

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

For the six months ended 30 June 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

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

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CONDENSED CONSOLIDATED BALANCE SHEET

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

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CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

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

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

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

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

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

(b) Change in segment identification

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

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2. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

Segment information

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

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

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

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

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

For the six months ended 30 June 2006 (unaudited)

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

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

For the six months ended 30 June 2005 (audited)

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

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3. OTHER INCOME

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

4. PROFIT BEFORE TAX

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

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

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5. FINANCE COSTS

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

6. INCOME TAX EXPENSES

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

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6. INCOME TAX EXPENSES (Continued)

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

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

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

7. DIVIDEND

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

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

The calculation of basic earnings per share is based on:

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

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9. PROPERTY, PLANT AND EQUIPMENT

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

10. TRADE RECEIVABLES

Sales of the Dongfeng Motor Group's commercial and passenger vehicles are normally settled on an advance receipt basis, whereby the dealers are required to pay in advance either in cash or by bank acceptance drafts. However, in the case of long-standing customers with bulk purchases and a good repayment history, the Dongfeng Motor Group may offer these customers credit terms that are generally between 30 and 180 days. For sales of engines and other automotive parts, the Dongfeng Motor Group generally offers their customers credit terms that are generally between 30 and 180 days. Trade receivables are non-interest bearing.

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

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

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11. CASH AND CASH EQUIVALENTS

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

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12. TRADE PAYABLES

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

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

13. COMMITMENTS

(a) Operating lease commitments as lessee

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

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

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13. COMMITMENTS (Continued)

(a) Operating lease commitments as lessee (Continued)

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

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

(b) Commitments

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

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

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13. COMMITMENTS (Continued)

(b) Commitments (Continued)

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

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

14. CONTINGENT LIABILITIES

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

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

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15. RELATED PARTY TRANSACTIONS

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

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

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

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15. RELATED PARTY TRANSACTIONS (Continued)

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

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15. RELATED PARTY TRANSACTIONS (Continued)

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

Notes:

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

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15. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

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

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

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15. RELATED PARTY TRANSACTIONS (Continued)

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

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

16. COMPARATIVE AMOUNTS

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

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

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