FUTURE PLANS

Key strategies

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 a leading manufacturer 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 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;
- Consolidate the Dongfeng Motor Group's position as one of the two leading PRC commercial vehicle manufacturers by further expanding its market share with particular focus on the heavy and light truck sub-sectors;
- Further enhance the competitiveness of the Dongfeng Motor Group's commercial vehicle heavy-duty engines and components in order to consolidate its leading position in the PRC commercial vehicles market;
- Continue to improve returns through the aggressive pursuit of cost efficiency initiatives;
- Improve the coverage, efficiency and effectiveness of the distribution and after-sales service networks of the Dongfeng Motor Group; and
- Further enhance the Dongfeng Motor Group's research and development capabilities.

For a more detailed description of the above strategies, please refer to the section of this prospectus headed "Business — Business Development Strategies of the Group".

Principal planned production capacity expansions

Details of the principal planned production capacity expansions to be undertaken by the Dongfeng Motor Group are set out in the section of this prospectus headed "Business — Production — Production Facilities". Dongfeng Motor Group will invest approximately RMB16,934 million in its eight major production expansion projects in the period from 2005 to 2008. Based on the current 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. In terms of research and development projects, Dongfeng Motor Group will invest in approximately 57 major research and development projects in the period from 2005 to 2008 with an estimated investment of RMB9,132 million.

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 ten 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 other 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 Group intends that 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.

In addition, the Group is also discussing the formation of a potential joint venture for the manufacture of trucks with Renault Trucks (a member of the Volvo group of companies) and the formation of a potential new joint venture for the manufacture of new passenger vehicles with Renault. No contractually binding documents relating to these potential joint ventures have yet been signed, and there is accordingly no guarantee that these discussions will succeed.

The above production expansion plans, product introduction plans and plans regarding the potential new Renault Truck joint venture and potential new Renault passenger vehicle joint venture are subject to change in accordance with market conditions. Accordingly, there is no guarantee that these plans will proceed in the manner outlined above or at all.

USE OF PROCEEDS

The net proceeds of the Global Offering accruing to the Company (after taking into account the deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$2.89 billion, assuming an Offer Price of HK$1.45 per H Share, or HK$3.76 billion, assuming an Offer Price of HK$1.85 per H Share, (or if the Over-allotment Option is exercised in full, HK$4.37 billion, assuming an Offer Price of HK$1.85 per H Share). The Company intends to remit the net listing proceeds back to its bank accounts in the PRC within one month after the listing.

The net proceeds from the Global Offering which are received by the Company will be employed for the following purposes:

1. As part of a result of the equity buy-back in 2004 undertaken between the Company and China Huarong Asset Management Corporation, China Cinda Asset Management Corporation, China Orient Asset Management Corporation, China Development Bank and China Great Wall Asset Management Corporation, the Company incurred debt obligations (the "**AMC Debt**") of RMB4.61 billion (or approximately HK$4.42 billion) in aggregate to these asset management corporations.

Through various bank loans in an aggregate amount of approximately RMB4.16 billion at 95% of the interest rate of PBOC, the Company repaid the whole outstanding balance of the AMC Debt. The Company must repay such bank loans according to the following schedule:

- RMB2,180 million to be repaid in March 2006;
- RMB529 million to be repaid in May 2006;
- RMB450 million to be repaid in September 2006;
- RMB600 million to be repaid in September 2007;
- RMB200 million to be repaid in March 2008; and
- RMB200 million to be repaid in May 2008.

The Company intends to prepay such bank loans accruing to it in full as soon as practicable after it receives the net proceeds from the Global Offering. Consequently, approximately RMB4,159 million (or approximately HK$3,988 million) will be used to fully prepay the principal and interest of such bank loans. The Company will not incur any prepayment penalties as a result of its prepayment of such bank loans. Should the net proceeds be insufficient to prepay all of the above bank loans, the Company currently intends that such proceeds be used to prepay and reduce these bank loans to the extent possible and to repay the remaining bank loans in accordance with their repayment schedule.

2. The remaining net proceeds, if any, of the Global Offering (amounting to a maximum amount of RMB397 million (or approximately HK$381 million) if the Offer Price is fixed at HK$1.85 and the Over-allotment Option is exercised in full) will be used by the Company for general working capital purposes.

Pending the use of the net proceeds of the Global Offering for the purposes described above, the Company intends to invest the net proceeds, to the extent permitted by relevant PRC laws and regulations, in short-term deposits with banks or in government bonds (in view of the low interest rates currently offered by banks in the PRC).

In accordance with the PRC accounting rules applicable to joint stock limited companies, the net proceeds from the Global Offering received by the Company in a currency other than Renminbi will be converted and accounted for in the Company's consolidated financial statements at the PBOC Rate in effect at the time when the net proceeds are received.

The Company will not receive any of the proceeds from the sale of the State-owned Shares by the Selling Shareholder in the International Offering. All of the proceeds from the sale of the State-owned Shares by the Selling Shareholder are required to be remitted to the NCSSF, or as it may direct, in accordance with the relevant PRC government requirements.