

DONGFENG MOTOR GROUP COMPANY LTD:
THE SHARES ARE TERRIBLY OVER-PRICED

With profits, having fallen to a 4-year low in what must surely have been a record-breaking Turnover, the share price of publicly listed Dongfeng Motor Group Company Ltd () (Code: 489, Main Board, The Stock Exchange of Hongkong Ltd) stands at about \$HK3.50.

That price represents an appreciation of \$HK1.90 per share, equivalent to nearly 119 percent, compared with the Offer Price of \$HK1.60 for a share in this Company when it went public on December 6, 2005.

It would appear to **TARGET** () that the share price of Dongfeng Motor Group, today, is completely out of whack with reality.

Of course, for those die-hard patriots of the People's Republic of China (PRC), perhaps, holding onto these shares indicates love for one's country, but for hard-nosed investors to pay so much over the odds for a share in this motor-vehicle manufacturer, whose fortunes are, clearly, on the wane, it makes little sense to pay such a premium to own a very small slice of this Company.

On May 2, 2006, Dongfeng Motor Group brought out its Annual Report for the Financial Year, ended December 31, 2005.

The financial results were in line with **TARGET**'s previous opinion: Bad.

On a Turnover of about 41.74 billion renminbi (about \$HK40.13 billion), the Bottom Line came in at about 1.75 billion renminbi (about \$HK1.68 billion).

The Net Profit Attributable to Shareholders represented a decrease, Year-On-Year, of a little more than 39 percent.

What appeared to have happened, during the 2005-Year, was that the cost of sales, as a percentage of the Total Revenue, rose from the 2004-Year's figure of about 82.33 percent, to the 2005-Year's figure of about 85.39 percent.

Also, the Gross Profit Margin fell from the 2004-Year's figure of about 17.67 percent to the 2005-Year's figure of about 14.61 percent.

It is difficult to isolate a single factor, or a group of contributing factors, that caused the fall in the Net Profits of this Company, during the 2005-Year, because the 2005 Annual Report is not sufficiently detailed to allow one to make a determination as to what is really happening at Dongfeng Motor Group.

The Chairman, Mr Xu Ping (), in his first statement to shareholders as the head of a publicly listed company, concentrates on economic matters, relating to the PRC State in terms, which go along the line: '*... the last year of the "Tenth Five-year Plan" and the foundation year of the "Eleventh Five-year Plan"...*'.

He, then, goes on to state how remarkable was the 2005 calendar year for the PRC, with the growth of the Gross Domestic Product.

Then, more political waffle. Then, more waffle. And more waffle, waffle, waffle and more waffle, ad nauseam.

Since Dongfeng Motor Group is a corporate entity, 66.90 percent owned by Dongfeng Motor Corporation (), which is a PRC, State-owned corporation, it is, of course, quite possible that the details of the ups and downs of the fortunes of this Company are classified as being '*State Secrets*'.

One gets thrown in prison for publishing State Secrets: **TARGET** has been warned.

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