16 June 2006 to require that meetings of the Board of Directors shall be held at least four times a year in order to comply with the requirements set out in the provision of code A.1.1.

2. Code on Corporate Governance Practices

The Company has fully complied with the requirements of the Code Provisions of the Corporate Governance Code during the Period.

3. Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. After specific enquiry made by the Company, all directors have confirmed that they have fully complied with the Model Code during the Period.

4. Independent Non-executive Directors

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

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

5. Audit Committee

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

The audit committee has reviewed the unaudited condensed consolidated interim financial statements for the Period of the Dongfeng Motor Group.

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

For the six months ended 30 June 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2006 RMB million (Unaudited)	2005 RMB million (Audited)
Revenue — Sale of goods	2	23,282	21,192
Cost of sales		(19,198)	(18,426)
Gross profit		4,084	2,766
Other income	2, 3	239	405
Selling and distribution costs		(939)	(802)
Administrative expenses		(1,009)	(873)
Other expenses, net		(663)	(270)
Finance costs	5	(195)	(216)
Share of profits and losses of associates		23	12
Profit before tax	4	1,540	1,022
Income tax expense	6	(351)	(258)
Profit for the period		1,189	764
Attributable to:			
Equity holders of the Parent		1,114	660
Minority interests		75	104
		1,189	764
Dividend	7	—	1,390
Earnings per share:	8		
Basic for the period		12.93 cents	10.96 cents
Diluted for the period		N/A	N/A

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

30 June 2006

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	15,298	14,414
Lease prepayments		345	350
Intangible assets		798	725
Goodwill		428	434
Investments in associates		499	372
Available-for-sale financial assets		161	163
Loan to a jointly-controlled entity		150	200
Other long term assets		545	397
Deferred income tax assets		62	73
		18,286	17,128
Current assets			
Inventories		7,204	6,251
Trade receivables	10	1,962	1,436
Bills receivables		4,436	3,542
Prepayments, deposits and other receivables		1,551	1,576
Due from jointly-controlled entities		88	126
Other financial assets		63	109
Cash and cash equivalents	11	7,154	7,389
Restricted cash	11	462	423
		22,920	20,852
TOTAL ASSETS		41,206	37,980

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

30 June 2006

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Notes	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Parent			
Paid-up registered capital		8,616	8,616
Reserves		2,872	2,858
Retained profits		1,833	733
		13,321	12,207
Minority interests		2,184	2,127
Total equity		15,505	14,334
Non-current liabilities			
Interest-bearing borrowings		2,402	2,226
Other long term liabilities		138	222
Provisions		202	205
Government grants		64	67
Deferred income tax liabilities		717	564
		3,523	3,284
Current liabilities			
Trade payables	12	7,883	5,757
Bills payable		2,654	2,873
Other payables and accrued liabilities		5,742	5,643
Due to jointly-controlled entities		334	366
Interest-bearing borrowings		5,104	5,309
Government grants		18	18
Income tax payables		68	69
Provisions		375	327
		22,178	20,362
TOTAL LIABILITIES		25,701	23,646
TOTAL EQUITY AND LIABILITIES		41,206	37,980
NET CURRENT ASSETS		742	490
TOTAL ASSETS LESS CURRENT LIABILITIES		19,028	17,618

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

For the six months ended 30 June 2006

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Parent							Total equity
	Paid-up	Capital reserves	Statutory reserves	Proposed dividend	Retained profits	Minority Total interests	Total interests	
	registered capital							
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
(Unaudited)								
As at 1 January 2006	8,616	1,363	1,495	—	733	12,207	2,127	14,334
Profit for the period	—	—	—	—	1,114	1,114	75	1,189
Transfer to reserves	—	—	14	—	(14)	—	—	—
Additional investment in a subsidiary of jointly- controlled entity	—	—	—	—	—	—	10	10
Equity dividend	—	—	—	—	—	—	(28)	(28)
As at 30 June 2006	8,616	1,363	1,509	—	1,833	13,321	2,184	15,505
(Audited)								
As at 1 January 2005	6,020	—	936	—	1,081	8,037	2,078	10,115
Profit for the period	—	—	—	—	660	660	104	764
Transfer to reserves	—	—	139	—	(139)	—	—	—
Additional investment in a subsidiary of jointly- controlled entity	—	—	—	—	—	—	11	11
Equity dividend	—	—	—	—	—	—	(98)	(98)
Proposed dividend	—	—	—	1,390	(1,390)	—	—	—
As at 30 June 2005	6,020	—	1,075	1,390	212	8,697	2,095	10,792

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

For the six months ended 30 June 2006

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
	(Unaudited)	(Audited)
Net cash flows generated from operating activities	1,604	3,016
Net cash flows used in investing activities	(1,807)	(2,708)
Net cash flows generated from/(used in) financing activities	(47)	25
Net increase/(decrease) in cash and cash equivalents	(250)	333
Cash and cash equivalents at 1 January	5,586	4,478
Cash and cash equivalents at 30 June	5,336	4,811

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

30 June 2006

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendment for annual periods beginning on or after 1 January 2006:

(a) IAS 39 — Financial Instruments: Recognition and Measurement (“IAS 39”) — Amendment for financial guarantee contracts

This amendment has amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39 as amended financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

The adoption of this amendment has no material impact on the accounting policies of the Dongfeng Motor Group and the methods of computation in the Dongfeng Motor Group’s unaudited condensed consolidated interim financial statements.

(b) Change in segment identification

During the Period, the Dongfeng Motor Group changed its identification of reportable business segments. The Dongfeng Motor Group consolidated its previously four segments, namely, “Commercial vehicles”, “Passenger vehicles”, “Engines and other automotive parts” and “Corporate and others” into three new business segments namely, “Commercial vehicles”, “Passenger vehicles” and “Corporate and others”. In the opinion of the directors, the new basis of segment identification provides a more appropriate presentation of the segment information. Prior period segment information is restated for comparative purposes.

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

30 June 2006

2. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

Segment information

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

The Dongfeng Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Dongfeng Motor Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. As detailed in note 1 to the unaudited condensed consolidated interim financial statements, the Dongfeng Motor Group adopted a new segment reporting basis and consolidated its businesses into three new business segments during the Period. Summary details of these business segments are as follows:

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

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

30 June 2006

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

The following tables present revenue and profit information for the Dongfeng Motor Group's business segments for the six months ended 30 June 2006 and 2005.

For the six months ended 30 June 2006 (unaudited)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Revenue				
Sales to external customers	6,534	16,339	409	23,282
Other income	60	124	55	239
Total	6,594	16,463	464	23,521
Results				
Segment results	99	1,962	(349)	1,712
Finance costs				(195)
Share of profits and losses of associates	6	13	4	23
Profit before tax				1,540
Income tax expense				(351)
Profit for the period				1,189

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

30 June 2006

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

For the six months ended 30 June 2005 (audited)

	Commercial vehicles RMB million (Restated)	Passenger vehicles RMB million (Restated)	Corporate and others RMB million (Restated)	Total RMB million (Restated)
Revenue				
Sales to external customers	7,354	12,850	988	21,192
Other income	107	139	159	405
Total	7,461	12,989	1,147	21,597
Results				
Segment results	381	954	(109)	1,226
Finance costs				(216)
Share of profits and losses of associates	5	6	1	12
Profit before tax				1,022
Income tax expenses				(258)
Profit for the period				764

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

30 June 2006

3. OTHER INCOME

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
	(Unaudited)	(Audited)
Government grants and subsidies	17	157
Net income from disposal of other materials	78	125
Bank interest income	75	72
Rendering of services	4	3
Others	65	48
	239	405

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
	(Unaudited)	(Audited)
Cost of inventories recognised as expense	19,198	18,426
Provision against inventories	5	11
Amortisation of intangible assets	72	42
Depreciation	701	674
Loss on disposal of items of property, plant and equipment, net	36	1
Impairment of property, plant and equipment, net	1	13
Write back of impairment of other financial assets	(6)	—
Provision/(write-back of provision) for bad and doubtful debts	25	(15)

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

30 June 2006

5. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
	(Unaudited)	(Audited)
Interest on bank loans, and other borrowings wholly repayable:		
Within 5 years	125	164
Beyond 5 years	70	64
Interest on discounted bills	25	10
	220	238
Less: Amount capitalised in construction in progress	(25)	(22)
Total interest expense	195	216

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
	(Unaudited)	(Audited)
Current income tax	188	107
Deferred income tax	163	151
Income tax charge	351	258

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

30 June 2006

6. INCOME TAX EXPENSES (Continued)

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

No provision for Hong Kong profits tax has been made as the Dongfeng Motor Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2005 and 2006.

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

7. DIVIDEND

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB1,390 million).

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

The calculation of basic earnings per share is based on:

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
	(Unaudited)	(Audited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the Parent	1,114	660
	million	million
Shares:		
Weighted average number of shares in issue during the period	8,616	6,020

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

30 June 2006

9. PROPERTY, PLANT AND EQUIPMENT

In the Period, the Dongfeng Motor Group acquired property, plant and equipment in an aggregate amount of approximately RMB1,879 million and disposed of property, plant and equipment with an aggregate net book value of approximately RMB293 million, resulting in a net loss on disposal of approximately RMB36 million. Property, plant and equipment impairment of approximately RMB1 million was made during the Period.

10. TRADE RECEIVABLES

Sales of the Dongfeng Motor 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 Dongfeng Motor Group may offer these customers credit terms that are generally between 30 and 180 days. For sales of engines and other automotive parts, the Dongfeng Motor Group generally offers their customers credit terms that are generally between 30 and 180 days. Trade receivables are non-interest bearing.

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

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Within three months	1,493	1,171
More than three months but within one year	434	208
More than one year	35	57
	1,962	1,436

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

30 June 2006

11. CASH AND CASH EQUIVALENTS

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Cash and bank balances	5,271	5,694
Time deposits	2,345	2,118
	7,616	7,812
Less: Pledged bank balances and time deposits for securing general banking facilities	(462)	(423)
Cash and cash equivalents in the consolidated balance sheet	7,154	7,389
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(1,818)	(1,803)
Cash and cash equivalents in the consolidated cash flow statements	5,336	5,586

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

30 June 2006

12. TRADE PAYABLES

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

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Within three months	7,063	5,098
More than three months but within one year	583	514
More than one year	237	145
	7,883	5,757

13. COMMITMENTS

(a) Operating lease commitments as lessee

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

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Within one year or on demand	2	—
After one year but not more than five years	67	50
More than five years	816	835
	885	885

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

30 June 2006

13. COMMITMENTS (Continued)

(a) Operating lease commitments as lessee (Continued)

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

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Within one year or on demand	98	83
After one year but not more than five years	351	328
More than five years	543	485
	992	896

(b) Commitments

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

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Contracted, but not provided for: Property, plant and equipment	—	86
Authorised, but not contracted for: Property, plant and equipment	—	3

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

30 June 2006

13. COMMITMENTS (Continued)

(b) Commitments (Continued)

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

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Contracted, but not provided for:		
Property, plant and equipment	1,330	1,675
Authorised, but not contracted for:		
Property, plant and equipment	4,192	1,210

14. CONTINGENT LIABILITIES

At 30 June 2006, the Group has undertaken to provide guarantees to the extent of RMB758 million (31 December 2005: RMB844 million) to banks in connection with facilities granted to its jointly-controlled entities at nil consideration. In addition, the jointly controlled entities within the Dongfeng Motor Group have undertaken to provide guarantees to the extent of RMB52 million (31 December 2005: RMB10 million) and RMB113 million (31 December 2005: RMB111 million) attributable to the Dongfeng Motor Group to banks in connection with facilities granted to its associates and other investee companies, respectively, at nil consideration.

No financial liabilities were recorded as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 30 June 2006 and 31 December 2005.

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

30 June 2006

15. RELATED PARTY TRANSACTIONS

(a) Transactions with the Dongfeng Motor Corporation (“DFM”) group, the Dongfeng Motor Group’s jointly-controlled entities, associates, joint venture partners and their holding companies, and a minority shareholder of a jointly-controlled entity’s subsidiary

Dongfeng Motor Group had the following significant transactions with their related parties:

	Notes	Six months ended 30 June	
		2006 RMB million (Unaudited)	2005 RMB million (Audited)
Purchases of automotive parts/raw materials from:			
DFM	(i)	19	20
Joint venture partners and their holding companies		8,117	6,297
Associates		233	142
Jointly-controlled entities		1,042	1,617
A minority shareholder of a jointly-controlled entity’s subsidiary		134	28
		9,545	8,104
Purchases of automobiles from jointly-controlled entities	(i)	385	427
Purchases of water, steam and electricity from DFM	(ii)	337	304

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

30 June 2006

15. RELATED PARTY TRANSACTIONS (Continued)

	Notes	Six months ended 30 June	
		2006 RMB million (Unaudited)	2005 RMB million (Audited)
Purchases of property, plant and equipment from:			
A holding company of a joint venture partner	(i)	—	14
A minority shareholder of a jointly-controlled entity's subsidiary		—	2
		—	16
Rental expenses to DFM	(i)	66	61
Purchases of services from:	(i)		
DFM		5	—
A joint venture partner		—	5
An associate		5	—
A jointly-controlled entity		6	1
A minority shareholder of a subsidiary		1	—
		17	6
Purchases of technology know-how from joint venture partners and their holding companies	(i)	789	1,348

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

30 June 2006

15. RELATED PARTY TRANSACTIONS (Continued)

	Notes	Six months ended 30 June	
		2006 RMB million (Unaudited)	2005 RMB million (Audited)
<hr/>			
Sales of automotive parts/raw materials to:	(i)		
DFM		24	9
A joint venture partner		37	17
An associate		8	—
Jointly-controlled entities		376	367
A minority shareholder of a jointly-controlled entity's subsidiary		—	3
		445	396
<hr/>			
Sales of automobiles to:	(i)		
Joint venture partners and their holding companies		2	—
An associate		92	—
Jointly-controlled entities		134	68
		228	68
<hr/>			
Provision of services to:	(i)		
An associate		3	7
Jointly-controlled entities		4	13
		7	20
<hr/>			

Notes:

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

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

30 June 2006

15. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

	30 June 2006 RMB million (Unaudited)	31 December 2005 RMB million (Audited)
Receivables from related parties included in trade receivables:		
A joint venture partner	13	13
Associates	14	18
Receivables from related parties included in prepayments, deposits and other receivables:		
DFM	2	3
Joint venture partners and their holding companies	7	11
Fellow subsidiaries	6	5
A minority shareholder of a jointly-controlled entity's subsidiary	—	38
Associates	47	27
Payables to related parties included in trade payables:		
DFM	9	6
Fellow subsidiaries	1	—
Joint venture partners and their holding companies	516	523
Associates	14	65
Payables to related parties included in other payables and accrued liabilities:		
DFM	4	13
Joint venture partners	203	177
A minority shareholder of a jointly-controlled entity's subsidiary	2	2
Associates	4	3

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

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

30 June 2006

15. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Dongfeng Motor Group

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Short term employment benefits	3,277	1,652
Stock appreciation rights	2,922	—
Retirement benefits	81	76
Total compensation paid/payable to key management personnel	6,280	1,728

16. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 28 August 2006.

Definitions

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

“China”	the People’s Republic of China, excluding, for the purpose of this interim report, the Hong Kong Special Administrative Region of China, the Macau Special Administrative Region of China and Taiwan.
“Company”	東風汽車集團股份有限公司 (Dongfeng Motor Group Company Limited), a joint stock limited company registered in the PRC on 12 October 2004 in accordance with the laws of the PRC.
“Dongfeng Motor Group”	the Group, the Dongfeng Joint Venture Companies and their respective subsidiaries and associates. All information given in this interim report with respect to the Dongfeng Motor Group includes information of the Group and all such companies collectively.
“Group”	the Company and its subsidiaries.
“Dongfeng Joint Venture Companies”	joint-controlled entities in which the Company, its subsidiaries or its joint-controlled entities (including their respective subsidiaries and joint-controlled entities) have equity interests as at 30 June 2006.
“Parent”	東風汽車公司 (Dongfeng Motor Corporation), a State-owned enterprise incorporated under the laws of China which directly holds a 66.86% equity interest in the Company.
“Period”	the period from 1 January 2006 to 30 June 2006.

In this interim report, unless otherwise specified, all references to revenues, profits and other financial information of the Dongfeng Motor Group include those of the relevant Dongfeng Joint Venture Companies to the extent that such information has been proportionately consolidated or otherwise reflected in the financial information set out in this report. Statistics of relevant sales volume, production capacities and sales and service points are not calculated on the proportionately consolidation basis.