

Business Overview

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) and engines and other auto parts. The trucks comprise heavy trucks, medium trucks and light trucks. 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, which was established in 1969, has commanded a leading position in the PRC commercial vehicle industry for many years. Currently, the Dongfeng Motor Group's commercial whole vehicle and engines and auto parts businesses are 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's passenger vehicle business is principally operated by the following companies: Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd (the joint venture between the Company, 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.)). At present, the Dongfeng Motor Group's engines and auto parts business for passenger vehicles is principally operated by 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 conducted primarily through Dongfeng Motor Co., Ltd.

1. Commercial vehicles

As of 31 December 2006, the members of the Dongfeng Motor Group produced 33 principal basic series of whole commercial vehicles, including 27 principal basic series of trucks and 6 principal basic series of buses. Most of the whole 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 after-sales services networks devoted exclusively to the provision of sales and services for the whole commercial vehicles manufactured by the Dongfeng Motor Group, which form one of the most extensive commercial vehicle sales and services networks in the PRC.

Members of the Dongfeng Motor Group manufacture commercial vehicle engines mainly for their internal use and also for external sales. The members of the Dongfeng Motor Group which manufacture engines are mainly Dongfeng Motor Co., Ltd, which mainly manufactures Dongfeng series and Cummins series diesel and petrol commercial vehicle engines.

In addition to the manufacture of engines, members of the Dongfeng Motor Group also manufacture a range of auto parts for commercial vehicles, including power transmission systems (mainly comprised of gear box, clutch, and transmission shaft), vehicle bodies (mainly comprised of pressed products) and chassis (mainly comprised of axles, car frames and chassis parts), electronic parts and other parts.

2. Passenger vehicles

As of 31 December 2006, the members of the Dongfeng Motor Group produced 18 series of passenger vehicles, including 14 series of passenger cars, 2 series of MPV and 2 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are currently sold together with after-sales services through 5 independently managed after-sales 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 Dongfeng Motor Group.

Members of the Dongfeng Motor Group manufacture passenger and commercial vehicle engines mainly for their internal use and also for external sales. 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 mainly manufactures 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 vehicles, including power transmission systems (mainly comprised of gear box, clutch, and transmission shaft), vehicle bodies (mainly comprised of pressed products) and chassis (mainly comprised of axles, car frames and chassis parts), electronic parts and other parts.

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3. 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 sales businesses.

II Business Operations during the year under review

1. Sales and production volume and market share for whole vehicles of the Dongfeng Motor Group

As of 31 December 2006, the production volume and sales volume for whole vehicles of the Dongfeng Motor Group was 756,319 and 751,088 units respectively. According to the statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group held a domestic market share of approximately 10.4% in terms of the total domestic sales of commercial and passenger vehicles in 2006. 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 volume in 2006 (on the basis of statistics published by the China Association of Automobile Manufacturers):

	No. of units produced (units)	No. of units sold (units)	Market share in terms of sales volume (%)
Commercial			
Vehicles	260,240	256,242	12.6
Trucks	221,501	217,965	12.4
Buses	38,739	38,277	13.2
Passenger Vehicles	496,079	494,846	9.6
Basic passenger			
cars	436,379	438,103	11.4
MPVs	24,572	23,450	12.3
SUVs	35,128	33,293	14.0
Total	756,319	751,088	10.4

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2. Ranking of the Dongfeng Motor Group's major vehicle lines in the domestic market in 2006 (on the basis of statistics published by the China Association of Automobile Manufactures):

	Number of units sold by the Dongfeng Motor Group (units)	Ranking in the domestic market
Heavy trucks	66,778	1
Medium trucks	50,426	2
Light trucks	100,761	2
Basic passenger cars	438,103	3
MPVs	23,450	4
SUVs	33,293	3

3. Sales Revenue

As of 31 December, 2006, the sales revenue of the Group was RMB48,264 million.

	Sales revenue (RMB millions)	Contribution to the Group's sales revenue (%)
Commercial vehicles	13,215	27.4
Whole vehicles	11,471	23.8
External sales of engines and auto parts	1,744	3.6
Passenger vehicles	34,219	70.9
Whole vehicles	27,014	56.0
External sales of engines and auto parts	7,205	14.9
Others	830	1.7
Total	48,264	100.0

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III Production Capacity, Production Capacity Distribution and Future Expansion Plans

As at 31 December 2006, the total motor vehicle production capacity of the Dongfeng Motor Group was 945,000 units, among which the production capacity of commercial vehicles was 320,000 units and the production capacity of passenger vehicles was 625,000 units. The total production capacity of engines was 1,180,000 units.

The following table shows the production capacity distribution of vehicles and engines of the Dongfeng Motor Group as at 31 December 2006:

1. Production capacity of commercial vehicles

Company	Production capacity (‘000 units)
Dongfeng Motor Co., Ltd	315
Dongfeng Nissan Diesel Motor Co., Ltd	5

2. Production capacity of passenger vehicles

Company	Production capacity (‘000 units)
Dongfeng Motor Co., Ltd	285
Dongfeng Peugeot Citroën Automobiles Company Ltd	220
Dongfeng Honda Automobile Co., Ltd	120

3. Production capacity of engines

Company	Production capacity (‘000 units)
Dongfeng Motor Co., Ltd	500
Dongfeng Peugeot Citroën Automobiles Company Ltd	200
Dongfeng Honda Automobile Co., Ltd	120
Dongfeng Honda Engine Co., Ltd	360

IV Production safety and environmental protection

In 2006, management and production officers of all levels of the Dongfeng Motor Group adhered to the concept of safety development and complied with the national laws and regulations, and policies of production safety. They handled safety and development properly by continuing to enhance the corporate culture for safety, strengthening the basic safety management, improving the safety production responsibility system and establishing a healthy long term effective safety management mechanism and accident precaution mechanism. Production safety and economic benefits were developed to ensure the safety and health of the staff of the Dongfeng Motor Group, as well as the stable and sustainable development of the Dongfeng Motor Group.

In 2006, the Dongfeng Motor Group achieved the goal of “five eliminations” — namely minimizing any serious accidents of occupational injuries and deaths, fire disasters, explosions of boilers, pressure vessels and pipes, emissions of hazardous chemicals and explosions, and occupational poisonings. During the year, there were 92 occupational injuries in total, of which 12 were serious and 80 were minor. The frequency of accidents was 0.11% and frequency of serious injuries was 0.01%. Occupational injuries of all kind were below the control standard.

For environment protection, the Dongfeng Motor Group strictly complied with the national laws and regulations and developed the concepts of scientific development, clean development and sustainable growth, and put an emphasis on “precaution and treatment, with precaution as priority” with the aim for reducing the emission of pollutants and their concentration, to ensure that no occurrence of material pollution during the year. The Dongfeng Motor Group implemented the environment protection assessment for all projects, and the achievement rate for monitoring the emission of key pollution was approximately 99.8%, disposal rate for solid wastes achieved 100% and the discharge of industrial waste water for 100 million production value reduced by approximately 0.93% as compared to that in 2005.

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The Dongfeng Motor Group sees environment protection as an integral part of its production and operation, and formulates, develops and implements its production and operation plan in line with its environment protection measures, aiming to realize production and environment protection at the same time. The Dongfeng Motor Group managed to (i) implement its environment protection measures in its entire value chain of production, with continuous improvement and adaptability development, and striving to develop the core technology for energy saving and environmental protection, (ii) to allocate funds for the improvement of material, technical procedures and environment protection facilities to reduce the amount of pollutants and their concentration from the sources, and devoting to the development of cycle economy to increase the utility rate of the energy and raw material, and (iii) to focus on the management of environment protection during the production processes to maximize the utilization of the environment protection facilities to ensure the permitted level of emission, and implementation of ISO14001 environment protection system for the management of important environment factors and finding out problems and hidden danger in advance to ensure a much stricter environment protection management standard, and (iv) to establish an environmentally friendly automobile manufacturer by further implementing the three “environmentally clean chains”, i.e. the reduction of pollutants, recycling of resources in the production process and the reduction of the discharge of wastes to realize energy saving, reduction of consumption and pollution and increase of efficiency.

V Sales and Service Networks

The motor vehicles manufactured by the Dongfeng Motor Group are sold together with after-sales services in the PRC through 8 major sales and service networks. Each of these 8 sales and service 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 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 are mainly distributed with after-sales services through 3 major sales and service networks, which are devoted to the distribution of, and after-sales services for, the commercial vehicles manufactured by Dongfeng Motor Co., Ltd.

The passenger vehicles are mainly sold together with after-sales services through 5 sales and service 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 Dongfeng Motor Group.

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1. Sales and service networks for commercial vehicles

The Dongfeng Motor Group is currently one of the commercial vehicle manufacturers in the PRC operating one of the most extensive after-sales service networks. The following table sets out the details of the major domestic after-sales service networks for commercial vehicles of the Dongfeng Motor Group as at 31 December 2006.

	No. of after- sales services outlets	No. of first-level outlets	No. of second- level outlets	No. of provinces/ cities covered
Dongfeng Motor Co., Ltd (commercial vehicle company)	565	328	237	31/323
Dongfeng Automobile Co., Ltd	580	580	—	31/303
Dongfeng Liuzhou Motor Co., Ltd	406	406	—	28/318

2. Sales and service networks for passenger vehicles

The passenger vehicle sales and service networks operated by the Dongfeng Motor Group, which comprises passenger vehicle sales and service networks mainly 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 service networks for passenger vehicles in the PRC automotive market.

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The following table sets out the details of the different major domestic after-sales service networks for passenger vehicles of the Dongfeng Motor Group as at 31 December 2006.

	No. of after-sales services outlets	No. of first- level outlets	No. of second- level outlets	No. of provinces/ cities covered	Product type serviced
Dongfeng Nissan Passenger Vehicle Company	280	244	36	31/172	Nissan passenger vehicles
Dongfeng Peugeot Citroën Automobiles Company Ltd	321	321		31/171	Citroën passenger vehicles
	202	110	92	30/143	Peugeot passenger vehicles
Dongfeng Honda Automobile Co., Ltd	119	119		29/82	Honda passenger vehicles
Dongfeng Liuzhou Motor Co., Ltd	185	181	4	29/136	Dongfeng Future passenger vehicles
Zhengzhou Nissan Automobile Co., Ltd	293	257	36	31/248	Nissan passenger vehicles

VI Investment in 2006 and Future Investment Plan for the next two years

The Dongfeng Motor Group has managed to invest by adhering to the principle of rational and profitable investment. The actual total investment in 2006 was RMB5,515 million. According to the Dongfeng Motor Group's future plan for products and business plan, the total investment in the next two years will still remain at a high level. The total investment in 2007 is expected to be approximately RMB9,830 million, while the total investment in 2008 is expected to be approximately RMB9,695 million.

VII Research & Development

In the year 2006, the Dongfeng Motor Group's development of new models of the third-generation 1.5 ton highly flexible off-road vehicle series was completed and the development of the second-generation 3.5 ton off-road vehicle series was also completed.

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The development of mixed power passenger buses/cars made new advances, with whole vehicles and certain core components for development having promising industrial prospects. The Dongfeng Motor Group also received two national 863 projects in the “11th five-year plan” after successfully passing the government’s inspection for the national 863 project in the “10th five-year plan”.

For heavy medium commercial vehicles, the Dongfeng Motor Group launched brand-new products such as Dongfeng “Kinland” and 東風大力神, with 36 models and 100 brands in total, to equip with the newly-developed D310 driving cab.

For light vehicles, the enhanced models of Dongfeng Xiaobawang and Dongfeng Duolika entered into the market during 2006.

Research developments 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, “AMT 控制器開發”, “混合動力整車控制器開發”, “越野車用差速器總成台架試驗方法研究” and power train integration technology made significant progress, which served as technological exploration and reserves in the areas of automotive advance technology. Reliability design, simulation analysis technology, system matching technology and trial verification technology were further strengthened and applied. The development of products thus became more efficient and of higher technical level.

In relation to passenger vehicles, 7 new vehicles were launched to create a new growth point for sales. The vehicles launched included new Teana, Bluebird Sylphy, Geniss, Dongfeng Peugeot 206, C-Triomphe, C2 and CIVIC, Dongfeng Honda Automobile Co., Ltd’s first attempt in passenger cars.

VIII Business Outlook

Position in the industry

It is expected that the sales and production volume of the Dongfeng Motor Group will continue to grow at a fast pace in order to strengthen and raise its position in the PRC automotive industry by enlarging its market share.

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Increase in production capacity

According to the automotive market forecast and the business plan of the Dongfeng Motor Group, production capacity will rise gradually so as to meet the needs of manufacturing products, while capacity utilization will continue to increase. By the year 2008, the production capacity of motor vehicles is expected to reach approximately 1,280,000 units and to approximately 1,630,000 units by 2010.

New products to the market

There are 4 to 8 new models of passenger vehicles being put into the market by the Dongfeng Motor Group every year. After the new generation of heavy trucks, represented by Dongfeng “Kinland”, entered into the market in 2006, the Dongfeng Motor Group, to cater for the market need, will continue to work on the research and development of a new generation of long head medium vehicles and new engine products for commercial medium vehicles.

Profitability

To maintain or improve the profitability and the profit level, the Dongfeng Motor Group will further implement measures that would raise the rate of localization, improve technology which would lower costs and reduce expenses, etc.