

Corporate Governance Report

1. OVERVIEW OF CORPORATE GOVERNANCE

The Company recognises the importance of the provision of transparency and accountability to its shareholders. The Company is committed to achieving high standards of corporate governance and believes that sound corporate governance is essential for the Company to maximize shareholders' value.

Currently, the Company's code on corporate governance practices includes, but is not limited to, the following:

- Articles of Association of Dongfeng Motor Group Company Limited
- Rules and Procedures of Shareholders' General Meetings
- Rules and Procedures of Meetings of the Board of Directors
- Rules and Procedures of Meetings of the Supervisory Committee
- Detailed Regulations for the Work of the Audit Committee
- Detailed Regulations for the Work of the Remuneration Committee
- Management Methods for Auditing Contracts
- Leaders' and Managers' Methods for Auditing Economic Responsibility
- Internal Auditors' Work Regulations
- Development Strategy Working Management Methods
- Directors' Management Methods
- Dispatched Directors' Management Flowchart
- Internal Operational Guidelines on Information Disclosure
- Methods for Sampling Items for Asset Appraisal
- Methods for Approving Items for Asset Appraisal
- Methods for Recording Items for Asset Appraisal
- Management Systems for Accounting Reports

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- Management Systems for Financial Budgeting
- Temporary Methods for Financial Budget Analysis
- Management Methods for Statistics
- Temporary Methods for High Risk Investment Management

The Board of Directors has reviewed the relevant corporate governance documents adopted by the Company, and is of the view that the documents contain all the Code Provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code"), with the exception of the code A.1.1 which provides that meetings of the Board of Directors shall be held at least four times a year, while the Articles of Association of the Company set out that board meetings shall be held at least twice a year. In 2005, the Board of Directors held six board meetings. The Company complied with Code A.1.1 of the Corporate Governance Code since its listing on The Stock Exchange of Hong Kong Limited on 7 December, 2005.

2. CODE ON CORPORATE GOVERNANCE PRACTICES

After listing on The Stock Exchange of Hong Kong Limited on 7 December, 2005, the Company has fully complied with the requirements of the Code Provisions of the Corporate Governance Code.

3. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). After specific enquiry of all directors by the Company, all directors have confirmed that they have fully complied with the Model Code for the period from 7 December 2005 to 31 December 2005.

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4. BOARD OF DIRECTORS

The composition of the Board of Directors is as follows:

Xu Ping	Chairman
Liu Zhangmin	Executive Director and President
Zhou Wenjie	Executive Director and Executive Vice President
Li Shaozhu	Executive Director
Fan Zhong	Executive Director
Tong Dongcheng	Non-executive Director
Ouyang Jie	Non-executive Director
Liu Weidong	Non-executive Director
Zhu Fushou	Non-executive Director
Sun Shuyi	Independent Non-executive Director
Ng Lin Fung	Independent Non-executive Director
Yang Xianzu	Independent Non-executive Director

The Board of Directors meets twice a year (once every half year), and will hold special meetings when necessary. From 1st January to 31st December, 2005, the Board of Directors held six board meetings in total.

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The following table sets out the attendance record for each director at meetings of the Board of Directors:

No.	Names	Position	attendance	Attendance rate
1	Miao Wei (苗圩)	Chairman (resigned in May 2005)	5	100%
2	Xu Ping (徐平)	Vice Chairman (re-designated as Chairman in May 2005)	6	100%
3	Liu Zhangmin (劉章民)	Executive Director and President	6	100%
4	Zhou Wenjie (周文杰)	Executive Director and Executive Vice President	6	100%
5	Fan Zhong (范仲)	Executive Director	6	100%
6	Li Shaozhu (李紹燭)	Non-executive Director (re-designated as Executive Director on 5th August, 2005)	6	100%
7	Tong Dongcheng (童東城)	Non-executive Director	6	100%
8	Ouyang Jie (歐陽潔)	Non-executive Director	6	100%
9	Liu Weidong (劉衛東)	Non-executive Director	6	100%
10	Zhu Fushou (朱福壽)	Non-executive Director	6	100%
11	Sun Shuyi (孫樹義)	Independent Non-executive Director	6	100%
12	Ng Lin-fung (吳連烽)	Independent Non-executive Director	6	100%
13	Yang Xianzu (楊賢足)	Independent Non-executive Director	6	100%

The Board of Directors is the standing decision-making organization of the Company. It leads and supervises the Company in a responsible and effective manner. All members of the Board of Directors are jointly and severally liable to all shareholders with regards to matters of management, supervision and operation of the Company.

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The duties and responsibilities conferred on the Board of Directors include:

- convening shareholders' meetings and reporting on its work to shareholders;
- implementing resolutions of shareholders' meetings;
- determining the Company's business and investment plans;
- formulating the Company's annual budget and final accounts;
- formulating the Company's proposals for dividend and bonus distributions and for the increase or reduction of registered capital; and
- exercising other powers, duties and responsibilities as conferred by the Articles of Association.

The Board of Directors is responsible for preparing the financial statements for each accounting year to give a true and fair view of the financial position of the Company and its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2005, the Board of Directors has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgment and estimates, and has prepared the financial statements on a going concern basis.

Since the listing of the Company, the Board of Directors has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors in the Board of Directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to be specialized in accounting or relevant financial management.

The Company has accepted the written confirmation of each of the independent non-executive directors in respect of their independence. The Company has accepted the written confirmation of each of the independent non-executive directors ascertaining that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

Other than their working relationships with the Company, none of the directors, supervisors or senior management has any financial, business or family relationships or other material relationships with each other.

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5. CHAIRMAN AND PRESIDENT OF THE COMPANY

Prior to May 2005, Mr. Miao Wei (苗圩) served as the Chairman and President of the Company. Subsequent to May 2005, Mr. Xu Ping (徐平) was elected as the Chairman and Mr. Liu Zhangmin (劉章民) was elected as the President of the Company. The roles of the Chairman and the President are two distinctively separate positions. The Articles of Association set out in detail the respective duties of the Chairman and the President. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The President is responsible for the Group's business development and management.

6. NON-EXECUTIVE DIRECTORS

All directors, including non-executive directors and independent non-executive directors, are appointed for a term of three years. All directors retire from their office at the expiry of their terms and are eligible for re-election at the following annual general meeting.

7. REMUNERATION OF DIRECTORS

The Company has set up a Board Remuneration Committee which consists of one executive Director and two independent non-executive Directors of the Company. The current chairman of the Board Remuneration Committee is Mr. Yang Xianzu and the other two members are Mr. Li Shaozhu and Mr. Ng Lin Fung. The Board Remuneration Committee considers and recommends to the Board of Directors the remuneration and other benefits paid by the Company to the directors. The remuneration of all directors is subject to regular monitoring by the Board Remuneration Committee to ensure that levels of remuneration and compensation are appropriate.

8. NOMINATION OF DIRECTORS

No nomination committee exists in the Company. The Company appoints new directors in accordance with a transparent procedure. According to the Articles of Association of the Company shareholders of the Company can nominate director candidates.

Written notice containing the intention to nominate a candidate and the candidate's express willingness to accept the nomination shall be delivered to the Company not earlier than the day when the notice of the shareholders' general meeting has been dispatched and not later than seven days prior to the convening of such meeting. The period between nomination and acceptance of nomination shall not be less than seven days.

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9. AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The audit fee of the Company for the year ended 31 December 2005 was RMB10 million.

The Company also incurred approximately RMB98 million for the services provided by the reporting accountants in respect of the IPO and listing on The Stock Exchange of Hong Kong Limited. These services commenced on 2004 and it was not practicable to separate the amount payable for those services between the years 2004 and 2005.

10. AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee will be to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board of Directors. The audit committee consists of three members who are all non-executive directors (including two independent non-executive directors) of the Company. The Chairman of the audit committee is Mr. Sun Shuyi, a qualified public accountant certified by the PRC Institute of Certified Public Accountants. The other members of the audit committee are Mr. Ouyang Jie and Mr. Ng Lin Fung.

11. SHAREHOLDERS' RIGHTS

In accordance with the Articles of Association of the Company, shareholders who solely or in aggregate hold 10% or more of the voting shares issued by the Company, have the right to call for an extraordinary general meeting in writing (the number of shares held by the shareholders is calculated on the day the relevant shareholders submit their written request).

The Company has adopted a policy of disclosing information to its shareholders in a timely manner. The annual general meeting shall serve as a communication channel between directors and shareholders. The chairman will chair the annual general meeting to ensure that the shareholders' views are communicated to the Board of Directors. During the annual general meeting, the chairman of the Board of Directors and its committees will all be present to answer any queries that shareholders may have.

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The notice of annual general meeting shall be sent to all shareholders at least 45 days prior to the date of the meeting, It will state the purpose of the general meeting. Shareholders may propose to the Board of Directors procedures for making enquiries and put forth the proposed procedures at shareholders' general meetings.

12. AUTHORIZATION OF DIRECTORS

The Board of Directors formulates the strategies of the Company. Responsibility for execution of the Board of Directors' strategies and the Company's daily operations is delegated to the management.