OVERVIEW OF THE BUSINESS OF THE GROUP

The Group, together with the Dongfeng Joint Venture Companies and their respective subsidiaries and associates, was one of the three largest automotive manufacturers in the PRC in terms of sales revenue in 2004. It comprises the majority of businesses, and is the key business unit, of the Dongfeng Motor Corporation Group, which was one of the three largest automotive manufacturers in the PRC in terms of sales volume for the six months ended 30th June, 2005, accounting for approximately 12.9% of total units of domestically manufactured vehicles sold in the PRC, according to the China Association of Automobile Manufacturers. For the six months ended 30th June, 2005, the Dongfeng Motor Group accounted for approximately 84.7% of total vehicles, approximately 92.9% of total commercial vehicles and approximately 78.8% of total passenger vehicles sold by the Dongfeng Motor Corporation Group, respectively.

The total revenue of the Group from continuing operations for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 was RMB40,412 million, RMB36,556 million, RMB32,737 million and RMB21,192 million, respectively. For the same periods, the Net Profit of the Group was RMB3,069 million, RMB3,339 million, RMB2,598 million and RMB660 million, respectively. The Group recognises in its consolidated accounts a share of each of the Dongfeng Joint Venture Companies' assets, liabilities, income and expenses reflecting its proportional equity interest in such company.

The commercial vehicle business of the Dongfeng Motor Group was established in 1969, and has commanded a leading position in the PRC commercial vehicle industry for many years. The Dongfeng Motor Group is currently one of the two leading manufacturers of heavy and medium trucks in the PRC, commanding a market share (in terms of domestic sales volume of heavy and medium trucks combined) in China of approximately 31.1% for the six months ended 30th June, 2005, according to the China Association of Automobile Manufacturers. In 2004, sales to external customers of trucks and other commercial vehicles accounted for approximately 44.5% of the Group's revenue from sales to external customers.

Currently, the Dongfeng Motor Group passenger vehicle business principally consists of the following companies: Dongfeng Motor Co., Ltd (the joint venture between the Company and Nissan Motor Co., Ltd (through Nissan (China) Investment Co., Ltd, a wholly-owned subsidiary of Nissan Motor Co., Ltd)), Dongfeng Peugeot Citroën Automobiles Company Ltd (the joint venture between the Company and the PSA Peugeot Citroën group consisting of Peugeot Citroën Automobiles, Automobiles Citroën and Automobiles Peugeot) and Dongfeng Honda Automobile Co., Ltd (the joint venture between the Company and Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd, a wholly-owned subsidiary of Honda Motor Co., Ltd)). For the six months ended 30th June, 2005, the Dongfeng Motor Group was one of the largest passenger vehicle manufacturers in the PRC, accounting for approximately 11.9% of domestic sales volume of passenger vehicles (not including cross-over vehicles), and for approximately 8.9% of domestic sales volume of passenger vehicles (including cross-over vehicles), according to the China Association of Automotive Manufacturers. In 2004, sales to external customers of passenger vehicles accounted for approximately 28.1% of the Group's revenue from sales to external customers.

Apart from manufacturing commercial and passenger vehicles, the members of the Dongfeng Motor Group also manufacture commercial and passenger vehicle engines and a comprehensive range of auto parts for various vehicles, both in order to support the Dongfeng Motor Group's internal vehicle manufacturing businesses and also for external sales. In 2004, sales to external customers of engines and other auto parts accounted for approximately 23.5% of the Group's revenue from sales to external customers.

In addition, the Dongfeng Motor Group is also engaged in the manufacture of vehicle manufacturing equipment, both in order to support the Dongfeng Motor Group's vehicle manufacturing businesses and also for external sales. The Group has also developed automotive-related businesses, such as vehicle and vehicle manufacturing equipment import/export businesses, auto finance businesses, insurance agency businesses and used car businesses. In 2004, the total sales to external customers attributable to vehicle manufacturing equipment and these other businesses accounted for approximately 3.9% of the Group's revenue from sales to external customers.

Contribution of the Dongfeng Motor Group's major business segments to the Group's revenue from sales to external customers in 2004

Business Segments	% contribution
Commercial vehicles	44.5%
Passenger vehicles	28.1%
Engines and auto parts	23.5%
Corporate and others	3.9%
	100%

The following table sets forth the gross profit margin (being gross profit as a percentage of revenue) of the Group from continuing operations (including intra-group transactions) for each business segment of the Dongfeng Motor Group for the three years ended 31st December, 2004 and each of the six months ended 30th June, 2004 and 2005:

Business Segments	2002	2003	2004	Six months ended 30th June, 2004	Six months ended 30th June, 2005
	(%)	(%)	(%)	(%)	(%)
Commercial vehicles	12.1	10.3	8.3	9.6	7.7
Passenger vehicles	29.7	27.9	18.8	22.1	11.6
Engines and other auto parts	31.5	21.9	21.8	22.0	19.7
Corporate and others	13.3	13.2	11.9	7.4	7.6

The Dongfeng Motor Group's commercial and passenger vehicle manufacturing business is currently centred around Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd.

Details of these Joint Venture Companies are as follows:

Major Dongfeng Joint Venture Companies engaged in the manufacture of commercial and passenger vehicles[1]

Dongfeng Joint Venture Company	Foreign Joint Venture Partner(s)	% Equity Interests	Major Products	Term
Dongfeng Motor Co., Ltd	Nissan Motor Co., Ltd (through Nissan (China) Investment Co., Ltd)	Company — 50%, Nissan (China) Investment Co., Ltd — 50%	Dongfeng series of commercial vehicles, Nissan series of passenger vehicles, the Dongfeng Future MPV, the Zhengzhou Nissan SUV[3] and light trucks	50 years from May 2003
Dongfeng Peugeot Citroën Automobiles Company Ltd	The PSA Peugeot Citroën group consisting of Peugeot Citroën Automobiles, Automobiles Citroën and Automobiles Peugeot	Company — 50%, Peugeot Citroën Automobiles — 43.6108% Automobiles Citroën — 3.1946% Automobiles Peugeot — 3.1946%	Citroën series of passenger vehicles, Peugeot series of passenger vehicles	35 years from May 1992
Dongfeng Honda Automobile Co., Ltd	Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd)	Company — 50%, Honda Motor Co., Ltd — 40% Honda Motor (China) Investment Co., Ltd — 10%	Honda series of passenger vehicles	50 years from January 1993[2]

Notes:

(1) In addition, the Company is also engaged in a joint venture, namely Dongfeng Nissan Diesel Motor Co., Ltd, for the manufacture of commercial vehicles with Nissan Diesel Motor Co., Ltd. The Company owns 50% of the equity interests in the relevant Joint Venture Company — Dongfeng Nissan Diesel Motor Co., Ltd. Further details of this joint venture are set out in the section headed "History, Reorganisation and Group Structure".

(2) Dongfeng Honda Automobile Co., Ltd was formed in July 2003 by reorganising Wuhan Wantong Motor Co., Ltd (武漢萬通汽車有限公司), an existing sino-foreign joint venture company in which the Company had equity interests, into Dongfeng Honda Automobile Co., Ltd, a sino-foreign joint venture company whose equity interests are owned as to 50% by each of the Company and Honda Motor Co., Ltd. Consequently, the term of this joint venture commences from the date of incorporation of Wuhan Wantong Motor Co., Ltd, i.e. 20th January, 1993, rather than July 2003. In June 2005, Honda Motor Co., Ltd transferred 10% of its equity interest in Dongfeng Honda Automobile Co., Ltd to Honda Motor (China) Investment Co., Ltd. Accordingly, the equity interests of Dongfeng Honda Automobile Co., Ltd are currently owned as to 50% by the Company, 40% by Honda Motor Co., Ltd and 10% by Honda Motor (China) Investment Co., Ltd.

(3) The acquisition of Zhengzhou Nissan by Dongfeng Automobile Co., Ltd was approved by Ministry of Commerce on 24th December, 2004 and was completed in March 2005.

Each of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd is accounted for as a Jointly-controlled Entity and is consolidated into the accounts of the Group on a proportionate consolidation basis as allowed under IFRSs.

In the two years ended 31st December 2004 and for the six months ended 30th June, 2005:

(i) Dongfeng Motor Co., Ltd's revenue (including intra-group amounts) attributable to the Group was approximately 23.6%, 65.0% and 66.8%, respectively of the Group's total revenue from continuing operations;

(ii) Dongfeng Motor Co., Ltd's profit (including intra-group amounts) attributable to the Group was approximately -4.9% (primarily reflecting the reorganisation expenses incurred in respect of the formation of Dongfeng Motor Co., Ltd in the amount of RMB436 million attributable to the Group), 30.2% and 93.8%, respectively of the Net Profit of the Group;

(iii) Dongfeng Motor Co., Ltd's net assets (including intra-group balances) attributable to the Group were approximately 22.9%, 87.8% and 89.0%, respectively of the Group's equity attributable to the equity holders of the parent; and

(iv) the aggregate of depreciation of property, plant and equipment and amortization of intangible assets of Dongfeng Motor Co., Ltd as a percentage of its revenue was 4.1%, 2.7% and 2.6%, respectively.

For the six months ended 30th June, 2005, the commercial vehicles of Dongfeng Motor Co., Ltd and its subsidiaries constituted approximately 98.2% and 98.5% of the commercial vehicles produced and sold by the Dongfeng Motor Group, respectively, and the passenger vehicles produced by Dongfeng Motor Co., Ltd and its subsidiaries constituted approximately 51.1% and 48.9% of the passenger vehicles produced and sold by the Dongfeng Motor Group, respectively. Also, Dongfeng Motor Co., Ltd contributes significantly to the Dongfeng Motor Group's engines and other auto parts business. As a result, Dongfeng Motor Co., Ltd exercises significant influence over the Dongfeng Motor Group's three largest product segments.

In the three years ended 31st December, 2004 and for the six months ended 30th June, 2005:

(i) Dongfeng Peugeot Citroën Automobiles Company Ltd's revenue (including intra-group amounts) attributable to the Group was approximately 6.6%, 8.9%, 8.1% and 14.6%, respectively of the Group's total revenue from continuing operations;

(ii) Dongfeng Peugeot Citroën Automobiles Company Ltd's profit (including intra-group amounts) attributable to the Group was approximately 5.5%, 6.6%, -8.3% and -51.8%, respectively of the Net Profit of Group;

(iii) Dongfeng Peugeot Citroën Automobiles Company Ltd's net assets (including intra-group balances) attributable to the Group were approximately 13.3%, 17.0%, 33.3% and 26.9%, respectively of the Group's equity attributable to the equity holders of the parent; and

(iv) the aggregate of depreciation of property, plant and equipment and amortization of intangible assets of Dongfeng Peugeot Citroën Automobiles Company Ltd as a percentage of its revenue was approximately 10.4%, 8.8%, 13.6% and 9.1%, respectively.

Dongfeng Honda Automobile Co., Ltd commenced its business of manufacturing Honda passenger vehicles in July 2003 and launched the passenger vehicle Dongfeng Honda CR-V in May

2004. Consequently, it only began to contribute to the Group's financial results in the Relevant Periods after this date.

Further details of these and other Dongfeng Joint Venture Companies are set out in the section of this prospectus headed "History, Reorganisation and Group Structure". Further details of the products manufactured by these Dongfeng Joint Venture Companies and other members of the Dongfeng Motor Group are set out in the section headed "Business — Details of Products Manufactured by the Dongfeng Motor Group".

For the six months ended 30th June, 2005, the Dongfeng Motor Group produced a total of 298,285 commercial and passenger vehicles and sold a total of 305,248 commercial and passenger vehicles. Its market share in terms of domestic total sales volumes of commercial and passenger vehicles for the six months ended 30th June, 2005 was approximately 10.9%. The following table sets out the sales and production volumes of the Dongfeng Motor Group for commercial and passenger vehicles, as well as its market share in terms of sales volumes for the six months ended 30th June, 2005:

	No. of units produced (units)	No. of units sold (units)	Market share in terms of sales volume (%)[1&2]
Commercial Vehicles			
— *Trucks*			
— *Heavy trucks*	50,696	47,732	32.5
— *Medium trucks*	32,860	33,076	29.3
— *Light trucks*	46,991	45,912	10.2
— *Buses*			
— *Large buses*	728	873	7.1
— *Medium buses*	5,374	5,462	19.8
— *Light buses*	7,726	7,703	9.3
Passenger Vehicles			
— *Passenger cars*	128,265	138,946	11.3
— *MPVs*	10,400	10,009	13.5
— *SUVs*	15,245	15,535	18.8

Notes:

(1) The market share in terms of sales volume was calculated based on the total number of units produced and sold sourced from the China Association of Automobile Manufacturers.

(2) Rounded to the nearest decimal place.

The Dongfeng Motor Group conducts its engines, auto parts and vehicle manufacturing equipment businesses mainly through various Dongfeng Joint Venture Companies, including Dongfeng Motor Co., Ltd, Dongfeng Honda Engine Co., Ltd, and Dongfeng Honda Auto Parts Co., Ltd. Each of these three Joint Venture Companies is accounted for and consolidated into the audited consolidated accounts of the Group as Jointly-controlled Entities.

In the three years ended 31st December, 2004 and for the six months ended 30th June, 2005:

(i) Dongfeng Honda Engine Co., Ltd's revenue (including intra-group amounts) attributable to the Group was approximately 5.1%, 9.0%, 15.3% and 11.6%, respectively of the Group's total revenue from continuing operations;

(ii) Dongfeng Honda Engine Co., Ltd's profit (including intra-group amounts) attributable to the Group was approximately 18.2%, 22.8% 42.1% and 57.0%, respectively of the Net Profit of the Group;

(iii) Dongfeng Honda Engine Co., Ltd's net assets (including intra-group balances) attributable to the Group were approximately 10.2%, 13.8% 25.5% and 24.7%, respectively of the Group's equity attributable to the equity holders of the parent; and

(iv) the aggregate of depreciation of property, plant and equipment and amortization of intangible assets of Dongfeng Honda Engine Co., Ltd as a percentage of its revenue was approximately 1.2%, 1.4%, 1.4% and 1.4%, respectively.

Dongfeng Honda Auto Parts Co., Ltd's contribution to the Group's financial results during the Relevant Periods was not material.

Major Dongfeng Joint Venture Companies engaged in the manufacture of engines and auto parts[1]

Joint Venture Company	Foreign Joint Venture Partner(s)	% Equity Interests	Major Products	Term
Dongfeng Motor Co., Ltd	Nissan Motor Co., Ltd (through Nissan (China) Investment Co., Ltd)	Company — 50% Nissan (China) Investment Co., Ltd — 50%	Dongfeng series diesel and petrol commercial vehicle engines, Dongfeng Cummins B and C series commercial vehicle engines, other Dongfeng series engines and auto parts	50 years from May 2003
Dongfeng Honda Engine Co., Ltd	Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd)	Company — 50% Honda Motor Co., Ltd — 40% Honda Motor (China) Investment Co., Ltd — 10%	Honda passenger vehicle engines	30 years from May 1998

Note:

(1) In addition, the Company is also engaged in a joint venture with Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd) for the manufacture of auto parts.

Further details of these Dongfeng Joint Venture Companies are set out in the section of the prospectus headed "History, Reorganisation and Group Structure — Details of Major Dongfeng Joint Venture Companies". In addition, Dongfeng Motor Co., Ltd is also engaged in several joint ventures to manufacture engines and auto parts with leading international engine and auto parts manufacturers, including Cummins, Inc. Please refer to the section of this prospectus headed "Business — Details of Products manufactured by the Dongfeng Motor Group" for details of the revenue of the Group which is attributable to these and the other ancillary businesses of the Dongfeng Motor Group.

The principal automotive manufacturing facilities which are owned and operated by the members of the Dongfeng Motor Group as at 30th June, 2005 are located in Wuhan, Shiyan and Xiangfan of Hubei Province and Zhengzhou of Henan Province in Central China, Huadu of Guangdong Province and Liuzhou of the Guangxi Zhuang Autonomous Region in Southern China, Hangzhou of Zhejiang Province in Eastern China and Urumqi of the Xinjiang Uygur Autonomous Region in the Northwest of China. As at 30th June, 2005, the total annual production capacity of the Dongfeng Motor Group was approximately 745,500 motor vehicles, comprising approximately

320,500 commercial vehicles and approximately 425,000 passenger vehicles. Please refer to the section of this prospectus headed “Business — Production — Production Facilities” for details of the production capacity expansion plans of the Dongfeng Motor Group.

Commercial vehicles manufactured by the Dongfeng Motor Group are currently sold mainly through three major sales and services networks devoted exclusively to the provision of sales and services for the commercial vehicles manufactured by the Dongfeng Motor Group. Together, these three major sales and services networks comprise 671 sales outlets and 1,549 after-sales service outlets which form one of the most extensive commercial vehicle sales and services networks in the PRC. The Nissan, Citroën, Peugeot, Honda and Dongfeng Future series of passenger vehicles manufactured by the Dongfeng Motor Group are currently sold in the PRC through five independently managed sales networks with extensive nationwide coverage. Each of these five sales networks is devoted to the provision of sales and services for one brand of passenger vehicle only.

COMPETITIVE STRENGTHS

The Directors believe that the Group is well positioned to benefit from both the rapid growth of the PRC automotive industry as well as any industry consolidation which may take place in the near future. The Directors believe that the principal competitive strengths of the Group, together with the Dongfeng Joint Venture Companies which together with the Group form the Dongfeng Motor Group, are as follows:

One of the largest automotive manufacturers in the PRC with strong market share in both the commercial and passenger vehicle sectors

For the six months ended 30th June, 2005, the Dongfeng Motor Group accounted for approximately 10.9% of total units sold of domestically manufactured vehicles. The Dongfeng Motor Group is one of the leading manufacturers of heavy as well as medium trucks in China, commanding a market share (in terms of domestic sales volumes of heavy and medium trucks) in China of approximately 32.5% and 29.3%, respectively for the six months ended 30th June, 2005. The Dongfeng Motor Group was also one of the largest manufacturers of passenger vehicles in China, accounting for approximately 11.9% of domestically manufactured passenger vehicles sold in China for the six months ended 30th June, 2005 (not including cross-over vehicles). The Directors believe that Dongfeng Motor Group’s size and status as one of the three largest automotive manufacturers in the PRC in terms of sales revenue in 2004 brings it certain advantages:

First, it is able to draw on considerable resources and economies of scale in order to maintain and advance its position and market share in the rapidly developing and increasingly competitive PRC automotive market.

Second, its status as one of the three largest automotive manufacturers in the PRC in terms of sales revenue in 2004 positions it well to benefit from current government policies that promote the PRC automotive industry consolidation through the formation of a few large automotive manufacturing conglomerates capable of competing internationally.

Third, its status as one of three largest automotive manufacturers in the PRC in terms of sales revenue in 2004 has played a large part in the ability of the Group to secure multiple leading foreign automotive manufacturers, whose input in terms of product and technology has enabled the Dongfeng Motor Group to independently develop such product and technology to maintain a balanced and diversified product portfolio that boasts one of the most extensive ranges of commercial and passenger vehicles in the PRC.

Balanced and extensive portfolio of products positions it well to participate in growth in different sectors of the PRC automotive market

The product portfolio of the Dongfeng Motor Group boasts one of the most extensive ranges of commercial and passenger vehicles amongst PRC vehicle manufacturers, in terms of the number of brands of vehicles manufactured by it. Not only is the product portfolio of the Dongfeng Motor Group extensive, it is also balanced, with successful products in both the more stable commercial vehicles sector as well as the rapidly growing passenger vehicles sector. The Directors believe that the broad product base of the Dongfeng Motor Group positions it well to participate in the growth in different sectors of the PRC automotive market, and also makes it more resilient to any adverse developments which may occur in any one sector of the PRC automotive market, leading to greater earnings stability for the Group and its shareholders.

Apart from having a diverse vehicle manufacturing business, the Dongfeng Motor Group has the opportunity to participate in potential growth in automotive related sectors through its engines, auto parts and vehicle manufacturing equipment businesses as well as its automotive-related services businesses.

The Group has aligned itself with leading international automotive companies through joint ventures with them

The Group is currently engaged in joint ventures with, amongst others, Nissan (China) Investment Co., Ltd (a wholly-owned subsidiary of Nissan Motor Co., Ltd), the PSA Peugeot Citroën group, consisting of Peugeot Citroën Automobiles, Automobiles Citroën and Automobiles Peugeot and Honda Motor Co., Ltd, and Honda Motor (China) Investment Co., Ltd (a wholly-owned subsidiary of Honda Motor Co., Ltd), respectively. In addition, the Group is currently the only joint venture partner of Nissan Motor Co., Ltd and the sole vehicle manufacturing joint venture partner of the PSA Peugeot Citroën group, consisting of Peugeot Citroën Automobiles, Automobiles Citroën and Automobiles Peugeot, in the PRC.

Each of the Group's major joint venture partners is a leading international automotive manufacturer with unique strengths and capabilities. These strengths and capabilities include the ability to develop products, multi-brand management know-how, cost control capabilities, efficient and flexible production methods, technological expertise and restructuring capabilities. Consequently, through its sino-foreign joint ventures, the Group is currently able to benefit from some of the best products, technology, know-how and management expertise and resources in the international automotive industry. In particular, the Nissan and Honda brand passenger vehicle products have been well recognized in domestic market because they meet the taste of Chinese consumers in many respects such as exterior, interior and reliability. And the Citroën and Peugeot passenger vehicle products also enjoy the advantage of economy of fuel efficiency. At the same time, the Directors believe that the Group is able to gain an overview of the different business practices adopted by each of its joint venture partners, thereby providing the Dongfeng Motor Group with a broad and stable foundation on which to base its future growth and development.

Benefits from the strong "Dongfeng" brand name

The "Dongfeng" brand name is one of the renowned vehicle brands in China which commands widespread recognition and trust. It is associated with the image of one of the leading vehicle manufacturers in China. In April 1997, the "Dongfeng" brand was the first automotive brand to be officially accorded the status of a "China Renowned Brand Name" ("中國馳名商標") by PRC governmental authorities. Since the Dongfeng Motor Group commercial vehicle business consists of the "Dongfeng" commercial vehicle brand, the Directors believe that it has been able to develop comprehensive as well as strong research and development capabilities, advance manufacturing technologies and complete sales and services network. As such, in the last few decades, the Dongfeng Motor Group's commercial vehicle business has continued to grow.

The Directors believe that the widespread recognition accorded to the "Dongfeng" brand name in the PRC contributes to sales of products manufactured by the Dongfeng Motor Group and positions the Dongfeng Motor Group's members as credible business partners to the Dongfeng Motor Group's suppliers and sales services providers.

Strong research and development capabilities and experience as compared with its domestic peers

The Directors believe that the Dongfeng Motor Group has strong research and development capabilities as compared with other domestic automotive manufacturers. In 1994, the Research & Development Centre was officially accorded the status of a State centre for research and development (國家認定的技術中心) by the PRC Government. In 2003, Dongfeng Motor Group garnered 18 out of a total of 42 Annual Chinese Automotive Industry Research and Development Improvement Awards ("中國汽車工業科技進步獎") which were awarded to PRC automotive manufacturers that year. In 2004, Dongfeng Motor Group garnered 16 Annual Chinese Automotive Industry Research and Development Improvement Awards. The Dongfeng Motor Group also owns fairly extensive and technologically advanced research and development facilities for civilian vehicles in the PRC. Among the research and development facilities owned by the Dongfeng Motor Group is a MIRA designed testing site which is a large testing facility for civilian vehicles in Asia.

For over 30 years, the trucks developed by Dongfeng Motor Corporation and the Group have been enjoying widespread recognition and a high degree of commercial success which has allowed the Dongfeng Motor Corporation Group to establish itself as one of two leading heavy trucks and medium trucks commercial vehicle manufacturers in the PRC. In the passenger car segment, the Company's joint ventures with leading international automotive manufacturers allow the Dongfeng Motor Group to leverage off, and benefit from, the research and development expertise and resources of some of the most technologically advanced automotive manufacturers in the world. In addition, the Group is able to support the research and development activities of various members of the Dongfeng Motor Group by making available to them its resources, including its research and development know-how, staff and extensive research and development facilities.

Extensive sales and services networks and in-depth market knowledge enable it to cater to increasing demand for its products

The commercial vehicles manufactured by the Dongfeng Motor Group are mainly sold with after-sales services through three major sales and services networks, which together form one of the most extensive commercial vehicle sales and services networks in the PRC. In addition, the passenger vehicles manufactured by the Dongfeng Motor Group are currently sold with after-sales services through five networks. These five networks are devoted to the Nissan series of passenger vehicles manufactured by Dongfeng Motor Co., Ltd, the Citroën series of passenger vehicles manufactured by Dongfeng Peugeot Citroën Automobiles Company Ltd, the Peugeot series of passenger vehicles manufactured by Dongfeng Peugeot Citroën Automobiles Company Ltd, the Honda series of passenger vehicles manufactured by Dongfeng Honda Automobile Co., Ltd and the Dongfeng future series of MPVs manufactured by Dongfeng Liuzhou Motor Co., Ltd, respectively. Together, these eight major sales and services networks cover every major province, city and county of the PRC, and thus support the extensive multi-brand product portfolio of the Dongfeng Motor Group. These extensive networks also provide the Company with an invaluable and extensive source of market information concerning local market conditions and customer demands.

The sales and services networks of the Dongfeng Motor Group mainly comprise outlets which are primarily operated by independent third parties providing customers with comprehensive sales and after-sales services, including vehicle servicing, the provision of spare parts, second-hand car trade-in services and auto financing services. These outlets also regularly conduct customer surveys, thus providing the members of the Dongfeng Motor Group with valuable customer feedback. The Directors believe that the high quality and wide variety of services provided by these outlets contribute significantly to the Dongfeng Motor Group's ability to maintain its market reputation and enhance its businesses.

In addition, the Directors believe that the extensive automotive sales and marketing experience of the Group and its foreign joint venture partners and the experience of setting up and managing these sales services networks have helped the Group build strong customer relationships throughout the PRC and have enabled the Dongfeng Motor Group to efficiently manage its sales and services networks, launch new sales and services networks within a relatively short period of time and improve and perfect existing networks in order to cater to increasing market demand for its products.

Enjoys lower procurement costs through economies of scale and global purchasing avenues

As a result of the large size of the Dongfeng Motor Group, the Directors believe that the Dongfeng Motor Group is able to reduce its procurement costs due to economies of scale by co-ordinating the purchase of raw materials, such as steel, which are needed by different members of the Dongfeng Motor Group. Through the joint development with raw material enterprises (such as steel and iron enterprises) of raw materials of a standard acceptable to the Dongfeng Motor Group, the Dongfeng Motor Group has been able to reduce costs for its raw materials.

Each of the Dongfeng Joint Venture Companies also has the ability to consolidate its purchase orders with the other overseas operations of its respective foreign joint venture partner, with cost savings as a result of the size of the order placed and the relationship between the supplier and the relevant foreign joint venture partner.

The Group has highly experienced, highly regarded, progressive and motivated management whose interests are tied to the interests of the Dongfeng Motor Group's shareholders through performance incentives, including stock appreciation rights

The senior management of the Group initiated and led the internal restructuring of the predecessor of Dongfeng Motor Corporation and the Group in 1999, which converted the Group's structure from that of a traditional PRC state-owned enterprise to a corporate and management structure which is more focused on profitability. Under the leadership of the Group's senior management, the Group has achieved a turnaround of its financial results in recent years, successfully entered into joint ventures with leading international automotive companies and, the Directors believe, established a solid foundation on which to build future growth.

Most of the Group's management have extensive management and operational experience in the automotive industry, and many members of the Group's senior management have been officially recognised for their managerial achievements. For example, the core senior management (including the majority of the executive and non-executive Directors) of the Company has around 20 years of experience in the Chinese automotive industry.

To help promote management efficiency, the Company has implemented a management compensation plan that is linked to the results of its operations and the personal performance and remuneration of its managers. The Company has also implemented a plan of stock appreciation rights to tie the interests of senior management more closely with those of the shareholders of the Company.

The Group also places great emphasis on management continuity. To this end, the Group requires those of its employees who have been identified as potential future senior managers to undergo a training program which includes training in management, administration and finance.

BUSINESS DEVELOPMENT STRATEGIES OF THE GROUP

The Group aims to further consolidate the Dongfeng Motor Group's position as one of the most profitable automotive manufacturers in the PRC, as well as one of the PRC's largest automotive manufacturers with both leading commercial and passenger vehicle operations. The Group will also focus on achieving sustainable growth and creating long-term shareholder value.

To achieve these objectives, the Group intends to consolidate and enhance the Dongfeng Motor Group's position as one of the leading manufacturers in each major sector of the PRC automotive industry through both internal and external expansions, the aggressive pursuit of cost efficiency initiatives, improvements in the coverage, efficiency and effectiveness of the Dongfeng Motor Group's distribution and after-sales service networks, and the further enhancement of the Dongfeng Motor Group's research and development capabilities.

In particular, the Group plans to pursue the following key business strategies:

Expand both the product range and production capacity of the Dongfeng Motor Group's passenger vehicle operations

The Group believes it could continue to improve its competitive strengths in the highly competitive and rapidly developing passenger car market segment by further expanding the Dongfeng Motor Group's already diversified portfolio of passenger vehicle products and by co-operating closely with its international joint venture partners with the aim of launching the latest models of passenger vehicles in the PRC (i) which are of the same or similar quality as the models which are launched in the home country of the relevant foreign joint venture partner, and (ii) at the same time as, or within a short time after, these new models are launched in the home country of the relevant foreign joint venture partner. The Directors believe that the Dongfeng Motor Group is currently one of the leading players in the economy passenger car sub-sector in the PRC. While aggressively expanding its market share in the economy passenger car sub-sector in the PRC, the Group also plans to make significant inroads in the mid-range passenger car segment through its Joint Venture Companies.

The Dongfeng Motor Group, through its member Joint Venture Companies, plans to introduce more than 10 new models of passenger vehicles into the PRC by 2008. The Group also plans to selectively expand the production capacities of its Dongfeng Motor Group Joint Venture Companies according to the needs of the market. As at 30th June, 2005, various members of the Dongfeng Motor Group planned to undertake production capacity expansions which, if completed according to plan, will increase the Dongfeng Motor Group's overall production capacity of passenger vehicles from approximately 425,000 units as at 30th June, 2005 to approximately 820,000 units by 2008.

Further expand its market share with a particular focus on the heavy and light truck sub-sectors

The Dongfeng Motor Group commands leading market positions in both the medium and heavy truck sub-sectors in the PRC market, which, the Directors believe, provides a stable source of earnings and a solid foundation for future growth. The Group aims to further consolidate the Dongfeng Motor Group's position as one of two leading commercial vehicle manufacturers in the PRC by focusing on expanding its market share in the growing heavy trucks sub-sector in the PRC through the introduction of new and improved products whilst maintaining its market share in the medium trucks sub-sector. The Group also intends to expand its light trucks business by focusing on high end products. In addition, compared to commercial vehicles manufactured by its domestic competitors the Group will have a competitive edge by offering advanced technological products and reliable quality guarantees.

Further enhance the competitiveness of commercial vehicle heavy-duty engines and components in order to consolidate its leading position in the PRC commercial vehicles market.

The Dongfeng Motor Group plans to further enhance the competitiveness of its commercial vehicle heavy-duty engines and components. The Dongfeng Motor Group plans to achieve this by:

(i) expanding its heavy-duty engines portfolio, such as the Cummins L (or above) series and Renault dCi11 series engines;

(ii) incorporating European and Asian chassis and cab technologies to jointly develop first generation patented technology; and

(iii) establishing auto parts joint ventures with world-leading auto parts suppliers such as DANA Corporation and BEHR GmbH & Co. KG in order to support the supply of auto parts reinforcing the Company's leading position in the commercial vehicle sector.

Continue to improve returns through the aggressive pursuit of cost efficiency initiatives

The Group plans to continue to reduce the costs and optimise the cost structure of the Dongfeng Motor Group. Key strategies to be implemented are as follows:

(i) Reducing the cost of supplies by increasing the local content ratio

The Group plans to increase the local content ratio of its products and will purchase vehicle components, which meet the quality requirements and are competitively priced, from domestic suppliers whenever the vehicle component in question is available within the PRC.

(ii) Centralising orders for supplies and taking advantage of the global purchasing networks of the relevant joint venture partners

The Group also aims to reduce the cost of purchase of the Dongfeng Motor Group by co-ordinating the purchase of auto parts and raw materials needed by different members of the Dongfeng Motor Group, such as steel, at Group level as well as at Joint Venture Company level whenever suitable. In addition, the Group will also recommend that each Joint Venture Company take full advantage of the global purchasing system of its respective joint venture partner to purchase supplies at competitive prices both within the PRC and world-wide.

(iii) Reducing the production costs of the Dongfeng Motor Group

The Group aims to reduce the production costs of the Dongfeng Motor Group by encouraging each Joint Venture Company to optimise its production systems and improve its production efficiency through the re-engineering of vehicle platforms and power trains to include more versatile production equipment and systems.

In addition, each relevant Joint Venture Company will be encouraged to share common platforms and increase its use of common components in order to reduce production costs.

(iv) Improving the efficiency of the supply chain, production systems and distribution networks of the relevant members of the Dongfeng Motor Group

Each member of the Dongfeng Motor Group plans to enhance its information systems in order to link its supply chain, production systems, and sales and distribution networks with its other operations, thereby increasing data flow, improving production and management efficiency and reducing its operational costs.

Improve the coverage, efficiency and effectiveness of the sales and after-sales service networks of the Dongfeng Motor Group

The Group aims to fully take advantage of the extensive, experienced and resourceful sales networks of the Dongfeng Motor Group by enhancing the management and information flow between these networks and the relevant members of the Dongfeng Motor Group. Dongfeng Motor Co., Ltd aims to strength and optimise its commercial vehicle sales and after-sales service networks by unified management and by eliminating unnecessary and underperforming sales and after-sales service outlets. Dongfeng Motor Co., Ltd also intends that each outlet of its commercial vehicle distribution and after-sales networks should eventually be able to offer the four benchmark services, including: (i) sales, (ii) after-sales services, (iii) the provision of spare parts, and (iv) the ability to carry out customer surveys.

Each of the major Dongfeng Joint Venture Companies engaged in the manufacture of passenger vehicles aims to further increase the coverage of its passenger vehicle distribution networks by adding more sales outlets where and when appropriate.

Further enhance the Dongfeng Motor Group's research and development capabilities

The Group believes that its long-term success and growth prospects will depend on the Dongfeng Motor Group having leading automotive research and development capabilities. The Group intends to be at the forefront of the automotive industry in the PRC in developing environmentally friendly products, commercially successful products and new technologies.

On the commercial vehicles front, the Dongfeng Motor Group plans to focus on (i) developing a new generation of heavy trucks and key truck parts, and (ii) improving the power, fuel efficiency and emissions levels of its commercial vehicles. On the passenger vehicles front, each of the major Dongfeng Joint Venture Companies engaged in the manufacture of passenger vehicles intends to focus its research and development efforts on improving the adaptability of foreign sourced products and coordinating the introduction of new products with foreign parties. In addition, the Group plans to focus on the development of off-road vehicles, electric vehicles and mixed fuel powered vehicles.

The Directors believe its research and development teams are key to its success. The Dongfeng Motor Group intends to attract and retain the most talented individuals in the industry and has implemented measures such as providing competitive remuneration packages, relocating the research and development centres of the Dongfeng Motor Group to more convenient and popular locations, setting up reward funds for outstanding achievements in the field of research and development and further consolidating and cultivating the relationships between the Dongfeng Motor Group and the top universities in the PRC.

DETAILS OF PRODUCTS MANUFACTURED BY THE DONGFENG MOTOR GROUP

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

The following table sets forth the revenue of the Group from continuing operations from sales of products to external customers for the periods indicated together with those products' respective percentage share of the Group's sales revenues from continuing operations for those periods:

	Year ended 31st December,						Six months ended 30th June, 2005	
	2002		2003		2004			
Category	Sales[1] (RMB millions)	%	Sales[1] (RMB millions)	%	Sales[1] (RMB millions)	%	Sales[1] (RMB millions)	%
Commercial vehicles	23,258	58	15,567	42	14,556	44	6,821	32
— Trucks	10,101	25	6,331	17	6,861	21	2,967	14
— Buses and others	13,157	33	9,236	25	7,695	23	3,854	18
Passenger vehicles	8,421	21	11,248	31	9,212	28	10,379	49
— Passenger cars	7,945	20	10,504	29	7,435	23	8,895	42
— MPVs	476	1	744	2	761	2	450	2
— SUVs	—	—	—	—	1,016	3	1,034	5
Engines and other auto parts	6,659	16	8,281	23	7,685	24	3,004	14
Others[2]	2,074	5	1,460	4	1,284	4	988	5
	40,412	100	36,556	100	32,737	100	21,192	100

Notes:

(1) Sales revenues of those Dongfeng Joint Venture Companies which are Jointly-controlled Entities (including Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd, and Dongfeng Nissan Diesel Motor Co., Ltd) have been proportionately consolidated into the Group's sales revenues.

(2) "Others" includes the manufacture of vehicle manufacturing equipment and other automotive-related businesses, such as vehicle and vehicle manufacturing equipment import/export businesses, auto finance businesses, insurance agency businesses and used car businesses.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the Dongfeng Motor Group sold 379,744, 402,769, 422,676 and 305,248 vehicles (including both commercial and passenger vehicles), respectively. The following table sets forth the Dongfeng Motor Group's sales of vehicles (including both commercial and passenger vehicles) by unit for the periods indicated, together with those vehicles' respective percentage share of the Dongfeng Motor Group's total unit sales for those periods:

	Year ended 31st December,						Six months ended 30th June, 2005	
	2002		2003		2004			
Category	Units[1]	%[3]	Units[1]	%[3]	Units[1]	%[3]	Units[1]	%[3]
Commercial vehicles	250,750	66.0	224,439	55.7	245,702	58.1	140,758	46.1
— *Trucks*	217,277	57.2	196,179	48.7	216,233	51.2	126,720	41.5
— *Heavy*	82,554	21.7	82,323	20.4	110,131	26.1	47,732	15.6
— *Medium*	71,937	18.9	59,081	14.7	55,031	13.0	33,076	10.8
— *Light*[2]	62,704	16.5	54,644	13.6	50,545	12.0	45,912	15.0
— *Mini*	82	—	131	—	526	0.1	0	0
— *Buses and others*	33,473	8.8	28,260	7.0	29,469	7.0	14,038	4.6
Passenger vehicles	128,994	34.0	178,330	44.3	176,974	41.9	164,490	53.9
— *Passenger cars*	126,148	33.2	168,250	41.8	149,913	35.5	138,946	45.5
— *MPVs*	2,846	0.7	10,080	2.5	16,589	3.9	10,009	3.3
— *SUVs*[2]	—	—	—	—	10,472	2.5	15,535	5.1

Notes:

(1) Sales data reflects the total units sold by the Dongfeng Motor Group and not only units sold to the Group.

(2) Data in 2005 include those data relating to the vehicles sold by Zhengzhou Nissan Automobile Co., Ltd (鄭州日產汽車有限公司). The acquisition of Zhengzhou Nissan by Dongfeng Automobile Co., Ltd was approved by Ministry of Commerce on 24th December, 2004 and was completed in March 2005.

(3) Discrepancies between total amounts stated and sums of amounts stated are due to rounding.

Commercial Vehicles

As at 30th June, 2005, the members of the Dongfeng Motor Group produced 29 principal basic series of commercial vehicles, including 23 principal basic series of trucks and 6 principal basic series of buses. Most of the commercial vehicles manufactured by the Dongfeng Motor Group are manufactured by Dongfeng Motor Co., Ltd and its subsidiaries (including 144,375 and 140,758 of the commercial vehicles produced and sold by the Dongfeng Motor Group, respectively in the six months ended 30th June, 2005).

The Dongfeng Motor Group's commercial vehicle portfolio also includes the Nissan series of pick-up trucks and the EQ1060 series of light trucks produced by Zhengzhou Nissan Automobile Co., Ltd. According to China Pick-up Trucks Market Statistics Commission (全國皮卡市場数據信息聯合會), Zhengzhou Nissan Automobile Co., Ltd sold approximately 10,000, 12,000 and 12,000 light trucks in 2002, 2003 and 2004, respectively. According to the China Association of Automobile Manufacturers, approximately 5,700 light trucks were sold by Zhengzhou Nissan Automobile Co., Ltd for the six months ended 30th June, 2005.

Passenger Vehicles

As at 30th June, 2005, the members of the Dongfeng Motor Group produced 12 series of passenger vehicles, including nine series of passenger cars, one series of MPV and two series of SUV. The pictures of the passenger vehicle models which were produced by the Dongfeng Motor Group as at 30th June, 2005 are set out below:

Dongfeng Citroën Elyśee

Dongfeng Citroën Xsara

Dongfeng Peugeot 307

Dongfeng Citroën Fukang

Dongfeng Citroën Picasso

Nissan Teana

Nissan Bluebird

Nissan Sunny

Nissan Tiida

Dongfeng Future

Dongfeng Honda CR-V

Zhengzhou Nissan Paladin

The Dongfeng Motor Group's passenger vehicle portfolio also includes the Zhengzhou Nissan Paladin series of SUVs. Further details of this acquisition are set out in the section of this prospectus headed "History, Reorganisation and Group Structure — History and Development — Joint Venture Developments — Dongfeng Motor Co., Ltd". According to China Passenger Vehicles Market Statistics Commission (全國乘用車市場信息聯席會), Zhengzhou Nissan Automobile Co., Ltd sold approximately 9,000 Zhengzhou Nissan Paladin SUVs in 2004 and according to the China Association of Automobile Manufacturers, approximately 3,900 Zhengzhou Nissan Paladin SUVs were sold by Zhengzhou Nissan Automobile Co., Ltd in the first six months of 2005. Zhengzhou Nissan Automobile Co., Ltd did not manufacture and sell any Zhengzhou Nissan Paladin SUVs prior to 2003.

Engines and Other Auto Parts

Members of the Dongfeng Motor Group manufacture passenger and commercial vehicle engines for their internal use and external sales. As at 30th June, 2005, the total engine production capacity of the Dongfeng Motor Group was approximately 810,000 units. The members of the Dongfeng Motor Group which manufacture engines for sale to independent third parties (as well as for internal use) are Dongfeng Motor Co., Ltd (together with its subsidiaries and affiliated companies) and Dongfeng Honda Engine Co., Ltd. Dongfeng Motor Co., Ltd (together with its subsidiaries and affiliated companies) manufactures Dongfeng series diesel and petrol commercial vehicle engines, as well as Dongfeng Cummins B and C series commercial vehicle engines. Dongfeng Honda Engine Co., Ltd's main business is the supply of Honda passenger vehicle engines and other related parts to Guangzhou Honda Automobile Co., Ltd.

In addition to the manufacture of engines, members of the Dongfeng Motor Group also manufacture a range of auto parts for commercial and passenger vehicles, including power train (mainly comprised of gear box, clutch, and axle), cabs, chasses (auto parts), car electrical appliances and other parts.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the total revenue from sales to external customers of engines and other auto parts of the Group from continuing operations amounted to approximately RMB6,659 million, RMB8,281 million, RMB7,685 million and RMB3,004 million, respectively.

In March 2005, Dana Mauritius Limited, an international automotive parts manufacturer, entered into an agreement to purchase 9.81%, 29.23% and 10.96% equity interests in Dana Axle Co., Ltd (德納車橋有限公司) from Dongfeng Motor Corporation, Dongfeng Motor Co., Ltd and Dongfeng (Shiyan) Industry Co., Ltd (東風(十堰)實業有限公司), respectively. The equity interest in Dana Axle Co., Ltd is currently held as to 50% by Dongfeng Motor Co., Ltd and 50% by Dana Mauritius Limited. The business of Dana Axle Co., Ltd is to produce axles for commercial specialised vehicles. Dana Axle Co., Ltd was formerly known as Dongfeng Dana Axle Co., Ltd (東風德納車橋有限公司) prior to 8th June, 2005.

Vehicle Manufacturing Equipment and Other Automotive-Related Businesses

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

In addition to the products described above, the Dongfeng Motor Group is engaged in various other automotive-related businesses, including vehicle and vehicle manufacturing equipment import/export businesses, auto finance businesses, insurance agency businesses and used car businesses. For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the total revenue of the Group attributable to sales to external customers of other automotive-related services of the Group from continuing operations amounted to RMB2,074 million, RMB1,460 million, RMB1,284 million and RMB988 million, respectively.

PRODUCTION

Production Facilities

As at 30th June, 2005, the total production capacity of the Dongfeng Motor Group was approximately 745,500 units of motor vehicles, comprising approximately 320,500 units of commercial vehicles and approximately 425,000 units of passenger vehicles. The production facilities owned and operated by the Dongfeng Motor Group as at 30th June, 2005 are located in China and are situated on properties owned by the Dongfeng Motor Group. The following table sets out the principal production facilities of the Dongfeng Motor Group by related Joint Venture Companies and production location as at 30th June, 2005.

Product	Location of Production	Related Joint Venture Companies	Annual Capacity as at 30th June, 2005 (units)	Vehicle Type
Commercial Vehicles	Shiyan, Hubei Province, PRC	Dongfeng Motor Co., Ltd	143,500	Heavy and medium trucks
			500	Medium buses
	Xiangfan, Hubei Province, PRC	Dongfeng Motor Co., Ltd	85,000	Light trucks
			30,000	Light buses
	Liuzhou, Guangxi Zhuang Autonomous Region, PRC	Dongfeng Motor Co., Ltd	30,000	Trucks
	Hangzhou, Zhejiang Province, PRC	Dongfeng Motor Co., Ltd	6,500	Large and medium buses
		Dongfeng Nissan Diesel Motor Co., Ltd	5,000	Commercial vehicles (comprising trucks and bus chasses)
	Zhengzhou, Henan Province, PRC	Dongfeng Motor Co., Ltd	15,000	Light trucks
	Ürümqi, Xinjiang Uygur Autonomous Region, PRC	Dongfeng Motor Co., Ltd	5,000	Commercial vehicles (comprising desert vehicles and other special purpose trucks)
Passenger Vehicles	Xiangfan, Hubei Province, PRC	Dongfeng Motor Co., Ltd	60,000	Passenger cars (comprising Nissan Teana)

Product	Location of Production	Related Joint Venture Companies	Annual Capacity as at 30th June, 2005 (units)	Vehicle Type
	Huadu, Guangdong Province, PRC	Dongfeng Motor Co., Ltd	150,000	Passenger cars (comprising Nissan Bluebird, Nissan Sunny and Nissan Tiida models)
	Liuzhou, Guangxi Zhuang Autonomous Region, PRC	Dongfeng Motor Co., Ltd	20,000	MPVs (comprising Dongfeng Future models)
	Wuhan, Hubei Province, PRC	Dongfeng Peugeot Citroën Automobiles Company Ltd	150,000	Passenger cars (comprising Dongfeng Citroën Fukang, Dongfeng Citroën Elysee, Dongfeng Citroën Picasso, Dongfeng Citroën Xsara and Peugeot models)
	Wuhan, Hubei Province, PRC	Dongfeng Honda Automobile Co., Ltd	30,000	Passenger vehicles (comprising the Dongfeng Honda CR-V)
	Zhengzhou, Henan Province, PRC	Dongfeng Motor Co., Ltd	15,000	SUVs
Total			**745,500**	**Whole vehicles**

The annual utilisation rates of the principal production facilities operated by the Dongfeng Motor Group for the year ended 31st December, 2004 and the six months ended 30th June, 2005 were as follows:

Product	Annual Production Capacity for 2005 (units)	Utilisation Rate for Jan-June 2005 (%)	Annual Production Capacity for 2004 (units)	Utilisation Rate for 2004 (%)
Commercial Vehicles	320,500	88	305,500	80
— Dongfeng Motor Co., Ltd	315,500	88	300,500	81
— Dongfeng Nissan Diesel Motor Co., Ltd	5,000	10	5,000	16
Passenger Vehicles	425,000	77	410,000	43
— Dongfeng Motor Co., Ltd	245,000	66	230,000	34
— Dongfeng Peugeot Citroën Automobiles Company Ltd	150,000	97	150,000	59
— Dongfeng Honda Automobile Co., Ltd	30,000	77	30,000	35
	745,500	82	715,500	59

Based on the current production capacity expansion plans of the Dongfeng Motor Group, the Directors estimate that the total production capacity of the Dongfeng Motor Group will reach approximately 1,233,000 units of motor vehicles (comprising approximately 413,000 units of commercial vehicles and approximately 820,000 units of passenger vehicles) by 2008.

Corresponding with the above passenger vehicle production expansion plans, the Dongfeng Motor Group , through its member Dongfeng Joint Venture Companies, plans to introduce more than 10 new models of passenger vehicles into the PRC by 2008, including Nissan series sedans, Peugeot series and Citroën series small sedans, Peugeot series lower mid-range sedans (for example, the Dongfeng Peugeot 206), and any series to be agreed between the Company and Honda Motor Co., Ltd or decided upon by Dongfeng Joint Venture Companies.

As currently planned, the above new models will be launched in the PRC at the same time as, or within a short period of time after, the equivalent models of passenger vehicles are launched in the home country of the relevant joint venture partner. In addition, the above new models will be of the same or similar quality and design as the equivalent models sold in the home country of the relevant foreign joint venture partner.

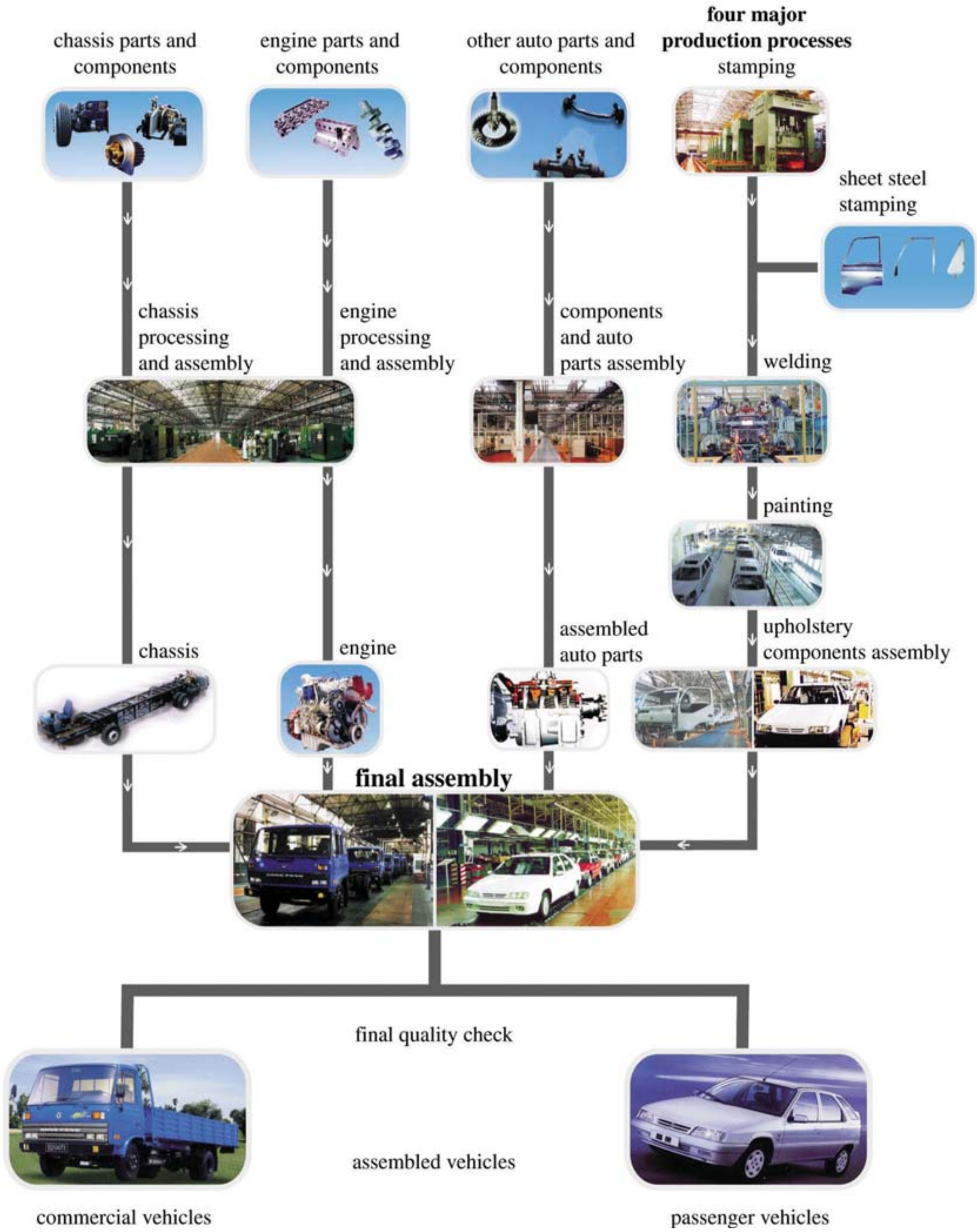
The above production expansion plans and product introduction plans represent only the current plans of the Dongfeng Motor Group and are subject to change in accordance with market conditions. Accordingly, there is no guarantee that these plans will be implemented in the manner outlined above or at all. Please refer to the section of this prospectus headed "Risk Factors — Risks relating to the Global Offering — Forward-looking information included in this prospectus may prove inaccurate".

Production Process

Production processes vary for different categories of motor vehicles and vehicle related products manufactured by the Dongfeng Motor Group. However, production of motor vehicles generally involves the following main steps:

- *chassis processing and assembly*, during which 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 assembly*, during which engine parts including an engine and transmission unit are processed and assembled into a complete engine;
- *assembly of other auto parts*, during which other auto parts including metre boards, batteries and head lights are assembled into main parts for final assembly;
- *stamping*, during which steel plates are stamped into body parts of vehicles;
- *welding*, during which vehicle body parts are welded to form vehicle bodies;
- *painting*, which involves middle electrophoresis painting, layer painting and surface coating to withstand corrosion;
- *upholstery components assembly*, during which upholstery components including seats, interior side boards, lights and air-conditioning equipment are installed into the vehicles; and
- *final assembly*, during which the complete chassis, complete engine unit and other auto parts (including auto parts purchased from other suppliers) are assembled into a complete motor vehicle.

The diagram below illustrates the principal steps in the production of commercial and passenger vehicles manufactured by the Dongfeng Motor Group:



To ensure consistent and high quality standards for the vehicles produced by the Dongfeng Motor Group , all finished products are subject to quality testing before delivery. The inspection lines of the Dongfeng Motor Group are in conformity with the applicable technology standards prescribed by the PRC government.

Quality Control

The Directors place great emphasis on quality control for the products of the Dongfeng Motor Group. Each Dongfeng Joint Venture Company has established and implemented a quality assurance management system which conforms with national and international standards, and which strives to reflect the best practices of both the Company and its foreign joint venture partners. As at 30th June, 2005, each major Dongfeng Joint Venture Company has been awarded related accreditations, including the GB/T19001:2000 idt ISO9001:2000 accreditation, in respect of its quality management.

The Dongfeng Joint Venture Companies have adopted advanced and stringent quality controls which are applied at each stage of production, including product design and development, purchase of supplies and manufacturing. These quality control procedures are formulated and disseminated to the various quality control teams within each Dongfeng Joint Venture Company through detailed instruction manuals, which are revised and updated to take into account the special requirements of individual products, specialised production processes, recent feedback from quality control staff on the ground and customer feedback.

The quality of the raw materials and auto parts used by members of the Dongfeng Motor Group is also controlled through two main avenues:

First, the principal Dongfeng Joint Venture Companies generally choose their suppliers through strict criteria that emphasize the quality of their suppliers' products, the cost of those products and the supplier's ability to deliver these products on time. Once the suppliers have been chosen, the principal Dongfeng Joint Venture Companies continue to closely monitor the quality of the raw materials and auto parts sourced from these suppliers, and require their suppliers to adopt certain quality control procedures. Raw materials and auto parts sourced by the Group or the relevant Dongfeng Joint Venture Company are randomly inspected upon arrival.

Second, defective raw materials and auto parts supplied to the members of the Dongfeng Motor Group are subject to return or repair at any time within the warranty period of these supplies and auto parts.

In addition, trained quality control teams supervise and monitor each stage of the production process to ensure compliance with the quality control standards and procedures laid down by each Dongfeng Joint Venture Company. These quality control teams include on-site inspection teams who are present on the factory floor and therefore are able to identify and remedy quickly any defects in the production process, facilities, materials used, production environment and production techniques, thereby reducing the time and resources incurred by that Dongfeng Joint Venture Company in dealing with production flaws and defective products.

INVENTORY CONTROL

Inventory control is undertaken independently by each member of the Dongfeng Motor Group, thereby promoting efficient production and reducing costs. The purchasing teams of various members of the Dongfeng Motor Group follow the production plan closely for the purchase of raw materials.

The raw material inventory turnover period of the Group (which is calculated by dividing the raw material balances, net of provisions for raw material, attributable to the Group at the relevant balance sheet date by the total revenue from continuing operations of the Group from sales to external customers for the corresponding calendar year and multiplying the end result by 365 for the whole calender year or 183 for the half year, whichever is applicable) for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 was approximately 27 days, 21 days, 38 days and 27 days, respectively.

In order to meet potential customers' demand and to shorten the lead times for the delivery of the relevant vehicles, the members of the Dongfeng Motor Group generally aim to maintain one month's inventory for commercial vehicles and an average of one month's inventory for passenger vehicles. However, each relevant member of the Dongfeng Motor Group also adjusts its planned inventory levels according to its estimate of the coming month's demand and existing inventory levels. The finished goods inventory turnover period of the Group (which is calculated by dividing the finished goods balances, net of provisions for finished goods, attributable to the Group at the relevant balance sheet date by the total revenue from continuing operations of the Group from sales to external customers for the corresponding calendar year and multiplying the end result by 365 for the whole calender year or 183 for the half year, whichever is applicable) for the three years ended 31st December, 2004 and six months ended 30th June, 2005 was approximately 25 days, 19 days, 31 days and 22 days, respectively.

The inventory turnover period of the Dongfeng Motor Group (which is calculated by dividing the inventory balance, net of provisions for inventories, attributable to the Group at the relevant balance sheet date by the total revenue from continuing operations of the Group from sales to external customers for the corresponding calendar year and multiplying the end result by 365 for the whole calendar year or 183 for the half year, whichever is applicable) for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 was approximately 58 days, 43 days, 73 days and 54 days, respectively. At the each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the provisions for inventory of the Group were approximately RMB399 million, RMB249 million, RMB303 million and RMB317 million, respectively.

Inventory is stated at gross amount less specific and general provisions at the balance sheet date.

Specific provision for inventory is made for damaged stock, obsolete stock (including old models) and when the cost of inventory is less than its net realizable value. 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.

In addition to the specific provision, general provision is made according to the Group's provisioning policy as follows:

Inventory ageing	% of provision	
	Raw materials	Other inventories
Less than 6 months	0%	0%
6 months–1 year	3%	5%
1–2 years	10%	30%
Above 2 years	20%	50%

SALES AND SERVICES NETWORK AND SALES AND SERVICES

The motor vehicles manufactured by the Dongfeng Motor Group are distributed in the PRC through eight major sales and services networks. Each of these eight sales and services networks sells a particular vehicle brand, and is managed by the relevant Joint Venture Company independently of the other members of the Dongfeng Motor Group. The sales outlets which comprise each network are generally owned and operated by independent third parties.

Commercial vehicles manufactured by the Dongfeng Motor Group are mainly sold through three major sales networks respectively devoted to (i) heavy and medium trucks manufactured by Dongfeng Motor Co., Ltd, (ii) light trucks manufactured by Dongfeng Automobile Co., Ltd, and (iii) commercial vehicles manufactured by Dongfeng Liuzhou Motor Co., Ltd (a subsidiary of Dongfeng Motor Co., Ltd).

The following table sets out the details of the three major domestic sales networks for commercial vehicles of the Dongfeng Motor Group as at 30th June, 2005.

Name of Company	No. of sales outlets	No. of covered provinces
Dongfeng Motor Co., Ltd (main commercial vehicle company)	358	29
Dongfeng Automobile Co., Ltd	158	31
Dongfeng Liuzhou Motor Co., Ltd	155	26

The commercial vehicle sales and services networks operated by the Dongfeng Motor Group together form one of the most extensive and comprehensive commercial vehicle sales and services networks in the PRC. With the aim of further improving the efficiency and effectiveness of its commercial vehicle networks, Dongfeng Motor Co., Ltd plans to (i) consolidate its commercial vehicle sales and services networks into one unified sales and services network for the commercial vehicles manufactured by Dongfeng Motor Co., Ltd, and (ii) optimise its commercial vehicle sales and services network by eliminating unnecessary and underperforming commercial vehicle sales outlets while maintaining an efficient nationwide coverage.

The passenger vehicles manufactured by the Dongfeng Motor Group are distributed in the PRC through five independent sales networks with extensive coverage. Each of these networks is devoted to one brand of passenger vehicle only. In addition, part of the Honda series of passenger vehicles manufactured by Dongfeng Honda Automobile Co., Ltd is sold through the Honda passenger vehicle sales and services network of Guangzhou Honda Automobile Co., Ltd.

The following table sets out the details of the different major domestic sales networks for passenger vehicles of the Dongfeng Motor Group as at 30th June, 2005.

Name of Company	No. of sales outlets	No. of covered Provinces	Vehicle type
Dongfeng Motor Co., Ltd	190	31	Nissan passenger vehicles
Dongfeng Peugeot Citroën Automobiles Company Ltd	341	31	Citroën passenger vehicles
Dongfeng Peugeot Citroën Automobiles Company Ltd	77	28	Peugeot passenger vehicles
Dongfeng Honda Automobile Co., Ltd	33	22	Honda passenger vehicles
Dongfeng Liuzhou Motor Co., Ltd	83	28	Dongfeng Future passenger vehicles

Each of the above Dongfeng Joint Venture Companies aims to further increase the coverage of its passenger vehicle sales and services network by adding further sales outlets. Each of these companies also aims to improve the quality and range of the sales and after-sales services provided through its passenger vehicle sales and services networks.

In general, the operators of the sales outlets of both commercial and passenger vehicles manufactured by the Dongfeng Motor Group are chosen based on their financial strength, after-sales service capabilities, geographical location, and their ability to adequately market products. The sales and services agreements between the Dongfeng Joint Venture Company and the individual operators of the sales outlets govern the operation of these sales outlets, including their obligation as an exclusive dealer for the relevant Dongfeng Joint Venture Company, applicable geographic limitations, prices of products offered for sale, the customer services offered, information technology employed, reporting procedures and decoration of premises.

Customers

Substantially all of the commercial and passenger vehicles manufactured by the Dongfeng Motor Group are sold to dealers and agents who then sell to consumers through the sales and services networks described above. The dealers are required to pay for the vehicles in full before delivery. The Dongfeng Motor Group does not take any share in the profit made by the dealers nor does it bear the risks associated with any losses suffered by the dealers in selling the vehicles.

The customers for engines, other auto parts and vehicle manufacturing equipment manufactured by the Dongfeng Motor Group principally comprise manufacturers of automobiles or automotive parts or components, including members of the Dongfeng Motor Group.

For each of the three years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, the Dongfeng Motor Group's five largest customers collectively accounted for less than 30% of the Group's total revenue.

The Dongfeng Motor Group's aggregate revenue from the state-owned enterprises which are among the Dongfeng Motor Group's five largest customers for the three years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2005 were RMB1,195 million, RMB749 million, RMB1,319 million, and RMB577 million, respectively, which accounted for 3.0%, 2.0%, 4.0%, and 2.7%, respectively, of the Group's revenue.

The Company operates in a very competitive market with a highly diversified customer base. The Company does not have any significant degree of dependence on any single state-owned enterprise. Transactions with individual customers who are state-owned enterprises are not of material significance for the Dongfeng Motor Group as a whole.

Pricing policy

Each member of the Dongfeng Motor Group generally sets and adjusts the prices of its automobiles based on market demand and supply. Factors taken into account for price determination include costs of production and competitors' prices. Unless with the prior consent of the relevant Joint Venture Company, authorised dealers and agents can only offer a Joint Venture Company's products at the price range prescribed by that Joint Venture Company, thus enhancing the relevant Joint Venture Company's control over its competitive pricing strategies. The Dongfeng Motor Group will review and, if necessary, adjust the prices of its automobiles in a timely manner having regard to prevailing market conditions.

Payment terms

All of the Dongfeng Motor Group's domestic sales in the PRC are settled in Renminbi whilst all sales made to overseas customers are settled either in U.S. dollars, Japanese Yen or Euro.

The sales of the Dongfeng Motor Group's commercial and passenger vehicles are normally settled on an advance receipt basis, under which the dealers are required to pay in advance either in cash or bank acceptance drafts. However, in the case of large customers with bulk purchases and a good payment history, the relevant member of the Dongfeng Motor Group may offer to these customers credit terms that are generally between 30 and 180 days.

For commercial and passenger vehicles which are sold on an advance receipt basis, a majority of the dealers have entered into tripartite financing arrangements with a bank and the relevant member of the Dongfeng Motor Group. Pursuant to such tripartite arrangements, the relevant bank will typically agree to finance the purchase of vehicles on behalf of the dealer in consideration of the relevant member of the Dongfeng Motor Group agreeing to buy back such vehicles from the bank at an amount up to 90% of the original price, should the dealer fail to repay the full amount to the bank within the stipulated timeframe. The Directors believe that such financing arrangements are in line with the common market practice for vehicles which are sold on an advance receipt basis in the PRC.

Under the accounting policy of the Dongfeng Motor Group, advance payments received by the relevant member of the Dongfeng Motor Group under such tripartite financing arrangements will not be recognised as sales until its buyback obligation has lapsed under the relevant tripartite financing arrangement. In the opinion of the Directors, the financial information in the Accountants' Report set forth in Appendix I to this prospectus fully complies with such accounting policy in all material respects.

For the Relevant Periods, the majority of the vehicles sold by the Dongfeng Motor Group on an advance receipt basis were subject to such tripartite financing arrangements. As at 30th June, 2005, no member of the Dongfeng Motor Group had made any significant buybacks under the tripartite financing arrangements, and the inventory arrangements of the Dongfeng Motor Group had not been adversely affected by such tripartite financing arrangements. As such, the Directors believe that no provision is required to be made in respect of such tripartite financing arrangements.

The Company's PRC legal advisers, Commerce & Finance Law Offices, have confirmed that the above tripartite financing arrangements are legal and valid under the relevant PRC laws and regulations.

For sales of engines and other auto parts, the relevant member of the Dongfeng Motor Group generally offers its customers credit terms ranging between 30 and 180 days.

At the end of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the Group's trade and bills receivables, net of provision for bad and doubtful debts, amounted to approximately RMB6,414 million, RMB4,077 million, RMB4,763 million and RMB5,562 million, respectively.

The Group's trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. The Group makes specific provisions for doubtful receivables when collection of the full amount due is no longer probable. Bad debts are written off when identified. In addition, the Group makes no general provision on receivables aged less than three months, a general provision of 5% on receivables aged between three to 12 months, 30% on receivables aged more than 12 months and below two years, 75% on receivables aged over two years and below three years and full provision on receivables over three years. The Directors believe that adequate provision has been made in respect of bad and doubtful debts.

The debtors' turnover days of the Group (being the period between the date of the invoice issued by the relevant member of the Dongfeng Motor Group and the date of receipt of full payment by that company) for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 was approximately 58 days, 41 days, 53 days and 48 days, respectively. The debtors' turnover days of the Group is calculated by dividing the aggregate of trade and bills receivables balances, net of provision for bad and doubtful debts, at the relevant balance sheet date by the total revenue of the Group from sales to external customers of the Group from continuing operations for the corresponding calendar year and multiplying the end result by 365 for the whole calendar year or 183 for a half year, whichever is applicable.

AFTER-SALES SERVICES

After-Sales Service Networks

Commercial Vehicles

The Dongfeng Motor Group operates one of the most comprehensive after-sales service networks for purchasers of commercial vehicles in the PRC, comprising both sales outlets of the Dongfeng Motor Group which also provide after-sales services and dedicated after-sales service outlets.

As at 30th June, 2005, the Dongfeng Motor Group's commercial vehicles after-sales service networks included 1,549 after-sales service outlets (including sales outlets of the Dongfeng Motor Group which also provide after-sales services), each of which is entirely devoted to the commercial vehicles manufactured by the Dongfeng Motor Group.

The following table sets out the details of the different major domestic after-sales service networks for commercial vehicles of the Dongfeng Motor Group as at 30th June, 2005.

Name of Company	No. of after-sales service outlets[1]	No. of covered provinces and municipalities
Dongfeng Motor Co., Ltd (headquarters)	566	31
Dongfeng Automobile Co., Ltd	478	29
Dongfeng Liuzhou Motor Co., Ltd	505	30

Note:

(1) Including both sales outlets which also provide after-sales services and dedicated after-sales service outlets.

The after-sales service outlets are generally owned and operated by independent third parties. Nevertheless, the Group devotes considerable resources to improving the quality of these after-sales service outlets, and has in the past provided these after-sales service outlets with various forms of assistance, including technological assistance, staff training and preferential prices in respect of any spare parts purchased by the after-sales services provider from the relevant Joint Venture Company. In addition, the relevant Joint Venture Company maintains close control over the operation of these after-sales service outlets through agreements between the Joint Venture Company and each after-sales service outlet operator which impose stringent operating requirements on these operators, and by closely monitoring their operations to ensure that these operating requirements are complied with. If the operating requirements imposed by the Joint Venture Company are breached, the Joint Venture Company may remove the right of the after-sales service provider to act as an after-sales service outlet for the commercial vehicles produced by that Joint Venture Company.

Passenger Vehicles

Each of Dongfeng Motor Co., Ltd and Dongfeng Peugeot Citroën Automobiles Company Ltd has established a comprehensive passenger vehicle after-sales service network. Substantially all of the dedicated after-sales service outlets which comprise the passenger vehicle after-sales networks of the Dongfeng Motor Group are generally owned and operated by independent third parties.

The following table sets out the details of the different major domestic passenger vehicle after-sales service networks of the Dongfeng Motor Group as at 30th June, 2005.

Name of Company	No. of after-sales service outlets[1]	No. of covered Provinces	Vehicle type
Dongfeng Motor Co., Ltd	190	31	Nissan passenger vehicles
Dongfeng Peugeot Citroën Automobiles Company Ltd	341	31	Citroën passenger vehicle
Dongfeng Peugeot Citroën Automobiles Company Ltd	77	28	Peugeot passenger vehicle
Dongfeng Honda Automobile Co., Ltd	33	22	Honda passenger vehicles
Dongfeng Liuzhou Motor Co., Ltd	182	28	Dongfeng Future passenger vehicles

Note:

(1) Including both sales outlets which also provide after-sales services and dedicated after-sales service outlets.

Services Provided

Each after-sales service network set out above is generally managed by the relevant Dongfeng Joint Venture Company independently of the other members of the Dongfeng Motor Group and is exclusively devoted to the provision of after-sales services for a particular brand of vehicle. All of the after-sales service networks are required to offer free repair services during the relevant product's warranty period, paid maintenance services after the relevant product's warranty period, consultancy services and pro-active customer-care services for their products, including regular inspections of passenger vehicles purchased from them, 24-hour service centres and hotlines and follow-up telephone calls to customers on after-sales matters such as periodical vehicle check-ups and services.

During the warranty periods for both commercial and passenger vehicles, free services for the repairs and maintenance of automotive parts and components under normal usage are provided to customers during the applicable warranty periods.

In consideration of the above warranty services, the relevant member of the Dongfeng Motor Group pays to the after-sales service centres the costs of after-sales services on a pre-determined fee basis, which costs vary largely with reference to different series of vehicles, different labour costs in different regions and the types of parts and components to be replaced or repaired. For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the total amounts of warranty provision of the Group from continuing operations charged to its other expenses amounted to approximately RMB171 million, RMB256 million, RMB120 million and RMB135 million, respectively. The Group's provision for product warranties is made at between 0.3% and 0.8% of the Group's revenue, and is estimated based upon the sales volumes and past experience of the level of repairs and maintenance. The estimate is reviewed on an ongoing basis and revised where appropriate. The Directors have confirmed that the provisions made in the accounts during the three years ended 31st December, 2004 and the six months ended 30th June, 2005 are adequate.

MARKETING AND PROMOTION

The Directors place great emphasis on promoting consumer awareness of both the "Dongfeng" brand name and the products of the Dongfeng Motor Group.

In 2002, the Group undertook a project dedicated to improving the image and marketing activities of the Group. As a result, a new motto "關懷每一個人，關愛每一部車" ("Care for every person, care for every vehicle") have been adopted in marketing activities at every level of the Group's operations. With a view to increasing public awareness of the "Dongfeng" brand name and the products of the Dongfeng Motor Group, the Group has strategically pursued advertising campaigns dedicated to promoting the "Dongfeng" brand through different media, including newspapers, outdoor billboards, television and the internet.

The Group also requires the members of the Dongfeng Motor Group, including the Dongfeng Joint Venture Companies, to comply with the Group's marketing guidelines in respect of the "Dongfeng" brand (including guidelines relating to the presentation of the "Dongfeng" brand and logo on the vehicles manufactured by the Dongfeng Motor Group and at the sales outlets operated by the various members of the Dongfeng Motor Group) when undertaking marketing and promotional activities in respect of their products.

In addition to the promotion of the "Dongfeng" brand name, the Company also places great emphasis on marketing the Dongfeng Motor Group's products. Although the marketing and promotion of different brands of vehicles sold by the Dongfeng Motor Group are managed independently by the relevant Dongfeng Joint Venture Company, the marketing activities of each Dongfeng Joint Venture Company are developed in close consultation with the Group and its respective joint venture partner, and marketing of the products is built on the strength of both brand names.

Measures employed by the Group to market the products of the Dongfeng Joint Venture Companies include the participation by the Group in trade shows and exhibitions, including major automobile related exhibitions in major cities in the PRC, such as the biannual Beijing Motor Show and the annual Wuhan Motor Show, in order to identify new groups of customers and to keep abreast of the latest developments in the industry.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the Group's advertising and marketing expenses from continuing operations amounted to approximately RMB287 million, RMB379 million, RMB509 million and RMB353 million, respectively, representing approximately 0.7%, 1.0%, 1.6% and 1.7% of the Group's total revenue from continuing operations, respectively. As part of the Group's long-term marketing strategy, the Directors intend to strengthen the Group's marketing and promotion efforts continuously.

RESEARCH AND DEVELOPMENT

The Directors believe that the research and development capabilities of the Group are indispensable to its future growth. Based on this understanding, the Group has always focused on building development capabilities. Over more than 30 years, the Group has built-up an expert research and development team and a large research and development network.

The Directors believe the Group's research and development facilities are fairly extensive and technologically advanced compared to other automotive manufacturers in the PRC. Among these research and development facilities are a MIRA designed testing site in Xiangfan with an approximate site area of 1,892,684 sq.m., which is a large testing facility for civilian vehicles in Asia, a whole vehicle testing laboratory in which the design of various vehicle models can be tested and an engine testing laboratory in which petrol engines, diesel engines and gas engines are tested for their emission levels and compliance with the Euro III emission level standard. These research and development facilities are all owned by the Company.

The research and development activities of the Dongfeng Motor Group at the Group level are undertaken by the Research & Development Centre which is owned by the Company.

Since March 1994, the Group has expanded its research capabilities through research and development centres owned and independently operated by its joint ventures with leading international automotive companies, including Nissan Motor Co., Ltd (through Nissan (China) Investment Co., Ltd), and the PSA Peugeot Citroën group. Currently, Dongfeng Honda Automobile Co., Ltd is in the process of setting up their own dedicated research and development centres.

The research and development activities undertaken by the Dongfeng Joint Venture Companies' research and development centres are mainly centred on the products of the relevant Dongfeng Joint Venture Company. Commercial vehicle related research and development activities currently include the development of a new generation of heavy trucks through the introduction of Renault truck engines, upgrading the technology of existing B and C series Dongfeng Cummins engines, aiming to improve the power, fuel efficiency and emissions levels of Dongfeng brand commercial vehicles. Passenger vehicle related research and development activities are mainly developed in conjunction with the relevant foreign joint venture partners and are currently focused on the adaption of passenger car models introduced by the Dongfeng Motor Group's joint venture partners to local market demands.

The Research & Development Centre also consults closely with the research and development centres of the Dongfeng Joint Venture Companies and often co-operates with these research and development centres on joint projects, such as the design and development of the Citroën Elysée, which has enjoyed strong commercial success in the PRC.

From time to time, the Dongfeng Motor Group receives government support and subsidies in respect of its research and development projects. Please refer to the section in this prospectus headed "Business — Competitive Strengths" for information on the recognition accorded to the Group in respect of its research and development activities.

The Group's research costs from continuing operations for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 were approximately RMB439 million, RMB471 million, RMB478 million and RMB298 million, respectively.

As at 30th June, 2005, a total of approximately 3,200 employees were employed by the Research & Development Centre and involved in the research and development activities of the Dongfeng Motor Group, including six specialists who enjoy special subsidies granted by the State Council. The Group aims to further strengthen its research and development capability by employing more talented personnel. To this end, the Dongfeng Motor Group has implemented measures such as the provision of competitive remuneration packages, relocating the research and development centres of the Dongfeng Motor Group to more easily accessible and popular locations, setting up reward funds for outstanding achievements in the field of research and development and further consolidating and cultivating the relationships between the Dongfeng Motor Group and the top technological universities in the PRC.

PROCUREMENT OF AUTO PARTS AND RAW MATERIALS

In general, each member of the Dongfeng Motor Group procures its own auto parts, raw materials and other supplies. The Company also co-ordinates the purchase of auto parts and raw materials which are commonly needed by different members of the Dongfeng Motor Group, such as steel. The Directors believe that the co-ordination of procurement by the Company brings about certain benefits, including the costs savings associated with economies of scale, as well as additional bargaining power and influence over suppliers.

In addition, centralisation of procurement orders also takes place within each member of the Dongfeng Motor Group. For example, the supplies of the various operations and subsidiaries of Dongfeng Motor Co., Ltd are placed centrally by a central purchasing department. The purchase orders for supplies needed for manufacturing both the Peugeot and Citroën series of passenger cars are also centralised within Dongfeng Peugeot Citroën Automobiles Company Ltd.

Purchase orders placed by the Joint Venture Company through its respective joint venture partner are also often consolidated with purchase orders from the other overseas operations of these companies, with resulting cost savings due to the size of the order placed and the influence wielded by these leading international automotive companies over their suppliers.

The members of the Dongfeng Motor Group generally purchase auto parts, raw materials and other supplies from pre-selected suppliers, who are chosen and ranked based on stringent selection criteria including product quality, price and timely delivery capability. Once chosen, the members of the Dongfeng Motor Group aim to develop stable relationships with these suppliers. The members of the Dongfeng Motor Group also closely monitor the quality of their suppliers, and adjust their lists of pre-selected suppliers from time to time in order to ensure that only the best suppliers are used.

During the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the Dongfeng Motor Group's five largest suppliers collectively accounted for less than 30% of the Group's consolidated purchases of auto parts, components, raw materials, equipment and other supplies.

The Dongfeng Motor Group's aggregate purchases from the state-owned enterprises which are among the Dongfeng Motor Group's five largest suppliers for the three years ended 31st December, 2004 and for the six months ended 30th June, 2005 were RMB368 million, RMB nil, RMB644 million, and RMB205 million, respectively, which accounted for 1.3%, 0%, 2.5%, and 1.2%, respectively, of the Group's consolidated purchases of auto parts, components, raw materials, equipment and other supplies.

The Company has a highly diversified supplier base. The Company does not have any significant degree of dependence on any single state-owned enterprise. Transactions with individual suppliers who are state-owned enterprises are not of material significance for the Dongfeng Motor Group as a whole.

COMPETITION

One consequence of the Company's multi-brand strategy is that the vehicles manufactured by the different members of the Dongfeng Motor Group, particularly different brands of passenger vehicles which have similar engine capacities and target customers, compete with each other. However, the Directors believe that the benefits of the Company's multi-brand strategy (which the Directors believe include greater earnings stability and the ability to take advantage of different product cycles) outweigh the costs to the Group of pursuing this strategy.

Currently, competition among domestic automotive manufacturers in the PRC is intensifying. Foreign automotive manufacturers have increased, or are expected to increase, the competition in the PRC automotive market through providing technology licences and technical assistance and establishing joint ventures with local partners, particularly after China's entry into the WTO. Although the Dongfeng Motor Corporation Group is one of the three largest vehicle manufacturers in the PRC, the Group expects to face increasing competition across its product lines. Further details of the market share of the vehicles manufactured by the Dongfeng Motor Group for the six months ended 30th June, 2005 are set out in the section of this prospectus headed "Business — Overview of the business of the Group".

The Directors believe in the quality of the vehicles manufactured by the Dongfeng Motor Group , and are of the view that this, together with the strong brand names of the Group and its foreign joint venture partners, will allow the Group to remain competitive in the PRC automotive market. In addition, the Directors believe that the Dongfeng Motor Group's extensive and balanced product portfolio provides it with a greater base of earnings stability and makes it more resilient to adverse developments in any one sector of the PRC automotive market.

Please refer to the section in this prospectus headed "Industry Overview" for a more detailed discussion of the PRC automotive industry. Please refer to the section in this prospectus headed "Risk Factors" for a more detailed discussion of the risks faced by the Dongfeng Motor Group as a result of increased competition and China's entry into the WTO.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The PRC government has set vehicle emission level standards with which the products of the members of the Dongfeng Motor Group must comply. Pursuant to the environmental policies implemented by the relevant authorities in the PRC, all vehicles currently manufactured in the PRC must conform to the "Euro II" emission level standard. Since September 2003, all vehicles manufactured by the Group and the Dongfeng Joint Venture Companies have complied with the "Euro II" emission level standard. In addition, according to current plans, the new models of passenger vehicles to be developed by the Dongfeng Motor Group will comply with the Euro III emission level standard. As far as the Directors are aware, vehicles produced by the Dongfeng Motor Group have not breached any applicable environmental standards currently adopted in the PRC or any other countries to which the products of the Dongfeng Motor Group are exported.

The production facilities of the Dongfeng Motor Group are also subject to anti-pollution regulations imposed by the PRC government at various levels. The Dongfeng Motor Group pays particular attention to the environmental policies of the PRC government and its production process conforms to all applicable national and municipal environmental protection regulations in the PRC.

In addition, the members of the Dongfeng Motor Group also place great importance on health and safety in their production facilities, and the Directors believe that the health and safety standards of the production facilities of the Dongfeng Motor Group comply with relevant regulatory standards. As at 30th June, 2005, the Directors were not aware of any material production accidents which had occurred in the production facilities of the Dongfeng Motor Group during the three years ended 31st December, 2004 and the six months ended 30th June, 2005.

The major production facilities of the Dongfeng Motor Group have been granted certifications under the ISO 14001 standards on environmental management systems of the International Organization for Standardization.

PROPERTIES USED BY THE GROUP

The registered office of the Company is located at No.8, Car City Road North, Wuhan Economic Technology Development Zone, Wuhan, Hubei 430056, PRC. The principal place of business of the Company in the PRC is located at CITIC Bank Building, No.747, Jianshe Avenue, Hankou, Wuhan, Hubei 430015, PRC. The Company currently leases this property from an independent third party under a lease entered into on 26th August, 2004, the term of which ended on

31st August, 2005, at an annual rental of RMB1,296,000. The particulars of the properties owned, rented or otherwise occupied by the Group are set out in Appendix IV to this prospectus.

As disclosed in the Property Valuation report contained in Appendix IV of this prospectus, certain properties of the Dongfeng Motor Group are pending for title documents, considered defective in title, have not been provided with land use rights certificate or building ownership certificate (particulars of these properties can be further found in Appendix IV "Property Valuation" of this prospectus). The Company confirms and Sallmanns is of the opinion that the lack of proper title certificates of such properties, either individually or collectively as a whole or in part, will not adversely affect the business of the Group because they are not material to the Group's business activities. This is because the size of these properties without proper land use rights certificates is only approximately 155,559 square metres, among which approximately 31,912 sq.m. of land is registered under the name of Dongfeng Motor Corporation while the remaining land is registered under the name of third parties. These properties currently represent less than 1.69% of land (in terms of site area) owned by the Group and are either without proper land use rights certificates or are owned by the Group but have land use rights certificates under the name of Dongfeng Motor Corporation. The Company is currently in the process of applying for a name change of registration under its name. For the buildings which lack building ownership certificates, approximately 124,634 square metres. of buildings (or 5.04% of the aggregate gross floor area of buildings disclosed in the Property Valuation Report at Appendix IV) have not obtained the building ownership certificates. The properties without proper land use rights certificates are mainly used for industrial purposes. For example, 2.8% of these properties is used as ancillary offices, 7.2% as storage places, 66.3% as factories and 23.7% as ancillary facilities.

The Company believes that the lack of proper title certificates of certain land and properties will not adversely affect the business of the Dongfeng Motor Group as they are immaterial in terms of use, size and impact to the Dongfeng Motor Group's business operation. Among those land and properties, the percentage of land and property of the Company for which the Company may not obtain proper title certificates before the Listing is minimal. The Company's PRC legal counsel, Commerce & Finance Law Offices, confirms that, with respect to the land and properties to be retained by the Dongfeng Motor Group and for which the Dongfeng Motor Group is in the process of applying for proper title certificates or is to apply for the same in the future, there is no legal obstacle for the Dongfeng Motor Group to obtain the property title certificates for those land and property currently without proper title certificates. The Company is currently working to obtain property title certificates for those land and properties which currently do not have proper title certificates. Commerce & Finance Law Offices also confirms that there is little risk of legal claims against the Dongfeng Motor Group arising from the Dongfeng Motor Group retaining these land and properties. Where the transfer of legal title of the land and properties from Dongfeng Motor Corporation to the Dongfeng Motor Group is connected with the Reorganisation, an indemnity has been given by Dongfeng Motor Corporation pursuant the Reorganisation Agreement. Therefore, the Company believes that sufficient protection has been provided to it.

The Company has approximately 196,725 square metres of floor area of buildings which are currently under construction. It has obtained construction permits for approximately 184,159 square metres of floor area. It has 12,566 square metres of floor area of buildings under construction which do not have construction permits, among which Dongfeng Motor Co., Ltd owns 8,330 square metres and another JCE of the Company owns 4,236 square metres. Dongfeng Motor Co., Ltd is in the process of obtaining the outstanding construction permits and expects to obtain them before June 2006.

Such JCE of the Company was given express approval by the local authority to start construction before obtaining relevant construction permits. Such JCE of the Company plans to obtain construction permits before the buildings are completed. Commerce & Finance Law Offices, the PRC legal advisers of the Company, have confirmed that there is no legal obstacle for the Dongfeng Motor Group to obtain these outstanding construction permits. Dongfeng Motor Corporation has agreed to indemnify the Company for any losses that may arise out of the fact that the above buildings under construction do not have construction permits.

INSURANCE

The Group and its Dongfeng Joint Venture Companies have taken out insurance policies covering their fixed assets and inventories. Because it is not required to do so under current PRC law, the Dongfeng Motor Group does not maintain any insurance policies in relation to any losses arising from interruption of the Dongfeng Motor Group's business and product liability.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, all trademarks used by the Group are owned by Dongfeng Motor Corporation, and each of these trademarks has been registered with the Trademark Office of the PRC State General Administration for Industry and Commerce. In 29th October, 2005, Dongfeng Motor Corporation and the Company have entered into a trademark licence agreement pursuant to which the Company has been granted a non-exclusive right to use Dongfeng Motor Corporation's trademarks on a royalty-free basis, for an initial period of ten years, which is automatically renewable at the option of the Company for another ten years after the expiry of each ten-year term.

Each Dongfeng Joint Venture Company has been granted the right by its shareholders to use the trademarks and other intellectual property rights of its shareholders upon payment of royalties. In addition, the intellectual property rights to any trade-marks, know-how and patents which have been independently developed by a Dongfeng Joint Venture Company are generally owned by that Dongfeng Joint Venture Company.

Please refer to the section in this prospectus entitled "Risk Factors — A third party's inappropriate use of the trademark and tradename "Dongfeng" or any of the trademarks and tradenames of the joint venture partners that the Dongfeng Motor Group uses could negatively affect the results of operations and financial condition of the Group" for details of the risks associated with the Company's non-exclusive right to the trademarks used by the Dongfeng Motor Group.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, the Group was not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on the Group's financial condition and results of operations, taken as a whole. Notwithstanding the foregoing, in January 2005, the NDRC found that Dongfeng Motor Corporation had overstated the load capacity of some truck models manufactured by them. With respect to Dongfeng Motor Corporation, the NDRC found that it had overstated the load capacity of 89 truck models produced by the Group and ordered those models taken off the government's approved list. In addition, the NDRC ordered that all applications made by the Group in the first quarter of 2005 for the inclusion in the approval list of any new truck models be subject to a two-month application process. The Group believes that it has addressed the NDRC's concerns and rectified the problems identified by it, and that the NDRC's actions have not had, and will not have, a material adverse effect on the Group's business. Otherwise, as far as the Group is aware, no such material litigation, arbitration or administrative proceedings are threatened. Save as disclosed above, NDRC has imposed no other penalties, fines or charges on the Dongfeng Motor Group, and the Dongfeng Motor Group has not experienced any difficulty for its new truck models to be included in the government's approval list.

RELATIONSHIP WITH THE PARENT GROUP

Immediately prior to the Global Offering, Dongfeng Motor Corporation owned 100% of the share capital of the Company. Upon completion of the Global Offering, Dongfeng Motor Corporation will own and control approximately 70% of the Company's share capital (or 66.9% if the Over-allotment Option is exercised in full), and will be the largest and controlling shareholder of the Company.

Pursuant to the Reorganisation, the Company transferred certain auxiliary businesses, social benefits and insolvent companies not attributable to the core vehicle manufacturing and related businesses of the Company to Dongfeng Motor Corporation, with effect from 31st December, 2003 (being the "**Effective Date of the Reorganisation**"). Dongfeng Motor Corporation injected all of its core vehicle manufacturing and related businesses into the Company. Only certain vehicle manufacturing and related businesses that could not be injected into the Company due to various technical difficulties, all of the social services, certain investments in non-vehicle manufacturing related businesses and certain real properties were not injected. In particular, Dongfeng Motor Corporation has also retained its 88.59% shareholding in Dongfeng Chaoyang Diesel Co., Ltd. ("Chaoyang Diesel"), a subsidiary of Dongfeng Motor Corporation, which is engaged in the manufacture of diesel engines, its 70.15% shareholding in Dongfeng Nanchong Motor Co., Ltd, which is engaged in the manufacture of trucks, and its minor shareholding in several other companies that are engaged in the manufacture of motor vehicles and auto parts (these companies are described in more detail below in the section "Competition with Dongfeng Motor Corporation"). Please refer to the section of this prospectus headed "Business — History, Reorganisation and Group Structure" for details.

There will be continuing connected transactions between the Group and the Parent Group. Please refer to the section of this prospectus headed "Business — Continuing Connected Transactions" for details of these connected transactions.

Agreements Relating to the Reorganisation

A. Reorganisation Agreement

In connection with the Reorganisation, the Company entered into a reorganisation agreement (the "**Reorganisation Agreement**") with Dongfeng Motor Corporation on 29th October, 2005. Pursuant to the Reorganisation, the Company transferred certain auxiliary businesses, social benefits and insolvent companies not attributable to the core vehicle manufacturing and related businesses of the Company to Dongfeng Motor Corporation, with effect from the Effective Date of the Reorganisation. Dongfeng Motor Corporation injected all of its core vehicle manufacturing and related businesses into the Company except for certain vehicle manufacturing and related businesses that could not be injected into the Company due to various technical difficulties, all of the social services, certain investments in non-vehicle manufacturing related businesses and certain real properties.

Subject to certain provisions as contained in the Reorganisation Agreement, Dongfeng Motor Corporation has agreed to promptly and fully indemnify the Company for any claims, prosecution, litigation, arbitration, losses, damages, payments, costs, fees and expenses incurred in connection with or arising from assets transferred to the Company from Dongfeng Motor Corporation.

Further, in relation to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd, Dongfeng Motor Corporation has undertaken in the Reorganisation Agreement to transfer its rights and obligations under the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd to the Company at the earliest opportunity. Before such transfer, Dongfeng Motor Corporation has undertaken to:

1. exercise all its rights and obligations under the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd in accordance with the Company's directions, and
2. notify the Company immediately should any event come to Dongfeng Motor Corporation's attention which would require an exercise of any of its rights or performance of any of its obligations under the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd or which would affect the businesses, financial condition or operations of Dongfeng Honda Engine Co., Ltd.

Dongfeng Motor Corporation has undertaken in the Reorganisation Agreement to indemnify the Company upon demand against all losses, expenses, costs, damages suffered by the Company and which are caused by, related to, or arise from its failure to act in accordance with the Company's directions (which must be given within the authority granted to the Company under the Reorganisation Agreement in relation to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd). The above indemnity obligations of Dongfeng Motor Corporation in relation to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd will continue without limit in time.

B. Assets Transfer Agreement

To effect the Reorganisation, Dongfeng Motor Corporation and the Company entered into the Assets Transfer Agreement on 26th August, 2004 and a supplemental Asset Transfer Agreement on 31st August, 2004 (the "**Assets Transfer Agreement**"), pursuant to which the Company transferred to Dongfeng Motor Corporation assets in relation to certain auxiliary business, social benefits and insolvent companies, effective from 31st December, 2003, (being the Effective Date of the Reorganisation).

According to the Assets Transfer Agreement, after the transfer of the assets and liabilities is effected, all benefits and liabilities related to these assets and liabilities will be attributed to or borne by Dongfeng Motor Corporation. Dongfeng Motor Corporation has further agreed that it will bear the costs of taxes which arise or may arise from the transfer of such assets.

If the consent of third parties or registration is required before the transfer of certain assets or liabilities to Dongfeng Motor Corporation can be effected, the Company will hold such assets and liabilities on behalf of Dongfeng Motor Corporation until such processes are completed. During this period, all benefits which arise shall be attributed to and all liabilities which arise shall be borne by Dongfeng Motor Corporation.

In respect of the transactions described in the Reorganisation Agreement and the Assets Transfer Agreement, except for the mutual indemnification provisions given by Dongfeng Motor Corporation and the Company to each other in the Reorganisation Agreement and the Share Transfer Agreement, the rights and obligations of Dongfeng Motor Corporation and the Company under these two agreements have been performed and will not continue after the listing of the H Shares on the Stock Exchange. Therefore, these transactions, which were completed prior to the listing of the H Shares on the Stock Exchange, will not be subject to any disclosure or shareholders' approval requirements related to connected transactions under the Listing Rules.

Continuing Connected Transactions

The Company has entered into a number of services agreements and leasing agreement with Dongfeng Motor Corporation and its Associates.

A. Land Use Rights Leasing Agreement

The Group has on 29th October, 2005 entered into a land use rights leasing agreement with Dongfeng Motor Corporation ("**Land Use Rights Leasing Agreement**") in relation to the lease of: (i) three parcels of land in Xiangfan used as the Vehicle Testing Site (which cover an aggregate area of 1,892,684 square metres); (ii) four parcels of land for use by the Professional Equipment Plant of the Company (which cover an aggregate area of 114,447 square metres); (iii) nine parcels of land for use by the Power Equipment Plant of the Company (which cover an aggregate area of 112,924 square metres); and (iv) five parcels of land for use by Dongfeng (Shiyan) Special Purpose Commercial Vehicle Co., Ltd (東風(十堰)特種 商用車有限公司) (which cover an aggregate area of 54,679 square metres) (collectively the "**Leased Properties**").

The term of the lease commenced from the first day of the month immediately after the date on which dealings in H Shares on the Stock Exchange commence and will expire on 31st August, 2052. The Directors consider the length of the term to be consistent with normal business practice and secures long term land use rights for the Group. Sallmanns (Far East) Limited, an independent valuer of the Company and the Joint Sponsors (based on the opinion of Sallmanns), are also of the same view and have confirmed that it is normal business practice for contracts of this type to be of such duration.

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

The Group may require Dongfeng Motor Corporation to renew the term of the lease by giving notice to it twelve months before the expiry of the lease. The Group may, by giving six months' written notice, terminate the lease of all or some of the Leased Properties. If the lease of some of the lands is terminated, the rent payable by the Group shall be reduced accordingly. According to the Land Use Rights Leasing Agreement, Dongfeng Motor Corporation cannot terminate the lease unilaterally without the Group's consent unless the Group has changed the use of the Leased Properties without the consent of Dongfeng Motor Corporation.

The Group has agreed to use the Leased Properties within the scope of the rights granted to Dongfeng Motor Corporation by the PRC government. Should the Group wish to modify the manner in which it uses some or all of the Leased Properties, the Group may notify Dongfeng Motor Corporation. Dongfeng Motor Corporation shall determine within 30 days whether it agrees to such modification, and if so, seek the necessary regulatory approvals. Dongfeng Motor Corporation has agreed to pay land taxes, fees and other statutory charges relating to the Leased Properties.

The rent payable under the Land Use Rights Leasing Agreement is determined at arms' length and reflects market rates and the Land Use Rights Leasing Agreement is entered into on normal commercial terms. Sallmanns has confirmed that the rental fees payable by the Group under the Land Use Rights Leasing Agreement are not higher than the prevailing market rates.

No historical figures are available as the Leased Properties were previously leased to the Company or its subsidiaries on a rent-free basis.

B. Provision of Ancillary Services

Dongfeng Motor Corporation has retained certain assets and businesses which provide ancillary services (being supply of water, electricity and steam) to the core businesses of the Dongfeng Motor Group. These assets and businesses will continue to provide ancillary services to the Dongfeng Motor Group after the Listing.

In this connection, on 29th October, 2005 the Company entered into the following agreements on provision of ancillary services with Dongfeng Motor Corporation, whereby, effective from the date on which dealings in the H Shares on the Stock Exchange commence, Dongfeng Motor Corporation has agreed to provide the following services to the Dongfeng Motor Group:

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

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

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

(together the "**Ancillary Services Agreements**")

The Ancillary Services Agreements are each for a term of three years commencing from the date on which dealings in the H Shares on the Stock Exchange commence.

Dongfeng Motor Corporation and the Company have agreed that the Dongfeng Motor Group will give priority in using the services of Dongfeng Motor Corporation if the terms offered by Dongfeng Motor Corporation are no less favourable than the terms offered by an independent third party. Moreover, Dongfeng Motor Corporation and the Company have agreed that Dongfeng Motor Corporation is entitled to provide the relevant services to third parties provided that it will not affect the provision of services under the Ancilliary Services Agreements. If the services supplied by Dongfeng Motor Corporation cannot satisfy the needs of the Dongfeng Motor Group in any respect, the Company may obtain such services from independent third parties. Dongfeng Motor Corporation will not, and will procure its subsidiaries not to, provide services to the Dongfeng Motor Group on terms which are less favourable than those offered to independent third parties.

The Dongfeng Motor Group will provide to Dongfeng Motor Corporation on a monthly basis an assessment of the ancillary services required in the coming month. The members of the Parent Group and the members of the Dongfeng Motor Group requiring or providing the relevant services may enter into specific agreements which set out the terms and conditions under which such products and/or services are to be provided. Such agreements shall be entered into in accordance with the provisions of the relevant Ancilliary Services Agreement.

Each Ancillary Services Agreements provides that the parties to specific agreements may terminate the provision of any products and services by giving three months' prior written notice. However, if the Dongfeng Motor Group cannot conveniently obtain certain services from an independent third party, Dongfeng Motor Corporation shall not terminate the provision of such services under any circumstances.

The above services shall be provided: at (i) the government-prescribed prices; (ii) where there is no government-prescribed price but where there is a government-guidance price, the government-guidance prices; and (iii) where there is neither a government-prescribed price nor a government-guidance price, the market prices. The market price is defined as the price at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business.

The prices for electricity, water and steam are currently prescribed by the government.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the water supply fees paid by the Dongfeng Motor Group from continuing operations were approximately RMB23 million, RMB28 million, RMB35 million and RMB18 million, respectively.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the steam supply fees paid by the Dongfeng Motor Group from continuing operations were approximately RMB47 million, RMB55 million, RMB70 million and RMB94 million, respectively.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the electricity fees paid by the Dongfeng Motor Group from continuing operations were approximately RMB224 million, RMB305 million, RMB381 million and RMB192 million, respectively.

As the transfer of the auxilliary and non-core businesses of the Company to Dongfeng Motor Corporation became effective from 31st December, 2003, the historical prices for electricity, water and steam for the two years ended 31st December, 2003 relate to such services provided within the Group.

The total forecast amounts to be paid by the Dongfeng Motor Group to Dongfeng Motor Corporation for water supplied under the Water Supply Agreement are RMB59 million, RMB64 million and RMB74 million for the three years ending 31st December, 2007, respectively. These forecasts are extrapolated from the historical rate of usage, expected growth of production and usage, expected increase in demand and unit price and increase in production capacity of the Dongfeng Motor Group.

The total forecast amounts to be paid by the Dongfeng Motor Group to Dongfeng Motor Corporation for steam supplied under the Steam Supply Agreement are RMB111 million, RMB117 million and RMB120 million for the three years ending 31st December, 2007, respectively. These forecasts are extrapolated from the historical rate of usage, expected growth of production and usage, expected increase in demand and unit price and increase in production capacity of the Dongfeng Motor Group.

The total forecast amounts to be paid by the Dongfeng Motor Group to Dongfeng Motor Corporation for electricity supplied under the Electricity Supply Agreement are RMB560 million, RMB545 million and RMB589 million for the three years ending 31st December, 2007, respectively. These forecasts are extrapolated from the historical rate of usage, expected growth of production and usage, expected increase in demand and unit price and increase in production capacity of the Dongfeng Motor Group.

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

Before the Listing, the Group has been purchasing diesel engines from Chaoyang Diesel. Chaoyang Diesel has also been purchasing other auto parts from the Group. After the Listing, the Group will continue to purchase diesel engines from Chaoyang Diesel and Chaoyang Diesel will continue to purchase other auto parts from the Group.

In this connection, on 29th October, 2005, Chaoyang Diesel and the Company entered into the Mutual Supply Agreement effective from the date on which dealings in the H Shares on the Stock Exchange commence, whereby the parties agreed the following:

(i) Chaoyang Diesel will supply diesel engines to the Group; and

(ii) the Group will supply other auto parts to Chaoyang Diesel.

The Mutual Supply Agreement is for a term of three years commencing from the date on which dealings in the H Shares on the Stock Exchange commence.

Pursuant to the Mutual Supply Agreement, Chaoyang Diesel undertakes that in any transactions between Chaoyang Diesel and the Group, Chaoyang Diesel shall not (i) provide diesel engines to the Group on terms which are less favourable than those offered by it to third parties; or (ii) receive any auto parts from the Group on terms which are more favourable than those offered by the Group to third parties or offered to it by third parties.

Chaoyang Diesel and the Company have agreed that, with the terms and conditions offered by an independent third party being equal, they shall give priority in sourcing the auto parts from each other. Subject to the above and if the auto parts supplied by Chaoyang Diesel cannot satisfy the needs of the Group in any respect, the Group may obtain such auto parts from third parties.

Moreover, Chaoyang Diesel has agreed that the Group is entitled to provide the relevant products to third parties provided that it will not affect the provision of auto parts to the Group under the Mutual Supply Agreement. Chaoyang Diesel has agreed to give priority in the provision of auto parts to the Group.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the expenditure of the Group for the auto parts from Chaoyang Diesel was approximately RMB579 million, RMB483 million, RMB380 million and RMB258 million, respectively.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the expenditure of Chaoyang Diesel for the auto parts from the Group was approximately RMB30 million, RMB32 million, RMB37 million and RMB21 million, respectively.

As the transfer of the auxilliary and non-core businesses of the Company to Dongfeng Motor Corporation became effective from 31st December, 2003, the historical prices for the transactions between the Group and Chaoyang Diesel for the two years ended 31st December, 2003 relate to such services provided within the Group.

The total forecast amount to be paid by the Group to Chaoyang Diesel for auto parts under the Mutual Supply Agreement are RMB480 million, RMB570 million and RMB740 million, respectively for the three years ending 31st December, 2007. The forecasts are extrapolated from the historical expenditure, expected growth of production and usage, expected increase in demand and unit price for auto parts and increase in production capacity of the Group.

The total forecast amount to be paid by Chaoyang Diesel to the Group for auto parts under the Mutual Supply Agreement are RMB150 million, RMB230 million and RMB270 million, respectively for the three years ending 31st December, 2007. The forecasts are extrapolated from the historical expenditure, expected growth of production and usage, expected increase in demand and unit price for auto parts and increase in production capacity of Chaoyang Diesel.

D. Trademarks Licence Agreement

The Company and Dongfeng Motor Corporation entered into a Trademarks Licence Agreement on 29th October, 2005 (the "**Trademarks Licence Agreement**") whereby Dongfeng Motor Corporation has granted to the Company a non-exclusive right to use certain trademarks owned by and registered in the name of Dongfeng Motor Corporation (the "**Licensed Trademarks**") effective from the date on which dealings in H Shares on the Stock Exchange commence. The Licensed Trademarks are currently being used by the Group.

The Licensed Trademarks were licensed at no cost to the Company for a fixed period of 10 years. Upon expiration of the term, the agreement automatically renews for another ten years after the expiry of each ten-year term. The Directors consider the duration to be consistent with normal business practices and secures long term rights for the Company. Commerce & Finance Law Offices, PRC legal counsel to the Company, and the Joint Sponsors (based on the opinion of Commerce & Finance Law Offices) are also of the same view and have confirmed that it is normal business practice for contracts of this type to be of such duration.

The Company undertakes to use the Licensed Trademarks within the scope specified in the Trademarks Licence Agreement. Dongfeng Motor Corporation is responsible for the timely payment of fees for maintaining effective registration of the Licensed Trademarks, to seek protection of the Licensed Trademarks by the relevant administrative authorities according to the reasonable requests of the Company and to resolve any disputes or infringements relating to such Licensed Trademarks.

The Company shall not sub-license the Licensed Trademarks to, or allow the use of the Licensed Trademarks by, any third parties, without the prior written consent of Dongfeng Motor Corporation. Dongfeng Motor Corporation is entitled to license any of the Licensed Trademarks to its subsidiaries and associated companies provided that the Company considers the terms of such licences shall not be more favourable than the terms of the Trademarks Licence Agreement.

E. Social Insurance Funds

During the Relevant Period, the Group has made contributions to the following funds or plans in accordance with the local regulations of the PRC: (i) basic pension fund; (ii) supplementary pension fund; (iii) medical insurance; (iv) unemployment insurance; and (v) housing provident fund (collectively, the "**Social Insurance Funds**").

Payments have been made to or through a separate department within Dongfeng Motor Corporation (the "**Social Insurance Department**") that has been responsible for handling all matters relating to Social Insurance Funds within some parts of the Group located within the Hubei Province, the structure of which is typical amongst State-owned enterprises. After Listing, the Company will continue to make contributions to the Social Insurance Funds to or through the Social Insurance Department.

(a) Basic Pension Fund and Supplementary Pension Fund

According to approval letters issued by the Labour and Social Welfare Coordination Office of Hubei Province (Document No.119 of 2002 and Document No.16 of 2003), Dongfeng Motor Corporation has been appointed by the State to be responsible for handling matters relating to the basic pension fund and the supplementary pension fund within Dongfeng Motor Corporation and its subsidiaries, including the Group.

As stated in Rule 19A.19 of the Listing Rules, the Stock Exchange will normally not treat a PRC Governmental Body (as defined in Rule 19A.04) as a connected person of a PRC issuer. While the Social Insurance Department of Dongfeng Motor Corporation is not, technically, a PRC Governmental Body, the functions that it has been carrying out are the same as those that would otherwise be carried out by the State. In any event, all payments made by the Company for the purpose of contribution to the basic pension fund are passed on in their entirety to the governmental social insurance departments for their further handling on behalf of the State. The Social Insurance Department of Dongfeng Motor Corporation is only acting as the agent of the State in this regard.

(b) Medical Insurance

According to the approval letter issued by the Medical Reform Office of Hubei Province (Document No.011 of 1999), Dongfeng Motor Corporation has been appointed by the State to be responsible for handling matters relating to medical insurance within Dongfeng Motor Corporation and its subsidiaries, including the Group. The Social Insurance Department of Dongfeng Motor Corporation is only acting as the agent of the State in this regard.

(c) Unemployment Insurance

According to the approval letter issued by the Labour and Social Welfare Coordination Office of Hubei Province (Document No.343 of 2003), Dongfeng Motor Corporation has been appointed by the State to be responsible for handling matters relating to unemployment insurance within some parts of Dongfeng Motor Corporation and its subsidiaries, including the Group, located within the Hubei Province.

Similar to payments made for the purpose of contribution to the basic pension fund, all payments made by the Company for the purpose of contribution to the unemployment insurance are passed on in their entirety to the tax bureau for their further handling on behalf of the State. The Social Insurance Department of Dongfeng Motor Corporation is only acting as the agent of the State in this regard.

(d) Housing Provident Insurance

According to the approval letter issued by the General Office of the People's Government of Shiyan Municipality (Document No.031 of 2002), Dongfeng Motor Corporation has been appointed by the State to be responsible for handling matters relating to housing provident insurance within Dongfeng Motor Corporation and its subsidiaries, including the Group. The Social Insurance Department of Dongfeng Motor Corporation is only acting as the agent of the State in this regard.

Waivers from the Stock Exchange

Following completion of the Global Offering, the Company will continue the transactions described in paragraphs A to D above. The Directors (including the independent non-executive Directors) are of the opinion that the transactions set out above have been entered into and will be carried out in the ordinary and usual course of business of the members of the Group and on normal commercial terms which are fair and reasonable so far as the interests of the shareholders of the Company are concerned.

Set out below is a summary of the abovementioned transactions, the relevant Listing Rules or exemption applicable, whether or not a waiver is being sought and, if so, the cap applicable:

Type of Transaction	Applicable Listing Rule /Exemption	Requirement from which Waiver Sought	Cap. (if applicable)
1. Reorganisation	—	—	N/A
2. Land Use Rights Leasing Agreement	Rule 14A.34 Rule 14A.47	Announcement requirement	RMB20.35 million (being equivalent to the annual rent, subject to the amount being reviewed every three years and the new amount of rent payable will not be higher than the then prevailing market rent as confirmed by an independent valuer)
3. Provision of Ancillary Services	Rule 14A.35 Rule 14A.47 and 14A.48	Announcement requirement and independent shareholders' approval requirements	Water Supply: for the three years ending 31st December, 2007, the cap is set at RMB59 million, RMB64 million and RMB74 million, respectively Steam Supply: for the three years ending 31st December, 2007, the cap is set at RMB111 million, RMB117 million and RMB120 million, respectively Electricity Supply: for the three years ending 31st December, 2007, the cap is set at RMB560 million, RMB545 million and RMB589 million, respectively
4. Mutual Supply Agreement	Rule 14A.34 and 14A.35 Rule 14A.47 and 14A.48	Announcement and independent shareholders' approval requirements	Diesel Engines payable by the Group: for the three years ending 31st December, 2007, the cap is set at RMB480 million, RMB570 million and RMB740 million, respectively
		Announcement requirement	other Auto parts payable by Chaoyang Diesel: for the three years ending 31st December, 2007, the cap is set at RMB150 million, RMB230 million and RMB270 million, respectively
5. Trademarks Licence Agreement	Rule 14A.33(3) (De Minimis transaction)	—	N/A
6. Social Insurance Funds	Rule 19A.19 (PRC Governmental Body)	—	N/A

Non-exempt continuing connected transaction — Waiver from Announcement Requirements

For the continuing connected transaction in paragraphs A and C (in respect of auto parts supplied by the Group to Chaoyang Diesel), each of the percentage ratios (other than the profit ratio), where applicable, is, on an annual basis, expected to be less than 2.5% or more than 2.5% but less than 25% and the annual consideration is less than HK$10 million under Rule 14A.34 of the Listing Rules. Such transaction is exempt from the independent shareholders' approval requirements but is subject to the reporting and announcements requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As this continuing connected transaction is expected to continue on a recurring basis, the Directors consider that compliance with the announcement requirements would be impractical and would add unnecessary administrative costs to the Company. Accordingly, the Company has applied for a waiver from compliance with this requirement under Rule 14A.42(3) of the Listing Rules.

The Company has confirmed that it will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39, 14A.40 and 14A.41 of the Listing Rules.

Non-exempt continuing connected transaction — Waiver from Announcement and Independent Shareholders' Approval Requirements

The continuing connected transaction in paragraphs B and C (in respect of engines supplied by Chaoyang Diesel to the Group) are considered to be non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to the reporting and announcements requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirements set out in Rule 14A.34 of the Listing Rules.

As these continuing connected transactions are expected to continue on a recurring basis, the Directors consider that compliance with the announcement and/or independent shareholders' approval requirements would be impractical and would add unnecessary administrative costs to the Company. Accordingly, the Company has applied for a waiver from compliance with this requirement under Rule 14A.42(3) of the Listing Rules.

The Company has confirmed that it will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39, 14A.40 and 14A.41 of the Listing Rules.

Caps in respect of Certain Transactions

The maximum aggregate annual value for the water supply fees under the Water Supply Agreement for the three years ending 31st December, 2007 shall not exceed RMB59 million, RMB64 million and, RMB74 million, respectively. This amount is equivalent to the forecast figure for the three years ending 31st December, 2007. The Company arrived at the caps based on the historical figure for water usage for the three years ended 31st December 2004 and the six months ended 30th June, 2005 with estimated growth in water usage based on the reasonable expected production growth rates of the Dongfeng Motor Group in the three years ended 31st December, 2007. The caps have also taken into account the reduction in water usage after the Reorganisation, whereby some businesses have been transferred to Dongfeng Motor Corporation pursuant to the Reorganisation.

The maximum aggregate annual value for the steam supply fees under the Steam Supply Agreement for the three years ending 31st December, 2007 shall not exceed RMB111 million, RMB117 million and, RMB120 million, respectively. This amount is equivalent to the forecast figure for the three years ending 31st December, 2007. The Company arrived at the caps based on the historical figure for steam usage for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 with estimated growth in steam usage based on the reasonable expected production rates of the Dongfeng Motor Group in the three years ended 31st December, 2007. The caps have also taken into account the reduction in steam usage after the Reorganisation, whereby some businesses have been transferred to Dongfeng Motor Corporation pursuant to the Reorganisation.

The maximum aggregate annual value for the electricity fees under the Electricity Supply Agreement for the three years ending 31st December, 2007 shall not exceed RMB560 million, RMB545 million, and RMB589 million, respectively. This amount is equivalent to the forecast figure for the three years ending 31st December, 2007. The Company arrived at the caps based on the historical figure for electricity usage for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 with estimated growth in electricity based on the reasonable expected production rates of the Dongfeng Motor Group for the three years ended 31st December, 2007. The caps have also taken into account the reduction in electricity usage after the Reorganisation, whereby some businesses have been transferred to Dongfeng Motor Corporation pursuant to the Reorganisation.

The maximum aggregate annual value for auto parts payable by the Group pursuant to the Mutual Supply Agreement for the three years ending 31st December, 2007 shall not exceed RMB480 million, RMB570 million and RMB740 million, respectively. This amount is equivalent to the forecast figure for the three years ending 31st December, 2007. The Company arrived at the cap based on the historical expenditure of the Group for purchasing auto parts from Chaoyang Diesel for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 and the estimated demand for auto parts by the Group from Chaoyang Diesel based on expected production rates of the Group in the three years ended 31st December, 2007.

The maximum aggregate annual value for auto parts payable by the Chaoyang Diesel pursuant to the Mutual Supply Agreement for the three years ending 31st December, 2007 shall not exceed RMB150 million, RMB230 million and RMB270 million, respectively. This amount is equivalent to the forecast figure for the three years ending 31st December, 2007. The Company arrived at the cap based on the historical expenditure of Chaoyang Diesel for purchasing auto parts from the Group for the three years ended 31st December, 2004 and the six months ended 30th June, 2005 and the estimated demand for auto parts by Chaoyang Diesel from the Group based on expected production rates of Chaoyang Diesel in the three years ended 31st December, 2007.

Confirmation from the Joint Sponsors

The Joint Sponsors have reviewed relevant documents, information and historical figures provided by the Company and have participated in due diligence and discussions among the Company and its legal advisers and have also considered representations and confirmations from the Directors and the Company to satisfy themselves of the reliability of the information provided in relation to the connected transactions described in paragraphs A to D of the section headed “Business — Continuing Connected Transactions”. Based on the above, the Joint Sponsors are of the view that (i) the transactions in paragraphs A to D above are on normal commercial terms and in the ordinary course of the Company’s business and such transactions are fair and reasonable as far as the Company’s shareholders as a whole are concerned and (ii) that the proposed annual caps for these continuing connected transactions are fair and reasonable and are in the interest of the shareholders of the Company as a whole.

Competition with Dongfeng Motor Corporation

Existing Competition

Following the Reorganisation, Dongfeng Motor Corporation continues to hold equity interests in the following enterprises, which compete with the business of Dongfeng Motor Group ("Competing Enterprises"). Dongfeng Motor Corporation does not have any other business relationship with the joint venture partners in the Company's Jointly-controlled Entities, save for the business operations of the Dongfeng Motor Group. There are currently approximately 30 members in the Management Committee of Dongfeng Motor Corporation. Each of the executive directors of the Company (Mr. Xu Ping, Mr. Liu Zhangmin, Mr. Zhou Wenjie, Mr. Li Shaozhu, Mr. Fan Zhong) devotes most of his time managing the day-to-day operations of the Company, even though each of them is also a member of the Management Committee of Dongfeng Motor Corporation. The majority of these executive directors of the Company do not have executive functions in Dongfeng Motor Corporation. The Management Committee of Dongfeng Motor Corporation is responsible for, amongst others, reviewing and approving the company's development plan, annual budget, dividend distribution, substantial corporate changes, reviewing the company's daily operation and dealing with major operational problems. Further, the independent non-executive directors of the Company do not hold any positions with Dongfeng Motor Corporation. Dongfeng Motor Corporation intends to operate the Competing Enterprises. The Company further confirms that its management is not involved in the daily operations of those excluded companies which have competing businesses with the Company's businesses. If and when such Competing Enterprises prove financially beneficial to their shareholders, subject to existing contractual obligations of Dongfeng Motor Corporation, the Company may consider exercising its option, or its first right of refusal, pursuant to the non-competition agreement to purchase the above Competing Enterprises.

(1) Chaoyang Diesel

Chaoyang Diesel, 88.59% owned by Dongfeng Motor Corporation and 11.41% owned by China Huarong Asset Management Corporation, is engaged in the manufacture of diesel engines, which competes with the business of Dongfeng Motor Co., Ltd.

The Dongfeng Motor Group is capable of and has carried on its diesel engine manufacturing business independently of, and at arm's length from, the business of Dongfeng Chaoyang Diesel Company. Chaoyang Diesel has registered capital of RMB361,487,900 and net assets of approximately RMB504,738,131 as of 31st December, 2004. Its pre-tax profit for the year ended 31st December, 2004 was approximately RMB13,810,217. Dongfeng Chaoyang Diesel Company is managed by its board of nine directors. Eight directors are appointed by Dongfeng Motor Corporation and one director is appointed by China Huarong Asset Management Corporation.

As Dongfeng Motor Corporation was granted its shareholding in Chaoyang Diesel by the provincial government of Liaoning and at the request of the provincial government of Liaoning, Chaoyang Diesel is currently undergoing extensive asset and business reorganisation involving third parties. The Company considers that Chaoyang Diesel is currently not suitable for injection into the Group because of the undergoing reorganisation. The Directors consider that the business of Chaoyang

Diesel is currently not material to the business of the Dongfeng Motor Group as a whole. Further, the Directors consider that the extent of competition of the business of Chaoyang Diesel will not have a material impact on the business of the Dongfeng Motor Group as a whole. The Company confirms that after the completion of the asset and business reorganisation, when the Company considers it beneficial to do so, the Company may consider exercising its option to purchase competing businesses of Dongfeng Motor Corporation under the non-competition agreement to acquire Chaoyang Diesel.

(2) Dongfeng Nanchong Motor Co., Ltd

Dongfeng Nanchong Motor Co., Ltd, 70.15% owned by Dongfeng Motor Corporation, is engaged in the manufacture of trucks, which competes with the business of Dongfeng Motor Co., Ltd.

Dongfeng Motor Group is capable of and has carried on its truck manufacturing business independently of, and at arm's length from, the business of Dongfeng Nanchong Motor Co., Ltd. Dongfeng Nanchong Motor Co., Ltd has registered capital of RMB61,830,000 and net assets of RMB292,170,932 as of 31st December, 2004. Its pre-tax losses for the year ended 31st December, 2004 were approximately RMB69,937,757. Dongfeng Nanchong Motor Co., Ltd is managed by its board of seven directors. Four directors are appointed by Dongfeng Motor Corporation, two directors are appointed by China Huarong Asset Management Corporation and one director is appointed by a local factory.

Dongfeng Nanchong Motor Co., Ltd is currently undergoing certain asset and debt restructuring involving outstanding claims of creditors which is still subject to certain outstanding PRC legal procedures before it can be completed. It is therefore currently not suitable for injection into the Group. The Directors consider that the business of Dongfeng Nanchong Motor Co., Ltd is currently not material to the business of the Dongfeng Motor Group as a whole. Further, the Directors consider that the extent of competition of the business of Dongfeng Nanchong Motor Co., Ltd will not have a material impact on the business of the Dongfeng Motor Group as a whole. After the completion of the debt restructuring and if conditions and terms are favourable to the Company, the Company may consider to exercise its option to purchase competing businesses of Dongfeng Motor Corporation under the non-competition agreement to acquire Dongfeng Nanchong Motor Co., Ltd.

(3) Dongfeng Yueda Kia Motors Co., Ltd

Dongfeng Yueda Kia Motors Co., Ltd is a Joint Venture Company established in the PRC which is 25% owned by Dongfeng Motor Corporation, 50% owned by Kia Motors Corporation and 25% owned by Jiangsu Yueda Investment Joint Stock Co., Ltd. Dongfeng Yueda Kia Motors Co., Ltd is principally engaged in the manufacture of Kia series of passenger vehicles, which competes with the passenger vehicles manufactured and sold by the Dongfeng Motor Group. As at 30th June, 2005, Dongfeng Yueda Kia Motor Co., Ltd produced four series of Kia passenger vehicles, namely Dongfeng Kia Accent (also known as Dongfeng Kia Qianlima), Kia Cerato, Kia Carnival and Kia Optima.

Dongfeng Yueda Kia Motors Co., Ltd has always been managed and operated independently from the Group and the other joint venture entities of the Dongfeng Motor Group. In addition, since the Company has never had any equity interests in this Joint Venture Company, its financial results were not incorporated into the financial results of the Group during any of the Relevant Periods. Accordingly, the Group is capable of carrying on, and has carried on, its passenger vehicle manufacturing business independently of, and at arm's length from, the business of Dongfeng Yueda Kia Motors Co., Ltd.

Dongfeng Yueda Kia Motors Co., Ltd has not been injected into the Group because the joint venture partners have not agreed to mutually acceptable terms for the transfer of Dongfeng Motor Corporation's 25% equity interests to the Company. The Directors consider that the business of Dongfeng Yueda Kia Motors Co., Ltd is currently not material to the business of the Group and that the extent of competition between its businesses and the businesses of Dongfeng Yueda Kia Motors Co., Ltd will not have a material impact on the business of the Group. If the joint venture partners are able to agree on mutually acceptable terms for the transfer of Dongfeng Motor Corporation's equity interest in Dongfeng Yueda Kia Motors Co., Ltd to the Company in the future, the Company may consider to exercise its option to purchase competing businesses of Dongfeng Motor Corporation under the non-competition agreement in order to acquire Dongfeng Motor Corporation's equity interests in Dongfeng Yueda Kia Motors Co., Ltd.

(4) Other Companies

Dongfeng Motor Corporation also has equity interests in the following companies which compete with the businesses of Dongfeng Motor Co., Ltd.

Dongfeng Motor Corporation has a 50% interest in Dongfeng Shenyu Motor Co., Ltd, which is engaged in the manufacture of trucks, which competes with the business of Dongfeng Motor Co., Ltd. Dongfeng Shenyu Motor Co., Ltd is currently undergoing certain corporate restructuring to complete previous share repurchases which is still subject to certain outstanding PRC legal procedures before it can be completed. It is therefore currently not suitable for injection into the Group. The Directors consider that the business of Dongfeng Shenyu Motor Co., Ltd is currently not material to the business of the Dongfeng Motor Group as a whole. Further, the Directors consider that the extent of competition of the business of Dongfeng Shenyu Motor Co., Ltd will not have a material impact on the business of the Dongfeng Motor Group as a whole. After the completion of the corporate restructuring and if conditions and terms are favourable to the Company, the Company may consider to exercise its option to purchase competing businesses of Dongfeng Motor Corporation under the non-competition agreement to acquire Dongfeng Shenyu Motor Co., Ltd.

Dongfeng Motor Corporation has a 50% interest in Dongfeng Huatai (Tianmen) Aluminium Wheel Hubs Co., Ltd (東風華泰(天門)鋁輪轂有限公司), which is engaged in the manufacture of aluminium wheel hubs and competes with the business of Dongfeng Motor Co., Ltd. Dongfeng Motor Corporation acquired the 50% interest in the share capital of the company only in 2003. As the company has certain contingent liabilities and it is not a company which is material to the business of the Group, the Directors of the Company believe that it is not appropriate for the Company to acquire Dongfeng Huatai (Tianmen) Aluminium Wheel Hubs Co., Ltd before the listing. Currently, this company is managed by Dongfeng Motor Co., Ltd for a term of three years effective from 16th June, 2003.

Dongfeng Motor Corporation has less than 22% interest in each of Anshan Bus Manufacturing Corporation (鞍山客車制造總公司), which is engaged in the manufacture of buses, Hengshan Special Vehicle Manufacturing Factory (衡山專用汽車制造廠), which is engaged in the conversion of vehicles, Wuhan Bus Factory of Hubei Futong Motor Holdings Company (湖北福通汽車集團公司武漢客車廠), which is engaged in the manufacture of buses, Hubei Shenyan Special Vehicle Frames Factory

(湖北神燕專用汽車車架廠), which is engaged in the manufacture of car frames, Sanhuan Group Shiyan Auto Body Systems Co., Ltd (三環集團十堰車身系統有限公司), which is engaged in the manufacture of auto body systems, Jiangxi Shangrao Bus Factory (江西上饒客車廠), which is engaged in the manufacture of buses, Hunan Auto Bridges Factory (湖南汽車車橋廠), which is engaged in the manufacture of auto bridges and Longri Bus Co., Ltd (龍日客車有限公司), which is engaged in the manufacture of buses. These companies compete with the businesses of Dongfeng Motor Co., Ltd. They are passive investments of Dongfeng Motor Corporation and the investment values are relatively low. Dongfeng Motor Corporation currently intends to withdraw its investments in these companies.

As disclosed above, the Directors consider that the excluded businesses in aggregate are not material to the Group and that the extent of competition will not have significant impact on the business of the Group. The businesses of the Group are delineated from the excluded businesses in the aspects of the branding of the products, the source of technology and the relevant technology backup and the sales channels. Further, substantially all the assets relating to the businesses of the Dongfeng Motor Group are held by the Dongfeng Motor Group and the management of the businesses of the Dongfeng Motor Group are within the Dongfeng Motor Group. As such, the Directors consider that the Dongfeng Motor Group is capable of carrying on, and has carried on, its various businesses independently of, and at arm's length from, the business of the above companies. The production capacities of the above companies are relatively small compared to the production capacity of the Dongfeng Motor Group.

In order to minimise the competition between the Competing Enterprises and the Dongfeng Motor Group , Dongfeng Motor Corporation has granted the Company various undertakings. See the section below headed "Non-Competition Agreement" for details.

Non-Competition Agreement

In connection with the Reorganisation, Dongfeng Motor Corporation entered into a non-competition agreement with the Company on 29th October, 2005. For the purpose of the non-competition agreement, automotive manufacturing and related business is defined as:

- production and sale of auto parts, commercial and passenger vehicles and diesel engines, and other related products; and
- research and development of auto parts, commercial and passenger vehicles production technology.

In respect of the business of automotive manufacturing and related business of the Dongfeng Motor Group as listed above, Dongfeng Motor Corporation has undertaken in the non-competition agreement that:

(1) Dongfeng Motor Corporation shall notify the Company as soon as practicable of any plans to participate or engage in any new activities or new business which may compete in the PRC with the business of automotive manufacturing and related business of the Dongfeng Motor Group as listed above, and shall not proceed with these plans if the Company provides any written objection in respect of such plans within the time stipulated in the relevant notice, which will not be less than 2 months. The independent non-executive Directors of the Company will decide whether to take up such business opportunity;

(2) if Dongfeng Motor Corporation becomes aware of a business opportunity which directly or indirectly competes, or may lead to competition, with the business of automotive manufacturing and related business of the Dongfeng Motor Group as listed above, it will notify the Company of such business opportunity immediately upon becoming aware of such opportunity. Such business opportunity will be reviewed by the independent non-executive Directors of the Company. Dongfeng Motor Corporation is also obliged to use its best efforts to procure that such opportunity is first offered to the Company on terms and conditions no less favourable than those offered to Dongfeng Motor Corporation, any associated companies of Dongfeng Motor Corporation or any other third party; and

(3) subject to any existing contractual obligations of or restrictions on Dongfeng Motor Corporation prior to the Global Offering, the Company has the option at any time to purchase, and has the first right of refusal to purchase, (A) any business of Dongfeng Motor Corporation which is in competition with the business of automotive manufacturing and related business of the Dongfeng Motor Group as listed and (B) any interest in any business of Dongfeng Motor Corporation resulting from the new activities referred to in paragraph (1) above which the Company has not provided any written objection and business opportunity referred to in paragraph (2) above which has been offered to, but has not been purchased or taken up by the Company and has been retained by Dongfeng Motor Corporation or any associated companies of Dongfeng Motor Corporation above on terms and conditions no less favourable than those offered to any other third party. When considering whether or not to exercise this option at any time to purchase and first right of refusal to purchase any business of Dongfeng Motor Corporation under the non-competition agreement, the independent non-executive Directors will consider, amongst others, the following factors: the valuation of the relevant business, the performance of the relevant business, the compatibility of the strategy of the relevant business with that of the Group, the prevailing market conditions, the available resources of the Group and other options available to the Group to purchase similar businesses from third parties or establish similar businesses.

In respect of the competing businesses as described above Dongfeng Motor Corporation has undertaken in the non-competition agreement that its treatment of these businesses, including the provision of financial resources and assistance, shall be no more favorable than that given to Dongfeng Motor Group.

The non-competition agreement shall remain effective until: (i) Dongfeng Motor Corporation is no longer a controlling shareholder of the Company; or (ii) the H Shares of the Company are no longer listed on the Stock Exchange or any other stock exchange, whichever is earlier.

Dongfeng Motor Corporation and the Company have agreed that all new competing businesses which may be entered into by Dongfeng Motor Corporation and which are considered to be material for disclosure by the Directors will be disclosed by way of an announcement. Dongfeng Motor Corporation will provide annual confirmation for the compliance of the non-competition agreement. The Company will include such confirmation in its annual report.

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE JOINTLY-CONTROLLED ENTITIES

The following are additional continuing connected transactions of the Dongfeng Motor Group as a result of the Stock Exchange's requirement that its existing and future JCEs be regulated in a manner consistent with the regulation of subsidiaries of a listed group. (See further the section in this prospectus headed "Information Concerning the Listing Rules").

JCEs are prevalent in the PRC automotive industry, particularly amongst the largest state-owned automotive manufacturers. This stems from PRC governmental policies and regulations which are aimed at encouraging the participation of leading foreign automotive manufacturers in the PRC automotive industry in order to raise general industry, technological and product standards, whilst at the same time protecting the interests of local manufacturers by requiring that (i) foreign manufacturers only participate in the PRC automotive industry through sino-foreign joint ventures and (ii) limiting the maximum equity interest of the foreign manufacturer in the sino-foreign joint venture to 50%, save for joint ventures incorporated in a Bonded Zone under applicable PRC law or regulation solely engaging in vehicle manufacturing for exporting. The equity interest of the foreign joint venture partners in each JCE is substantial, and they are only able to recover their substantial investments through dividend payments. It follows that long-term profitability of the JCEs and the success of the vehicles manufactured by the JCEs are the overriding objectives of the joint venture partners vis-à-vis the JCEs.

The Company is not in a position to terminate or renegotiate many of the existing continuing connected transactions of the Dongfeng Motor Group. Transactions such as technology licence and technical assistance arrangements and the procurement of vehicle components by the JCEs from foreign joint venture partners are fundamental; without them the businesses of the JCEs could not have been established and cannot operate. The technology and vehicle components provided to the JCEs by the foreign joint venture partners are specific to the foreign car models produced by each JCE; the JCEs therefore have no alternative but to source technology and parts from the foreign partner for the duration of each JCE. Without these continuing connected transactions, the JCEs would not exist.

In respect of these continuing connected transactions, due to the reasons described above, the Company has applied for and the Stock Exchange has granted waivers from compliance with certain requirements under the Listing Rules for the duration of the terms of the respective transactions (see further the section in this prospectus headed "Business — Continuing Connected Transactions Relating to the Jointly-Controlled Entities — Waivers from the Stock Exchange").

1. *Purchases of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from their joint venture partners (including their subsidiaries and associates)*

Each of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd (including each of these companies' subsidiaries and associates) regularly purchases auto parts and/or production equipment from the foreign joint venture partners of the Company and will continue to do so after the Listing.

It is standard practice in the PRC automotive industry for sino-foreign automotive manufacturing joint ventures to purchase auto parts and production equipment from their foreign joint venture partners in the manner described below. The foreign joint venture partners of the JCEs are the proprietors of the intellectual property and other know-how relevant to each vehicle model manufactured by the JCEs. As such, as primary developers of each model, many components will only be available from them and unless the JCEs continue to purchase auto parts and production equipment from the foreign partners they would not be able to carry on their businesses. This arrangement is to ensure the products produced by the JCEs remain competitive.

Once the joint venture partners have agreed that a JCE will commence the manufacture of a new vehicle model, representatives of the JCE will enter into negotiations with the foreign joint venture partner to determine an agreed price list for each component needed to manufacture that model. Pursuant to the contractual provisions of the applicable joint venture agreement, the negotiations between the relevant representatives of the JCE and the relevant foreign joint venture partners to determine the agreed price list, will always be conducted either directly by the Company, as a joint venture partner, or by the relevant JCE's officers nominated by the Company to do so on behalf of the Company. The Company and its joint venture partners are independent of each other for this purpose; no joint venture partner is in a position to influence the Company to agree to terms which may not be in the JCEs' (and therefore the Company's) interest. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. As such, such negotiations are carried out are on arm's length commercial terms.

Unlike normal consumer products, market prices for many vehicle components are not readily available. The Company's representatives therefore rely heavily on their knowledge of industry standards and their prior experience gained from similar negotiations in order to determine whether the agreed price list is appropriate. Once an agreed price list between the representatives of the JCE and the foreign joint venture parties has been determined for all components needed to manufacture the vehicle model, the JCE will obtain quotes for equivalent components that may be available from local PRC suppliers in order to determine whether viable alternatives can be obtained (1) with the highest quality, (2) in a timely manner and (3) at the most competitive prices. If alternatives are available, the component in question will be struck off the agreed price list between the representatives of the JCE and the foreign joint venture parties, and the JCE will purchase the component from the local supplier. This is a continuing process which extends throughout the life-cycle of a vehicle model. The agreed price list between the representatives of the JCE and the foreign joint venture parties is revised from time to time to reflect raw materials prices, exchange rate fluctuations, inflation and other factors. Over time, fewer components will be sourced from the foreign joint venture partner of the JCE as cheaper viable alternatives are found in the PRC.

The process described above, known as "localisation", is a stated priority of the JCEs' provided for in the relevant joint venture contracts. Localisation is widely regarded as a key means of cost reduction in the PRC automotive industry.

Once an agreed price list between the representatives of the JCE and the foreign joint venture parties has been determined, purchases of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners are made on a batch basis to cater to the JCE's requirements for different auto parts and production equipment from time to time.

Given the additional transportation and tax costs of purchasing auto parts, engines and production equipment from a foreign supplier, it is in neither the Company's nor the foreign joint venture partners' interests to purchase auto parts, engines and production equipment from foreign joint venture partners if viable alternatives are available from local suppliers on more favourable terms. The importance of localisation is both a business reality and a contractual principle enshrined in the relevant joint venture contracts.

The purchases of auto parts and production equipment by the JCEs (including their subsidiaries and associates) and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners are carried out in the ordinary course of business of the JCEs on normal commercial terms (or better to the JCE) and are negotiated on an arm's length basis.

The JCEs may only enter into purchases of auto parts and production equipment by the JCEs (including their subsidiaries and associates) and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners (including their subsidiaries and associates) if it is unable to obtain auto parts of equivalent quality or of the required specifications at a more favourable price (or otherwise on more favourable terms) from a local supplier. The contracts entered into between the JCE and the foreign joint venture partner of the Company (or the affiliates of such joint venture partner) for the purchases of auto parts and production equipment by the JCEs (including their subsidiaries and associates) and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners (including their subsidiaries and associates) must be pre-approved by the Company to ensure that the JCE only enters into transactions on normal commercial terms or terms which are more favourable to the JCE. Therefore purchases of auto parts and production equipment by the JCEs (including their subsidiaries and associates) and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners (including their subsidiaries and associates) entered into between the JCEs and the foreign joint venture partners will, be on terms which are fair and reasonable to the JCE. All of these parameters are set out in the joint venture contracts and will remain in place for the duration of the joint venture term.

Each of the JCEs currently purchases auto parts and/or production equipment from the joint venture partners (including their subsidiaries and associates) on a batch basis in accordance with the basic parameters set out in the joint venture contracts which will remain effective for the joint venture term. It would not be practical to enter into contracts setting out the basic parameters relating to the purchase of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners (including their subsidiaries and associates) of a duration of less than three years. Further, the purchases of auto parts and production equipment represent an aggregation of many different transactions for different auto parts, engines and production equipment purchased at different times from the joint venture partners. Individual purchase of auto parts and production equipment is generally made on a batch basis to cater to the JCE's requirements from time to time. The joint venture contracts provide effective and adequate safeguards to protect the interests of investors as regards purchases of auto parts and production equipment from the joint venture partners (including their subsidiaries and associates) and these safeguards will be effective for the duration of the joint venture term, which is longer than three years. To further safeguard the interests of the JCEs, all of the joint venture contracts, apart from one which is immaterial to the Group as a whole, require that each continuous purchase of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from their joint venture partners be signed-off by the Company before it is entered into. An automotive manufacturer's need to purchase auto parts depends on expected demand for vehicles, as well as fluctuating raw materials prices and foreign exchange rates, both of which will impact on the prices of the auto parts, engines and production equipment. These are difficult to predict with any degree of accuracy over a long period of time. In the interests of efficient inventory planning and to avoid incurring unnecessary costs by ordering auto parts, engines and production equipment which are not needed, automotive industry best practice advocates shorter, rather than longer supply cycles. Consequently, automotive manufacturers usually enter into auto parts, engines and production equipment purchases on a batch basis. The Company will continue to enter into the purchases of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners (including their subsidiaries and associates) on a batch basis in accordance with the basic parameters set out in the joint venture contracts which will remain effective for the joint venture term.

The imposition of annual caps as required by the Listing Rules in respect of the purchases of auto parts and production equipment would not be in the interests of the JCEs (and therefore the Company) since any growth in demand for the vehicles manufactured by the JCEs will necessarily result in increased transaction volumes under the purchases of auto parts and production equipment and such growth is outside the control of the Company and the JCEs. Any annual caps on the purchases of auto parts and production equipment will therefore potentially limit the JCEs ability to conduct or expand its businesses in the ordinary course. Apart from factors relating to demand, caps are also easily exceeded as a result of increased raw materials prices and fluctuating foreign exchange rates, both of which affect the cost of auto parts, engines and production equipment and have been volatile and difficult to predict; and some of the joint venture agreements provide that auto parts, engines and production equipment should only be purchased from the joint venture partners when no viable alternatives are available at better prices. Consequently, the JCE is not in a position to enter into purchases of auto parts and production equipment from the joint venture partners (including their subsidiaries and associates) with its joint venture partners at any price other than the best price available to it. The Company has confirmed that, due to the nature of purchases of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners (including their subsidiaries and associates), it is normal business practice in the PRC automotive industry for contracts relating to purchases of auto parts and production equipment by JCEs from their joint venture partners (including their subsidiaries and associates) to be in accordance with the basic parameters set out in joint venture agreements which will remain effective for the joint venture term and hence of a duration longer than three years. For the same reason, the Joint Sponsors have confirmed that it is normal business practice for contracts this type to be of such a duration. The imposition of annual caps, on the purchases of auto parts and production equipment from the joint venture partners (including their subsidiaries and associates) is therefore neither necessary nor practicable and the JCEs will continue to purchase auto parts and production equipment on a batch basis without the imposition of annual caps.

It would not be appropriate to impose the shareholder approval requirements of Listing Rules 14A.48 to 14A.54 on these purchases of auto parts and production equipment as (A) It would not be possible to manufacture the foreign joint venture partners' brand of vehicles unless auto parts and components, engines and production equipment continue to be purchased from the foreign joint venture partners under existing arrangements. It is not open to the JCEs to discontinue these transactions. To do so would mean that the JCEs' would not be able to manufacture certain vehicles, which would in turn have a crippling effect on the business of the JCEs; (B) existing contractual safeguards ensure that, for the duration of the relevant joint ventures, these purchases of auto parts and production equipment will be negotiated on an arm's length basis and entered into on normal commercial terms (or better) to the JCEs; (C) as noted above, unlike normal consumer products, market prices for many vehicle components are not readily available. The Company's representatives rely heavily on their industry expertise and prior experience in order to determine whether an agreed price list is reasonable.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the total value of the consideration paid by the JCEs in respect of purchases of auto parts and production equipment by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from the joint venture partners was approximately RMB2,963 million, RMB7,251 million RMB11,851 million and RMB6,954 million, respectively.

2. Sale of passenger vehicle engines and related auto parts from Dongfeng Honda Engine Co., Ltd to Guangzhou Honda Automobile Co., Ltd pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd

The establishment of Dongfeng Honda Engine Co., Ltd forms part of the arrangements between Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd. The primary reason for the formation of Dongfeng Honda Engine Co., Ltd was to manufacture engines and other related auto parts for sale to Guangzhou Honda Automobile Co., Ltd, Honda Motor Co., Ltd's other main automotive manufacturing joint venture in the PRC. Pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd , Guangzhou Honda Automobile Co., Ltd would only purchase from Dongfeng Honda Engine Co., Ltd engines and other related auto parts needed by it to manufacture passenger vehicles. The equity interest of Guangzhou Honda Automobiles Co., Ltd is equally held between Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd. As such, Guangzhou Honda Automobile Co., Ltd is a connected person of the Company under Rule 14A.11(4) of the Listing Rules (See further the section headed in this prospectus "History, Reorganisation and Group Structure — History and Development — Joint Venture Developments — Dongfeng Honda Engine Co., Ltd").

The sale of Honda passenger vehicle engines and other related parts by Dongfeng Honda Engine Co., Ltd to Guangzhou Honda Automobile Co., Ltd is expected to continue after the Listing. Company will continue to abide by the fixed term (i.e., the joint venture term) set out in the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd . For the internal control mechanism, including pricing mechanism, implemented in respect of the sale of Honda passenger vehicle engines and other related parts by Dongfeng Honda Engine Co., Ltd to Guangzhou Honda Automobile Co., Ltd, please see further the section headed in this prospectus "History, Reorganisation and Group Structure — History and Development — Joint Venture Developments — Dongfeng Honda Engine Co., Ltd".

Pursuant to the contractual provisions of the relevant joint venture agreement, the negotiations for the sale of engines and other auto parts between Dongfeng Honda Engine Co., Ltd and Guangzhou Honda Automobile Co., Ltd will always be conducted by the JCE's officers nominated by the Company on behalf of Dongfeng Honda Engine Co., Ltd. The Company and its joint venture partner are independent of each other for this purpose, so that no joint venture partner is in a position to influence the Company to agree to terms which may not be in the JCEs (and therefore the Company's) interests. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. As such, negotiations carried out are on arm's length commercial terms.

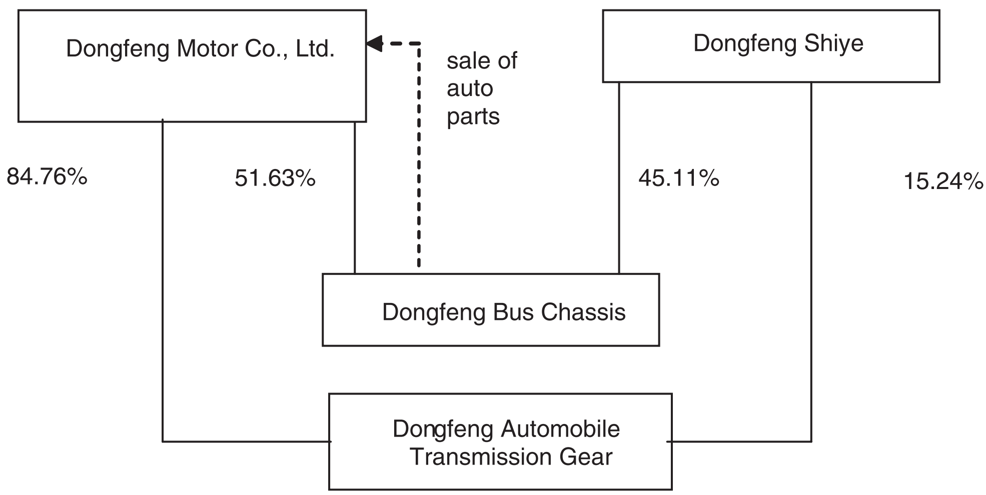
The relevant agreement relating to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd already states that the sale of Honda passenger vehicle engines and other related parts by the Honda Engines JV to Guangzhou Honda Automobile Co., Ltd will continue to have effect until Dongfeng Honda Engine Co., Ltd and Guangzhou Honda Automobile Co., Ltd are merged into a single entity, and may only be otherwise terminated in circumstances permitted under PRC law. (Please see further the section in this prospectus headed "Appendix VI — Summary of Principal PRC Legal and Regulatory Provisions — 3. Joint Ventures — Termination"). The Company has confirmed that, due to the fact that the primary reason for the formation of Dongfeng Honda Engine Co., Ltd was to manufacture engines and other related auto parts for sale to Guangzhou Honda Automobile Co., Ltd and that the agreement relating to this arrangement states that the sale of engines and other and related parts will continue until Dongfeng Honda Engine Co., Ltd and Guangzhou Honda Automobile Co., Ltd are merged into a single entity and may only be otherwise terminated in circumstances permitted under PRC law, it is normal business practice for contracts relating to the sale of engines and related auto parts in the context of this arrangement to be of such duration. For the same reason, the Joint Sponsors have also confirmed that it is normal business practice for contracts of this type to be of such duration.

No annual caps should be imposed in respect of the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd already stipulate a fixed pricing formula for the sales of Honda passenger vehicle engines and other related parts by Dongfeng Honda Engine Co., Ltd to Guangzhou Honda Automobile Co., Ltd. For further details of this formula, please refer to the section of this prospectus entitled "History, Reorganisation and Group Structure — Joint Venture Developments — Dongfeng Honda Engine Co., Ltd". Further, the imposition of annual caps in respect of the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd might be exceeded in any given year due to unforeseen growth in demand for the Honda passenger vehicles manufactured by Guangzhou Honda Automobile Co., Ltd. The imposition of annual caps, as required under Rule 14A.35(2) of the Listing Rules, might therefore result in the operations of both Dongfeng Honda Engine Co., Ltd and Guangzhou Honda Automobile Co., Ltd being unduly restricted and the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd will continue without imposition of annual caps.

As part of the Reorganisation Agreement, Dongfeng Motor Corporation will undertake to exercise its rights and obligations under the arrangements among itself, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd on behalf of the Company.

3. *Sales of auto parts by Dongfeng Bus Chassis Co., Ltd（東風客車底盤有限公司）to Dongfeng Motor Co., Ltd*

The equity interests in Dongfeng Bus Chassis Co., Ltd ("**Dongfeng Bus Chassis**") are owned as to 51.63% by Dongfeng Motor Co., Ltd, as to 45.11% by Dongfeng Shiye Co., Ltd (東風實業有限公司) ("**Dongfeng Shiye**"), and as to 3.26% by Paien Co., Ltd (派恩有限公司). Dongfeng Shiye also owns a 15.24% equity interest in another subsidiary of Dongfeng Motor Co., Ltd — Dongfeng Automobile Transmission Gear Co., Ltd (東風汽車變速箱有限公司) (in which Dongfeng Motor Co., Ltd has an equity interest of 84.76%).



Dongfeng Shiye is a substantial shareholder in a subsidiary of Dongfeng Motor Co., Ltd (Dongfeng Automobile Transmission Gear Co., Ltd) and Dongfeng Shiye owns 45.11% of the equity interests in Dongfeng Bus Chassis. Dongfeng Bus Chassis is therefore a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Dongfeng Shiye holds no equity interest in either the Company or Dongfeng Motor Corporation, and neither the Company nor Dongfeng Motor Corporation holds any equity interest in Dongfeng Shiye.

Dongfeng Bus Chassis' main business is the manufacture of bus chasses for sale to the commercial vehicle manufacturing businesses of Dongfeng Motor Co., Ltd as well as to external customers. Sales of bus chasses manufactured by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd are carried out in the ordinary course of business of both companies, and are made on a batch basis and without subject to a framework agreement in accordance with the requirements of Dongfeng Motor Co., Ltd and the consideration for the sales of bus chasses are based on normal market and commercial terms as agreed on a batch basis.

No annual caps are proposed in respect of the sale and purchase arrangements since the imposition of annual caps in respect of the arrangements would not be in the interests of Dongfeng Motor Co., Ltd (and therefore the Company) since any growth in demand for the bus chasses manufactured by Dongfeng Bus Chassis will necessarily result in increased transaction volumes under the sale and purchase arrangements. Such growth is outside the control of the Company and Dongfeng Motor Co., Ltd, and any annual caps, as required under Rule 14A.35(2) of the Listing Rules, on the sale and purchase arrangements will potentially limit Dongfeng Motor Co., Ltd's and Dongfeng Bus

Chassis' ability to conduct or expand their businesses in the ordinary course and therefore the sale and purchase arrangements will continue on a batch basis without the imposition of annual caps.

The Dongfeng Motor Co., Ltd's bus chassis purchases are a fundamental part of the ordinary course of operations of the commercial vehicle manufacturing businesses of Dongfeng Motor Co., Ltd and are therefore expected to continue after Listing. Since Dongfeng Bus Chassis is a subsidiary of Dongfeng Motor Co., Ltd, all negotiations between the parties will be controlled by Dongfeng Motor Co., Ltd. As such, Dongfeng Bus Chassis will not be in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest. Further, with respect to transactions undertaken by Dongfeng Motor Co., Ltd, including the sales of auto parts by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd, internal control mechanisms and internal reporting lines have been implemented to enable material transactions, based on the monetary value of each transaction, to be reported to its board. Operating procedures are adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd with a view to require the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to report transactions that would have implications under the Listing Rules to the relevant department of Dongfeng Motor Co., Ltd which in turn would discuss with the Company and its joint venture partner in relation to the steps necessary for compliance with the Listing Rules. As such, these reporting lines would enable Dongfeng Motor Co., Ltd and, hence the Company, to consent to the sales of auto parts by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd.

For the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis for purchases of auto parts was RMB479 million, RMB1,278 million and RMB768 million, respectively.

4. Technology licence and technical assistance between the JCEs and their subsidiaries on the one hand and their joint venture partners on the other hand

EXISTING TECHNOLOGY LICENCE AND TECHNICAL ASSISTANCE BETWEEN THE JCES, THEIR SUBSIDIARIES AND THEIR JOINT VENTURE PARTNERS

Each of the JCEs have entered into technology licence and technical assistance agreements with its foreign joint venture partners of the Company in respect of existing vehicle models manufactured by the JCEs. These require the periodic payment of royalties by the JCEs to the foreign joint venture partners after the Listing.

It is standard practice in the PRC automotive industry for sino-foreign automotive manufacturing joint ventures to provide royalties to the party providing the technology licence in the manner described below. This is to ensure that the party providing the technology receives royalties in recognition of its research and development into the technology in respect of a particular vehicle model and that the products produced by the sino-foreign automotive manufacturing joint ventures remain competitive.

The foreign joint venture partner is primarily responsible for research and development of all new vehicle models under its marque. It is therefore essential for all JCEs to enter into the technology licence with its joint venture partners. Relevant technological know-how would otherwise not be available.

The purpose of sino-foreign automotive manufacturing joint ventures is that the PRC automotive manufacturer will be able to benefit from the technological expertise and product portfolio of its foreign joint venture partner, whilst the foreign partner is able to participate in the domestic PRC market. The joint venture relationship is therefore founded on the foreign joint venture partner contributing its technological expertise to the JCE. The PRC partner contributes its manufacturing capabilities and facilities, labour, and local market and regulatory knowledge.

A key reason for the PRC Government's encouragement of sino-foreign automotive manufacturing joint ventures of this type is to rapidly enhance technological and product standards in the PRC automotive industry.

When deciding which pricing structure would be most beneficial to the JCE concerned, the Company would have to make a judgement on the expected demand for that particular vehicle model over its entire lifecycle. If the projected demand for a new vehicle model is not extremely high, the imposition of annual caps, as required under 14A.35(2) of the Listing Rules, may result in a greater aggregate amount of consideration being paid for technology licence and technical assistance which cannot be in the interests of the JCEs, the Company or its shareholders and therefore, the existing licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners will continue without the imposition of annual caps.

Although each technology licence and technical assistance agreement is entered into prior to the introduction of a new vehicle model (or a new series of vehicle models) or a new vehicle engine (or a new series of vehicle engines) into the JCE's product portfolio, the consideration for technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners involves royalties charged per vehicle produced or sold (depending on the terms of the individual agreements relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners). These continue after the technological licence and technical assistance agreement is signed.

The terms of all technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners which are to be entered into by the JCEs are either governed by an umbrella agreement and/or separately entered into prior to the introduction of a new vehicle model. For one of the JCEs, the terms of all technology licence and technical assistance which have been entered into, and which in future will be entered into, between that JCE and its foreign joint venture partner are governed by an umbrella agreement, the agreed form of which was negotiated between the Company and the joint venture partner before the parties established the JCE and which was in agreed form by the time the joint venture contract relating to the JCE was signed. Therefore, the terms of the umbrella agreement were negotiated on an arm's length basis between independent third parties. The umbrella agreement has a term of 10 years, and contains detailed terms which govern how the consideration for each technology licence to be entered into between the Company and the joint venture partner is to be determined. The umbrella agreement also provides provisions in relation to the consideration for the technology licensed, which is in the form of a royalty determined in accordance with a fixed formula.

In accordance with normal industry practice, the terms of the agreements relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners are fixed with reference to the expected life cycle of vehicle models, which are generally between five to 10 years. The Company has confirmed that it is normal business practice in the PRC automotive manufacturing industry for agreements relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners to be of a duration of longer than three years. For the same reason, the Joint Sponsors have also confirmed that it is normal business practice for the PRC automotive manufacturing industry for contracts of this type to be of such duration. The Company will continue to abide by the fixed terms set out in the existing agreements relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the total value of the consideration paid by the JCEs in respect of purchases of technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners was approximately RMB148 million, RMB775 million, RMB739 million and RMB1,327 million, respectively.

Pursuant to the contractual provisions of the applicable joint venture agreement, all negotiations relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners were either done directly by the Company, as a joint venture partner, or by the relevant JCE's officers nominated by the Company to do so on behalf of the Company. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions of the ordinary course within business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. Therefore, such technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners were negotiated on arm's length commercial terms.

FUTURE TECHNOLOGY LICENCE AND TECHNICAL ASSISTANCE BETWEEN THE JCES, THEIR SUBSIDIARIES AND THEIR JOINT VENTURE PARTNERS

Each of the JCEs of the Company will continue to abide by existing umbrella agreements or enter into additional technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners and their subsidiaries and associates as new vehicle models are introduced to the existing product portfolios of the JCEs after the Listing.

Technology licences and technical assistance are key to the competitiveness of a JCE's products. Consequently, the Company and the Joint Sponsors believe that the primary purpose of international automotive manufacturers in entering into joint ventures with the Company is the establishment of a strong presence in the PRC automotive industry, the gaining of market share for their brand of vehicles and long term investment returns from the JCEs, rather than any short term gains from technology licences and technical assistance carried out on terms which may be prejudicial to the JCEs long term profitability and competitiveness. Such short term gains would be eclipsed by the potential losses to the joint venture partners if the JCEs were to prove unsuccessful.

Generally, the pricing for technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners and their subsidiaries and associates is that the party providing the technology should be fairly reimbursed for its research and development costs incurred in respect of a particular vehicle model. Furthermore, such research and development costs should be spread evenly over the entire operations of the party providing the technology, and the PRC automotive joint venture should only bear its fair share of such costs.

Pursuant to the contractual provisions of the applicable joint venture agreement, all future proposed negotiations relating to technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners and their subsidiaries and associates will only be either done directly by the Company, as a joint venture partner, or by the relevant JCE's officers nominated by the Company to do so on behalf of the Company. Therefore, any technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners and their subsidiaries and associates which will be entered into in future will be negotiated on arm's length commercial terms.

If any future technology licence and technical assistance fall under the independent shareholder approval requirements of Listing Rules 14A.48 to 14A.54 and should the written agreement requirements under Listing Rule 14A.35(1) be imposed, the imposition of these requirements would result in extreme detriment to the Company and its shareholders, and lessen the competitive edge of the JCEs as (A) unless information which is extremely commercially sensitive were disclosed, shareholders would not be able to judge whether the terms of any technology license and technical assistance are beneficial to the JCE (and therefore the Company), and would not benefit from the dissemination to them of shareholder circulars in respect of such technology licence and technical assistance; (B) unnecessary delay to the technology licence and technical assistance, with resulting detriment to the JCE and the Company.

For the conditions imposed on the future technology licence and technical assistance between the JCEs, their subsidiaries and JCEs and their joint venture partners, please see further the section headed "Business — Continuing Connected Transactions Relating to the Jointly-Controlled Entities — Non-exempt continuing connected transactions — Waiver from Written Agreement, Announcement, Independent Shareholders' approval and Cap Requirements" of this prospectus.

5. Value-added processing fees paid by Dongfeng Motor Co., Ltd from Guangzhou Aeolus Automobile Co., Ltd (the "Aeolus Services")

Guangzhou Aeolus Automobile Co., Ltd ("**Guangzhou Aeolus**") and certain other Jetford Inc. affiliated companies, including but not limited to Aeolus Automobile Co., Ltd ("**Aeolus Motor**") and Dongfeng Yulong Motor Sales Co., Ltd ("**Dongfeng Yulong Motor Sales**") have been providing or in the future will provide value-added processing services to Dongfeng Motor Co., Ltd. Currently, only Guangzhou Aeolus has been providing value-added processing services to Dongfeng Motor Co., Ltd. The provision of these services are entered into in the performance of, and the consideration for the services is determined by, pre-existing contractual obligations between the Company and Yulon Motor Co., Ltd as part of a commercial arrangement to facilitate the formation of Dongfeng Motor Co., Ltd (See further in the section headed in this prospectus "History, Reorganisation and Group Structure — History and Development — Joint Venture Developments — Dongfeng Motor Co., Ltd"). The provision of these services by the above companies to Dongfeng Motor Co., Ltd are expected to continue after the Listing. Since Guangzhou Aeolus Automobile Co., Ltd and the other Jetford Inc. affiliated companies are subsidiaries of Dongfeng Motor Co., Ltd, all negotiations between the parties will be controlled by Dongfeng Motor Co., Ltd. As such, Guangzhou Aeolus Automobile Co., Ltd and the other Jetford Inc. affiliated companies will not be in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest. Further, with respect to transactions undertaken by Dongfeng Motor Co., Ltd and its subsidiaries, including the Aeolus Services, internal control mechanisms and internal reporting lines have been implemented to enable material transactions, based on the monetary value of each transaction, to be reported to the board of Dongfeng Motor Co., Ltd. Operating procedures are adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd with a view to require the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to report certain transactions that would have implications under the Listing Rules to the relevant department of Dongfeng Motor Co., Ltd which in turn would discuss with the Company and its joint venture partner in relation to the steps necessary for compliance with the Listing Rules. As such, these reporting lines would enable Dongfeng Motor Co., Ltd and, hence the Company, to consent to the Aeolus Services.

The equity interests in Guangzhou Aeolus are owned as to 60% by Dongfeng Motor Co., Ltd and as to 40% by Jetford Inc. The equity interests in Aeolus Motor are owned as to 45% by Dongfeng Motor Co., Ltd, 30% by Guangzhou Aeolus and 25% by Jetford Inc. The equity interests in Dongfeng Yulong Motor Sales are owned as to 51% by Dongfeng Automobile Co., Ltd and 49% by Jetford Inc.

Jetford Inc. is a substantial shareholder in each of the following subsidiary of Dongfeng Motor Co., Ltd , namely Guangzhou Aeolus, Aeolus Motor and Dongfeng Yulong Motor Sales. Each of Guangzhou Aeolus, Aeolus Motor and Dongfeng Yulong Motor Sales are therefore connected persons of the Company under Rule 14A.11(4) of the Listing Rules.

The terms of the arrangement between the Company and Yulon Motor Co., Ltd already states that the provision of the automotive-related services to Dongfeng Motor Co., Ltd and its subsidiaries will continue for the duration of the joint venture term of Dongfeng Motor Co., Ltd. For the internal control mechanism, including pricing mechanism, implemented in respect of the arrangement between the Company and Yulon Motor Co., Ltd, please see the further section in this prospectus headed "History, Reorganisation and Group Structure — History and Development — Joint Venture Developments — Dongfeng Motor Co., Ltd". The Company has confirmed that, due to the fact that the provision of these services are entered into in the performance of pre-existing contractual obligations between the Company and Yulon Motor Co., Ltd as part of a commercial arrangement to facilitate the formation of Dongfeng Motor Co., Ltd, and that the provision of these services will continue for the duration of the joint venture term of Dongfeng Motor Co., Ltd, it is normal business practice for contracts relating to the provision of these services in the context of this arrangement to be of a duration longer than three years. For the same reason, the Joint Sponsors have also confirmed that it is normal business practice for contracts of this type to be of such duration.

No annual caps should be imposed in respect of the Aeolus Services to Dongfeng Motor Co., Ltd and its subsidiaries since the consideration for the Aeolus Services is determined by a pre-existing service fee formula. For further details of this formula, please refer to the section of this prospectus entitled "History, Reorganisation and Group Structure — Joint Venture Developments — Dongfeng Motor Co., Ltd". Further, the imposition of annual caps in respect of the Aeolus Services might be exceeded in any given year due to unforeseen growth in demand by Dongfeng Motor Co., Ltd and its subsidiaries. The imposition of price caps might therefore result in the operations of Guangzhou Aeolus Automobile Co., Ltd and the other Jetford Inc, affiliated companies and Dongfeng Motor Co., Ltd and its subsidiaries being unduly restricted and the provision of automotive-related services to Dongfeng Motor Co., Ltd will continue without the imposition of annual caps.

See further in the section headed in this prospectus "History, Reorganisation and Group Structure — History and Development — Joint Venture Developments — Dongfeng Motor Co., Ltd".

6. Transactions between Dongfeng Honda Auto Parts Co., Ltd and the other JCEs

As part of their ordinary course of business, Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd regularly purchase auto parts from Dongfeng Honda Auto Parts Co., Ltd. Also, as part of its ordinary course of business, Dongfeng Honda Auto Parts Co., Ltd regularly purchases raw materials (usually unfinished auto parts) from the auto parts manufacturing businesses of Dongfeng Motor Co., Ltd and its subsidiaries. Also, there are other transactions in the ordinary course of business of and between certain joint ventures established by the Company and Honda Motor Co., Ltd that are fully eliminated upon consolidation in the Company's consolidated accounts and for which a full waiver from the connected transaction requirements under the Listing Rules has been applied for by the Company and has been granted by the Stock Exchange.

Honda Motor Co., Ltd is a substantial shareholder of each of Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Honda Engine Co., Ltd. At the same time, Honda Motor Co., Ltd holds more than 30% of the equity interests in each of Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Honda Engine Co., Ltd. Each of Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Honda Engine Co., Ltd are therefore connected persons of the Company under Rule 14A.11(4) of the Listing Rules.

Due to fluctuating production requirements and prices, agreements for the sales of auto parts and raw materials are usually negotiated and entered into on a batch basis depending on the specific needs of the vehicle manufacturer. Altering this industry norm would not be commercially feasible and would harm the profitability and business interests of both Dongfeng Honda Auto Parts Co., Ltd and any JCEs purchasing auto parts from it or selling raw materials to it.

No caps are proposed in respect of the sales of auto parts and raw materials since the imposition of caps in respect of the sales of auto parts and raw materials would not be in the interests of Dongfeng Honda Auto Parts Co., Ltd and the other JCEs (and therefore the Company) since any growth in demand for auto parts and raw materials manufactured by Dongfeng Honda Auto Parts Co., Ltd to the other JCEs will necessarily result in increased transaction volumes under the sales of auto parts and raw materials. Any annual caps, as required by Rule 14A.35(2) of the Listing Rules, on the sales of auto parts and raw materials will potentially limit Dongfeng Honda Auto Parts Co., Ltd and the other JCEs' ability to conduct or expand their businesses in the ordinary course and therefore the sales of auto parts and raw materials will continue without the imposition of annual caps.

Pursuant to the contractual provisions of the joint venture agreements, the negotiations for the purchase of the auto parts between Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd or Dongfeng Honda Engine Co., Ltd will always be conducted by the JCE's officers nominated by the Company on the one hand and the JCE officers nominated by the relevant joint venture partner on the other hand. The Company and its joint venture partners are independent of each other for this purpose, no joint venture partner is therefore in a position to influence the Company to agree to terms which may not be in the JCEs (and therefore the Company's) interest. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. Also, in relation to the sale of auto parts by Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Motor Co., Ltd, pursuant to the contractual provisions of the relevant joint venture agreements, the negotiations in relation to such sales will be conducted out by the JCE officers nominated by the relevant joint venture partners. Since the joint venture partners in Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Motor Co., Ltd are independent from each other, they will not be in a position to influence the other JCE to agree to terms which may not be in that JCE's (and therefore the Company's) interest. As such, such negotiations are carried out on arm's length commercial terms and the consideration for purchase of auto parts and raw materials are based on normal market and commercial terms as agreed on batch basis and without subject to a framework agreement.

For the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the net aggregate consideration paid by Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd to Dongfeng Honda Auto Parts Co., Ltd for the purchase of auto parts and the consideration paid by Dongfeng Honda Auto Parts Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for the purchase of auto parts amounted to RMB150 million, RMB293 million, RMB461 million, and RMB292 million, respectively.

7. *Master Land Lease Contract between Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation*

Under the joint venture agreement relating to Dongfeng Motor Co., Ltd, the Company is obliged to procure that Dongfeng Motor Corporation leases land to Dongfeng Motor Co., Ltd in accordance with the terms and conditions of a Master Land Lease Contract (the "**Nissan JV Lease**") to be entered into between Dongfeng Motor Corporation and Dongfeng Motor Co., Ltd in a form agreed between the Company and Nissan Motor Co., Ltd. The Nissan JV Lease was entered into on 15th April, 2003 (the same date as the Dongfeng Motor Co., Ltd joint venture agreement) and was in agreed form at the time the joint venture agreement was entered into.

Under the Nissan JV Lease, Dongfeng Motor Co., Ltd leased from Dongfeng Motor Corporation a total of 247 parcels of land with an aggregate area of approximately 6,193,777.41 sq.m. for industrial use, which have been supplemented with industrial infrastructure. The term of the lease is the term of Dongfeng Motor Co., Ltd, from 2003 to 2053. The Directors believe the length of the term is consistent with normal business practice and secures long term land use rights for the Group. Sallmanns (Far East) Limited, an independent valuer of the Company, has confirmed that the terms of the agreement are fair and reasonable to the Company. Sallmanns and the Joint Sponsors (based on the opinion of Sallmanns), are also of the same view as the Directors and have confirmed that it is normal business practice in the PRC for contracts of this type to be of such duration.

The standard rent (the "**Rent**") for each parcel of the leased land amounts to an aggregate annual rent of RMB156,644,300. During the first year of the lease, which extended from the lease commencement date to the end of that calendar year, the rent payable by Dongfeng Motor Co., Ltd was 10% of the Rent prorated to the actual days in that first year. From the second, third and fourth years of the lease, only 50%, 70%, and 90% of the Rent is payable by Dongfeng Motor Co., Ltd respectively. The full Rent is payable for the fifth year. From the sixth anniversary of the lease commencement date (i.e., 2009) and every three years thereafter, the Rent payable under the Nissan JV Lease may be adjusted as per the guidelines set out in the Nissan JV Lease. The adjusted rent shall not be less than 85% of the Rent for the immediately preceding period and shall not exceed 115% of the rent for the immediately preceding three year period. Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation may meet and discuss in good faith adjustments to the Rent during the six months prior to the expiration of the sixth anniversary of the lease commencement date and any subsequent three year period. If the Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation cannot agree on the fair market value of the leased land, an independent appraiser shall be jointly appointed by Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation to determine the fair market rate of the leased land, with such appraised value then to serve as the basis for the parties' discussions concerning the adjusted rent.

The Rent payable under the Nissan JV Lease is determined at arms' length and reflects market rates. Sallmanns has confirmed that the rental fees payable by Dongfeng Motor Co., Ltd under the Nissan JV Lease are not higher than the prevailing market rates. The joint venture agreement of Dongfeng Motor Co., Ltd provides that any contracts, including any rent adjustments, to be entered into between Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation would have to be agreed by both the Company and the Company's joint venture partner of Dongfeng Motor Co., Ltd.

Since the rent payable under the Nissan JV Lease has been agreed and is not subject to adjustment until 2009, no imposition of annual caps as required by the Listing Rule should be proposed in respect of the Nissan JV Lease and the Nissan JV Lease will continue without the imposition of annual caps.

In the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation under the Nissan JV Lease was approximately RMB8 million, RMB74 million and RMB61 million, respectively.

8. Sales of auto parts by Dongfeng Honda Auto Parts Co., Ltd to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd

Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd, which are both based in Hong Kong and engaged primarily in the import and export of Honda products, are both subsidiaries of Honda Motor Co., Ltd. One of the primary reasons for the formation of Dongfeng Honda Auto Parts Co., Ltd was for the manufacture of auto parts both for sales within the PRC and for export to the Honda group of companies overseas, with the corresponding benefits to such companies due to the economies of scale. Consequently, Dongfeng Honda Auto Parts Co., Ltd regularly sells auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd in the ordinary course of its business. Such auto parts are then exported by Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd to Honda Motor Co., Ltd which uses such auto parts to manufacture and sell Honda motor vehicles. The sales to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd are expected to continue after Listing.

No annual caps should be imposed in respect of the sales of auto parts by Dongfeng Honda Auto Parts Co., Ltd to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd since the imposition of annual caps in respect of the arrangements would not be in the interests of Dongfeng Honda Auto Parts Co., Ltd (and therefore the Company) since any growth in demand for auto parts by Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd will necessarily result in increased transaction volumes under the sale and purchase arrangements. Such growth is outside the control of the Company and Dongfeng Honda Auto Parts Co., Ltd, and any annual caps, as required under Rule 14A.35(2) of the Listing Rules, on the sale and purchase arrangements will potentially limit Dongfeng Honda Auto Parts Co., Ltd's, Honda Trading (China) Co., Ltd's and Honda Motor (China) Co., Ltd's ability to conduct or expand their businesses in the ordinary course and therefore, the sales of auto parts will continue without imposition of annual caps.

All existing and future negotiations regarding the sales to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd were and will be conducted by a Company representative on behalf of Dongfeng Honda Auto Parts Co., Ltd. Pursuant to the operating procedures of the Company, the representatives nominated by the Company have been delegated with the power to approve transactions within the ordinary course of business of a JCE. However, transactions which are outside of the ordinary course of business, material or complex must be reported to and approved by the relevant department of the Company. Therefore, such sales were and will be negotiated on arm's length basis commercial terms and the consideration for sales of auto parts are based on normal market and commercial terms as agreed on a batch basis and without subject to a framework agreement.

9. Purchases of auto parts by Dongfeng Bus Chassis Co., Ltd（東風客車底盤有限公司）from Dongfeng Motor Co., Ltd and its subsidiaries

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

In order to ensure that auto parts are purchased at the most favourable price available to Dongfeng Bus Chassis, Dongfeng Bus Chassis goes through a tender process before selecting the supplier for any batch of auto parts. In such a tender process, Dongfeng Motor Co., Ltd and its subsidiaries are treated no differently from any other third party supplier. Consequently, the sale and purchase of auto parts by Dongfeng Bus Chassis from Dongfeng Motor Co., Ltd and its subsidiaries would not be entered into if Dongfeng Bus Chassis could obtain better terms from any other supplier. The imposition of annual caps as required by the Listing Rules on the sale and purchase of auto parts by Dongfeng Bus Chassis from Dongfeng Motor Co., Ltd and its subsidiaries might result in Dongfeng Bus Chassis purchasing supplies from other third party suppliers at less favourable prices in order to avoid problems which might result if the annual caps were exceeded. This would not be in the interests of the Company and its shareholders. The Company has therefore applied for and the Stock Exchange has granted (amongst other waivers) a waiver from the strict compliance of Rule 14A.35(2) of the Listing Rules. As such, these contracts will not need to be subject to a maximum aggregate annual value.

Amongst these purchases, transactions entered into with Dongfeng Motor Co., Ltd and the certain subsidiaries of Dongfeng Motor Co., Ltd (being Dana Axle Co., Ltd (東風德納車橋有限公司), Dongfeng Motor Wheel Rim Co., Ltd (東風汽車車輪有限公司), Dongfeng Motor Propeller Shaft Co., Ltd (東風汽車傳動軸有限公司), Dongfeng Automobile Co., Ltd (東風汽車股份有限公司) and Dongfeng Automobile Suspension Co., Ltd (東風汽車懸架彈簧有限公司) would constitute continuing connected transactions under Listing Rules.

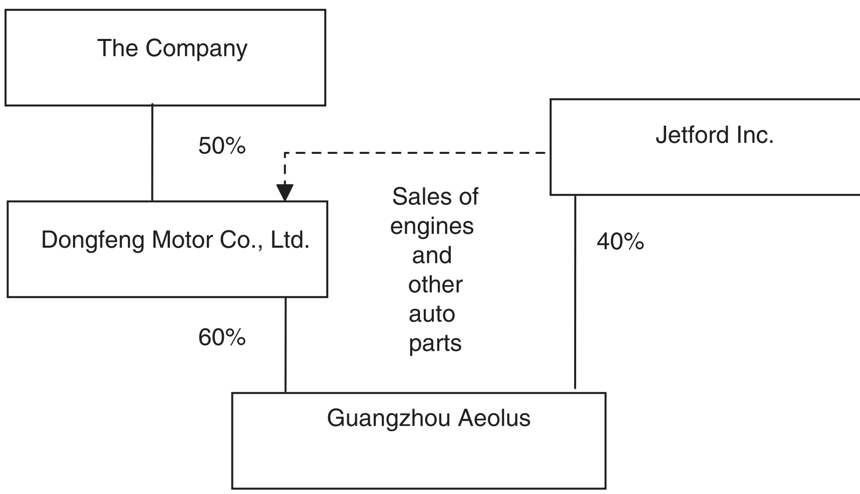
For the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the total amount of consideration paid by Dongfeng Bus Chassis to Dongfeng Motor Co., Ltd and those of its subsidiaries listed above for purchases of auto parts was RMB401 million, RMB1,277 million and RMB731 million, respectively.

Dongfeng Bus Chassis' need to purchase auto parts depends on expected demand for its products, which fluctuates frequently and is difficult to predict with any degree of accuracy over a long period of time. In the interests of efficient inventory planning, auto parts manufacturers like Dongfeng

Bus Chassis usually enter into auto parts purchase contracts on a batch basis depending on expected short term demand for auto parts manufactured by it and without subject to a framework agreement.

Since Dongfeng Bus Chassis is a subsidiary of Dongfeng Motor Co., Ltd, all negotiations between the parties will be controlled by Dongfeng Motor Co., Ltd. As such, Dongfeng Bus Chassis will not be in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest.

10. Sales of engines and other auto parts by Jetford Inc. to Dongfeng Motor Co., Ltd



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

40% of the equity interests in Guangzhou Aeolus (a 60% subsidiary of Dongfeng Motor Co., Ltd) is owned by Jetford Inc. Jetford Inc. is therefore a connected person of the Company. For the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the total consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. (the "**Jetford Purchases**") was RMB338 million and RMB276 million and RMB28 million, respectively.

The Jetford Purchases are not governed by any master framework agreement. These purchases are carried out on a batch basis by Dongfeng Motor Co., Ltd in accordance with production and sales plans of Dongfeng Motor Co., Ltd and depend on the prices offered by Jetford Inc. from time to time. The Company will continue to enter into the Jetford Purchases on a batch basis after Listing. No fixed time period is proposed in respect of the Jetford Purchases. An automotive manufacturer's need to purchase auto parts depends on expected demand for the vehicles manufactured by the JCEs, and expected raw materials prices (which impact auto parts prices), both of which fluctuate frequently and are difficult to predict with any degree of accuracy over a long period of time. In the interests of efficient inventory planning, automotive manufacturers usually enter into auto parts purchase contracts on a batch basis depending on (i) expected short term demand for the vehicles and auto parts and (ii) expected fluctuations in raw materials prices (which impact auto parts prices).

Since Guangzhou Aeolus Automobile Co., Ltd is a subsidiary of Dongfeng Motor Co., Ltd, all negotiations between the parties will be controlled by Dongfeng Motor Co., Ltd. As such, Guangzhou Aeolus Automobile Co., Ltd will not be in a position to influence Dongfeng Motor Co., Ltd to agree to terms which may not be in its (and therefore the Company's) interest. Further, with respect to transactions undertaken by Dongfeng Motor Co., Ltd, including the Jetford Purchases, internal control mechanisms and internal reporting lines have been implemented to enable material transactions, based on the monetary value of each transaction, to be reported to its board. Operating procedures are adopted by all the subsidiaries and JCEs of Dongfeng Motor Co., Ltd with a view to require the subsidiaries and JCEs of Dongfeng Motor Co., Ltd to report transactions that would have implications under the Listing Rules to the relevant department of Dongfeng Motor Co., Ltd which in turn would discuss with the Company and its joint venture partner in relation to the steps necessary for compliance with the Listing Rules. As such, these reporting lines would enable Dongfeng Motor Co., Ltd and, hence, the Company, to consent to the Jetford Purchases.

No annual caps should be imposed in respect of the sale and purchase arrangements since the imposition of annual caps in respect of the arrangements would not be in the interests of Dongfeng Motor Co., Ltd (and therefore the Company) since any growth in demand for engines and other auto parts by Dongfeng Motor Co., Ltd will necessarily result in increased transaction volumes under the sale and purchase arrangements. Such growth is outside the control of the Company and Dongfeng Motor Co., Ltd, and any annual caps, as required under Rule 14A.35(2) of the Listing Rules, on the sale and purchase arrangements will potentially limit Dongfeng Motor Co., Ltd's and Jetford Inc.'s ability to conduct or expand their businesses in the ordinary course and therefore, the sale and purchase arrangements will continue without imposition of annual caps.

Stock Exchange Requirements for connected transactions

As referred to in the section of this prospectus headed "Information concerning the Listing Rules", the Stock Exchange has stated that the JCEs (including JCEs established after the Listing) would, as one of the criteria and conditions to Listing, in general be regulated in a manner consistent with the regulation of subsidiaries of a listed group for purposes of applying the Listing Rules. Notwithstanding this general guideline, the Stock Exchange will continue to consider each application on a case by case basis. Accordingly, the continuing obligations imposed as condition of the Listing may be tailored to meet the specific circumstances of the Company and/or the specific provisions of the Listing Rules.

The following general requirements will apply for the purposes of the connected transactions requirements:

(a) the JCEs will be considered part of the listed group for purposes of applying the connected transaction requirements;

(b) the percentage ratio tests applicable to connected transactions for de minimis transactions will be proportionately adjusted as required;

(c) connected persons of the group will include the directors and joint venture partners of the JCE and their respective associates. As a result, transactions between the Dongfeng Motor Group on the one hand, and (i) the joint venture partners and their associates; (ii) the directors of JCE and their associates; and (iii) the connected persons of the Group (e.g. the substantial shareholder and its associates), on the other hand, would be considered connected transactions; and

(d) the Stock Exchange may exercise its discretion to deem transactions involving amendments to the terms of the joint venture to be connected transactions. The decision would involve an assessment of materiality, and minority shareholders' protection.

Other information concerning the connected transactions

The Stock Exchange has considered the following information particular to the Company:

(1) there are no other relationships between Dongfeng Motor Corporation Group and the JCE partners outside the relationships with the listed group as disclosed in this prospectus;

(2) the connected transactions are fundamental to the JCEs and without them the businesses of the JCEs could not have been established and cannot operate;

(3) there would be alternative control mechanisms to govern the connected transactions (including, where applicable, agreements with joint venture partners to allow the Company to approve these connected transactions);

(4) there would be sufficient disclosure in this prospectus on the terms of the connected transaction agreements and the conditions to the proposed waivers (including the control mechanism adopted by the Company) in manner consistent with the requirements of Chapter 14A and Rule 2.13, including in particular the details of the agreements and the terms of the connected transactions (including but not limited to details of the pricing formulae) described under Rules 14A.35 and 14A.42(3) of the Listing Rules;

(5) the Company's annual report would disclose the terms and consideration for the connected transactions. The information reported upon should be informative for the shareholders and investors and taking into account the Company's general obligation to comply with Rules 2.13 and 13.09. In addition, the level of disclosure would comply with the reporting requirements for related party transactions under the International Accounting Standard 24; and

(6) the connected transactions would be subject to annual reviews and confirmations by the independent directors and auditors pursuant to Rules 14A.37 and 14A.38 of the Listing Rules, and the auditors would be provided with sufficient access to the records of the counterparty to the connected transactions for the purpose of reporting on the connected transactions pursuant to Rule 14A.39 of the Listing Rules. In addition, where the connected transactions are not based on fixed pricing formulae, the independent Directors would be provided with sufficient information (such as industry benchmarks, the assistance of independent financial advisors, etc.) to provide an opinion on the fairness of the terms of the connected transactions.

Percentage Ratio Tests

The Stock Exchange has confirmed that the percentage ratio tests, applicable under Chapter 14A of the Listing Rules, will be adjusted to include only the proportion of the transaction attributable to the Group in applying the percentage ratio tests.

Waivers from the Stock Exchange

Following completion of the Global Offering, the JCEs will continue the transactions described in paragraphs 1 to 10 above. The Directors (including the independent non-executive Directors) are of the opinion that the transactions set out above have been entered into and will be carried out in the ordinary and usual course of business of the JCEs and on normal commercial terms which are fair and reasonable so far as the interests of the shareholders of the Company are concerned.

If any terms of the connected transactions are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless it applies for and obtains a separate waiver from the Stock Exchange. The waivers are only granted on the basis of the facts and circumstances of the Company's case and should not be treated as a precedent for future cases. The Company shall promptly notify the Stock Exchange in the event of any changes in the terms of the connected transactions for which waivers were granted or in the circumstances under which the waivers were granted.

Non-exempt continuing connected transactions — Waiver from Written Agreement, Announcement, Independent Shareholders' approval and Cap Requirements

The continuing connected transactions described in paragraphs 1 to 3 above are considered to be a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and are subject to the written agreement and the maximum aggregate annual value ("cap") requirements set out in Rules 14A.35(1) and (2) of the Listing Rules, the reporting and announcements requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirements set out in Rule 14A.48 of the Listing Rules.

For the continuing connected transactions described in paragraphs 4 to 10 above, where applicable, is, on an annual basis, expected to be less than 2.5% or more than 2.5% but less than 25% and the annual consideration is less than HK$10 million under Rule 14A.34 of the Listing Rules. Such transaction is exempt from the independent shareholders' approval requirements but is subject to the the written agreement and cap requirements set out in Rules 14A.35(1) and (2) of the Listing Rules, and the reporting and announcements requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As these continuing connected transactions are expected to continue on a recurring basis, the Directors consider that compliance with the written agreement (in respect of transactions described in paragraphs 3, 4 (in respect of the future technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture parties), 6, 8-10 above), announcement and/or independent shareholders' approval requirements would be impractical and would add unnecessary administrative costs to the Company. In respect of the announcement requirement would be unnecessary since the details of these transactions have been fully disclosed in this prospectus. Further, due to the unique structure of these transactions, the Directors consider that the imposition of caps would impose unreasonable constraints on the Company and the JCEs.

Accordingly, the Company has applied for and the Stock Exchange has granted a waiver from compliance with written agreement (in respect of transactions described in paragraphs 3, 4 (in respect of the future technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture parties), 6, 8-10 above), cap requirements and the announcement and, where applicable, independent shareholders' approval requirements relating to continuing connected transactions under the Listing Rules for the duration of the terms of the respective transactions. In addition, the Company confirmed that it would comply with Rules 14A.37 to 14A.41 of the Listing Rules (including annual reviews and confirmations by independent non-executive Directors of the Company and auditors pursuant to Rules 14A.37 and 14A.38 of the Listing Rules and the auditors would be provided with sufficient records of the counterparty to the transactions for the purpose of Rule 14A.39 of the Listing Rules) on the basis set out below and sufficient information would be provided to independent non-executive Directors of the Company to provide an opinion on the fairness and reasonableness of the terms of the continuing connected transactions pursuant to Rule 14A.37 of the Listing Rules.

In relation to the continuing connected transaction relating to future technology licence and technical assistance between the JCEs, their subsidiaries and JCEs and their joint venture partners described in paragraph 4 above and which are not covered by any existing umbrella agreements, the Stock Exchange has granted a waiver on the following conditions:

(A) The technology licence and technical assistance between the JCEs, their subsidiaries and Jointly-controlled Entities and their joint venture partners (including their subsidiaries and associates) would be subject to the prior approval of the Company, either through its required voting on the relevant JCE board or through separate approval of the Company;

(B) The royalty fee for the technology licence and technical assistance between the JCEs, their subsidiaries and Jointly-controlled Entities and their joint venture partners (including their subsidiaries and associates) would be based on the fair and reasonable costs incurred by the foreign joint venture partner (including their subsidiaries and associates) for its research and development in relation to the vehicle model concerned, reduced to achieve the competitive pricing of the models and the overall long term profitability for the JCE, their subsidiaries and Jointly-controlled Entities;

(C) The technology licence and technical assistance between the JCEs, their subsidiaries and Jointly-controlled Entities and their joint venture partners (including their subsidiaries and associates) are subject to the independent non-executive directors' review and confirmation requirements set out in Rule 14A.37 of the Listing Rules; and

(D) The technology licence and technical assistance between the JCEs, their subsidiaries and Jointly-controlled Entities and their joint venture partners (including their subsidiaries and associates) are subject to the auditors' confirmation requirements set out in Rule 14A.38 of the Listing Rules.

Reporting Requirements

The Company has agreed with the Stock Exchange that it would comply with the annual reporting requirements set out in Rule 14A.45 of the Listing Rules in respect of the transactions described in paragraphs 1 to 10, to the extent that, in the case of the waivers referred to in paragraphs 1, 4, 6 (being disclosure of the net annual aggregate dollar value of the transactions between Honda Auto Parts Co., Ltd and the other JCEs) and 9, only disclosure of the annual aggregate dollar value of the transactions made each year would be made. This is because the disclosure of separate transaction value for each of the JCEs would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCE and would not be in the interest of the Company or the relevant JCE.

Further, in respect of transactions described in paragraphs 2, 5 and 8 above, the disclosure of the total consideration and additional terms under Rule 14A.45(4) of the Listing Rules would constitute disclosure of commercially sensitive information relating to operations of the relevant JCE and would not be in the interest of the Company or the relevant JCE. Accordingly, the Company has applied for and the Stock Exchange has granted a waiver from compliance with the requirement under Rule 14A.45(4) of the Listing Rules for the duration of the terms of the respective transactions.

Confirmation from the Joint Sponsors

The Joint Sponsors have reviewed relevant documents, information and historical figures provided by the Company and have participated in due diligence and discussions among the Company and its legal advisers and have also considered representations and confirmations from the Directors and the Company to satisfy themselves of the reliability of the information provided in relation to the connected transactions described in paragraphs 1 to 10 above. Based on the above, the Joint Sponsors are of the view that the transactions in paragraphs 1 to 10 above are on normal commercial terms and in the ordinary course of the Company's business and such transactions are fair and reasonable as far as the Company's shareholders as a whole are concerned.