

Business Overview

1. SALES REVENUE

As of 31 December, 2005, the sales revenue of the Group was approximately RMB41,735 million.

Sales revenue from the major businesses of the Group in 2005

Business	Sales revenue <i>(RMB millions)</i>	Contribution to the Group's sales revenue <i>(%)</i>
Commercial vehicles	11,193	26.8
Passenger vehicles	21,798	52.2
Engines and auto parts	6,676	16.0
Others	2,068	5.0
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Total	41,735	100.0

2. SALES AND PRODUCTION VOLUME FOR WHOLE VEHICLES OF DONGFENG MOTOR GROUP

As of 31 December 2005, the production volume and sales volume for whole vehicles of Dongfeng Motor Group was 598,218 and 594,801 units respectively. On the basis of statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group held a domestic market share of approximately 10.3% in terms of the total domestic sales of commercial and passenger vehicles in 2005. The following table sets out the sales and production volume of the Dongfeng Motor Group for commercial and passenger vehicles, as well as its market share in terms of sales volumes in 2005:

	No. of units produced <i>(units)</i>	No. of units sold <i>(units)</i>	Market share in terms of sales volume <i>(%)</i>
Commercial Vehicles	239,340	243,582	13.6
Trucks	206,308	210,104	13.8
Buses	33,032	33,478	12.4
Passenger Vehicles	358,878	351,219	8.8
Basic passenger cars	306,427	297,915	10.7
MPVs	18,600	18,800	12.1
SUVs	33,851	34,504	17.6
Total	598,218	594,801	10.3

Business Overview

3. RANKING OF DONGFENG MOTOR GROUP'S MAJOR VEHICLE LINES IN THE DOMESTIC MARKET

	Number of units sold by the Dongfeng Motor Group (units)	Ranking in the domestic market
Heavy trucks	71,652	1
Medium trucks	55,883	2
Light trucks	82,569	2
Basic passenger cars	297,915	3
MPVs	18,800	4
SUVs	34,504	2

In 2005, Dongfeng Motor Group was one of the principal automotive manufacturers in the PRC in terms of sales of whole vehicles. Dongfeng Motor Group has one of the most extensive ranges of commercial and passenger vehicles amongst PRC vehicle manufacturers, and it is also one of the largest automotive manufacturers in the PRC to manufacture both commercial vehicles and passenger vehicles (including trucks, buses, cars, MPVs and SUVs).

Dongfeng Motor Group is currently one of the two leading manufacturers of heavy and medium trucks in the PRC. In 2005, the domestic sales volume of its heavy and medium trucks accounted for 29.7% of total sales volume of heavy and medium trucks in the domestic automotive market, while sales revenue of commercial vehicles accounted for 26.8% of the Group's sales revenue.

Currently, the Dongfeng Motor Group is also one of the largest manufacturers of passenger vehicles in the PRC. In 2005, the domestic sales volume of its passenger vehicles accounted for 8.8% of total sales volume of passenger vehicles in the domestic automotive market, while sales revenue of passenger vehicles accounted for 52.2% of the Group's sales revenue.

Apart from manufacturing commercial and passenger vehicles, the Dongfeng Motor Group also manufactures commercial and passenger vehicle engines and a comprehensive range of auto parts. In 2005, the sales revenue of engines and auto parts accounted for approximately 16.0% of the Group's sales revenue.

Business Overview

The Dongfeng Motor Group is also engaged in other automobile related business (including the manufacture of vehicle manufacturing equipment). In 2005, the sales revenue of other automobile related business accounted for approximately 5.0% of the Group's sales revenue.

I. Major Businesses of the Dongfeng Motor Group

The principal products of the Dongfeng Motor Group include commercial vehicles, which comprise trucks and buses, and passenger vehicles, which comprise basic passenger cars, MPVs and SUVs. The trucks 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 the import/export of vehicles and vehicle manufacturing equipment, auto finance businesses, insurance agency businesses and used car businesses.

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. Currently, the Dongfeng Motor Group's commercial vehicle business is principally operated by Dongfeng Motor Co., Ltd.

The Dongfeng Motor Group's passenger vehicle business principally consists of the following companies: Dongfeng Motor Co., Ltd (the joint venture between the Company and Nissan Motor Co., Ltd), Dongfeng Peugeot Citroën Automobiles Company Ltd (the joint venture between the Company and the PSA Peugeot Citroën group) and Dongfeng Honda Automobile Co., Ltd (the joint venture between the Company and Honda Motor Co., Ltd).

The Dongfeng Motor Group's engines and auto parts business principally consists of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd.

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

Business Overview

Sales revenue from the major businesses of the Group

	2005		2004	
	Percentage of the Group's total sales		Percentage of the Group's total sales	
	Sales (RMB million)	revenue (%)	Sales (RMB million)	revenue (%)
Commercial vehicles	11,193	26.8	14,556	44.5
Passenger vehicles	21,798	52.2	9,212	28.1
Engines and auto parts	6,676	16.0	7,685	23.5

(1) Commercial vehicles

As of 31 December 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. 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, which form one of the most extensive commercial vehicle sales and services networks in the PRC. As of 31 December 2005, the commercial vehicle production capacity of the Dongfeng Motor Group was 320,500 units.

(2) Passenger vehicles

As of 31 December 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 passenger vehicles manufactured by the Dongfeng Motor Group are currently sold with after-sales services through five independently managed sales and services networks throughout the PRC. Each of these networks sells one brand of passenger vehicle with after-sales services, and is managed by the relevant Joint Venture Company and the Group. As of 31 December 2005, the passenger vehicle production capacity of the Dongfeng Motor Group was 425,000 units.

Business Overview

(3) *Engines and other auto parts*

Members of the Dongfeng Motor Group manufacture passenger and commercial vehicle engines mainly for their internal use and also for external sales. As of 31 December 2005, the total engine production capacity of the Dongfeng Motor Group was approximately 920,000 units. The members of the Dongfeng Motor Group which manufacture engines are Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobile Company Ltd, Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd. Dongfeng Motor Co., Ltd manufactures Dongfeng series and Cummins series diesel and petrol commercial vehicle engines, as well as Nissan series sedan engines; Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd manufacture Honda series sedan engines; Dongfeng Peugeot Citroën Automobile Company Ltd manufactures Citroën series and Peugeot series sedan engines.

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 transmission systems (mainly comprised of gear box, clutch, and transmission shaft), vehicle bodies (mainly comprised of pressed products), chassis (mainly comprised of axles, car frames and chassis parts), electronic parts and other parts.

(4) *Other 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 various 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, auto finance, insurance agency and used car businesses.

II. Sales and Services Network

The motor vehicles manufactured by the Dongfeng Motor Group are sold with after-sales services in the PRC through eight major sales and services networks.

Each of these eight sales and services networks sells vehicles manufactured by a particular Joint Venture Company with after-sales services, and is managed by the relevant Joint Venture Company independently of the other members of the

Business Overview

Dongfeng Motor Group. The sales outlets which comprise each network are generally owned and operated by independent third parties. The Dongfeng Motor Group provides after-sales services through these distribution and services networks.

The commercial vehicles manufactured by the Dongfeng Motor Group are mainly distributed with after-sales services through three major sales and services networks, which are devoted to the distribution of, and after-sales services for, the commercial vehicles manufactured by Dongfeng Motor Co., Ltd.

The commercial vehicle distribution and sales and services networks operated by Dongfeng Motor Co., Ltd together form one of the most extensive sales and services networks of commercial vehicle in the PRC.

The passenger vehicles manufactured by the Dongfeng Motor Group are mainly sold with after-sales services through five sales and services networks. Each of these networks sells one brand of passenger vehicle with after-sales services, and is operated by the relevant Joint Venture Company independently of the Group.

(1) Sales and services network for commercial vehicles

The Dongfeng Motor Group is currently one of the commercial vehicle manufacturers in the PRC operating the most extensive after-sales services networks.

The following table sets out the details of the major domestic after-sales services networks for commercial vehicles of the Dongfeng Motor Group as at 31 December 2005.

Company	No. of after-sales services outlets	No. of first-level outlets	No. of second-level outlets	No. of provinces and municipalities/ cities covered
Dongfeng Motor Co., Ltd (commercial vehicle company)	560	361	199	31/323
Dongfeng Automobile Co., Ltd	446	446	0	31/257
Dongfeng Liuzhou Motor Co., Ltd	406	406	0	28/318

Business Overview

(2) Sales and services network for passenger vehicles

The passenger vehicle sales and services network operated by the Dongfeng Motor Group, which comprises passenger vehicle sales and services networks operated by Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd, is currently one of the most extensive sales and services networks of passenger vehicle in the PRC automotive market.

The following table sets out the details of the different major domestic aftersales services networks for passenger vehicles of the Dongfeng Motor Group as at 31 December 2005.

Company	No. of after-sales services outlets	No. of first-level outlets	No. of second level outlets	No. of provinces and municipalities/ cities covered	Product type serviced
Dongfeng Nissan Passenger Vehicle Company	240	200	40	31/119	Nissan passenger vehicles
Dongfeng Peugeot Citroën Automobiles Company Ltd	339	339	—	31/128	Citroën passenger vehicles
	138	138	—	29/100	Peugeot passenger vehicles
Dongfeng Honda Automobile Co., Ltd	70	70	—	31/53	Honda passenger vehicles
Dongfeng Liuzhou Motor Co., Ltd	185	181	4	29/136	Dongfeng Future passenger vehicles
Zhengzhou Nissan Automobile Co., Ltd	310	289	21	31/248	Nissan passenger vehicles

III. Major Research & Development Work of the Dongfeng Motor Group in 2005

The development of new models of the third-generation 1.5 ton highly flexible offroad vehicle series is already in its final prototype stage. The development of the second-generation 3.5 ton off-road vehicle series is complete and has passed the national final stage. Active preliminary research on the third-generation of highly flexible medium off-road vehicles has been started.

The development of mixed power passenger cars/buses has passed the final stage test and acceptance organised by the PRC Ministry of Science and Technology.

The research and development of an electronically controlled injection CNG bus: Dongfeng's large natural gas city buses with these engines have passed the final stage test and acceptance at national level.

The research and development of commercial vehicles was primarily as follows: the D310 driving cab, D310 series vehicles and DCi11 engine project are developing smoothly and will be launched onto the market soon; the development of the Tornado series of vehicles and 8-11 metre buses is completed; the development of new products, including light vehicles such as Dongfeng's "Dream Truck" and the "Star of Dongfeng" series, and the Jinba driving cab and a new pickup is complete and has received good market responses.

Research on new technology for commercial vehicles was as follows: the preliminary development of electrically controlled common rail injection technology for engines, whole vehicle electronic control technology, Europe III/ Europe IV and above emission technology and power train integration technology has made significant progress, and reliability design, simulation analysis technology, system matching technology and trial verification technology have been further strengthened.

The research and development of passenger vehicles was primarily as follows: the development of Fukang improved vehicles 2005 was completed and the vehicles have been launched to the market; the development of the brand new passenger car products Tiida Sedan and Tiida Hatchback and Dongfeng Honda 2.4L CR-V 2005 is complete and the vehicles have been successfully launched to the market.