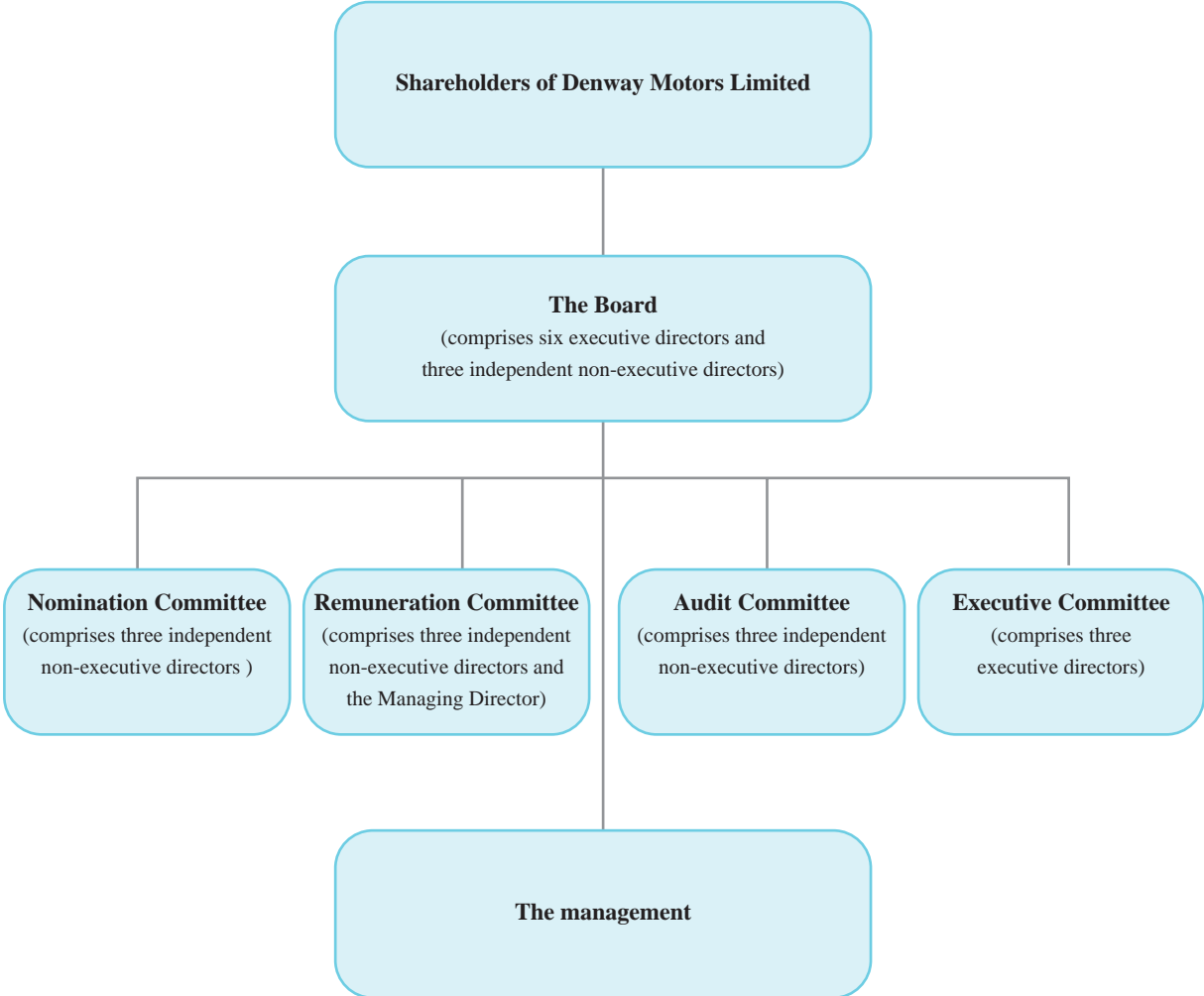


CORPORATE GOVERNANCE REPORT

As one of the leaders in China’s automotive industry, the Company endeavors to enhance and improve our corporate governance standards. With our established visions and strategies for corporate governance, the Board believes that accountability and reporting system with high transparency for the Company’s operation has been in place. Disclosure could also be made timely and accurately. At the same time, the rights of shareholders can be treated and protected equitably.

The Company is led by an efficient and responsible Board, which is comprised of individuals with high qualifications. This can ensure that the Company and its subsidiaries (the “Group”) maintain good corporate governance practices and have comprehensive internal control systems, so as to cope with the Group’s development strategies and increase the shareholders’ value.

The Company’s overall governance structure is as follows:



The Board formulated Denway Code on Corporate Governance (“Denway Code”), which was based on the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), in 2005. Appendix 14 of the Listing Rules stipulates the code of good corporate governance (the “Code”), and two levels of recommendations: (a) code provisions; and (b) recommended best practices. It is also states that issuers are expected to comply with, but may choose to deviate from, the code provisions. The recommended best practices are for guidance only. The Company opted to comply with all mandatory code provisions and provisions on recommended best practices that are considered by the Board as reasonable and appropriate.

In 2005, the Company complied with the regulations set out in the code provisions promulgated by the Stock Exchange and exceeded the requirements of these code provisions in a number of aspects.

In the 2005 accounting year and up to the date of this report, the Board hereby presents information in relation to the Company’s corporate governance practices as summarized below.

1. THE BOARD

The Board of the Company assumes responsibility for leadership and control of the Company and is responsible for promoting the success of the Company by directing and supervising its affairs.

The Board is responsible for establishing the strategic direction of the Company, setting the objectives of management, monitoring the performance of management, overseeing the management of the Company’s relationships with stakeholders, ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed, and setting the Company’s values and standards.

The Board has established written procedures determining which issues require a decision of the full Board and which the Board Committees or management can delegate, and reviews such arrangements on a periodic basis.

When the Board delegates management and administrative functions to management, it has given clear directions on the powers of management with respect to the circumstances where management is to report back and obtain prior approval from the Board before making decisions or entering into any commitment on behalf of the Company.

The task of the management and staff of the Company is the successful implementation of the strategies and directions as determined by the Board. In doing so, they must apply business principles and ethics, which are consistent with those expected by the Board and Shareholders and other stakeholders.

The Board is comprised of six executive directors (including the Chairman and the Managing Director) and three independent non-executive directors. Accounting for one-third of the members of the Board, the independent non-executive directors help to ensure that the Board can make independent judgment efficiently. Biographies for all directors are listed in Directors and Senior Management’s Profiles set out on page 9 to page 11.

The independent non-executive directors possess appropriate professional qualification among them, some possess expertise in accounting and financial management. Each independent non-executive director has confirmed to the Stock Exchange his independence pursuant to the requirements of the Listing Rules, and has also submitted an annual written confirmation to the

Company confirming his independence. All independent non-executive directors are engaged by contract every year and are subject to retirement in accordance with the Company's Articles of Association.

In addition, there is no special relationship, including financial, business, family or other material/relevant relationship among the members of the Board (in particular, between the Chairman of the Board and the Managing Director).

All directors actively participated in the Board meetings to discuss the overall strategies and business directions of the Group. In the 2005 accounting year, the Company held four regular and eleven non-regular Board meetings (note). To ensure that the directors could obtain all related information for performing their duties and responsibilities, when a regular meeting was convened, documents for the Board meeting were supplied to directors for their consideration before the meeting according to the regulations set out in the Listing Rules and code provision.

In the 2005 accounting year, Directors' attendance was as follows:

Executive directors	Attendance (Note)
Mr. Zhang Fangyou (<i>Chairman</i>)	11
Mr. Lu Zhifeng (<i>Vice Chairman</i>)	9
Mr. Yang Dadong	11
Mr. Zeng Qinghong	9
Mr. Zhang Baoqing (<i>Managing Director</i>)	14
Mr. Ding Baoshan	10

Independent non-executive directors	
Mr. Cheung Doi Shu	10
Mr. Lee Ka Lun	11
Mr. Fung Ka Pun	11

Note: The attendance does not include eleven Board meetings specially convened for business, including (i) approving the issue of the Company's new shares upon the exercise of share options; and (ii) approving the amendment to the address of the register of members of the Company due to the change of address of the Company's Share Registrar. Directors attending these meetings and their attendance were Mr. Zhang Fangyou (11 times), Mr. Yang Dadong (7 times), Mr. Zeng Qinghong (4 times) and Mr. Zhang Baoqing (11 times).

Chairman of the Board and Managing Director (in this report, "Managing Director" is equivalent to "Chief Executive Officer" set out in appendix 23 of the Listing Rules) are two clearly separated roles and are performed by different individuals. Mr. Zhang Fangyou, Chairman of the Board, is responsible for managing the Board. Mr. Zhang Baoqing, Managing Director, is responsible for the Company's operations. The division of responsibilities between the Chairman of the Board and the Managing Director have been clearly defined and the written terms of reference have been set.

Responsibilities of the Chairman of the Board are as follows:

- (a) providing leadership for the Board;
- (b) ensuring all Directors are properly briefed on matters to be discussed at Board meetings;
- (c) ensuring all Directors receive adequate, complete and reliable information in a timely manner;
- (d) ensuring that the Board works effectively, discharges its responsibilities and discusses all key issues in a timely manner;
- (e) ensuring that, the Company Secretary settles and approves the agenda for Board meetings on the Chairman's behalf, taking into account any matters proposed by other Directors for inclusion in the agenda;
- (f) providing effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole;
- (g) ensuring good corporate governance practices and procedures are in place;
- (h) giving each Director an opportunity to express his views at Board meetings, encouraging all Directors to fully contribute to the Board's affairs and ensuring that the Board acts in the best interests of the Company; and
- (i) facilitating the effective contribution of all Directors, in particular Non-Executive Director, and building constructive relations between Executive and Non-executive Directors.

The Managing Director is appointed by the Board, his responsibilities are as follows:

- (a) providing leadership for the management;
- (b) implementing and reporting to the Board on the Company's strategies;
- (c) overseeing the implementation by the Company of the objectives set by the Board;
- (d) providing all such information to the Board as is necessary to enable the Board to monitor the performance of Management;
- (e) leading the management of the Company's relationships with its stakeholders;
- (f) putting in place programmes for management development and succession;
- (g) working with the Head of Finance, establishing and maintaining proper internal controls and systems as well as disclosure controls and procedures; and
- (h) discharging such duties and authorities as may be delegated in writing to him by the Board.

In addition, the Board formulated a set of procedures for the Directors to seek for independent professional advice. Directors can make reasonable requests and seek for independent professional advice for discharging their duties in appropriate circumstances. Related expenses shall be borne by the Company.

2. AUDIT COMMITTEE

The Audit Committee was established on 30 June 1999, and is currently comprised of three independent non-executive directors. The Audit Committee is chaired by Mr. Lee Ka Lun.

Roles and functions of the Audit Committee include: handle the relationship between the Company and the external auditors (include: making recommendation to the Board on the appointment, re-appointment and removal of external auditors, approve remuneration and terms of engagement of the external auditors, handle issues for the resignation or dismissal of external auditors, review and monitor the independence and objectivity of the external auditors and effectiveness of the audit process and develop and implement policy on the engagement of an external auditor to supply non-audit services), review the financial information of the Company, monitor the financial reporting system and internal control procedures of the Company.

The Audit Committee reports to the Board on its discussion results and recommendations after each meeting.

In the entire 2005 accounting year, the Audit Committee reviewed the 2004 annual report and 2005 interim report of the Company, discussed the effectiveness of the internal control with external auditors, and reviewed the 2005 budgeted auditing fees.

In addition, the Audit Committee considered and reviewed the annual report for the year and annual results on 11 April 2006, and proposed to the Board for their approval.

All members of the Audit Committee actively participated in the committee's meetings. In the 2005 accounting year, the Audit Committee met three times. Discussion results and recommendations have been proposed to the Board for its review, and related recommendations were adopted by the Board.

In the 2005 accounting year, committee members' attendance was as follow:

Audit Committee Members	Attendance
Mr. Cheung Doi Shu (Independent Non-Executive Director)	1
Mr. Lee Ka Lun (Independent Non-Executive Director) (chairman of audit committee)	3
Mr. Fung Ka Pun (Independent Non-Executive Director)	3

All directors acknowledge their responsibilities in preparing the financial statements. As at 31 December 2005, none of the directors are aware of any uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. As such, the directors have prepared the Company's financial statements on a going concern basis.

Responsibilities of external auditors to the financial statements are set out in the auditors' report of the 2005 annual report.

3. NOMINATION COMMITTEE

The Nomination Committee was set up on 2 September 2005. It is comprised of three independent non-executive directors. The Nomination Committee is chaired by Mr. Fung Ka Pun.

Roles and functions of the Nomination Committee include:

- (a) review the structure, size and composition of the Board;
- (b) identify and nominate qualified individuals;
- (c) make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Managing Director;
- (d) make recommendations to the Board with particular regard to ensuring a substantial majority of the Directors on the Board being independent of management; and
- (e) assess the independence of Independent Non-executive Directors.

The Nomination Committee reports to the Board on its discussion results and recommendations after each meeting.

According to the Denway Code, the Nomination Committee is responsible for identifying and nominating qualified candidate when additional member to the Board is required or vacancies have to be filled. The Board shall then consider approving the nomination. The principal selection criterion is whether the candidate can assist the Board in performing the duties set out in Denway Code effectively.

In the entire 2005 accounting year, there was no change to the composition of the Board. Before the Nomination Committee was established, the Board recommended Mr. Zhang Baoqing to be re-appointed as the Company's director at the 2005 Annual General Meeting, and recommended Mr. Cheung Doi Shu, Mr. Lee Ka Lun and Mr. Fung Ka Pun to be re-appointed as the Company's independent non-executive directors at the 2005 Annual General Meeting.

For the directors that are subject to retirement by rotation at the forthcoming 2006 Annual General Meeting pursuant to the Company's Articles of Association, the Nomination Committee has recommended to the Board Mr. Lu Zhifeng, Mr. Yang Dadong and Mr. Ding Baoshan to be re-elected as the Company's directors.

All members of the Nomination Committee actively participated in the committee's meetings. In the 2005 accounting year, the Nomination Committee met once. Discussion results and recommendations have been proposed to the Board for its review, and related recommendations were adopted by the Board.

In the 2005 accounting year, committee members' attendance was as follows:

Nomination Committee Members	Attendance
Mr. Cheung Doi Shu (Independent Non-Executive Director)	1
Mr. Lee Ka Lun (Independent Non-Executive Director)	1
Mr. Fung Ka Pun (Independent Non-Executive Director) (chairman of Nomination Committee)	1

4. REMUNERATION COMMITTEE

The Remuneration Committee was established on 3 January 2005. It is comprised of three independent non-executive directors and the Managing Director. The Remuneration Committee is chaired by Mr. Cheung Doi Shu.

Roles and functions of the Remuneration Committee are as follows:

- (a) to make recommendations to the Board on policy and structure for the remuneration of Directors, Senior Management and all other employees of the corporate office and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to determine the remuneration of all Executive Directors and Senior Management;
- (c) to make recommendations to the Board on the remuneration of the Non-executive Directors;
- (d) to review and approve performance-based remuneration by referring to corporate goals and objectives set by the Board;
- (e) to review and approve the compensation payable to Executive Directors and Senior Management relating to any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms;
- (f) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms; and
- (g) to ensure no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee reports to the Board on its discussion results and recommendations after each meeting.

In the entire 2005 accounting year, the Remuneration Committee reviewed the remuneration of the executive directors and senior management of the Company.

All members of the Remuneration Committee actively participated in the committee's meetings. In the 2005 accounting year, the Remuneration Committee met once. Discussion results and recommendations have been proposed to the Board for its review.

In the 2005 accounting year, committee members' attendance was as follows:

Remuneration Committee Members	Attendance
Mr. Cheung Doi Shu (Independent Non-Executive Director) (chairman of Remuneration Committee)	1
Mr. Lee Ka Lun (Independent Non-Executive Director)	1
Mr. Fung Ka Pun (Independent Non-Executive Director)	1
Mr. Zhang Baoqing (Managing Director)	1

5. EXECUTIVE COMMITTEE

The Executive Committee was established on 2 September 2005. It is comprised of three executive directors. When the Board is not in session, the Executive Committee can discharge the specific power and administrative functions authorized by the Board. The Executive Committee is mainly responsible for monitoring the daily operations of the Company, its subsidiaries and associated companies.

6. SECURITIES TRANSACTION BY DIRECTORS

In the entire 2005 accounting year, the Company has complied with all code provisions of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in appendix 10 of the Listing Rules.

After making specific enquiries to all directors, the directors confirmed that they have complied with the Model Code throughout the 2005 accounting year.

As at 31 December 2005, Directors' interests in the Company's shares were disclosed in "Report of the Directors" set out on pages 13 to 14 of the annual report.

7. OTHER INTERESTS OF THE DIRECTORS

As at 31 December 2005, Directors' interests in any business which competes or may compete with the business of the Group were disclosed in "Report of the Directors" set out on page 14 of the annual report.

8. REMUNERATION OF THE AUDITOR

For the year ended 31 December 2005, audit fee paid by the Company to PricewaterhouseCoopers (external auditor of the Company) was HK\$2,898,000. Non-auditing fee paid amounted to HK\$1,976,710, representing HK\$855,000, HK\$1,066,710 and HK\$55,000 for auditing advice on merger and acquisition, taxation services and other fees, respectively.

9. INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control system for the Group. The system is for the interests of the shareholders by protecting the shareholders' investment and the assets of the Group.

The Company's internal control system, which is based on the "Basic Structure for Internal Control and Risk Management" issued by the Hong Kong Institute of Certified Public Accountants in June 2005, is a set of procedures for providing reasonable guarantee, in a view to meet the following objectives:

- (a) effectiveness and efficiencies of operations;
- (b) reliability of financial reporting; and
- (c) compliance with the applicable laws and regulations.

For implementing internal control effectively, the Company shall review the following five elements for internal control:

(i) Overall control

The Group has established a comprehensive organization structure and deployed suitable personnel for the efficient implementation of policies. Adequate information is also provided. Executive directors and the senior management are granted appropriate authority to execute the strategies, policies and targets of the Group effectively when risks are within control. At the same time, the Board and senior management shall communicate the values and code of conduct of the Company to all the staff, for maintaining honesty and a high level of morality. In addition, all directors actively participate in the affairs of the Board and the work of all Board Committees.

(ii) Risk assessment

The Group determines annual operation targets, financial reporting targets and compliance targets in accordance with the development strategies set by the Board. This is to ensure that the Group operates within risks that are of tolerable and reasonable level.

The Company shall review the risks faced by the Group with external auditors regularly, so as to set a firm base for the Board to review the effectiveness of internal control and report to the shareholders on issues in relation to internal control.

(iii) Controlling activities

The Group fully undertakes controlling activities, for ensuring the implementation of the management's instructions, and different policies and procedures (including operation management, information handling, actual monitoring, performance indicator and definition of responsibilities and duties) in a consistent manner.

(iv) Information and communication

The Board and senior management shall communicate the importance of control to the staff, enabling the staff to understand that control must be implemented. The staff shall regularly report any information related to operation, financial and regulation to the Board and senior management.

The senior management shall provide the latest information on the Group to the Board and the Board Committees regularly or under material circumstances, in a view to have sufficient preparation for any risks.

In order to lower risks, the Company actively communicates with, and considers opinions from, all external parties, so that it is able to take appropriate actions in face of risks.

(v) Monitoring

The Company shall continuously assess and properly report the performance of the internal control system.

10. SHAREHOLDERS' RIGHTS AND INVESTORS' RELATIONSHIP

It is the Company's policies to have open communication and disclose information in a fair manner. Information disclosure is a key means to enhance corporate governance standard. Shareholders can assess the Company's performance based on the information and provide opinions to the Company. However, disclosure of more information does not necessarily increase the transparency of a company's operations. The completeness of the information disclosed is very important for cultivating investors' confidence towards the Company. Information relating to the Group and its business, together with its financial condition, are disclosed in the 2005 annual report and the Company's website at www.denway-motors.com.

All registered shareholders shall receive notice of the Annual General Meeting and special general meeting (together the "Meeting") by post. The notice of the Meeting contains an agenda, resolutions proposed and a voting form. All shareholders, whose shares are registered in the register of members, are entitled to attend the Meeting. Shareholders who cannot attend the Meeting can appoint their proxies or the chairman of the meeting as their proxies by completing the proxy form enclosed with the notice of the meeting and returning it to the Company's share registrar. Procedures for demanding a vote by poll, together with the notice of the meeting, have been enclosed with a circular dispatched to the shareholders. The procedures shall be read out at the Meeting by the chairman of the meeting.

In addition, separate resolutions for actually separated issues shall be proposed to the Meeting for the approval of shareholders.

The Annual General Meeting (the "AGM") is considered as an annual significant event of the Company. The AGM can provide a precious opportunity for the shareholders and the Board to exchange constructive opinions. All directors and the senior management shall attend the AGM. Apart from attending the AGM, the Chairman of the Board shall arrange the chairman of each Board Committee to attend and answer questions at the AGM.