

**Main Board H-share Listing – Research**

東風汽車集團股份有限公司

Dongfeng Motor Group Company Limited [Stock Code: 0489]

Global Coordinator : China International Capital Corporation (CICC)
Joint Global Bookrunners, Joint Sponsors and Joint Lead Managers : China International Capital Corporation (CICC)
 Deutsche Bank
 Merrill Lynch

Sector : Automobiles & Components**Business** : Automotive manufacturer in the PRC

Total share offer: <u>2,483,250,000</u> H shares (30% of the enlarged share capital) Public Offer: 248,326,000 H shares (10%) Placing: 2,234,924,000 H shares (90%) Greenshoe: 372,482,000 H shares (15%)	<u>Business of Dongfeng Motor ("The Group")</u> The Group is also one of the largest passenger vehicle manufacturers in the PRC, accounting for approximately 11.9% of domestic sales volume. The Group is the 3 rd -largest automotive manufacturer in the PRC in terms of sales volume for the 6 months ended 30 th June 2005, commanding approximately 12.9% of domestically manufactured vehicles sold. The Group is one of the 2 leading manufacturers of heavy and medium trucks in the PRC, with a domestic market share of approximately 31.1% for the 6 months ended 30 th June 2005. In 2004, the commercial vehicle business accounted for approximately 44.5% of the Group's revenue. The Group has formed joint ventures with Nissan Motor, PSA Peugeot Citroen and Honda Motor to manufacture a broad range of passenger vehicles. In 2004, the passenger vehicle business accounted for approximately 28.1% of the Group's revenue.
Price: HK\$1.45 – HK\$1.85 per H share Market Cap.: HK\$3.60 billion – HK\$4.59 billion Forecast 2005 P/E: 8.23x – 10.51x (pro forma) Adjusted NTA per share: HK\$1.23 – HK\$1.34 Staffing: 76,304	
HK Public Offer period: 24 th November 2005 – 29 th November 2005 Receiving bank: Bank of China (Hong Kong) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 7 th December 2005	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Dongfeng Motor Corporation

70%

Remark: Singapore-based Temasek Holdings and Standard Chartered Private Equity have agreed to purchase HK\$40 million and HK\$50 million worth of shares respectively in the offering, representing 2.3% and 2.8% respectively of the enlarged share capital (assuming the mid-point offer price of HK\$1.65).

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$3.76 billion.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.85 each, which is the high-end of the indicative price range)

- All proceeds from the listing would be applied for repaying bank loan (approximately RMB4.16 billion) related to the equity buy-back in 2004
- Any remaining balance of the proceed after loan repayment will be used for general working capital

Financial Highlights

	Year ended 31 st December			6 months ended
	2002	2003	2004	30 th June 2005
	RMB million	RMB million	RMB million	RMB million
Revenue	40,412	36,556	32,737	21,192
Gross profit	9,793	8,230	5,785	2,766
Operating profit	5,526	4,787	3,174	1,022
Profit attributable to equity holders (before MI)	3,069	3,339	2,598	660
Earnings per share – Basic	RMB0.2886	RMB0.314	RMB0.2838	RMB0.1096

Breakdown of Turnover by Segments

	Year ended 31 st December						6 months ended	
	2002		2003		2004		30 th June 2005	
	RMB mn	%	RMB mn	%	RMB mn	%	RMB mn	%
Commercial vehicles	23,258	57.6	15,567	42.6	14,556	44.5	6,821	32.2
Passenger vehicles	8,421	20.8	11,248	30.8	9,212	28.1	10,379	49.0
Engines and auto parts	6,659	16.5	8,281	22.6	7,685	23.5	3,004	14.2
Others	2,074	5.1	1,460	4.0	1,284	3.9	988	4.6
Total	40,412	100.0	36,556	100.0	32,737	100.0	21,192	100.0

Strengths/Opportunities

- ✓ The product portfolio of the Group boasts one of the most extensive ranges of commercial and passenger vehicles among PRC automotive manufacturers. The broad product base makes it more resilient to any adverse developments that may occur in any one segment and leads to greater earnings stability.
- ✓ The Group's joint venture partners, including Nissan Motor, PSA Peugeot Citroen and Honda Motor, are renowned international automotive manufacturers with unique strengths and capabilities.
- ✓ The Group's size and status positions it well to benefit from the current PRC government policies that promote the automotive industry consolidation through the formation of a few large automotive manufacturing conglomerates capable of competing internationally.

Weaknesses/Threats

- × The potential growth in the PRC automotive market has encouraged many automobile manufacturers, including foreign competitors and new domestic entrants, to expand their production capacities. This has resulted in an excess supply of automobiles in the market.
- × The growth in demand for automobiles in the PRC has slowed down since May 2004 due to intense competition and the imposition of more restrictive credit terms. The growth rate in sales volumes has fallen to 15.5% in 2004 from 34.2% in 2003 and 36.7% in 2002.
- × Priced at 8.23x to 10.51x FY2005E P/E, the mid-range of the valuation is higher than 8.8x for Hong Kong-listed Denway Motors (stock code: 0203).

Recommendation: Trading Buy