



吉利汽車控股有限公司
GEEELY AUTOMOBILE HOLDINGS LIMITED

[Stock Code: 175]

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS:

Mr. Li Shu Fu (*Chairman*) (Appointed on 9th June, 2005)
Mr. Gui Sheng Yue (*Chief Executive Officer*) (Appointed on 9th June, 2005)
Mr. Ang Siu Lun, Lawrence
Mr. Xu Gang (Appointed on 9th June, 2005)
Mr. Yang Jian (Appointed on 9th June, 2005)
Mr. Yin Da Qing, Richard (Appointed on 9th June, 2005)
Mr. Liu Jin Liang (Appointed on 9th June, 2005)
Mr. Zhao Jie (Appointed on 15th September, 2005)

Mr. He Xue Chu (Resigned on 21st June, 2005 at 4:00 p.m.)
Mr. Xu Xing Yao (Resigned on 21st June, 2005 at 4:00 p.m.)
Mr. Ku Wai Kwan (Resigned on 21st June, 2005 at 4:00 p.m.)
Mr. Zhou Teng (Resigned on 21st June, 2005 at 4:00 p.m.)
Mr. Zhang Zhe (Resigned on 21st June, 2005 at 4:00 p.m.)
Mr. Wong Hing Kwok (Resigned on 21st June, 2005 at 4:00 p.m.)
Mr. Shim Bong Sup (Appointed on 9th June, 2005 and resigned on 15th September, 2005)
Mr. Nan Yang (Resigned on 18th October, 2005)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Song Lin
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex (Appointed on 6th June, 2005)

Mr. Liu Ming Hui (Resigned on 7th March, 2005)

AUDIT COMMITTEE:

Mr. Lee Cheuk Yin, Dannis (*Chairman*)
Mr. Song Lin
Mr. Yeung Sau Hung, Alex (Appointed on 6th June, 2005)

Mr. Liu Ming Hui (Resigned on 7th March, 2005)

REMUNERATION COMMITTEE:

Mr. Gui Sheng Yue (Appointed as Committee's Chairman on 20th February, 2006)
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex (Appointed on 6th June, 2005)

Mr. Liu Ming Hui (Resigned on 7th March, 2005)
Mr. Ang Siu Lun, Lawrence (Resigned as Committee's Chairman on 20th February, 2006)

COMPANY SECRETARY:

Mr. Cheung Chung Yan, David (Appointed on 17th May, 2005)

QUALIFIED ACCOUNTANT:

Mr. Cheung Chung Yan, David (Appointed on 17th May, 2005)

CORPORATE INFORMATION

AUDITORS:

Deloitte Touche Tohmatsu

LEGAL ADVISORS IN HONG KONG:

Sidley Austin Brown & Wood
Preston Gates Ellis

LEGAL ADVISOR ON CAYMAN ISLANDS LAW:

Maples and Calder

PRINCIPAL BANKERS:

Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:

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23 Harbour Road, Wanchai,
Hong Kong
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REGISTERED OFFICE:

P.O. Box 309, George Town,
Grand Cayman, Cayman Islands,
British West Indies

HONG KONG BRANCH SHARE REGISTRARS & TRANSFER OFFICE:

Union Registrars Limited
311-312, Two Exchange Square,
Central, Hong Kong

INVESTOR & MEDIA RELATIONS:

Jovian Financial Communications Ltd.

DESIGN & PRODUCTION:

HeterMedia Services Limited

LISTING INFORMATION:

The Stock Exchange of Hong Kong Limited
Stock Code: 0175

COMPANY'S WEBSITE:

<http://www.geelyauto.com.hk>



吉利汽车
GEELY AUTOMOBILE

自由舰

➔ 自由舰奔腾于海拔 5000 米高的崎岖山路



上·漫步地球之巅

奔腾

Financial Summary
and Highlights

FINANCIAL SUMMARY AND HIGHLIGHTS

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	2005 HK\$'000	2004 HK\$'000 (restated)	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Results - Group					
Turnover	101,411	41,123	39,872	71,820	112,572
Profit (loss) before taxation	115,377	80,834	55,620	(111,711)	(105,970)
Income tax	-	-	(237)	(52)	(106)
Profit (loss) for the year	115,377	80,834	55,383	(111,763)	(106,076)
Attributable to:					
Equity holders of the Company	110,827	81,305	57,486	(105,981)	(102,816)
Minority interests	4,550	(471)	(2,103)	(5,782)	(3,260)
	115,377	80,834	55,383	(111,763)	(106,076)

Assets and liabilities - Group

Total assets	861,641	680,767	603,188	23,725	567,797
Total liabilities	(54,548)	(22,854)	(31,753)	(29,259)	(485,150)
Total equity	807,093	657,913	571,435	(5,534)	82,647
Represented by:					
Equity attributable to equity holders of the Company	798,080	653,447	569,046	(5,411)	26,514
Minority interests	9,013	4,466	2,389	(123)	56,133
	807,093	657,913	571,435	(5,534)	82,647

FINANCIAL SUMMARY AND HIGHLIGHTS

FINANCIAL HIGHLIGHTS

A. The Group

	2005	2004 (restated)	Change in Percentage Increase/ (Decrease)
For the year			
Turnover (HK\$'000)	101,411	41,123	147
Profit attributable to equity holders of the Company(HK\$'000)	110,827	81,305	42
Per share			
Basic earning per share (HK Cents)	2.69	1.97	37
Dividend per share (HK Cents)	1.0	1.0	–
NAV per share (HK\$)	0.19	0.16	21
At year end			
Shareholders' funds (HK\$'000)	798,080	653,447	22
Total assets (HK\$'000)	861,641	680,767	27
Number of shares in issue	4,120,264,902	4,120,264,902	–
Share price during the year			
– High (HK\$)	0.55	1.11	(50)
– Low (HK\$)	0.315	0.35	(10)
Financial ratios			
Gearing ratio	2.4%	1.6%	47
= (Borrowings/Shareholders' funds) (%)			
Return on total assets (%)	13.4%	11.9%	12
Return on shareholders' fund (%)	14.5%	12.4%	16

FINANCIAL SUMMARY AND HIGHLIGHTS

B. Major Associates

A summary of the combined results and the assets and liabilities of the Group's major associates, namely Zhejiang Geely Automobile Company Limited and Shanghai Maple Guorun Automobile Company Limited is set out below:

Combined Results – Major Associates

	Year ended 31st December 2005 HK\$'000	Year ended 31st December 2004 HK\$'000
Turnover	4,970,570	2,311,016
Costs of sales	(4,173,645)	(1,931,075)
Sales Tax	(89,892)	(30,277)
Gross profit	707,033	349,664
Other net operating income	198,399	46,629
Distribution and selling expenses	(309,570)	(60,075)
Administration expenses	(222,340)	(111,005)
Finance costs	(50,870)	(10,525)
Profit from operations	322,652	214,688
Non-operating income	–	1,195
Non-operating expenses	–	(1,853)
Profit before taxation	322,652	214,030
Income tax expenses	(61,102)	(14,306)
Profit for the year	261,550	199,724
Attributable to:		
Equity holders of the Company	262,161	201,207
Minority interests	(611)	(1,483)
	261,550	199,724
Gross profit margin	14.2%	15.1%
Net profit margin	5.3%	8.7%
Return on shareholders' fund (%)	15.6%	14.4%
Return on total assets (%)	4.3%	4.4%
Gearing ratio = (Borrowings/Shareholders' funds) (%)	58.6%	58.6%
Sales volume (unit)	133,041	66,057

FINANCIAL SUMMARY AND HIGHLIGHTS

Combined Assets and Liabilities – Major Associates

	31st December 2005 HK\$'000	31st December 2004 HK\$'000
Non-current assets		
Property, plant and equipment	1,214,957	1,513,250
Other long-term assets	221,665	406,337
Prepaid lease payments	147,454	–
Goodwill	46,727	189,942
Long-term investment	1,923	–
	1,632,726	2,109,529
Current assets		
Inventories	395,635	421,164
Prepaid lease payments	5,478	–
Trade and other receivables	1,309,923	176,117
Amounts due from related companies	1,588,440	1,485,108
Short term investment	7,692	–
Bank balances and cash	1,124,663	426,832
	4,431,831	2,509,221
Current liabilities		
Bank borrowing	985,095	263,654
Trade and other payables	2,935,017	2,375,120
Amounts due to related companies	409,210	–
Taxation	23,805	–
Provision	6,594	–
Dividend payables	14,673	–
	4,374,394	2,638,774
Net current assets	57,437	(129,553)
	1,690,163	1,979,976
Capital and reserves		
Share capital	1,069,706	1,047,546
Reserves	611,908	345,082
Equity attributable to equity holders of the Company	1,681,614	1,392,628
Minority interests	8,549	35,405
Total equity	1,690,163	1,428,033
Non-current liabilities		
Shareholder's loans and other long-term liabilities	–	551,943
	1,690,163	1,979,976



吉利汽车
GEELY AUTOMOBILE

自由舰

➔ 自由舰成功登顶海拔 5217 米的珠峰大本营



Chairman's Statement

CHAIRMAN'S STATEMENT



Li Shu Fu, Chairman

On behalf of the Board of Directors of Geely Automobile Holdings Limited, I have the pleasure of presenting to you the Group's 2005 results.

FINANCIAL REVIEW

The Group's turnover amounted to HK\$101m for the year ended 31st December, 2005, representing an increase of 147% over previous year. Profit attributable to shareholders amounted to HK\$111m, a significant increase of 36% over 2004. The big increase in net profit was attributable to the large increase in profit contributions from the Group's two associates – Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") and Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple") – mainly due to the strong sales and earnings recovery achieved by the two associates in the second half of 2005, more than offsetting the 23% decline in net profit in the first half of 2005.

DIVIDEND

The Board recommends the payment of final dividend of HK1 cent per share for 2005 (2004: HK1 cent).

BUSINESS OVERVIEW

Although the demand for sedans in the China market started to recover since the beginning of 2005, the early part of 2005 remained a difficult period for the automobile industry in China, featured by rapidly rising costs of raw materials and fierce competition. Despite the challenges and difficulties, and thus a less than exciting performance in the first half of 2005, the Group still managed to achieve respectable results for the full year period in 2005, helped by a more stable raw material prices since the second quarter of the year, and the encouraging response to new products like "Free Cruiser" – launched in mid 2005 – and the new 1.0L "Ulion" family sedans. The Group's proven track record in cost control and the timely response by the management to adjust business strategies and implement new measures to enhance product mix also help the Group to significantly improve profitability in the second half of 2005, reversing the downward margin trend started in mid 2004. In 2005, sales of higher priced models like "Free Cruiser", "Mybo" and "Maple" series accounted for 38% of the two associates' total sales volume, a significant improvement from 12% in 2004 and only 8% in 2003.

CHAIRMAN'S STATEMENT

During 2005, the Group's two major associates – Zhejiang Geely and Shanghai Maple – sold 133,041 units of Geely and Maple sedans, up 101% over 2004, raising their combined market share in China's passenger car market to 4.8% in 2005. Zhejiang Geely and Shanghai Maple, which produce and sell Geely and Maple sedans, remained the key profit contributors of the Group in 2005.

The Group's 51%-owned parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin") returned to profitability in 2005. Zhejiang Fulin recorded substantial growth in turnover during the year, helped by the launches of new products like Electric Power Steering ("EPS") at the end of 2004 and the continued good sales volume growth enjoyed by Geely and Maple sedans, which utilize Zhejiang Fulin's braking and steering products.

Although the withdrawal from information technology businesses in March 2004 helped to reduce expenses during 2005, the Group's administrative expenses in 2005 still increased by 12% to HK\$18m due to the inclusion of an additional HK\$5.5m expenses incurred by the grant of share options to key management team members for the subscription for a total of 239.5m shares of the Group in August 2005 following the adoption of revised Hong Kong Accounting Standards from 1st January, 2005.

2005 was a milestone in the Group's expansion into the international market with the exports of over 7,000 sedans to over 30 countries, accounting for almost half of the total number of sedans exported from China in 2005. In June, 2005, the Group's associate Shanghai Maple signed an agreement with Information Gateway Corporation Sdn Bhd ("IGC") to export and assembly Geely sedans in Malaysia, marking the Group's first step to manufacture Geely sedans in overseas location and the export and sales of car-manufacturing technologies to third parties. The Group also signed a Memorandum of Understanding with the Hong Kong Productivity Council ("HKPC") on 21st June, 2005 to collaborate on the development of a high-end sedan and related components in Hong Kong, signifying the Group's first attempt to enter into the high-end sedan market. In addition, the first appearances of Geely sedans in the Frankfurt Motor Show held in September 2005 and the Detroit Auto Show in January 2006 had achieved tremendous success and had proved to be a very effective way to promote "Geely" brand and enhance the international market recognition of Geely sedans.

During 2005, the Group completed the restructuring of its management team to reflect its new shareholding structure and its gradual transformation into a company focusing on manufacturing and sales of automobiles and automobile parts. I, together with other six new executive directors, were nominated to join the Board in June, 2005. I was also appointed as the Chairman of the Group on 9th June, 2005.

PROSPECTS

We believe demand for fuel-efficient and easy-to-maintain affordable economy sedans in China will continue to register strong growth in the near future, helped by China's sustainable economic growth, consistently rising household incomes and Chinese government new policies to promote environmentally friendly compact cars. With less than 1% of the population owning a car at present, there should be substantial growth potential for car demand in China.

CHAIRMAN'S STATEMENT

According to figures compiled by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China grew 25% YoY in 2005 to 2.9 million units. Although fierce competition in China's sedan market should remain, we expect the growth of China's sedan sales volume to be maintained at around 20% in the coming few years, reaching around 3.5 million units in 2006. However, sales of lower end economy sedans should continue to grow faster than other types of sedans in the near future due to the continued migration of demand from corporations to individuals.

With the commencement of mass production of new facilities in Luqiao in 2006, the full year contribution from "Free Cruiser" model first offered in 2nd quarter of 2005 and the scheduled launches of a number of strategically important new models in 2006, the Group's two associates expect to further increase their combined market shares to 5% in 2006, thus translating into total sales volume of 180,000 units, representing an YoY growth of 35%.

In the short to medium term, the Group will continue to actively seek for ways and opportunities to further rationalize and restructure the Group's structure, aiming at improving the Group's overall transparency and its effectiveness as the ultimate holding vehicle of Geely Holding's auto related businesses. To achieve that, the Group would actively consider to raise its shareholdings in the two associates to over 50% subject to government approval and compliance with relevant regulations.

With the more favourable business environment in China, the improved production facilities and more comprehensive product lines, the Board believes that the Group's profitability and its shareholders' returns should continue to improve in the coming years.

Li Shu Fu

Chairman

Hong Kong, 21st April, 2006



吉利汽车
GEELY AUTOMOBILE

自由舰

>安全型家庭轿车

自由舰1.3L领航上市

自由驰骋 安全护航

>28项立体安全护卫系统



Management Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

OVERALL PERFORMANCE

Despite a difficult period at the early part of 2005, characterized by rapidly rising steel prices and continued fierce competition in China's sedan market, the Group's two associates – Zhejiang Geely and Shanghai Maple – still managed to achieve respectable results for the full year period of 2005, helped by a strong recovery of the demand for economy sedans in China since early 2005, a more stable raw material prices since the second quarter of 2005, the good market responses to the new products introduced during the year including "Free Cruiser" and 1.0L "Ulion", and a significant improvement in profitability by the company's auto parts subsidiary Zhejiang Fulin during the year. Despite a 23% decline in net profit in the first six month of 2005, the group achieved a much better earnings performance in the second half and managed to record a 36% increase in net profit to HK\$111 m in the full year of 2005. The earnings growth achieved in 2005 was despite an additional HK\$5.5m expenses incurred by the grant of share options to key management team members in August 2005 following the adoption of revised Hong Kong Accounting Standards from 1st January, 2005. The Group's total turnover was up more than 100% to HK101.4m as the absence of turnover from IT businesses, which was disposed of in March 2004, in 2005 was more than offset by the substantial increase in the turnover of 51%-owned Zhejiang Fulin.

REORGANISATION

During the year, the Group continued its on-going restructuring to transform itself into a company focusing on manufacturing and sales of automobile and automobile parts and to streamline the corporate structures of the Group as well as its two major associates. Key events related to reorganization of the Group and its two major associates in 2005 include:

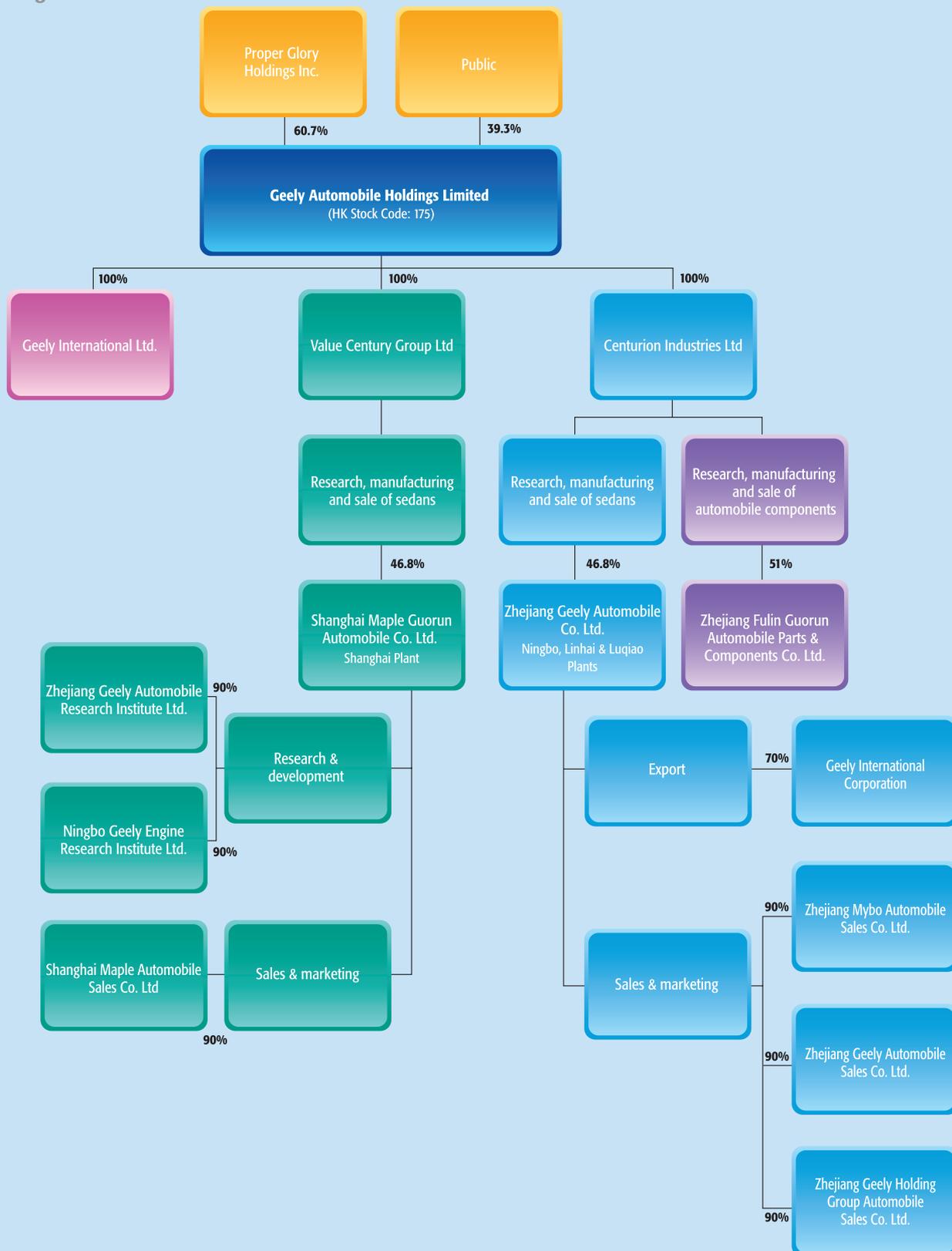
June 2005: Mr. Li Shu Fu, the founder and Chairman of Geely Holding Group became the controlling shareholders of the Group after the acquisition of an effective 41.3% stake in the Group, raising his equity stake in the Group to 60.7%;

August 2005: The Group's 46.8%-owned associate Zhejiang Geely, and its 46.8%-owned associate Shanghai Maple Guorun acquired a combined 85% stake in Geely International Corporation ("Geely International"). Geely International was previously owned by its management team and is the exclusive export agent of Geely brand sedans in overseas markets.

October 2005: To simplify the Group structure of the Group's 46.8%-owned associate Zhejiang Geely, Zhejiang Geely transferred all auto-related assets (including the Linhai and Luqiao plants) in its 90%-owned Zhejiang Haoqing Automobile Manufacturing Co. Ltd. ("Zhejiang Haoqing") to two newly established branch companies directly under Zhejiang Geely. Zhejiang Haoqing, together with all its liabilities and other non auto-related assets were subsequently sold back to Geely Holding Group at book costs. The transaction was largely completed by the end of 2005 with the exception of the transfer of the titles for some factory buildings and lands pending completion of some regulatory procedures.

MANAGEMENT DISCUSSION & ANALYSIS

Organisation chart



MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT TEAM

The members of the Group's Board of Directors had also been changed to reflect the new shareholding structure of the company after Mr Li Shu Fu, the founder and Chairman of Geely Holding Group, became the controlling shareholder of the Group in June 2005. Six existing executive directors had resigned and seven new executive directors including Mr. Li Shu Fu, Mr. Xu Gang, Mr. Yang Jian, Mr. Shim Bong Sup, Mr. Yin Da Qing, Richard, Mr. Liu Jin Liang and Mr. Gui Sheng Yue were nominated to join the Board in June 2005. Mr. Li Shu Fu was also appointed as the Chairman of the Group on 9th June, 2005.

Also, Mr. Yeung Sau Hung, Alex was appointed as an independent non-executive director and a member of the Audit Committee and Remuneration Committee of the Group on 6th June, 2005. Mr. Yeung is the Chief Executive Officer of DBS Vickers Hong Kong since 1st September, 2002, bringing with him more than 20 years' experience in the financial services industry to the Board.

Mr. Shim Bong Sup resigned as an executive director with effect from 15th September, 2005 for personal reason. Mr. Shim remains a Vice President of Group's Chinese partner – Geely Holding Group and a senior consultant of the Group's automobile R&D centre under its associate Shanghai Maple. Mr. Shim shall focus on helping the Group to improve its R&D capabilities in sedan manufacturing.

Mr. Zhao Jie was appointed as an executive director of the company with effect from 15th September, 2005. Mr. Zhao is a founder of the Group's export operation called Geely International Corporation. Mr. Zhao's appointment reflected the Group's increasing involvement in Geely Holding Group's export businesses after the acquisition by a combined 85% stake in Geely International by the Group's two associates Zhejiang Geely and Shanghai Maple in August 2005.

Also, Mr. Nan Yang resigned as an executive director of the company with effect from 18th October, 2005 after Nan Yang resigned as the General Manager of Shanghai Maple.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL RESOURCES

The Group's cashflow comes from the operational cashflow of its 51%-owned auto parts subsidiary Zhejiang Fulin and dividend distribution from its two associates: Zhejiang Geely and Shanghai Maple. With the commencement of major investment projects including the construction of Phase II of Shanghai Maple plant, the launch of strategic new models: LG-1, FC-1 and Marindo MB, and the expansion and further upgrading of Ningbo and Luqiao plant, the Group's two associates have recently decided to significantly expand their capitals and therefore have called for additional investments from the two associates' two shareholders: Geely Holding Group and the Group. To support the tremendous growth experienced by Zhejiang Geely and Shanghai Maple and to fund the Group's capital commitments to the two associates, the Group appointed Citigroup Global Markets Limited to arrange a HK\$741.6 million five-year zero coupon convertible bond issue in March 2006. The estimated net proceeds of the convertible bond issue are approximately HK\$727 million. The proceeds are intended to be used by the Group for increasing its investments in its two associates and to raise its equity stake in its 51%-owned auto parts subsidiary Zhejiang Fulin. Assuming full conversion of the convertible bonds at the initial conversion price of HK\$0.90, the bonds will be convertible into approximately 824 million ordinary shares subject to adjustments as stipulated by the bonds' offer document, representing about 20% of the existing issued share capital of the Group.

AUTOMOBILE PARTS MANUFACTURING – ZHEJIANG FULIN GUORUN AUTOMOBILE PARTS & COMPONENTS CO. LTD.

51%-owned Zhejiang Fulin Guorun Automobile Parts and Components Co. Ltd. ("Zhejiang Fulin") is principally engaged in the manufacturing and sales of brake slices and electric power steering for sedans. Zhejiang Fulin recorded a significant improvement in profitability in 2005 due to the full year contribution of the new Electric Power Steering ("EPS") launched in October 2004, and the strong demand for the company's braking system helped by the good sales volume growth enjoyed by Geely and Maple sedans, which utilize the company's braking and steering products. As a result, Zhejiang Fulin's turnover grew significantly by over 200% to around RMB100 m in 2005, helping the company to return to profitability during the year. Net profit amounted to approximately RMB10 m compared with a small loss in 2004. The Board believes that Zhejiang Fulin's earnings performance should continue to improve in 2006, helped by continued strong growth in sales volume projected by Zhejiang Geely and Shanghai Maple in 2006, both are major customers of Zhejiang Fulin's products.

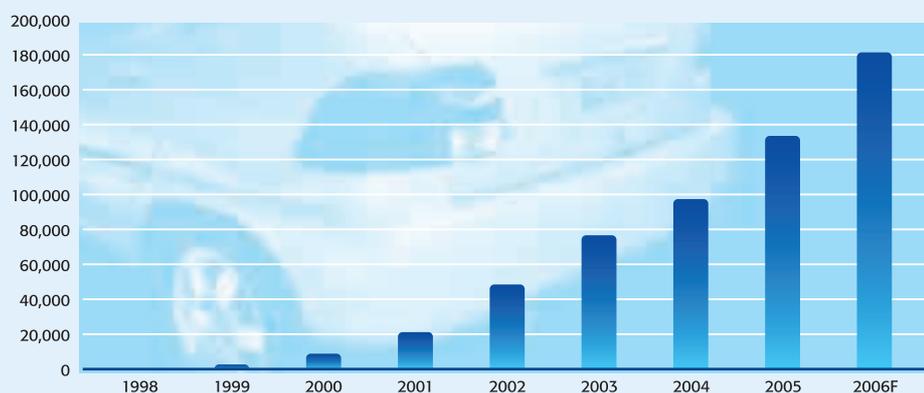


Electric Power Steering developed and made by Fulin

MANAGEMENT DISCUSSION & ANALYSIS

VEHICLE MANUFACTURING – ZHEJIANG GEELY AND SHANGHAI MAPLE

Annual sales volume of Geely and Maple sedans



Source: Geely Group

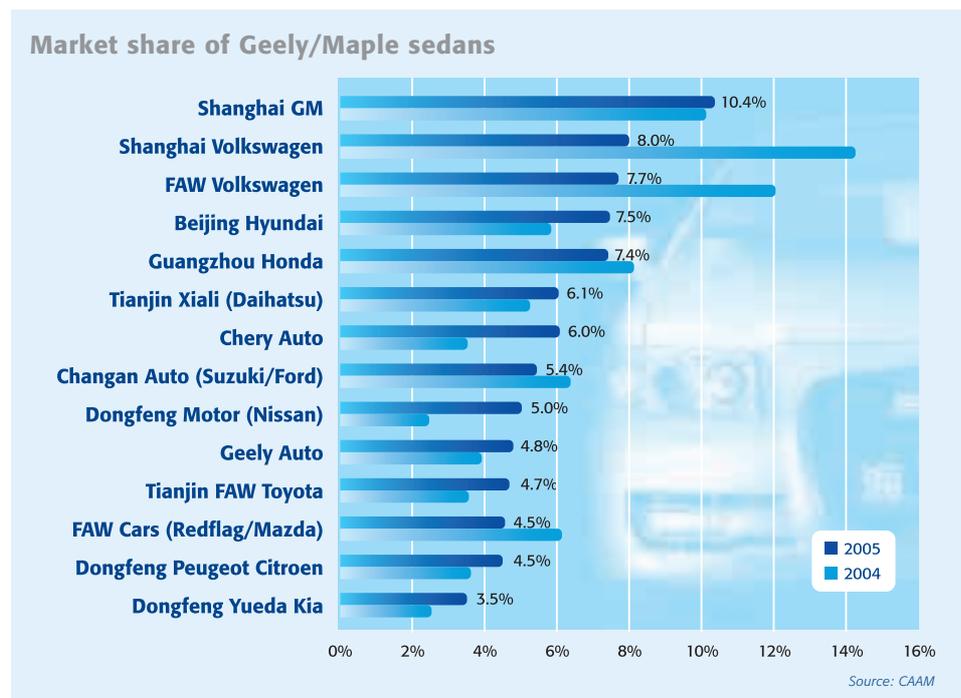
Monthly sales volume of Geely and Maple sedans



Source: Geely Group

Zhejiang Geely and Shanghai Maple, both are 46.8%-owned by the Group, are the investment holding vehicles for virtually all of Geely Holding Group's businesses in sedan manufacturing and sales in both China and overseas markets. The two companies continued to be the key earnings contributors to the Group in 2005, accounting for the bulk of the Group's earnings in 2005. The market share of Geely and Maple sedans in China's sedan market continued to increase in 2005, rising from 4.2% in 2004 to 4.8% in 2005, ranking number ten in terms of sales volume amongst sedan manufacturers in China.

MANAGEMENT DISCUSSION & ANALYSIS



Zhejiang Geely and Shanghai Maple recorded total net profit of HK262m in 2005, up 30% over 2004, on 101% increase in sales volume to 133,041 units and 115% increase in total revenues to HK\$4,971m. Average revenues per car improved 7% to HK\$37,361 per car as increased sales of higher-priced Free Cruiser and Maple models more than offset the inclusion of low price Haoqing models since the second half of 2004.

Net profit per car, however, declined 35% to HK\$1,971 per unit as increased sales of higher profit margin models like Free Cruiser and Maple were not enough to offset the significantly lower margin in the first half of 2005 due to the inclusion of lower price Haoqing models since the second half of 2004, the closure of Ningbo plant in the first quarter 2005 for technological upgrading, the inclusion of expenses incurred by newly completed Luqiao plant, and the rapidly rising steel prices in the first quarter of 2005.

During 2005, the two associates managed to reduce the cost of outsourced automobile parts by around 7%, largely offsetting the average 30% increase in steel prices during the first quarter of 2005 and the 8-10% price cuts by some of the existing models under the Maple brand. The retail prices for other Geely and Maple models, however, remained stable during the year due to the strong recovery of demand for economy cars since early 2005.

MANAGEMENT DISCUSSION & ANALYSIS

Breakdown of sales volume of Geely/Maple sedans by models



During 2005, the Group's two associates had embarked on a new strategy to improve its product mix to include more higher-priced and higher margin models in a bid to further enhance the two associates' profitability and alleviate the impact of a fluctuating raw material prices. This was partly achieved through the launches of a number of higher priced models including Maple Marindo series (retail prices: RMB60,000-73,000) at the end of 2004, and the Geely Free Cruiser (retail price: RMB51,800-69,800) in the 2nd quarter of 2005. As a result, the Group's dependence on the lowest priced Haoqing models (retail price: RMB33,000-45,000) declined significantly during 2005 with the Haoqing Models accounted for only 29% of the total sales volume of the two associates compared with over 50% in 2004. Despite this, although the sales volume of Haoqing model in 2005 declined 33% from previous year, it remained the best selling model of the two associates in 2005.

Sales volumes of Ulion and Mybo increased significantly during 2005 by 86% and 88% YoY respectively due to the encouraging response to their upgraded models like Ulion 1.0L sedans and newly-launched economy version of Mybo sport cars. Sales volume of Maple sedans was also boosted by the good response to 1.5L Marindo launched at the end of 2004. Despite these, the most successful model for the two associates in 2005 is undoubtedly the "Free Cruiser" – a new series of economy sedans jointly developed by Zhejiang Geely and Daewoo International of Korea. Although Free Cruiser only started mass production in mid-2005, total sales volume of the model amounted to 22,668 units in 2005. Its monthly sales volume approached 6,000 units towards the end of 2005, making it one of the best selling sedan models in China in the 4th quarter of 2005.

PRODUCTION PLANTS

The Group's two associate companies – Zhejiang Geely and Shanghai Maple – own four production facilities in Shanghai, Ningbo, Linhai and Luqiao. The four production plants' combined annual production capacity amounted to 250,000 units of sedans, 300,000 units of engines and 200,000 units of gearboxes by the end of 2005. The four production plants are fully-integrated plants, comprising stamping, welding, painting and assembly facilities and supporting production and testing lines for engines and gearboxes.

The Group's strategy is to continue the expansion and upgrading of its four production plants to further improve quality and reduce costs. In addition, the Group also plans to build new

MANAGEMENT DISCUSSION & ANALYSIS

production facilities at less developed provinces in China for the benefit of proximity to new demand, lower costs and access to additional financial and other resources available in other provinces. To minimize the financial burdens and the investment risks for the two associates and in order to allow the new plants to become eligible for more investment incentives offered by the respective local governments, the construction of the new plants in new locations will be initially undertaken by the Group's parent Geely Holding Group, which has agreed to transfer its interests in these new plants to the two associates at costs once mass production has started.

The Group's plan is to expand the combined annual production capacity of the four plants to over 300,000 units by end of 2006 and further to 1 million units by end of 2010. In addition to the expansion of existing plants, the capacity expansion target would be achieved through the planned acquisitions of satellite plants currently constructed by the Geely Holding Group in China's less developed areas including Lanzhou of Gansu province and Xiangtan of Hunan province. Details about the Group's four existing production plants are summarized below:

Geely Automobile Holdings – Production Plants

名稱 Name	權益 interests	年生產能力 Annual capacity (單班) (single shift)	型號 Models
臨海廠房 (經濟型轎車) Linhai Plant (economy cars)	46.8%	100,000	優利歐Ulion JL7100X(1.0L) 美日之星Merrie HQ6360B(1.3L) 優利歐Ulion 303JL7130X3(1.3L) 豪情Haoqing HQ6360E(1.0) 豹風Leopard GT1.3L 美人豹Mybo 1.5L 美人豹Mybo AT版1.5L
路橋廠房 (特別型號) Luqiao Plant (specialized models)	46.8%	50,000	豪情Haoqing SRV(1.0-1.3L) 豪情Haoqing SRV-AT版1.5L 豪情Haoqing 303A1.0L 豪情Haoqing 3031.3L
寧波廠房 (經濟型家庭轎車) Ningbo Plant (economy family cars)	46.8%	50,000	自由艦Free Cruiser 1.3L 自由艦Free Cruiser 1.6L 自由艦Free Cruiser AT版1.5L MR479Q1.3L發動機Engines MR479QA1.5L發動機Engines JL4G18(1.8L)發動機Engines S-90手動變速器Manual Gearboxes S-110手動變速器Manual Gearboxes S-160手動變速器Manual Gearboxes S-160A手動變速器Manual Gearboxes Z130自動變速器Automatic Gearboxes
上海華普廠房 (中檔轎車) Shanghai Maple Plant (mid-end cars)	46.8%	50,000	海域Marindo MA(1.5L) 海域Marindo AA(1.3L) 海迅Hisoon AA(1.5L) 海尚Hysoul MA(1.8L) MR479Q1.3L發動機Engines MR479QA1.5L發動機Engines JL16 1.6L、JL18 1.8L發動機Engines

MANAGEMENT DISCUSSION & ANALYSIS

Total capital expenditures by the Group's two associates amounted to approximately RMB600 million in 2005, mainly for the funding of the expansion and upgrading of Linhai and Ningbo plants, construction of new plant in Luqiao and the development of new products like "Free Cruiser". Major investment projects completed in 2005 included:

1. Upgrading of Ningbo plant to facilitate the large scale production of "Free Cruiser" model was completed in 2005. Further upgrading of production facilities at Ningbo plant had started during 2005 to prepare for the production of higher-end model "FC-1" in 2006. Major upgrading of the engine and gearbox production facilities was completed in 2005, including the completion of engine processing centre, testing lines, assembly lines for automatic gearboxes, and the completion of new engine production plants for bigger size engines.
2. The construction of the first part of Shanghai Maple plant Phase II was started in November 2005 to expand the annual production capacity from 50,000 units to 110,000 units by early 2007.
3. Trial production at the Luqiao plant was started in 2005. The Group's newest production plant is located in Luqiao of Taizhou, Zhejiang province, comprising land area of 484,533 square metres, a plant of 46,996 square meters and a second plant of 68,314 square metres, housing the production lines for stamping, welding, painting and final assembly with a designed annual production capacity of 50,000 units. The plant's initial focus was specialized models such as Haoqing's new sport recreation vehicle ("SRV") models, followed by an upgraded model of Haoqing 300 sedans called Haoqing 303. The plant will start the production of "Geely King Kong" a brand new 1.6L sedan in mid-2006.
4. The relocation of the production of Merrie and Ulion models from Ningbo plant to Linhai plant was completed in 2005, thus allowing the Group to concentrate the production of most of its sedan models under the Haoqing platform in a single plant. A small scale expansion at Linhai plant was completed by the end of 2005, lifting the annual production capacity at Linhai plant from 80,000 units to 100,000 units.
5. New R&D Centre Building in Linhai was completed and was officially put into operations on 17th June, 2005. The new R&D facilities and the R&D building in Hangzhou was completed in August 2005.



Shanghai Engine Factory



MANAGEMENT DISCUSSION & ANALYSIS

Total budgeted capital expenditures for the two associates in 2006 amounted to approximately RMB770 million. Major investment projects planned for 2006 included:

1. Construction of Phase II of Shanghai Maple Plant. The construction of the first part of Shanghai Plant's Phase II facilities started in November 2005 and is scheduled to be completed by early 2007. Total annual production capacity would be expanded to 60,000 units. Test production is scheduled to start in March 2007. Total investment is estimated to be around RMB350 million. The overall Phase II expansion of the Shanghai plant would add a total of 200,000 unit production capacity to the Shanghai plant.
2. Expansion of Ningbo plant. Annual production capacity should be expanded from 50,000 units to 100,000 units. Engine production capacity to reach 150,000 units.
3. Expansion of Luqiao plant. Annual production capacity should be expanded from 50,000 units to 100,000 units. Engine production capacity to reach 50,000 units.
4. Upgrading of existing production facilities in Luqiao plant and Ningbo plant and the procurement of necessary equipment, machinery and moulds to prepare for the launches of Geely King Kong and Geely Tiger.

QUALITY CONTROL

The Group's two associates have set up a quality control system in accordance with the requirements of ISO9001:2000 standards. The key focus of the Group's two associates in the area of quality control in 2006 is to prepare for the certification of the Group's major production facilities in accordance with the requirements of ISO/TS16949:2002 standards.



(from left to right)

Maple Hisoon AA 1.5L

Geely Free Cruiser

Launch ceremony of Geely Free Cruiser

MANAGEMENT DISCUSSION & ANALYSIS



(from left to right)

LG -1

FC -1

China Dragon

NEW PRODUCTS

Major new product launches in 2005 are summarized below:

1. Geely "Free Cruiser" 1.6L family sedans;
2. Geely "Free Cruiser" 1.3L family sedans;
3. Geely "Haoqing" SRV 1.0-1.3L Sport Recreation Vehicles;
4. Geely "Ulion" 1.0L family sedans;
5. Geely "Merrie Star" 1.3L-1.5L hatchback sedans
6. Maple "Hisoon AA" 1.5L hatchback sedans;
7. Maple "Marindo AA" 1.3L hatchback sedans;
8. Maole "Hysoul MA" 1.8L family sedans;
9. Geely JL481Q 1.8L petroleum engines;
10. Geely MR481QA 1.6L petroleum engines.

In 2006, the Group's two associates plan to launch at least ten new models, Details of the planned new product launched in 2006 follow:

1. Geely "Haoqing" 303 1.0-1.3L economy sedans;
2. Geely "Merrie" 303 family sedans;
3. Geely "Free Cruiser" 1.5L family sedans with automatic transmissions;
4. Geely "Mybo 2" 1.5L-1.8L sport cars;
5. Geely "LG-1 or Geely King Kong" 1.6L family sedans;
6. Geely "FC-1 or Geely Tiger" 1.8L mid-end sedans;
7. Maple "Hisoon AB" 1.8L hatchback sedans;
8. Maple "HuaYau Lady's Cars" 1.3L or 1.5L hatchback sedans;
9. Maple "Marindo MB" 1.5L or 1.8L mid-end sedans;
10. Geely JL-ZA series of automatic gearboxes for 1.3L-1.6L engines;
11. Geely JL4G18 all aluminium petroleum engines with VVT Technologies.

The Group also plans to start to offer right-hand drive version for some of its existing models in a bid to facilitate the sales of these vehicles to more overseas markets.

MANAGEMENT DISCUSSION & ANALYSIS

EXPORTS

In 2005, the company's two associates exported around 7,000 units of Geely and Maple sedans, up from 5,000 units in 2004, accounted for over 5% of the two associates' combined sales volume, to over 30 countries and regions, most of which are located in Middle East, Africa and Central America. The Group expects total exports sales volume of the two associates amount to 10,000 units in 2006.

The Group considers exports a very important part of our businesses and is allocating substantial resources to explore the export markets, including the application for product certifications in the United States and Middle East, participation in major international car shows to promote "Geely" and "Maple" sedans, and investigation for CKD manufacturing and product development outside China.

CKD manufacturing in Malaysia.

The Group's associates Shanghai Maple entered into an agreement with Information Gateway Corporation Sdn Bhd ("IGC") on 30th May, 2005 to export Geely sedans and CKD parts and components for the CK-1, FC-1 and LG-1 models of right-hand drive sedans to IGC for sales and assembly of Geely sedans in Malaysia. Shanghai Maple will provide the technical assistance at a fee and authorize the rights to use Geely's logo and intellectual property and know-how at cost to IGC. The move marked Geely's first strategic attempt to assembly Geely sedans in overseas locations in an attempt to further expand the sales of Geely sedans in overseas markets.

MARKETING AND PROMOTION

To promote the "Geely" and "Maple" brands and enhance market recognition of the Group's engine and car design and manufacturing technologies, the Group's two associates participated and sponsored a number of promotional events during 2005, including:

First appearance in Frankfurt Motor Show: The Group's two associates displayed five models including: "Free Cruiser", "Haoqing 203A", "China Dragon", "FC-1" and Maple "Marindo MA" in the 2005 International Motor Show in Frankfurt in mid September 2005.



Geely sedan dealers in Syria



Signing ceremony of Malaysian CKD contracts



Geely stand in Frankfurt Motor Show

MANAGEMENT DISCUSSION & ANALYSIS



Geely stand in Detroit Auto Show



Launch Ceremony of Asia Geely Formula Racing

First appearance in North American International Auto Show (NAIAS) in Detroit: Zhejiang Geely displayed one model – Geely 7151 CK (called “Free Cruiser” in China market) – in the most important auto show in North America in January 2006. The committee of the motor show awarded Zhejiang Geely Holding Group with a “Silver Diamond Award” for being the first Chinese auto company attending the motor show.

The Group’s associate Zhejiang Geely participated in the 2005 and 2006 China National Sports Car/Racetrack Championship. It has also become the key sponsor and sole engine supplier of First Asia Geely Formula Racing (AGF) to be started in June 2006.

The 55th Miss World 2005 final campaign in Sanya of Hainan Island: Shanghai Maple was one of the sponsors of the event held in Sanya in December 2005.

SALES AND DISTRIBUTION

By the end of 2005, the Group’s two associates had established a comprehensive distribution and service networks in China as well as over 30 foreign countries, comprising 286 4S stores and 489 exclusive dealers for sales of Geely and Maple sedans in China and 18 distributors and 108 service centres in overseas countries. In addition, there are 569 service and maintenance spots in China for Geely and Maple sedans in China.

To cope with a much boarder product range now offered by the Group’s two associates with the retail prices of their products now spanning from RMB33,000 to close to RMB100,000, the Group and its two associates have started to pursue a more flexible distribution strategy through a more detailed segmentation of its distribution channel. The two associates’ over 800 domestic dealers are now grouped under four major brands, namely (1) Geely (including Haoqing, Merrie and Ulion), (2) Free Cruiser, (3) Mybo and (4) Maple. The dealers under each brand are tailored structured and trained to serve particular segment of customers with a specific range of models and different levels of services.

MANAGEMENT DISCUSSION & ANALYSIS



Geely's new R&D centre in Linhai



Signing ceremony of Maple's hybrid car project



Geely's automatic gearboxes

RESEARCH AND DEVELOPMENT

The major focus of the Group's Research and Development function includes new car model design, development of engine, gearbox, car electronic and electric components. A new R&D centre in Linhai of Zhejiang province, costing around RMB350 million, was completed in 2005. In addition to four major laboratories (Basic, Electrical, Street-Test and Multi-function), the new R&D centre also includes a high speed body design and formation workshop, which could significantly shorten the time required for new model development by up to 90%, thus allowing the Group to release new models much faster and in a more cost effective manner.

In addition to the new R&D centre in Linhai, the Group's two associates also set up a smaller R&D centre in Hangzhou, an engine and transmission system research and development centre in Ningbo, an electronic and electric R&D centre in Luqiao, and an independent research and design centre supporting new product development for Maple brand in Shanghai. In order to fully utilize the substantial R&D resources and achievements available in China's academic and semi-governmental sector, Shanghai Maple has collaborated with Shanghai Jiaotong University to set up a joint R&D centre for automobile, which is located within the plant area of Shanghai Maple plant. Shanghai Maple also cooperated with Jiaotong University and Tongji University in Shanghai on the development of hybrid technology for use on sedans. With the comprehensive R&D capabilities set up over the past few years, the Group's two associates are able to develop a minimum of 3 brand new models every year, plus conducting upgrade and facelift of their existing models on a regular basis.

The Group's two associates were invited to participate in the first "China National Exhibition of Major Achievements in Technology Innovation" in January 2006 hosted by Ministry of Science and Technology and Ministry of Finance, signifying the first official recognition by the Central Government of the Group's R&D effort and achievements in the past few years. The two associates displayed three products in the Exhibition including its Electric Power Steering ("EPS"), its JL4G18 1.8L engine and the JL automatic gearboxes.

Collaboration with Hong Kong Productivity Council to develop new models of high-end sedans in Hong Kong.

In a bid to utilize more external R&D resources to support the group's longer-term development, the Group signed a Memorandum of Understanding with the Hong Kong Productivity Council ("HKPC"), an organization set up by the Hong Kong Government to promote increased productivity in Hong Kong's industry, on 21st June, 2005 to collaborate in the development of a high-end sedan and related components in Hong Kong. The new project, if successfully implemented, would provide the Group an effective way to enter into the high-end sedan market. It would also facilitate a competitive combination of Hong Kong's strength in consumer product design and development, marketing, logistics, brand management and financial market operations and Geely's competitive advantages in low cost production, manufacturing know-how in automobile and parts and valuable knowledge in distribution and marketing in China's sedan market.

MANAGEMENT DISCUSSION & ANALYSIS

OUTLOOK

We believe the strong growth in the demand for fuel-efficient and easy-to-maintain economy sedans in China should be sustainable in the coming decade. This is due to China's consistent economy growth and rising household incomes, and its still low car ownership with less than 1% of the population owning a car at present.

The Group and the Group's two associates will continue to focus on the operation and expansion of its automobile business, to actively seek for ways and opportunities to expand the Group's revenues and to further reduce costs, thereby to enhance the returns to the Group's shareholders.

According to the figures released by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China increased by 25% to 2.9 million units in 2005. Although fierce competition in China's sedan market should remain, we expect growth of China's sedan sales volume to be maintained at around 20% in the coming few years. However, sales of lower end economy sedans should continue to grow faster than other types of vehicles in the foreseeable future due to the continued migration of demand from corporations to individuals.

With the commencement of mass production of new facilities in Luqiao in 2006, the full year contribution from "Free Cruiser" model first offered in 2nd quarter of 2005 and the scheduled launches of a number of strategically important new models in 2006, the Group's two associates expect to further increase their combined market shares from 4.8% to 5% in 2006, thus translating into total sales volume of 180,000 units, representing an YoY growth of 35%.

Looking forwards, 2006 appears to be a better year for car manufacturing industry due to a more stable raw material prices and oil prices, less pressure on prices of economy sedans, and continued strong growth in household incomes in China. Major efforts and management resources will be allocated to control the production costs of the Group's two associates and parts subsidiary Zhejiang Fulin, aiming at maintaining the Group's cost competitiveness and thus its profitability at last year's levels.

CAPITAL STRUCTURE AND TREASURY POLICIES

The business activities of the Group are mainly financed by the share capital, dividend received from the Group's two major associates and cash generated from the operating activities. As at 31st December, 2005, the Group's shareholders' fund amounted to HK\$798 million (As at 31st December, 2004: HK\$653 million). No additional share was issued during the year.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group considers that fluctuations in exchange rate do not impose a significant risk to the Group since the Group's operations are principally in the Mainland China and Hong Kong and all assets and liabilities are denominated either in Renminbi or Hong Kong dollars.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2005, the Group's current ratio (current assets/current liabilities) was 1.23 (As at 31st December, 2004: 1.17) and the gearing ratio of the Group was 2.4% (As at 31st December, 2004: 1.5%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings as at 31st December, 2005 amounted to HK\$19 million (As at 31st December, 2004: HK\$10 million) were mainly advance from immediate holding company and amount due to a minority shareholder and they were unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

EMPLOYEES' REMUNERATION POLICY

As at 31st December, 2005, the total number of employees of the Group including associates was about 7,714 (As at 31st December, 2004: 6,941). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.



吉利汽车 自由舰

GEELY AUTOMOBILE

自由舰驰骋于海拔 5000 米高的险恶路段



飞驰

Directors and
Senior Management Profiles

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Li Shu Fu, aged 42, joined the Group on 9th June, 2005 as the chairman and executive director, and is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Li holds a master degree in engineering from Yan Shan University. Presently, Mr. Li is the controlling shareholder, founder, chairman of the board of Zhejiang Geely Holding Group Co., Limited (a company incorporated in the PRC, and is ultimately owned by Mr. Li and his associates). Zhejiang Geely Holding Group Co., Limited and its subsidiaries are principally engaged in manufacturing and sales of automobile in the PRC. Mr. Li is also the chairman of the two associated companies of the Company namely, Zhejiang Geely JV and Shanghai Maple JV. Mr. Li has over 20 years of experience in the investment and management of the automobile manufacturing business and real estate business in the PRC. Mr. Li is a member of the Chinese People's Political Consultative Conference. Mr. Li was accredited as one of the "50 Most Influential Persons in China's Automotive Industry in the 50 Years" by a pertinent organization in China.

Mr. Gui Sheng Yue, aged 42, joined the Group on 9th June, 2005 as the Executive Director and is responsible for the administration of the Company. Mr. Gui has over 20 years experience in administration and project management. Mr. Gui had also worked with China Resources (Holdings) Company Limited. Mr. Gui holds a Bachelor of Science degree in mechanical engineering from Xian Jiaotong University and a Master degree in business administration from University of San Francisco. Mr. Gui was appointed as the Chief Executive Officer of the Company with effect from 23rd February, 2006.

Mr. Xu Gang, aged 44, joined the Group on 9th June, 2005 as the executive director, and is responsible for the overall administration of the Shanghai Maple JV. Mr. Xu is also the head of Shanghai Maple JV's management committee. Mr. Xu graduated from the Guanghua Management School of Beijing University and holds an EMBA degree. Mr. Xu is a professional expert in business management and has 23 years of experience in the management and leadership of various government departments. Mr. Xu was accredited as "The Best CEO/President of Private Automobile Enterprises in 2003" and "The Best 10 Economic Youths in Shanghai in 2005" by pertinent organizations in China.

Mr. Yang Jian, aged 44, joined the Group on 9th June, 2005 as the executive director, and is responsible for the overall administration of the Zhejiang Geely JV. Mr. Yang is also the First Vice President of Zhejiang Geely Holding Group Co., Limited and Head of Zhejiang Geely Automobile Research Institute Ltd., which is 90% owned by Shanghai Maple JV. Mr. Yang graduated from Zhejiang Radio and Television University with focus on production management. Since joining Zhejiang Geely Holding Group Co., Limited in 1995, Mr. Yang was involved in a number of different job functions within the group including production management, quality control, general administration, research and development and project management.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Ang Siu Lun, Lawrence, aged 45, joined the Group on 23rd February, 2004 as the Executive Director and is mainly responsible for the international business development, capital market and investors' relationship of the Group. He holds a Bachelor of Science degree in Physics and Computer Science and a Master of Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, he worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business.

Mr. Yin Da Qing, Richard, aged 56, joined the Group on 9th June, 2005 as the Executive Director. Mr. Yin is the Vice President and Chief Financial Officer of Zhejiang Geely Holding Group Co., Limited. Mr. Yin holds a Bachelor degree in English from Wuhan University and Advanced Certificate in Administration of Economy from the Postgraduate Institute of China Academy of Social Science. Mr. Yin has 34 years of experience in Accounting and Finance and held key executive positions in various Chinese and multinational companies in China including Dupont Textile, Dupont Agricultural Chemicals, Brilliance Holding and Shenyang Jinbei Passenger Vehicle Manufacturing Co. Ltd.

Mr. Liu Jin Liang, aged 39, joined the Group on 9th June, 2005 as the Executive Director and is responsible for all the sales functions of Zhejiang Geely JV in China. Mr. Liu is the Vice President of Zhejiang Geely Holding Group Co., Limited and General Manager of Zhejiang Geely Automobile Sales Co. Ltd., which is 90%-owned by Zhejiang Geely JV. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial management. Prior to joining Zhejiang Geely Holding Group Co., Limited in 1995, Mr. Liu held a number of management positions in several major hotels in China. Mr. Liu has about 10 years experience in the marketing and sales of motor vehicles in China.

Mr. Zhao Jie, aged 39, joined the Group on 15th September, 2005 as the Executive Director and is responsible for the export business of the Group. Mr. Zhao is the Vice President of Zhejiang Geely Holding Co., Limited and founder of Geely International Corporation. Mr. Zhao has over 8 years of experience in deployment and marketing management of the International Automotive Market. Mr. Zhao gets a graduation certificate of EMBA program in the Enterprise Research Centre of Peking University and has 10 years of experience in the management of various government departments.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Lin, aged 43, joined the Group as Independent Non-executive Director on 27th September, 2004. He holds a Bachelor's degree in Mechanics from the University of Tong Ji in Shanghai, China. He is concurrently President and Director of China Resources (Holdings) Company Limited and China Resources National Corporation, Chairman of China Resources Enterprise, Limited (HK Stock Code 291), China Resources Power Holdings Company Limited (HK Stock Code 836) as well as China Resources Land Limited (HK Stock Code 1109). Mr. Song is also the Deputy Chairman of China Vanke Co., Ltd., which is a listed company in China.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Lee Cheuk Yin, Dannis, aged 35, joined the Group as Independent Non-executive Director on 28th June, 2002. He graduated from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He possesses over 10 years of experience in accounting and auditing field. Mr. Lee is the Executive Director of both Vision Grande Group Holdings Limited (HK Stock Code 2300) and Norstar Founders Group Limited (HK Stock Code 2339), and is also the Independent Non-executive director of Dawnrays Pharmaceutical (Holdings) Limited (HK Stock Code 2348).

Mr. Yeung Sau Hung, Alex, aged 56, joined the Group as Independent Non-executive Director on 6th June 2005. Mr. Yeung is the Chief Executive Officer of DBS Vickers Hong Kong since 1st September, 2002. Mr. Yeung is a MBA graduate from the University of Southern California, brings with him more than 20 years' experience in the financial services industry. His experience includes investment research, securities operations, equity sales, primary equities origination and syndication and general management. Prior to joining DBS Vickers Securities, Mr. Yeung was the Deputy Chairman of the management committee of a listed consumer electronics company for four years. Before that, he was the Country Head of Greater China Equities and the Managing Director of Deutsche Securities Hong Kong.

SENIOR MANAGEMENT

Mr. Shim Bong Sup who is a Korean aged 60, joined the Geely Group as the Vice President and Technical Consultant on 10th April, 2004. He holds the B.S. Degree in metallurgical engineering and has extensive experience in Korean automotive industry for more than 36 years especially in new car development, automotive technology and quality assurance. Mr. Shim was once the vice president of Daewoo Motor and the chairman of Korean Automobile Engineering Association.

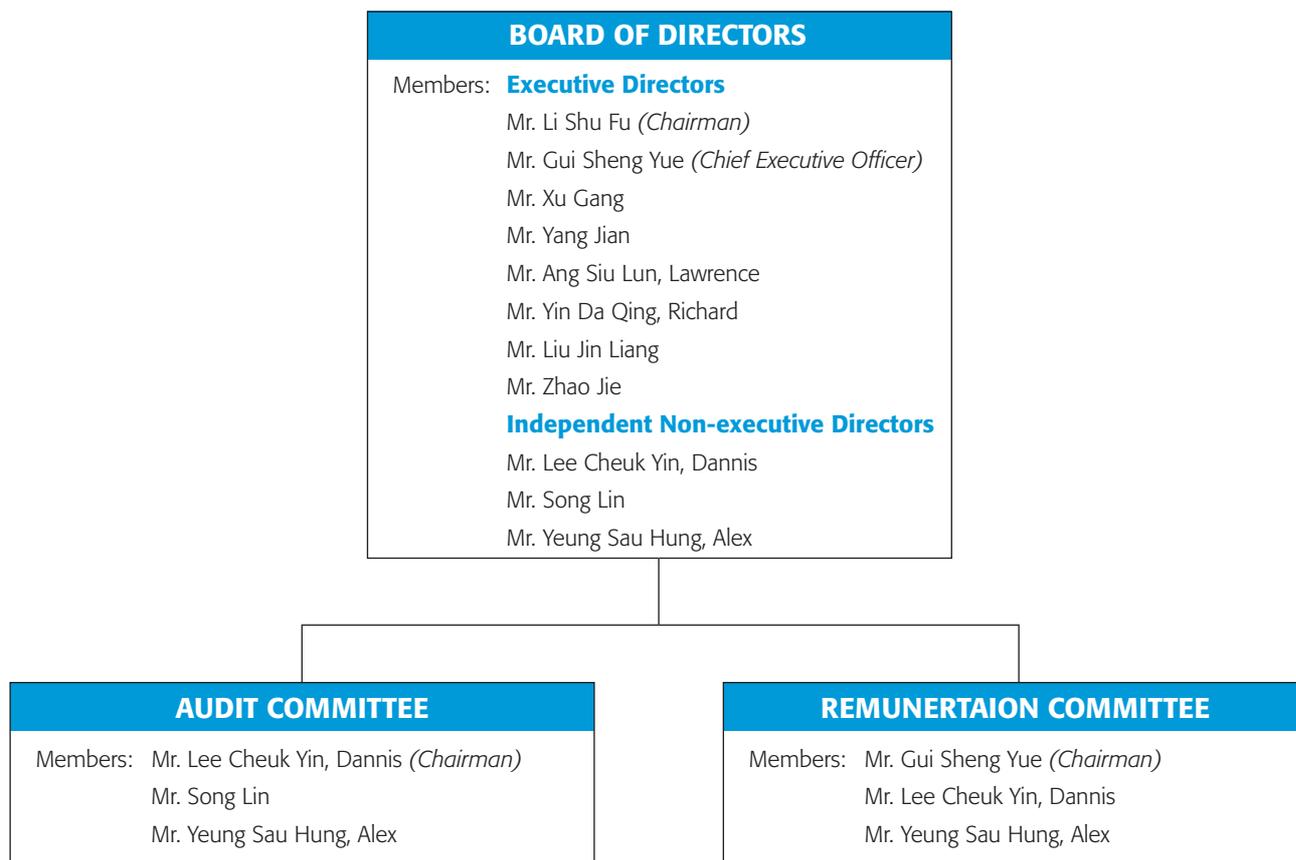
Mr. Cheung Chung Yan, David, aged 30, joined the Group as the Financial Controller and Company Secretary on 17th May, 2005. Mr. Cheung holds a bachelor degree in Business Administration in Accounting from the Hong Kong University of Science and Technology in 1997. He is a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 8 years of experience in auditing, accounting and financial management.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high standard of corporate governance practices as set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The CG Code, with one exception, has become effective for accounting periods commencing on or after 1st January 2005. The exception is in respect of internal controls and the proposed disclosure requirements in the Corporate Governance Report relating to the listed issuers' internal controls, which will be implemented for accounting periods commencing on or after 1st July, 2005.

The corporate governance principles of the Company emphasize a quality board of directors, sound internal control, principles and practices and transparency and accountability to all shareholders of the Company. The Company has complied with the CG Code throughout the accounting period covered by this report except in certain circumstances which, in the Company's opinion, are unsuitable or inappropriate for adoption. Explanations for such non-compliance are provided and discussed below.

The following chart illustrates the membership and structure of the Company's Board of Directors and the two specialized committees of the Board:



CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

During the year, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own Code for Securities Transactions by Officer (the "Code"). All directors of the Company have confirmed their compliance during the year with the required standards set out in the Model Code and the Code.

BOARD OF DIRECTORS

Board Composition

As at 31st December, 2005, the Board of Directors of the Company (the "Board") comprised eight executive directors and three independent non-executive directors. CG Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Article 116 of the Company's Articles of Association, at each annual general meeting, the number nearest to, but not exceeding one-third of the directors (other than the managing director or joint managing director) shall retire from office by rotation.

As part of the Group's ongoing restructuring to transform itself into a company focusing on manufacturing and sales of automobiles and auto parts, Mr. Li Shu Fu, the founder and Chairman of Geely Holding Group became the controlling shareholder of the Group in June 2005 after the acquisition of an effective 41.3% stake in the Group, raising his equity stake in the Group to 60.7%. Accordingly, the members of the Board had also been changed to reflect the new ownership of the company. Six existing executive directors had resigned and seven new executive directors were nominated to join the Board in June 2005. As the seven new executive directors were appointed in June 2005, the Board considers that non-compliance with CG Code A.4.2 is acceptable this year. However, the Board considers securing its Board members to be a multiple of three at all times in future such that every director shall be subject to retirement by rotation at least once every three years.

The composition of the Board is reviewed regularly to ensure that it has a good balance of expertise, skills and experience which can meet the requirements of the business of the Company. In considering the nomination of a new director, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. The Board considers that the existing human resources policy in recruitment of new senior staff is also applicable to the nomination of new director. Further, as the full Board is responsible for selection and approval of candidates for appointment as directors to the board, the Company has not established a Nomination Committee in accordance with the requirements of the CG Code for the time being. The directors' biographical information is set out on pages 30 to 32 of this annual report.

CORPORATE GOVERNANCE REPORT

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

CG Code A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Li Shu Fu, the founder of the Group assumes the role of Chairman and Chief Executive Officer. However, the Board considers that such non-compliance with CG Code A.2.1 has not compromised accountability and independent decision-making for the following reason:

- The independent non-executive directors proactively challenge the assumptions and proposals of the management, both during and outside of Board meetings through discussion with the Chairman and among the directors via email or telephone, on pertinent issues that would cast impact on the affairs and business of the Group. This enables the Board benefiting from the objective judgment from these independent non-executive directors.

Further information on this CG Code deviation had been set out in the Company's 2005 Interim Report. In order to address this CG Code deviation, the Board resolved that Mr. Gui Sheng Yue, an executive director, was appointed as the Chief Executive Officer of the Company with effect from 23rd February, 2006 and Mr. Li Shu Fu resigned from the Chief Executive Officer with effect from 23rd February, 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

As at 31st December, 2005, approximately one-third of the Board members consisted of independent non-executive directors and one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the independent non-executive directors a confirmation of independence for the year ended 31st December, 2005 pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive directors to be independent during the year. No independent non-executive director has served the Group for more than nine years.

RESPONSIBILITY OF DIRECTORS

The Board is responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate capital and managerial resources to implement the business strategies adopted, adequacy of systems of financial and internal controls and conduct of business in conformity with applicable laws and regulations. All directors have made full and active contribution to the affairs of the Board and the Board has always acted in the best interests of the Group.

The Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. Management is responsible for the day-to-day operations of the Group with divisional heads responsible for different aspects of the business.

The Board acknowledges their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Group has adopted the generally accepted accounting standards in Hong Kong in preparing the financial statements, appropriate accounting policies have been adopted and applied consistently, and reasonable and prudent judgment and estimates have been made. The publication of the financial statements of the Group is also in a timely manner.

The Board has reviewed the financial projections of the Group and the Board is not aware of any material uncertainties relating to events or conditions which June, cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Board conducts meetings on a regular basis and on an ad-hoc basis, as required by business needs. During the year, the Board held a total of five regular board meetings and twenty-nine ad-hoc board meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 39 of this report.

Board papers are circulated approximately seven days before the board meetings to enable the directors to make informed decisions on matters to be raised. The Company Secretary and Qualified Accountant shall attend all regular board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all board meetings.

Each newly-appointed director will be provided with a package of orientation materials setting out the duties and responsibilities of directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Updates are provided to directors when necessary to ensure that directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its business.

RESPONSIBILITIES OF COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

DIRECTORS AND OFFICERS POLICY

Appropriate insurance covers on directors' and officers' liabilities have been in force to protect the directors and officers of the Group from their risk exposure arising from the business of the Group.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an Audit Committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee currently comprises Mr. Lee Cheuk Yin, Dannis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company. A set of new written terms of reference, which described the authority and duties of the Audit Committee, was adopted by the Board on 31st December, 2004 and the contents of which are in compliance with the Code Provisions of the CG Code. The said terms of reference of the Audit Committee adopted by the Board is posted on the Company's website (<http://www.geelyauto.com.hk>).

The Audit Committee is accountable to the Board and the primary duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Committee is also provided with other resources to enable it to discharge its duties fully.

CORPORATE GOVERNANCE REPORT

During the year, the Audit Committee held three meetings and the external auditors were in attendance in two of these meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 39 of this report.

The Audit Committee has reviewed with the management of the Company and Deloitte Touche Tohmatsu, the auditors of the Company, the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters, including the review of the annual report of the Company for the year ended 31st December, 2005.

During the period from 7th March, 2005 (the resignation date of Mr. Liu Ming Hui, a former independent non-executive director) to 6th June, 2005 (the appointment date of Mr. Yeung Sau Hung, Alex as an independent non-executive director), the Company had been unable to strictly comply with the relevant rules 3.10 and 3.21 of the Listing Rules requiring the Company to retain at all times a minimum of three independent non-executive directors and audit committee members.

For the year ended 31st December, 2005, the auditors of the Company received approximately HK\$580,000 for the Group's audit service.

REMUNERATION COMMITTEE AND REMUNERATION OF DIRECTORS

The Remuneration Committee currently comprises two independent non-executive directors and one executive director. It is chaired by an executive director.

The objectives of the Remuneration Committee are to establish and maintain an appropriate and competitive level of remuneration to attract, retain and motivate directors and key executives to run the Company successfully. The Remuneration Committee also ensures that the remuneration policies and systems of the Group support the Group's objectives and strategies. The Committee is provided with other resources enabling it to discharge its duties fully. A set of new written terms of reference, which described the authority and duties of the Remuneration Committee, was adopted by the Board on 31st December, 2004 and the contents of which are in compliance with the Code Provisions of the CG Code. The said terms of reference of the Remuneration Committee adopted by the Board is posted on the Company's website (<http://www.geelyauto.com.hk>).

During the year, the Remuneration Committee held one meeting. The attendance record, on a named basis, at these meetings is set out in the table on page 39 of this report.

INVESTOR RELATIONS

General Meetings

Two general meetings were held during the year. The first general meeting was the 2005 annual general meeting held on Wednesday, 25th May, 2005 at 3:00 p.m. For detailed voting results of the annual general meeting, please refer to the Company's announcement dated 25th May, 2005 (which can be downloaded from the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>)).

The second general meeting was an extraordinary general meeting held on Friday, 24th June, 2005 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 24th June, 2005 (which can be downloaded from the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>)).

CORPORATE GOVERNANCE REPORT

Communication Channels

In order to develop and maintain continuing relationships with the shareholders of the Company, the Company has established various channels to facilitate and enhance communication:

- (i) the annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board,
- (ii) updated key information of the Group is available on the Company's website at www.geelyauto.com.hk to enable the shareholders of the Company and the investor community to have timely access to information about the Group, and
- (iii) the Company's website offers a communication channel between the Company and its shareholders and investors.

The directors are available at the annual general meeting to answer questions raised by shareholders of the Company or other interested parties. To facilitate enforcement of shareholders' rights, substantially different issues at general meetings are dealt with under separate resolutions.

Other Information

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Union Registrars Limited, at 311-312 Two Exchange Square, Central, Hong Kong. This Annual Report is also available (in both English and Chinese) on the Company's website at www.geelyauto.com.hk and the Stock Exchange's website at www.hkex.com.hk.

If you have any queries about how to obtain copies of this Annual Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2598 3333.

CORPORATE GOVERNANCE REPORT

Attendance record at the meetings of the Board of Directors and specialized board committees held during the year ended 31st December, 2005.

Name and designation	Board				Audit Committee		Remuneration Committee	
	No. of regular meetings		No. of ad-hoc meetings		No. of meetings		No. of meetings	
	Attendance	Attendance	Attendance	Attendance	Attendance	Attendance	Attendance	
Executive Director								
Mr. Li Shu Fu (Chairman)	5	3	29	4	N/A	N/A	N/A	N/A
Mr. Gui Sheng Yue (CEO)	5	3	29	11	N/A	N/A	N/A	N/A
Mr. Xu Gang	5	2	29	0	N/A	N/A	N/A	N/A
Mr. Yang Jian	5	2	29	0	N/A	N/A	N/A	N/A
Mr. Ang Siu Lun, Lawrence	5	5	29	26	N/A	N/A	1	1
Mr. Yin Da Qing, Richard	5	3	29	0	N/A	N/A	N/A	N/A
Mr. Liu Jin Liang	5	2	29	0	N/A	N/A	N/A	N/A
Mr. Zhao Jie	5	0	29	1	N/A	N/A	N/A	N/A
Mr. He Xue Chu*	5	1	29	19	N/A	N/A	N/A	N/A
Mr. Xu Xing Yao*	5	0	29	0	N/A	N/A	N/A	N/A
Mr. Ku Wai Kwan*	5	1	29	18	N/A	N/A	N/A	N/A
Mr. Zhou Teng*	5	1	29	18	N/A	N/A	N/A	N/A
Mr. Zhang Zhe*	5	1	29	0	N/A	N/A	N/A	N/A
Mr. Wong Hing Kwok*	5	0	29	2	N/A	N/A	N/A	N/A
Mr. Nan Yang*	5	3	29	0	N/A	N/A	N/A	N/A
Mr. Shim Bong Sup*	5	1	29	0	N/A	N/A	N/A	N/A
Independent Non-executive Director								
Mr. Lee Cheuk Yin, Dannis	5	3	29	0	3	3	1	1
Mr. Song Lin	5	2	29	0	3	1	1	0
Mr. Yeung Sau Hung, Alex	5	2	29	0	3	3	1	1
Mr. Liu Ming Hui*	5	0	29	0	3	0	1	0

*: These directors resigned during the year.

"N/A": Not applicable

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 35 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 49.

The directors now recommend the payment of a final dividend of HK\$0.01 per share to the shareholders on the register of members on 19th May, 2006, amounting to HK\$41,203,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution as at 31st December, 2005 representing the share premium, share option reserve and accumulated losses with an aggregate amount of HK\$347,660,000.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Li Shu Fu (<i>Chairman</i>)	(appointed on 9th June, 2005)
Mr. Gui Sheng Yue (<i>Chief Executive Officer</i>)	(appointed on 9th June, 2005)
Mr. Ang Siu Lun, Lawrence	
Mr. Xu Gang	(appointed on 9th June, 2005)
Mr. Yang Jian	(appointed on 9th June, 2005)
Mr. Yin Da Qing, Richard	(appointed on 9th June, 2005)
Mr. Liu Jin Liang	(appointed on 9th June, 2005)
Mr. Zhao Jie	(appointed on 15th September, 2005)
Mr. Shim Bong Sup	(appointed on 9th June, 2005 and resigned on 15th September, 2005)
Mr. He Xue Chu	(resigned on 21st June, 2005)
Mr. Ku Wai Kwan	(resigned on 21st June, 2005)
Mr. Zhou Teng	(resigned on 21st June, 2005)
Mr. Wong Hing Kwok	(resigned on 21st June, 2005)
Mr. Xu Xing Yao	(resigned on 21st June, 2005)
Mr. Zhang Zhe	(resigned on 21st June, 2005)
Mr. Nan Yang	(resigned on 18th October, 2005)

Independent non-executive directors:

Mr. Lee Cheuk Yin, Dannis	
Mr. Song Lin	
Mr. Yeung Sau Hung, Alex	(appointed on 6th June, 2005)
Mr. Liu Ming Hui	(resigned on 7th March, 2005)

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs. Ang Siu Lun, Lawrence, Zhao Jie and Yeung Sau Hung, Alex shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The independent non-executive directors have no fixed term of office and will be subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

None of the directors, being proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st December, 2005, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange are as follows:

(1) Long position

(a) Ordinary shares of HK\$0.02 each of the Company

Name of director	Capacity	Number of shares in the Company	Shareholding percentage (%)
Shares			
Mr. Li Shu Fu (<i>Note 1</i>)	Corporate	2,500,087,000	60.68%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	0.06%
Share options (<i>Note 2</i>)			
Mr. Ang Siu Lun, Lawrence	Personal	45,000,000	1.09%
Mr. Gui Sheng Yue	Personal	23,000,000	0.56%
Mr. Xu Gang	Personal	23,000,000	0.56%
Mr. Yang Jian	Personal	23,000,000	0.56%
Mr. Liu Jin Liang	Personal	18,000,000	0.44%
Mr. Zhao Jie	Personal	18,000,000	0.44%
Mr. Yin Da Qing, Richard	Personal	16,000,000	0.39%

Notes:

- (1) Proper Glory Holdings Inc. ("Proper Glory") is a private company incorporated in the British Virgin Islands and is wholly owned by Geely Group Limited ("Geely Group"). Geely Group is a private company incorporated in the British Virgin Islands and is wholly-owned by Mr. Li Shu Fu. 2,500,000,000 shares in the Company are directly held by Proper Glory and the remaining 87,000 shares in the Company are directly held by Geely Group.
- (2) These share option interests are also referred to in the section headed "Share Options" below. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 31st December, 2005.

Save as disclosed above, as at 31st December, 2005, none of the directors or their associates had any personal, family, corporate or other interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

(2) Short position

None of the directors, chief executives nor their associates had any interest in the short position in any shares or underlying shares of the Company or any of its associated corporations as at 31st December, 2005.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the following persons (other than the directors or the chief executive of the Company) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Substantial Shareholders

(as defined in the Listing Rules)

Name	Capacity	Number of shares held		Shareholding Percentage (%)
		Long position	Short position	
Proper Glory	Beneficial owner	2,500,000,000	–	60.68
Geely Group Limited	Beneficial owner	87,000	–	0.00
	Corporate	2,500,000,000	–	60.68
Deutsche Bank Aktiengesellschaft	Corporate	230,019,000	–	5.58

Save as disclosed above, the Company had not been notified of any other person (other than the directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 31st December, 2005 as required to be recorded in the register of the Company pursuant to Section 336 of the SFO.

DIRECTORS' REPORT

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the financial statements.

The following table discloses movements in the Company's share options during the year.

Name	Exercisable period	Exercise price per share <i>HK\$</i>	Outstanding at 1.1.2005	Granted during the year	Cancelled during the year	Outstanding at 31.12.2005
Directors						
Mr. Ang Siu Lun,	23.2.2004-22.2.2009	0.95	35,000,000	–	–	35,000,000
Lawrence	5.8.2005-4.8.2010	0.70	–	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5.8.2005-4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Xu Gang	5.8.2005-4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Yang Jian	5.8.2005-4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5.8.2005-4.8.2010	0.70	–	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5.8.2005-4.8.2010	0.70	–	16,000,000	–	16,000,000
Mr. Nan Yang (resigned as director on 18th October, 2005)	5.8.2005-4.8.2010	0.70	–	15,000,000	(15,000,000)	–
Mr. Zhao Jie	5.8.2005-4.8.2010	0.70	–	18,000,000	–	18,000,000
			35,000,000	146,000,000	(15,000,000)	166,000,000
Employees	5.8.2005-4.8.2010	0.70	–	93,500,000	(5,000,000)	88,500,000
			35,000,000	239,500,000	(20,000,000)	254,500,000

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions between the Group and other companies under the control of Mr. Li Shu Fu during the year are set out in note 32 to the financial statements.

Save as disclosed above, no contracts of significance to which the Company, its holding companies or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

During the year, the Group entered into certain related party transactions which also constitute connected transactions under the Listing Rules. The following is an ongoing transaction which certain connected parties and the Group has entered into and for which relevant announcement had been made by the Company in accordance with the requirements of the Listing Rules.

On 6th May, 2005, Zhejiang Fulin Guorun Automobile Parts & Components Company Limited ("Zhejiang Fulin Guorun"), a subsidiary of the Company, has entered into a supply agreement with Zhejiang Geely Automobile Company Limited ("Zhejiang Geely JV"), an associate of the Company. Prior to the entering into the supply agreement, Zhejiang Fulin Guorun has been in its usual and ordinary course of business, selling automobile parts and components on normal commercial terms to an associated company of the Company, Zhejiang Geely JV and its subsidiaries since December 2003. Mr. Li Shu Fu is the ultimate controlling shareholder of Zhejiang Geely Automobile Company Limited. Also, he has become the ultimate controlling shareholder of the Company since 19th May, 2005 and was appointed as the Chairman of the Company on 9th June, 2005. Therefore, the transactions between Zhejiang Fulin Guorun and Zhejiang Geely JV under the supply agreement would automatically constitute continuing connected transactions for the Company since 19th May, 2005. The consideration payable under the transactions pursuant to the supply agreement will be determined at arm's length negotiations between the relevant parties with reference to prevailing market price or on no more favorable terms to Zhejiang Geely JV and its subsidiaries than those offered by Zhejiang Fulin Guorun to other independent third parties.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) had been determined to be approximately HK\$101 million which, exceeded the Annual Cap of approximately HK\$60 million for the year ended 31st December, 2005 as approved by the Stock Exchange and the Independent Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases attributable to the Group's five largest suppliers and the largest supplier are 34% and 8%, respectively, of the Group's total purchases for the year.

The percentage of sales attributable to the Group's five largest customers and the largest customer are 100% and 73%, respectively, of the Group's total sales for the year. Zhejiang Haoqing Automobile Manufacturing Company Limited, a related company of Zhejiang Geely Automobile Company Limited, an associate of the Company, is the Company's largest customer.

Save as disclosed above, at no time during the year did the directors, their associates, or shareholders of the Company, which to the knowledge of the directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers or suppliers.

CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 33 to 39 of the annual report.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08 of the Listing Rules requires at least 25% of the issued share capital of the Company to be held in public hands. Based on the information available and within the knowledge of the directors as at 20th April, 2006 (the latest practicable date prior to the issue of the annual report), such obligation has been complied with.

DIRECTORS' REPORT

COMPETING BUSINESSES

The Group is principally engaged in the research, production, marketing and sales of sedans and related automobile components in the PRC.

During the year, Zhejiang Geely Holding Group Company Limited, which is ultimately owned by Mr. Li Shu Fu ("Mr. Li"), the Company's Chairman, and his associates, has signed agreements or been in negotiations with local governments in the PRC to set up production plants for the manufacturing and distribution of Geely sedans in four locations, namely Lanzhou, Xiangtan, Ningbo and Jinan. The potential production and distribution of Geely sedans in these four locations by Zhejiang Geely Holding Group Company Limited will constitute competing businesses (the "Competing Businesses") to those currently engaged by the Company's two associates. Mr. Li has undertaken to the Company (the "Undertaking") that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive Directors, he will, and will procure his associates (other than the Group) to sell to the Group all of the Competing Businesses and related assets, subject to compliance with applicable requirements of the Listing Rules and other applicable laws and regulations upon terms to be mutually agreed as fair and reasonable.

POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 33 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Li Shu Fu

Chairman

21st April, 2006

AUDITORS' REPORT

Deloitte.

德勤

TO THE MEMBERS OF GEELY AUTOMOBILE HOLDINGS LIMITED

吉利汽車控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Geely Automobile Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 49 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21st April, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
Continuing operations			
Revenue	6	101,411	31,903
Cost of sales		(90,649)	(30,378)
Gross profit		10,762	1,525
Other income		681	91
Distribution and selling expenses		(379)	(183)
Administrative expenses		(18,378)	(16,465)
Share of results of associates		122,691	93,471
Profit before taxation		115,377	78,439
Income tax expense	8	–	–
Profit for the year from continuing operations		115,377	78,439
Discontinued operations	9		
Profit for the year from discontinued operations		–	2,395
Profit for the year	10	115,377	80,834
Attributable to:			
Equity holders of the Company		110,827	81,305
Minority interests		4,550	(471)
		115,377	80,834
Dividends	11		
– Paid during the year		41,203	–
– Proposed final dividend		41,203	41,203
Earnings per share	12		
Basic			
– From continuing and discontinued operations		HK 2.69 cents	HK 1.97 cents
– From continuing operations		HK 2.69 cents	HK 1.91 cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Property, plant and equipment	14	7,433	5,831
Interests in associates	15	786,996	651,750
		794,429	657,581
Current assets			
Inventories	16	5,703	8,815
Trade and other receivables	17	44,840	11,921
Dividend receivable from an associate	18	8,220	–
Amount due from an associate	19	–	338
Amounts due from related companies	20	–	613
Bank balances and cash	21	8,449	1,499
		67,212	23,186
Current liabilities			
Trade and other payables	22	34,817	12,575
Amounts due to related companies	23	923	2,252
Amount due to a minority shareholder	24	4,588	5,027
Advance from immediate holding company	25	14,220	–
		54,548	19,854
Net current assets			
		12,664	3,332
		807,093	660,913
Capital and reserves			
Share capital	26	82,405	82,405
Reserves		715,675	571,042
Equity attributable to equity holders of the Company			
Minority interests		798,080	653,447
		9,013	4,466
		807,093	657,913
Non-current liability			
Advance from former ultimate holding company	27	–	3,000
		807,093	660,913

The financial statements on pages 49 to 84 were approved and authorised for issue by the Board of Directors on 21st April, 2006 and are signed on its behalf by:

LI SHU FU
DIRECTOR

GUI SHENG YUE
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	Translation reserve	Share Accumulated		Sub-total	Minority interests	Total
					option reserve	(losses) profits			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2004	82,405	533,964	–	1,172	–	(48,495)	569,046	2,389	571,435
Profit (loss) for the year (restated) and total recognised income and expenses for the year	–	–	–	–	–	81,305	81,305	(471)	80,834
Realised upon disposal of subsidiaries recognised directly in equity	–	–	–	7	–	–	7	2,548	2,555
Recognition of share based payments	–	–	–	–	3,089	–	3,089	–	3,089
At 31st December, 2004	82,405	533,964	–	1,179	3,089	32,810	653,447	4,466	657,913
Exchange differences on translation of overseas operations and net income recognised directly in equity	–	–	–	12,777	–	–	12,777	(3)	12,774
Profit for the year	–	–	–	–	–	110,827	110,827	4,550	115,377
Total recognised income and expenses for the year	–	–	–	12,777	–	110,827	123,604	4,547	128,151
Recognition of share based payments	–	–	–	–	5,538	–	5,538	–	5,538
Dividend paid	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
Deemed contribution from shareholders (Note)	–	–	56,694	–	–	–	56,694	–	56,694
At 31st December, 2005	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093

Note: Deemed contribution from shareholders mainly represent difference between the consideration received and the fair value of net assets of the subsidiaries disposed of by the associates of the Group to Zhejiang Geely Holding Group Company Limited, a company beneficially owned by the substantial shareholder of the Company.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
OPERATING ACTIVITIES			
Profit before taxation		115,377	80,834
Adjustments for:			
Depreciation		811	711
Interest income		(57)	(6)
Finance costs		-	53
Share of results of associates		(122,691)	(93,517)
Gain on disposal of subsidiaries		-	(3,189)
Share-based payment expense		5,538	3,089
Loss on disposal of property, plant and equipment		-	7
Operating cash flow before movements in working capital		(1,022)	(12,018)
Decrease (increase) in inventories		3,112	(10,063)
Increase in trade and other receivables		(32,919)	(13,575)
Decrease in amount due from an associate		338	-
Decrease (increase) in amounts from related companies		613	(852)
Increase in trade and other payables		22,242	14,290
Decrease in amounts due from minority shareholders		-	1,130
NET CASH USED IN OPERATING ACTIVITIES		(7,636)	(21,088)
INVESTING ACTIVITIES			
Dividend paid		(41,203)	-
Purchase of property, plant and equipment		(2,292)	(2,628)
Dividend received from an associate		48,502	-
Interest received		57	6
Investment in associates		-	(565)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	28	-	(1,839)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		5,064	(5,026)
FINANCING ACTIVITIES			
Advance from immediate holding company		14,220	3,000
Repayment to former ultimate holding company		(3,000)	-
Repayment to (advance from) related companies		(1,329)	2,262
Repayment to (advance from) minority shareholders		(439)	3,978
New bank borrowings raised		-	2,636
Interest paid		-	(53)
Repayment of bank borrowings		-	(33)
NET CASH FROM FINANCING ACTIVITIES		9,452	11,790
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		6,880	(14,324)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		1,499	15,823
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		70	-
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER			
Bank balances and cash		8,449	1,499

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

1. GENERAL

The Company is a public listed limited company incorporated in the Cayman Islands as an exempted limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is Proper Glory Holdings Inc. and its ultimate holding company is Geely Group Limited, both incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate Information" to the annual report.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 35.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and discontinued operation have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results are prepared and presented.

Share-based Payments

HKFRS 2 "Share-based Payment" requires an expense to be recognised where an entity buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors and employees' share options of the Group determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 (but prior to 1st January, 2005) and has vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and which were not yet vested on 1st January, 2005. The effect of adoption of this new standard is set out in note 3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. EFFECTS OF APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

The effects of the application of the new HKFRSs/changes in the accounting policies described above are as follows:

(i) On results

	Year ended 31st December,	
	2005 HK\$'000	2004 HK\$'000
Non-amortisation of goodwill in associates' consolidated financial statements	1,122	–
Recognition of share-based payments	(5,538)	(3,089)
Decrease in profit for the year	(4,416)	(3,089)

(ii) On income statement line items

	2005 HK\$'000	2004 HK\$'000
Increase in administrative expenses	(5,538)	(3,089)
Decrease in share of profits of associates	(27,474)	(6,696)
Decrease in taxation	28,596	6,696
Decrease in profit for the year	(4,416)	(3,089)

(iii) On balance sheet items

	As at 31.12.2004 (originally stated) HK\$'000	Retrospective adjustments		As at 31.12.2004 and 1.1.2005 (restated) HK\$'000
		HKAS 1 HK\$'000	HKFRS 2 HK\$'000	
Accumulated profits	35,899	–	(3,089)	32,810
Share options reserve	–	–	3,089	3,089
Minority interests	–	4,466	–	4,466
Total effects on equity	35,899	4,466	–	40,365
Minority interests	4,466	(4,466)	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. EFFECTS OF APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

As a result of the application of the new HKAS 1, minority interests of HK\$2,389,000 at 1st January, 2004 were included as part of the total equity.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRS) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2006.

³ Effective for annual periods beginning on or after 1st December, 2005.

⁴ Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of the changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Trade and other receivables, dividend receivable from an associate, amount due from an associate and amounts due from related companies

Trade and other receivables, dividend receivable from an associate, amount due from an associate and amounts due from related companies are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprises short-term bank balances and cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Trade and other payables, amounts due to related companies, amount due to a minority shareholder and advance from immediate holding company

Trade and other payables, amounts due to related companies, amount due to a minority shareholder and advance from immediate holding company are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of businesses, net of discounts and related sales taxes.

Income from sales of automobile parts and components is recognised when the products are delivered and title has been passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme are charged as expenses as they fall due.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, amount due from an associate, amounts due from related companies, trade and other payables, amounts due to related companies, amount due to a minority shareholder and advance from immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has concentration of credit risk with exposure limited to the associate and a related company of the associate. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debts due from the associate and a related company of the associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's exposure to bad debts is minimal.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by credit-rating agencies.

6. REVENUE

Revenue represents the aggregate of the following amounts received and receivable during the year. An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005 HK\$'000	2004 HK\$'000
Continuing operations		
Sales of automobile parts and components	101,411	31,903
Discontinued operations		
Sales revenue from information and technology related businesses	-	9,220
	101,411	41,123

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

No business segment information has been presented for the year ended 31st December, 2005 as the directors considered that the Group is principally engaged in manufacturing and trading of automobile and related automobile components which accounts for the total revenue and trading profits of the Group for the year.

For the year ended 31st December, 2004, for management purposes, the Group was organised into two operating divisions – (i) manufacturing and trading of automobile and related automobile components, (ii) information technology. These divisions were the basis on which the Group reported its primary segment information, for that year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Principal activities are as follows:

Automobile – manufacturing and trading of automobile parts and related automobile components

Information technology – information technology and related business

Following the disposal of its interest in the 51% owned subsidiaries, the operations of information technology was discontinued on 30th March, 2004.

	Year ended 31st December, 2004		
	Continuing operations	Discontinued operations	Consolidated
	Automobile	Information technology	
	HK\$'000	HK\$'000	HK\$'000
			(restated)
REVENUE			
External sales	31,903	9,220	41,123
RESULT			
Segment result	(256)	(787)	(1,043)
Unallocated corporate expenses	(14,776)	–	(14,776)
Finance costs	–	(53)	(53)
Share of results of associates	93,471	46	93,517
Gain on disposal of the discontinued subsidiaries	–	3,189	3,189
Profit before taxation			80,834
Income tax expense	–	–	–
Profit for the year			80,834

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

BALANCE SHEET

	At 31st December, 2004		
	Continuing operations	Discontinued operations	Consolidated
	Automobile	Information technology	
	HK\$'000	HK\$'000	HK\$'000
ASSETS			
Segment assets	680,767	–	680,767
LIABILITIES			
Segment liabilities	18,674	–	18,674
Unallocated liabilities			4,180
			22,854

OTHER INFORMATION

	Year ended 31st December, 2004		
	Continuing operations	Discontinued operations	Consolidated
	Automobile	Information technology	
	HK\$'000	HK\$'000	HK\$'000
Capital additions	2,568	60	2,628
Depreciation	528	183	711
Loss on disposal of property, plant and equipment	7	–	7

Geographical segments

The Group's activities and operations are based in the People's Republic of China (the "PRC"), including Hong Kong. Accordingly, a geographical analysis is not presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

8. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for the year as the companies within the Group had no estimated assessable profits in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000 (restated)
Profit before taxation		
– Continuing operations	115,377	78,439
– Discontinued operations	–	2,395
	115,377	80,834
Less: Share of results of associates	(122,691)	(93,471)
	(7,314)	(12,637)
Tax at the domestic income tax rate of 33%	(2,414)	(4,170)
Tax effect of expenses not deductible in determining taxable profit	–	–
Tax effect of tax losses not recognised	5,480	5,222
Tax effect of income not taxable in determining taxable profit	–	(1,052)
Effect of tax exemption granted to PRC subsidiaries	(3,066)	–
Tax expense for the year	–	–

At the balance sheet date, the Group has unused tax losses of approximately HK\$32,430,000 (2004: HK\$15,824,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

9. DISCONTINUED OPERATIONS

Pursuant to an agreement entered into between the Company, South China Industries Limited ("SCI") and Proper Glory Holdings Inc. on 22nd April, 2002, the Company was granted a put option to dispose of its entire 51% equity interest in Deep Treasure Investment Limited ("Deep Treasure") and its subsidiaries to Fook Cheung Development Limited. The put option was exercised on 30th March, 2004.

The results of Deep Treasure and its subsidiaries represented the Group's entire results of the information technology business. Following the disposal, the operations of information technology was discontinued on 30th March, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

9. DISCONTINUED OPERATIONS (Continued)

The profit for the year from the discontinued operations was analysed as follows:

	2005	2004
	HK\$'000	HK\$'000
Loss of the information technology operations for the year	-	(794)
Gain on disposal of the information technology operations for the year	-	3,189
	-	2,395

The results of the information technology operations for the period from 1st January, 2004 to 30th March, 2004, which have been included in the consolidated income statement, were as follows:

	Period ended
	30.3.2004
	HK\$'000
Revenue	9,220
Cost of sales	(8,090)
	1,130
Distribution and selling expenses	(101)
Administrative expenses	(1,816)
Finance cost	(53)
Share of result of associates	46
Loss for the period	(794)

The carrying amounts of the assets and liabilities of Deep Treasure and its subsidiaries at date of disposal are disclosed in note 28.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

10. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Profit for the year has been arrived at after charging (crediting):						
Staff costs, including directors' emoluments	10,284	7,706	–	748	10,284	8,454
Retirement benefit scheme contributions	297	299	–	228	297	527
Total staff costs	10,581	8,005	–	976	10,581	8,981
Auditors' remuneration	580	332	–	–	580	332
Depreciation	811	528	–	183	811	711
Recognition of share-based payments (included in administrative expenses)	5,538	3,089	–	–	5,538	3,089
Loss on disposal of property, plant and equipment	–	7	–	–	–	7
Interest income from bank deposits	(57)	(6)	–	–	(57)	(6)
Share of tax of associates (included in share of results of associates)	28,596	6,696	–	–	28,596	6,696
Cost of inventories recognised as expenses	90,649	30,378	–	8,090	90,649	38,468

11. DIVIDENDS

A final dividend for the year ended 31st December, 2004 of HK\$0.01 per share amounting to HK\$41,203,000 was paid to the shareholders during the year.

A final dividend of HK\$0.01 per share have been proposed by the Directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the Company of HK\$110,827,000 (2004: HK\$81,305,000 as restated) and on 4,120,264,902 (2004: 4,120,264,902) ordinary shares in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

12. EARNINGS PER SHARE (Continued)

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the Company is based on the following information:

	2005 HK\$'000	2004 HK\$'000 (restated)
Earnings for the year attributable to equity holders of the Company	110,827	81,305
Less: Earnings for the period from discontinued operations	-	(2,745)
Earnings for the purpose of basic earnings per share from continuing operations	110,827	78,560

The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

From discontinued operations

Basic earnings per share from discontinued operations for the year ended 31st December, 2004 was HK0.06 cents which was calculated based on the profit for that year from discontinued operations of HK\$2,745,000. The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

No diluted earnings per share presented as the exercise price of the share options was higher than the average market price for the years ended 31st December, 2005 and 2004.

The following table summarises the impact of changes in accounting policies on basic earnings per share from continuing and discontinued operations as a result of:

	Impact on basic earnings per share	
	2005 Cents	2004 Cents
Figures before adjustments	2.80	2.05
Adjustments arising from changes in accounting polices (see note 2)	(0.11)	(0.08)
	2.69	1.97

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The emoluments paid or payable to each of the twenty (2004: eleven) directors are as follows:

2005

Name of director	Fees HK\$'000	Salaries HK\$'000	Rental allowance HK\$'000	Contribution to retirement	Total HK\$'000
				benefit scheme HK\$'000	
Mr. Ang Siu Lun, Lawrence	–	1,300	–	12	1,312
Mr. Gui Sheng Yue	–	438	42	7	487
Mr. He Xue Chu	–	342	–	6	348
Mr. Ku Wai Kwan	–	285	–	6	291
Mr. Zhou Teng	–	285	–	6	291
Mr. Wong Hing Kwok	–	142	–	6	148
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120
Mr. Yeung Sau Hung, Alex	70	–	–	–	70
Mr. Xu Xing Yao	62	–	–	–	62
Mr. Liu Ming Hui	21	–	–	–	21
Mr. Song Lin	10	–	–	–	10
Mr. Nan Yang	8	–	–	–	8
Mr. Xu Gang	6	–	–	–	6
Mr. Yang Jian	6	–	–	–	6
Mr. Yin Da Qing, Richard	6	–	–	–	6
Mr. Liu Jin Liang	6	–	–	–	6
Mr. Zhang Zhe	5	–	–	–	5
Mr. Li Shu Fu	3	–	–	–	3
Mr. Zhao Jie	3	–	–	–	3
Mr. Shim Bong Sup	3	–	–	–	3
	329	2,792	42	43	3,206

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

2004

Name of director	Fees HK\$'000	Salaries HK\$'000	Rental allowance HK\$'000	Contribution to retirement benefit scheme	Total HK\$'000
				HK\$'000	
Mr. Ang Siu Lun, Lawrence	–	1,110	–	11	1,121
Mr. He Xue Chu	–	780	–	12	792
Mr. Ku Wai Kwan	–	650	–	12	662
Mr. Zhou Teng	–	650	–	12	662
Mr. Wong Hing Kwok	–	325	–	12	337
Mr. Xu Xing Yao	240	–	–	–	240
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120
Mr. Liu Ming Hui	120	–	–	–	120
Mr. Zhang Zhe	10	–	–	–	10
Mr. Nan Yang	10	–	–	–	10
Mr. Song Lin	2	–	–	–	2
	502	3,515	–	59	4,076

No director waived any emoluments during the years ended 31st December, 2005 and 31st December, 2004.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, five (2004: four) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining individual for the year ended 31st December, 2004 is as follows:

	2004 HK\$'000
Basic salaries and allowances	390
Retirement benefits scheme contributions	12
	402

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC under medium term lease	Plant and machinery	Leasehold improvements	Furniture and fixtures, office equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST					
At 1st January, 2004	2,698	3,596	597	4,820	11,711
Additions	–	2,089	–	539	2,628
Disposals	–	–	–	(8)	(8)
Disposal of subsidiaries	(2,698)	–	(521)	(4,631)	(7,850)
At 31st December, 2004	–	5,685	76	720	6,481
Exchange adjustments	–	120	–	11	131
Additions	–	1,702	366	224	2,292
At 31st December, 2005	–	7,507	442	955	8,904
DEPRECIATION					
At 1st January, 2004	279	34	61	2,748	3,122
Charge for the year	14	410	27	260	711
Eliminated on disposals	–	–	–	(1)	(1)
Eliminated on disposal of subsidiaries	(293)	–	(32)	(2,857)	(3,182)
At 31st December, 2004	–	444	56	150	650
Exchange adjustments	–	10	–	–	10
Charge for the year	–	624	27	160	811
At 31st December, 2005	–	1,078	83	310	1,471
NET BOOK VALUES					
At 31st December, 2005	–	6,429	359	645	7,433
At 31st December, 2004	–	5,241	20	570	5,831

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10 to 33.3%
Leasehold improvements	20% to 33.3%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

15. INTERESTS IN ASSOCIATES

	2005 HK\$'000	2004 HK\$'000
Share of net assets (including goodwill of approximately HK\$22 million)	786,996	651,750

At 31st December, 2005, the Group had interests in the following associates:

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited * ("Zhejiang Geely")	PRC	USD82,803,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited * ("Shanghai Maple")	PRC	USD51,697,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江美人豹汽車銷售有限公司 Zhejiang Mybo Automobile Sales Company Limited	PRC	RMB10,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited	PRC	RMB15,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited	PRC	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation	PRC	RMB20,000,000	39.3%	Export of sedans outside the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

15. INTERESTS IN ASSOCIATES (Continued)

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited	PRC	RMB30,000,000	42.1%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited	PRC	RMB10,000,000	42.1%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited	PRC	RMB6,000,000	42.1%	Marketing and sales of sedans in the PRC

* These associates are sino-foreign equity joint ventures established in the PRC for a period of 30 years.

The summarised financial information in respect of the Group's associates is set out below:

	2005 HK\$'000	2004 HK\$'000
Total assets	6,064,557	4,618,750
Total liabilities	(4,382,943)	(3,226,122)
Net assets	1,681,614	1,392,628
Group's share of net assets of associates	786,996	651,750
Revenue	4,970,570	2,311,016
Profit for the year	262,161	199,724
Group's share of result of associates for the year	122,691	93,471

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

16. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
At cost:		
Raw materials	2,366	3,466
Work in progress	1,288	468
Finished goods	2,049	4,881
	5,703	8,815

17. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$43,966,000 (2004: HK\$11,420,000).

The Group allows a credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	2005 HK\$'000	2004 HK\$'000
0 – 60 days	43,489	7,874
61 – 90 days	67	2,948
Over 90 days	410	598
	43,966	11,420

The trade receivables comprise:

	2005 HK\$'000	2004 HK\$'000
Trade receivables from associates	24,925	11,219
Trade receivables from a related company of an associate	19,041	201
	43,966	11,420

In the opinion of the directors, the fair value of the Group's trade and other receivables at 31st December, 2005 approximates their corresponding carrying amounts.

18. DIVIDEND RECEIVABLE FROM AN ASSOCIATE

In the opinion of the directors, the fair value of the Group's dividend receivable from an associate at 31st December, 2005 approximates its corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

19. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate was unsecured, interest free and was fully settled during the year.

20. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies, representing an amount of HK\$427,000 due from a group company of a shareholder of the former ultimate holding company and an amount of HK\$186,000 due from a shareholder of the former ultimate holding company, were unsecured, interest free and were fully settled during the year.

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry prevailing market interest rate of an average of 2.7% (2004: 0.5%) per annum. In the opinion of the directors, the fair value of bank deposits at 31st December, 2005 approximates their corresponding carrying amounts.

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$27,047,000 (2004: HK\$11,143,000).

The following is an aged analysis of trade payables at the balance sheet dates:

	2005 HK\$'000	2004 HK\$'000
0 – 60 days	24,576	7,763
61 – 90 days	1,989	832
Over 90 days	482	2,548
	27,047	11,143

In the opinion of the directors, the fair value of the Group's trade and other payables at 31st December, 2005 approximates their corresponding carrying amounts.

23. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies which have the same common substantial shareholder of the Company are unsecured, interest-free and repayable on demand.

In the opinion of the directors, the fair value of the amounts due to related companies at 31st December, 2005 approximates their corresponding carrying amounts.

24. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and repayable on demand.

In the opinion of the directors, the fair value of the amount due to a minority shareholder at 31st December, 2005 approximates its corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

25. ADVANCE FROM IMMEDIATE HOLDING COMPANY

The advance from immediate holding company is unsecured, interest-free and repayable on demand.

In the opinion of the directors, the fair value of the advance from immediate holding company at 31st December, 2005 approximates its carrying amount.

26. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2004	5,000,000,000	100,000
– Increase in authorised share capital	3,000,000,000	60,000
– Balance at 31st December, 2004 and 31st December, 2005	8,000,000,000	160,000
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2004, 31st December, 2004 and 31st December, 2005	4,120,264,902	82,405

27. ADVANCE FROM FORMER ULTIMATE HOLDING COMPANY

The advance from former ultimate holding company was unsecured, interest-free and was fully settled during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

28. DISPOSAL OF SUBSIDIARIES

As referred to in note 9, the Group discontinued its information technology operations at 30th March, 2004, the time of the disposal of its subsidiaries. The net assets of subsidiaries at date of disposal were as follows:

	2004 HK\$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	4,668
Interests in associates	1,168
Inventories	8,606
Trade and other receivables	12,768
Amount due from a related company	239
Bank balances and cash	2,339
Bank borrowings	(6,165)
Trade and other payables	(12,250)
Amounts due to minority shareholders	(11,607)
Amounts due to related companies	(10)
Minority interests	2,548
Net assets disposed of	2,304
Realisation of translation reserve	7
Gain on disposal of subsidiaries	3,189
Consideration	5,500
Total satisfied by:	
Cash	500
Amount due to a minority shareholder	5,000
	5,500
Net cash outflow from disposal of subsidiaries is as follows:	
Cash consideration received	500
Bank balances and cash disposed of	(2,339)
Net cash outflow from disposal of subsidiaries	(1,839)

The discontinued operations contributed approximately HK\$9,220,000 to the Group's turnover and had loss from operations of HK\$794,000 for the year ended 31st December, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

29. OPERATING LEASE COMMITMENTS

For the year ended 31st December, 2005, the Group paid minimum lease payments under operating lease in respect of office premises of HK\$1,478,000 (2004: HK\$1,490,000).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office premises under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK\$'000	HK\$'000
Within one year	1,706	1,171
In the second to fifth year inclusive	1,212	904
	2,918	2,075

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

30. RETIREMENT BENEFITS SCHEME

The Group participates in MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme which is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$20,000 per employee.

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 9% to 30% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect of the retirement benefit scheme is to make the specified contributions.

For the year ended 31st December, 2005, the aggregate employer's contributions made by the Group and charged to the income statement are HK\$297,000 (2004: HK\$527,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

31. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31st May, 2002, a share option scheme (the "Scheme") was adopted by the Company.

The Scheme was adopted for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the Scheme.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option schemes adopted by the Company in any twelve month period must not exceed 1% of the issued share capital of the Company.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 5 business days from the date of offer, the offer is delivered to that participant and the amount payable on acceptance of options is HK\$1.00.

Approximately 33% of the options will be automatically vested at the date of grant and the remaining 67% will be vested one year from the date of grant.

The subscription price for the shares under the Scheme shall be a price determined by the directors, but not less than the highest of (i) the closing price of shares as stated on the Stock Exchange on the date of the offer grant; (ii) the average closing price of the shares as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

No options may be granted under the Scheme after the date of the tenth anniversary of its adoption.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses details of the Company's share options under the Scheme held by directors and senior employees and movements in such holdings:

2005

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st January	Granted during the year	Cancelled during the year	Outstanding at 31st December
Directors						
Mr. Ang Siu Lun,	23.2.2004 – 22.2.2009	0.95	35,000,000	–	–	35,000,000
Lawrence	5.8.2005 – 4.8.2010	0.70	–	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Xu Gang	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Yang Jian	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5.8.2005 – 4.8.2010	0.70	–	16,000,000	–	16,000,000
Mr. Nan Yang (resigned as director on 18th October, 2005)	5.8.2005 – 4.8.2010	0.70	–	15,000,000	(15,000,000)	–
Mr. Zhao Jie	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
			35,000,000	146,000,000	(15,000,000)	166,000,000
Employees	5.8.2005 – 4.8.2010	0.70	–	93,500,000	(5,000,000)	88,500,000
			35,000,000	239,500,000	(20,000,000)	254,500,000

2004

Director

Mr. Ang Siu Lun, Lawrence	23.2.2004 – 22.2.2009	0.95	–	35,000,000	–	35,000,000
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One-third of options vested immediately upon grant and the remaining options granted will vest after one year.

No options were exercised to subscribe for shares in the Company during the year.

During the year ended 31st December, 2005, options were granted on 5th August, 2005. During the year ended 31st December, 2004, options were granted on 23rd February, 2004. The estimated fair values of the options granted on 5th August, 2005 and 23rd February, 2004 are approximately HK\$8,186,000 and HK\$5,060,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	2005	2004
Weighted average share price	HK\$0.5099	HK\$0.8128
Exercise price	HK\$0.7	HK\$0.95
Expected volatility	40.2%	48.8%
Expected life	5 years	5 years
Risk-free rate	3.589%	3.978%
Expected dividend yield	0.98%	Nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expense of HK\$5,538,000 for the year ended 31st December, 2005 (2004: HK\$3,089,000) in relation to share options granted by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

32. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group had the following material transactions and balances with connected and related parties during the year:

(A) Transactions

Name of related parties	Nature of transactions	2005 HK\$'000	2004 HK\$'000
Minority shareholder of a former subsidiary			
South China Industries Limited 南華工業有限公司	Management fee charged	–	335
Associates			
Zhejiang Geely Automobile Company Limited 浙江吉利汽車有限公司	Sales of automobile parts and components	27,478	3,001
	Dividend income	56,262	–
Shanghai Maple Guorun Automobile Company Limited 上海華普國潤汽車有限公司	Dividend income	457	–
Related companies (Note)			
Zhejiang Haoqing Automobile Manufacturing Company Limited 浙江豪情汽車製造有限公司	Sales of automobile parts and components	73,774	19,993
Zhejiang Geely Automobile Parts & Components Purchasing Company Limited 浙江吉利汽車零部件採購有限公司	Sales of automobile parts and components	–	7,383
Zhejiang Guo Mei Decoration Materials Company Limited 浙江國美裝潢材料有限公司	Rental expense	462	452

Note: The Company and the related companies are under the same common substantial shareholder.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

32. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

(B) Balances

Details of balances with related parties are set out at on the balance sheet and in notes 17, 18, 19, 20, 23, 24, 25 and 27.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follow:

	2005 HK\$'000	2004 HK\$'000
Short-term benefit	4,375	5,186
Retirement benefit scheme contribution	75	95
Share-based payments	5,538	3,089
	9,988	8,370

The remuneration of directors and key executives are determined by the remuneration committee having regard to the performance of individuals and market trends.

33. POST BALANCE SHEET EVENT

On 9th March, 2006, the Company entered into a Subscription Agreement with the Co-Lead Managers (as defined in the Company's announcement dated 9th March, 2006), whereby the Co-Lead Managers have agreed to subscribe or procure subscribers for the Bond to be issued at par by the Company in an aggregate principal amount of HK\$741,600,000.

The estimated net proceeds of the Bonds Issue, after deduction of commission and administrative expenses (amounting to approximately HK\$15,000,000), are approximately HK\$726.6 million. The proceeds are currently intended to be used by the Company for increasing its investments in its two 46.8%-owned associates, namely Zhejiang Geely Automobile Company Limited and Shanghai Maple Guorun Automobile Company Limited and its 51%-owned subsidiary, namely Zhejiang Fulin Guorun Automobile Parts & Components Company Limited.

On 10th April, 2006, the Subscription Agreement was completed and the Bonds of an aggregate principal amount of HK\$741,600,000 were issued.

Details of the Bonds are set out in the offering circular in respect of the proposed issue of HK\$741,600,000 zero coupon convertible bonds due 2011 of the Company dated 6th April, 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

34. BALANCE SHEET OF THE COMPANY

	2005	2004
	HK\$'000	HK\$'000
Non-current assets		
Property, plant and equipment	452	110
Investments in subsidiaries	1	1
	453	111
Current assets		
Other receivables	676	183
Amount due from a subsidiary	445,464	493,910
Amount due from an associate	–	338
Amount due from a related company	–	186
Bank balances and cash	6,991	396
	453,131	495,013
Current liabilities		
Other payables	672	1,172
Advance from immediate holding company	14,220	3,000
	14,892	4,172
Net current assets	438,239	490,841
	438,692	490,952
Capital and reserves		
Share capital	82,405	82,405
Reserves	356,287	408,547
	438,692	490,952

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

35. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2005 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/ registered capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Certurion Industries Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Geely International Limited 吉利國際貿易有限公司	Hong Kong	HK\$2	100%	–	Inactive
浙江省福林國潤汽車 零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD1,209,200	–	51%	Research, production, marketing and sales of automobile parts and related components

* The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30 years expiring in 2033.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

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