

Corporate Governance Report

1. Overview of Corporate Governance

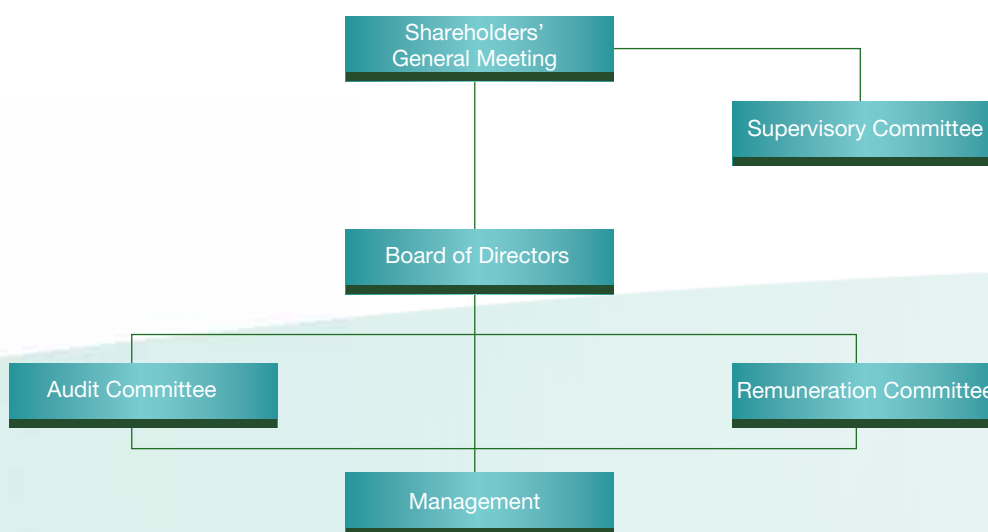
The Company has been in compliance with the Company Law of the People's Republic of China (the "Company Law"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Code of Corporate Governance Practice of the Stock Exchange of Hong Kong and the Articles of the Association. The Company regulates its daily operation in strict compliance with the governing regulations and reviews the operations and management of the Company from time to time. The Company is committed to its corporate philosophy of honesty and diligence and the principles of good corporate governance. The Company further improves the transparency and independence of its operations. In addition, the Company maintains its healthy

development and maximises shareholder value by strengthening its corporate governance.

During the reporting period, the Company's governance has been in strict compliance with the Code of Corporate Governance. And the Company was awarded the The Asset Triple A Awards 2010 by Corporate Governance Asia Magazine.

2. Structure of Corporate Governance

The Company's corporate governance involves the shareholders' general meetings, the Board of Directors and special committees, the Supervisory Committee, the management and the employees, each of which plays an important role in the governance of the Company.



Corporate Governance Report

(1) Shareholders and Shareholders' General Meeting

i. Shareholders' General Meeting

The shareholders' general meeting is the highest authority of the Company and has legal power to decide on important matters of the Company. The annual general meetings and extraordinary general meetings provide a channel of direct communication between the directors and the shareholders of the Company. The Company attaches great importance to the shareholders' general meeting of the Company. The notice of shareholders' general meeting will be dispatched 45 days prior to the date of the meeting. All shareholders are encouraged to attend the shareholders' general meeting, and all Directors and members of the senior management are required to attend.

During the year, the Company held two General Meetings. At the Annual General Meeting held on 18 June 2010, the annual report of 2009 and other related matters were considered and approved. At the Extraordinary General Meeting held on 11 October 2010, the amendments to the Share Appreciation Right Scheme of the Company were considered and approved and the members of the Third Session of the Board of the Directors and Supervisors were elected.

ii. Substantial Shareholder

Dongfeng Motor Corporation is our substantial shareholder, holding approximately 66.86% of the shares in the Company. Dongfeng Motor Corporation has never, directly or indirectly, interfered with the Company's decision-making or operations beyond the authorization of the general meetings.

Information on shareholdings of the top ten substantial shareholders during the reporting period is set out on page 43 of this annual report.

(2) Directors and Board of Directors

i. Directors

Appointment of Directors

Directors are elected at shareholders' general meetings by more than half of the voting rights held by shareholders present at the shareholders' general meetings in person or by proxies. Shareholders, the Board of Directors and the supervisory committee of the Company are entitled to nominate candidates for directorship in writing. A director shall hold office for a term of three years and, upon expiry of his term, shall be eligible for re-election at a shareholders' general meeting.

As the term of office of the Second Session of the Board of Directors expired on 11 October 2010, it had been proposed by Dongfeng Motor Corporation and elected at the Extraordinary General Meeting held on 11 October 2010 that Mr. Xu Ping, Mr. Zhu Fushou, Mr. Zhou Wenjie, Mr. Li Shaozhu and Mr. Fan Zhong were appointed as the Executive Directors of the Third Session of the Board of Directors. Mr. Tong Dongcheng, Mr. Ouyang Jie, Mr. Liu Weidong, Mr. Zhou Qiang were appointed as the Non-Executive Directors of the Third Session of the Board of Directors. And Mr. Sun Shuyi, Mr. Ng Lin-fung and Mr. Yang Xianzu were appointed as the Independent Non-Executive Directors of the Third Session of the Board of Directors. And the term of office of the Third Session of the Board of Directors will expire on 11 October 2013.

At the first meeting of the Third Session of the Board, Mr Xu Ping was selected as the chairman of the Third Session of the Board.

The Third Session of the Board of Directors of the Company consists of twelve Directors, five of which are executive directors, four of which are non-executive directors and three of which are independent non-executive directors. The size and composition of the Board of Directors are in compliance with the relevant laws and regulations. Details of members of the Board are set out on page 44 of this annual report.

Independence of Directors

The independent non-executive directors of the Company are Sun Shuyi, Ng Lin-fung and Yang Xianzu. Sun Shuyi is a certified public accountant and senior engineer in the PRC. As at the date of this annual report, in accordance with Rule 3.13 of the Hong Kong Listing Rules, the Company has received the annual confirmation of independence from each of the independent non-executive directors. The Company considers that they remain independent.

All the independent non-executive directors has discharged their duties with good faith, integrity and diligence according to the laws and regulations. The independent non-executive directors participated in the discussion and decision on the material issues of the Board of Directors and Special Committees of the Board. and gave their views on the governance of the Company based on their expertise and experience. They have duly reviewed and expressed their independent views on the fairness and equality of connected transactions as well as the financial transactions of the connected parties. They have performed their duties independently and are independent of the substantial shareholders, beneficial owners and other stakeholders or of the Company. The independent non-executive directors made significant contributions towards the interests of the Company and shareholders as a whole and the health development of the Company.

Corporate Governance Report

During the reporting period, the independent non-executive directors of the Company did not hold a dissenting view regarding each of the material issues of the Company.

Introduction Program for Directors

In 2010, the Company provided the “Practical Manual for the Directors and the Supervisors” and “Handout of Corporate Governance of DFG” to all directors who were elected as the members of the Third Session of the board of the Directors and promptly informed them of the most updated rules and regulations for compliance. In 2010, the Company Secretariat released 24 issues of newsletters for directors and supervisors, providing them with the latest market news and information of the Company. In 2010, the Company also provided annual reports of the performance, investment and financing of the Company to directors and organized site visits to the relevant units and business sectors for directors.

By providing them with information and reports, site visits and professional trainings, all directors, especially the independent non-executive directors, will be kept informed of the business development, competition and regulatory environments as well as the industry in which the Company operates, which will help the directors to understand their responsibilities, make correct decisions and carry out effective supervision.

Remuneration of Directors

The First Meeting of the Third Board has set up a Remuneration Committee which consists of Yang Xianzu, Li Shaozhu, and Ng Lin-fung and appointed Mr. Yang Xianzu as the Chairman of the Remuneration Committee. The Remuneration Committee is responsible for the formulation and review of the remuneration policies and proposals for directors and senior management of the Company.

Other than the three independent non-executive directors of the Company who receive remuneration, all other directors do not receive remuneration of directors from the Company. The executive directors receive remuneration for their management function from the Company. The remuneration of the independent non-executive directors is determined with reference to the average market level and the condition of the Company.

During the year, the remuneration paid to each of the three independent non-executive directors by the Company was RMB120,000 after tax.

Securities Transactions by Directors

After specific enquiry of all directors made by the Company, all directors have confirmed that they have fully complied with the Model Code as set out in Appendix 10 to the Listing Rules of the Hong Kong Stock Exchange throughout the year of 2010.

ii. **Board Meeting**

Six board meetings (“Board Meetings”) were held by the Company in 2010 and the major matters covered were as follows:

- To consider and approve the annual and interim results announcements;
- To consider and approve the annual and interim financial statements and the reports of the Board of Directors;
- To determine directors’ remuneration;
- To re-appoint the international auditors and domestic auditors;
- To consider and approve continuous connected transactions and their respective annual caps; and
- To acquire the own brand passenger vehicles business and related assets from the parent company and approve related connected transactions.
- To approve the resignation and appointment of President
- To elect the Chairman of the Third Session of the Board of Directors and appoint the members of Remuneration Committee and Audit Committee.

Corporate Governance Report

Meetings of Board of Directors can facilitate effective discussion and prompt and prudent decision. The attendance of directors at meetings of Board of Directors is as follows:

Members of the Board	Personal Attendance/ Number of Meetings		Remarks
	Meetings	Rate	
<i>Executive Directors</i>			<i>All directors not present in person have appointed other directors to attend and vote on their behalf.</i>
Xu Ping	5/6	83%	
Liu Zhangmin	5/6	83%	
Zhu Fushou	6/6	100%	
Zhou Wenjie	5/6	83%	
Li Shaozhu	5/6	83%	
Fan Zhong	4/6	67%	
<i>Non-executive Directors</i>			
Tong Dongcheng	4/6	67%	
Ouyang Jie	4/6	67%	
Liu Weidong	4/6	67%	
Zhou Qiang	4/6	67%	
<i>Independent Non-executive Directors</i>			
Sun Shuyi	4/6	67%	
Ng Lin-fung	6/6	100%	
Yang Xianzu	6/6	100%	

The management is responsible for providing the relevant information required for considering and approving the resolutions of the Board of Directors, and present work report, especially the progress of major projects of the Company, at Board Meetings.

iii. Special Committees of the Board

Two special committees, the Audit Committee and the Remuneration Committee, have been

set up by the Board of Directors. The Board will fully consider the expertise and experience of each director when appointing members to the committees, so that each committee shall perform their functions effectively. The Audit Committee comprises one non-executive director, and two independent non-executive directors. The Remuneration Committee comprises one executive director and two independent non-executive directors.

The First Meeting of the Third Session of the Board of the directors appointed Mr. Sun Shuyi, Mr. Ouyang Jie and Mr. Ng Lin-fung as the members of the Audit Committee and Mr. Shun Shuyi was appointed as the Chairman of the Audit Committee. Mr. Yang Xianzu, Mr. Li Shaozhu and Mr. Ng Lin-fung were appointed as the members of the Remuneration Committee.

And Mr. Yang Xianzu was appointed as the Chairman of the Remuneration Committee. The Audit Committee and the Remuneration Committee conducted works according to the Practice Code of Audit Committee and Practice Code of Remuneration Committee, respectively. In 2010, the Audit Committee held two meetings while the Remuneration Committee held one meeting.

Attendance of each Special Committee (Attendance/Number of Meetings)

Name	Position	Audit Committee	Remuneration Committee
Sun Shuyi (Chairman)	Independent Non-executive Director	1/2	
Yang Xianzu (Chairman)	Independent Non-executive Director		1/1
Ng Lin-fung	Independent Non-executive Director	2/2	1/1
Ouyang Jie	Non-executive Director	2/2	
Li Shaozhu	Executive Director		1/1

(3) Internal Control System

i. Supervisors and Supervisory Committee

As the term of office of the Second Session of the Supervisory Committee expired on 11 October 2010, it had been proposed by Dongfeng Motor Corporation and elected by the Extraordinary General Meeting held on 11 October 2010 that Mr. Ma Liangjie, Mr. Wen Shiyang, Mr. Deng Mingran, Mr. Ren Yong, Mr. Li Chunrong, Mr. Chen Binbo, Mr. Huang Gang and Mr. Kang Li were appointed as the supervisors of the Third Session of the Supervisory Committee.

The First Meeting of the Third Session of the Supervisory Committee elected Mr. Ma Liangjie as the Chairman of the Third Session of the Supervisory Committee.

In 2010, the Supervisory Committee has supervised the Company's financial matters and the legality and compliance of rules and regulations by the directors and senior management during their performance of duty. Three Supervisory Committee meetings were held in the year. All members of the Supervisory Committee have diligently performed their supervisory duties and attended the two Meetings in person or by appointing other supervisors to attend on their behalf and observe all Board Meetings.

Corporate Governance Report

ii. Internal Controls

The Board shall formulate and maintain the internal control system of the Company and review the effectiveness of the key control procedures for financial, operational, and compliance control and risk management so as to safeguard the interests of the shareholders and the assets of the Group. The review comprises the assessment of the Audit Department of the Company on the internal control and the report of issues identified during the statutory audit by external auditors.

In 2010, the Board of Directors thoroughly reviewed the effectiveness of the Company's internal control system through the Audit Committee and the Company's audit department in five major areas of internal control: the control environment, risk assessment, control activities, information and communication and supervision. Based on the reviews in previous years and the assessment of the internal control system in the year, the Board of Directors is of the opinion that during the year and as at the date of this annual report, the Company has maintained a comprehensive internal control system covering the areas of corporate governance, operation, investment, finance, administration and personnel management, and the internal control system is effective.

The Board of Directors is of the opinion that the Company's internal control system is established for the purpose of managing potential risks instead of completely eliminating all risks. Accordingly, internal control system can

only render reasonable, rather than absolute, assurance for the achievement of the Company operating objectives.

iii. Auditors and Auditors' Remuneration

The Audit Committee is responsible for reviewing the appointment, resignation or removal of external auditors, as well as assessing their qualifications for providing services to the Company and the reasonableness of the audit fees, and making recommendations to the Board of Directors in these regards. The appointment and removal of the Company's external auditors as well as the audit fees are proposed by the Board of Directors to the general meetings for approval.

For the year ended 31 December 2010, the Company has appointed Ernst & Young and Ernst & Young Hua Ming as its international and domestic auditors, respectively. The audit fee of the Company for 2010 was RMB12.90 million.

The Audit Committee has discussed and assessed the expertise of Ernst & Young, its performance of audit work for 2010 and the proposed fees for 2011. The Audit Committee proposed to re-appoint Ernst & Young as the Company's external auditors and the proposal has been approved by the Board of Directors. The proposal to reappoint Ernst & Young and Ernst & Young Hua Ming as the international and domestic auditors, respectively, of the Company for the year ending 31 December 2011 will be submitted to the 2010 annual general meeting for shareholders' consideration and approval and authorized the Board of Directors to determine their remunerations.

(4) The Management

The Company has clearly defined the respective responsibilities of the Chairman and the President and the roles and division of work between the Board of Directors and the management, details of which are set out in the Articles of Association and the Rules and Procedures for Meetings of the Board of Directors. This ensures the independence of the Board of Directors in decision-making and the independence of management in daily operation and management activities.

The Chairman of the Company is Xu Ping. And the Sixteenth Meeting of the Second Session of the Board of the Directors approved that Liu Zhangmin tendered his resignation as the President of the Company in respect of his age and Zhu Fushou has been appointed as the President of the Company with effect from 25 June 2010.

The Chairman focuses on the Group's development strategies and issues of the Board of Directors while the President is responsible for operation and management activities and developments of the Company.

(5) Information Disclosure

i. Information Disclosure

The Company recognizes the importance of performing its statutory obligation of disclosing information and strictly complies with the information disclosure regulations of The Stock Exchange of Hong Kong Limited. The Company promptly, accurately and completely discloses information that may materially affect the decision-making of the public investors strictly in accordance with the preparation and reporting rules and procedures as required for disclosing information, and ensures that all shareholders have equal and sufficient access to all information regarding the Company. Meanwhile, 2009 Annual Report was awarded the Silver Award of 2009 Vision Award by LACP (League of American Communications Professionals).

During the period under review, the Company published 36 announcements in accordance with the Listing Rules of the Hong Kong Stock Exchange. The Company published its announcements both on the websites of the Stock Exchange and the Company. For details, please visit the websites www.hkex.com.hk and www.dfmng.com.cn.

Corporate Governance Report

ii. Investor Relations and Communication

The Company strives to strengthen communication with investors through active investor relations activities so as to enhance the investors' understanding and trust in the Company, build the investors' confidence for the future development of the Company, promote market recognition of the Company and enable the business development potential and actual value of the Company to be fully recognised by the market.

During the year, the Company has maintained close connection with overseas media and investors through various channels, such as results announcement conferences, news release conferences, road shows, reception of routine visits by the investors and analysts, and telephone conferences. The Company has organized 8 roadshows and promotion activities, approximately 40 receptions of routine visits by the investors and analysts, and over 80 telephone conferences for institutional investors and analysts during the year.

iii. Shareholders' Return

The Company always strives to enhance the shareholders' return, and had totally distributed cash dividend of approximately RMB1.9 billion. The Board of Directors proposed to distribute a cash dividend of approximately RMB1,551 million, or RMB0.18 per share for the year 2010 and will submit the proposal at the shareholders' general meeting of 2010 for approval.