

I. BUSINESS OVERVIEW

1. Principal Businesses

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

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

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

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

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

2. Business Operations in the Period

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

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

Revenue of the Dongfeng Motor Group for the Period:

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

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

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

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

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

3. Environmental Protection

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

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

4. Sales and Services Network

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

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

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

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

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

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

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

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

II. INTERIM RESULTS AND DIVIDENDS

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

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

III. MATERIAL LEGAL PROCEEDINGS

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

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IV. SHARE CAPITAL

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

V. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

Long positions and lending pool

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

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

² Long positions.

³ Lending pool.

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

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

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

VII. PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

VIII. STOCK APPRECIATION RIGHTS

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

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

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

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

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

IX. CORPORATE GOVERNANCE

1. Overview of Corporate Governance

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

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

2. Code on Corporate Governance Practices

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

3. Directors' Securities Transaction

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

4. Independent Non-executive Directors

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

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

5. Audit Committee

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

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