



Annual Report 2006



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

(Stock Code: 0175)

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CORPORATE INFORMATION

Executive Directors:

Mr. Li Shu Fu (*Chairman*)
Mr. Gui Sheng Yue (*Chief Executive Officer*)
Mr. Ang Siu Lun, Lawrence
Mr. Xu Gang
Mr. Yang Jian
Mr. Yin Da Qing, Richard
Mr. Liu Jin Liang
Mr. Zhao Jie
Dr. Zhao Fuquan (*Appointed on 17 November 2006*)

Independent Non-executive Directors:

Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Audit Committee:

Mr. Lee Cheuk Yin, Dannis (*Committee's Chairman*)
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Remuneration Committee:

Mr. Gui Sheng Yue (*Committee's Chairman*)
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex

Company Secretary:

Mr. Cheung Chung Yan, David

Qualified Accountant:

Mr. Cheung Chung Yan, David

Independent Auditors:

Moores Rowland Mazars

Legal Advisors in Hong Kong:

Sidley Austin
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:

Room 2301, 23rd Floor, Great Eagle Centre
23 Harbour Road, Wanchai,
Hong Kong
Telephone: (852) 2598 3333
Facsimile: (852) 2598 3399
Email: general@geelyauto.com.hk

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
Room 1803
Fook Lee Commercial Centre Town Place,
33 Lockhart Road, Wanchai, 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>

Financial Summary

and Highlights



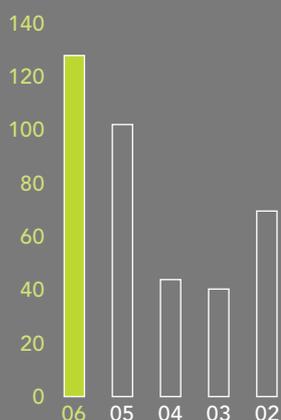
FINANCIAL SUMMARY AND HIGHLIGHTS

Five-Year Financial Summary

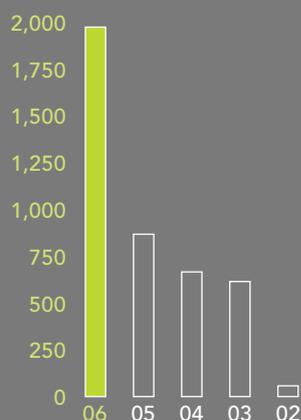
A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

The Group

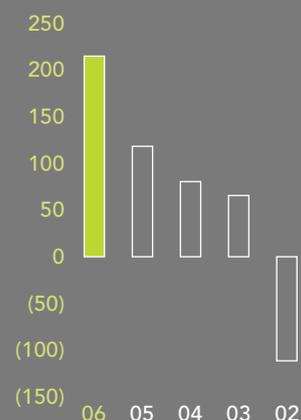
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000 (restated)	2003 HK\$'000	2002 HK\$'000
Turnover	127,006	101,411	41,123	39,872	71,820
Profit (loss) before taxation	215,734	115,377	80,834	55,620	(111,711)
Taxation	(1,585)	–	–	(237)	(52)
Profit (loss) for the year	214,149	115,377	80,834	55,383	(111,763)
Attributable to:					
Equity holders of the Company	208,752	110,827	81,305	57,486	(105,981)
Minority interests	5,397	4,550	(471)	(2,103)	(5,782)
	214,149	115,377	80,834	55,383	(111,763)
Assets and Liabilities - Group					
Total assets	1,959,962	861,641	680,767	603,188	23,725
Total liabilities	(910,036)	(54,548)	(22,854)	(31,753)	(29,259)
Total equity	1,049,926	807,093	657,913	571,435	(5,534)
Represented by:					
Equity attributable to equity holders of the Company	1,030,157	798,080	653,447	569,046	(5,411)
Minority interests	19,769	9,013	4,466	2,389	(123)
	1,049,926	807,093	657,913	571,435	(5,534)



Turnover
(HK\$ Million)



Total assets
(HK\$ Million)



Profit (Loss) attributable to equity holders of the Company
(HK\$ Million)

Financial Highlights

A. The Group

	2006	2005	Change in Percentage Increase/ (Decrease)
For the year			
Turnover (HK\$'000)	127,006	101,411	25
Profit attributable to equity holders of the Company (HK\$'000)	208,752	110,827	88
Per share			
Basic earning per share (HK Cents)	5.05	2.69	88
Diluted earning per share (HK Cents)	4.95	N/A	N/A
Dividend per share (HK Cents)	1.2	1.0	20
NAV per share (HK\$)	0.25	0.19	31
At year end			
Shareholders' funds (HK\$'000)	1,030,157	798,080	29
Total assets (HK\$'000)	1,959,962	861,641	127
Number of shares in issue	4,151,388,496	4,120,264,902	1
Share price during the year			
– High (HK\$)	1.03	0.55	87
– Low (HK\$)	0.320	0.315	2
Financial ratios			
Gearing ratio = (Borrowings / Shareholders' funds) (%)	69.5%	2.4%	2,797
Return on total assets (%)	10.7%	13.4%	(21)
Return on shareholders' fund (%)	20.3%	14.5%	40

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, Shanghai Maple Guorun Automobile Company Limited, Zhejiang Ruhoo Automobile Company Limited and Zhejiang Kingkong Automobile Company Limited, is set out below:

Combined Results - Major Associates

	2006 HK\$'000	2005 HK\$'000 (restated)
Turnover	6,588,845	4,970,570
Costs of sales	(5,551,963)	(4,173,645)
Sales Tax	(6,421)	(89,892)
Gross profit	1,030,461	707,033
Other net operating income	236,455	198,399
Distribution and selling expenses	(357,025)	(309,570)
Administration expenses	(299,422)	(222,340)
Finance costs	(30,664)	(50,870)
Profit before taxation	579,805	322,652
Taxation	(57,188)	(61,102)
Profit for the year	522,617	261,550
Attributable to:		
Equity holders of the Major Associates	519,611	262,161
Minority interests	3,006	(611)
	522,617	261,550
Gross profit margin (%)	15.6%	14.2%
Net profit margin (%)	7.9%	5.3%
Return on shareholders' fund (%)	14.6%	15.6%
Return on total assets (%)	7.5%	4.3%
Gearing ratio = (Borrowings / Shareholders' funds) (%)	28.9%	78.6%

FINANCIAL SUMMARY AND HIGHLIGHTS

Combined Assets and Liabilities - Major Associates

	2006 HK\$'000	2005 HK\$'000 (restated)
Non-current assets		
Property, plant and equipment	2,096,881	1,214,957
Intangible assets	145,501	221,665
Prepaid lease payments	623,425	147,454
Goodwill	42,549	46,727
Long-term deferred expenses	2,009	-
Long-term investment	2,000	1,923
	2,912,365	1,632,726
Current assets		
Inventories	574,082	395,635
Prepaid lease payments	20,819	5,478
Bills receivables	1,246,402	1,120,815
Trade and other receivables	301,773	189,108
Amounts due from related companies	902,038	1,588,440
Short-term investment	7,737	7,692
Pledged deposit	242,760	664,488
Bank balances and cash	741,592	460,175
	4,037,203	4,431,831
Current liabilities		
Bank borrowings	960,000	1,321,633
Bills payables	390,000	865,385
Trade and other payables	1,018,670	1,733,094
Amounts due to related companies	754,007	409,210
Taxation	24,376	23,805
Provision	2,632	6,594
Dividend payables	149,506	14,673
	3,299,191	4,374,394
Net current assets	738,012	57,437
	3,650,377	1,690,163
Capital and reserves		
Paid-up capital	2,959,700	1,069,706
Reserves	601,503	611,908
Equity attributable to equity holders of the Major Associates	3,561,203	1,681,614
Minority interests	18,605	8,549
Total equity	3,579,808	1,690,163
Non-current liabilities		
Other long-term liabilities	70,000	-
Shareholder's loan	569	-
	70,569	-
	3,650,377	1,690,163



Chairman's Statement



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Geely Automobile Holdings Limited (the "Company"), I have the pleasure of presenting to you the 2006 results of the Company and its subsidiaries (the "Group")

Financial Review

The Group's turnover amounted to HK\$127 million for the year ended 31 December 2006, representing an increase of 25% over 2005. Profit attributable to the equity holders of the Company amounted to HK\$209 million, a significant increase of 88% over 2005. The large increase in net profit was attributable to the significant growth in profit contributions from the Company's four associates - Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") - (collectively referred as "the Associates") - mainly due to the strong demand for "Free Cruiser" family sedans launched in 2005, the initial good response to "Geely Kingkong" mid-end sedans launched in mid



Li Shu Fu,
Chairman

2006, and a more stable raw material prices, more than offsetting the intensified price competition in China's sedan market during the year.

Dividend

The Board recommends the payment of a final dividend of HK1 cent (2005: HK1 cent) per share and a special final dividend of HK0.2 cent (2005: nil) per share.

Business Overview

Although the demand for sedans in the China market continued to register strong growth during 2006, the later part of 2006 saw intensified price pressure in the economy car segment with a few major players adopting more aggressive pricing strategy to gain market shares in China, resulting in heavy price pressure on other economy car manufacturers. As a result, the Associates decided to reduce the retail prices of most of their models by 5-10% during the year. Despite the challenges and difficulties, and thus a less than exciting performance in the second half of 2006, the Associates still managed to achieve respectable results for the full year period in 2006, helped by a more stable raw material prices during the year, and the continued strong demand for "Free Cruiser" and the encouraging response to new products like "Geely Kingkong" and "Vision". The timely response by the management to adjust business strategies and implement new measures to enhance product mix also help the Associates to significantly improve profitability in 2006 with sales of higher priced models like "Free Cruiser", "Geely Kingkong" and "Vision" series accounted for around 40% of their total sales volume, a significant improvement from less than 20% in 2005.

During 2006, the Associates - Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong - recorded contracted sales volume of 175,635 units of Geely and Maple sedans, up 32% over 2005, maintaining their combined market share in China's passenger car market at around 4.6% in 2006. Of which, the sales of 164,495 units were recognised in the 2006 consolidated financial statements.

The Company's 51%-owned parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin") recorded a healthy increase in both revenue and net profit in 2006. Net profit at Zhejiang Fulin was up 14% YoY to RMB11 million on 21% increase in revenues. The slower earnings growth in 2006 was due to higher expenses caused by the relocation of the plant to new location and expiry of some tax incentives. We, however, believe Zhejiang Fulin's earnings growth could speed up in 2007, helped by the planned launch of new generation of Electric Power Steering ("EPS") and braking system for "Geely Kingkong" and "Vision" models.

2006 was a challenging but fruitful year in the Group and the Associates' history with major achievements in defending the Associates' market share despite fierce price competition in China's economy sedan market and in the successful launches of a number of strategically important new products, including "Geely Kingkong", "Vision", JL4G18 VVT engines and JL-ZA series of automatic gearboxes, paving the way for the Associates to broaden their product range further in the coming years. 2006 is also an important milestone in the Group and the Associates' expansion into the international market with the exports of around 10,000 sedans to over 40 countries, and the signing of a joint-venture agreement with Manganese Bronze Holdings Plc to manufacture London Taxi and three models of high-end sedans in Shanghai, marking the Group and the Associates' first step to enter into taxi market and high-end sedans.

During 2006, the Associates have embarked on an aggressive hiring campaign to further strengthen its R&D capability with the recruitment of several key R&D professionals to its management team to maintain the Associates' leading position in research and development and product innovation.

Prospects

We believe that there are substantial growth potential for car demand in China in the coming decade, due to China's consistent economy growth, its rising household incomes, and its still low car ownership with only 1% of the population owning a sedan at present.

The Group and the 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 its shareholders.

According to the figures released by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China increased by 37% to 3.8 million units in 2006, surpassing most market expectations. 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.

With the successful launches of the "Geely Kingkong" and "Vision" sedans, JL-ZA series of automatic gearboxes, and JL4G18 VVT engines – considered the Associates' most strategically important new product launches in the Group's history – in 2006, and the significant efforts spent in the exploration of export

markets over the past few years, the Associates are well positioned to further increase their combined market shares from 4.6% to 5% in 2007, thus translating into total contracted sales volume of 240,000 units, representing an YoY growth of 37%.

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 Zhejiang Geely Holding Group Company Limited's auto related businesses. To achieve that, the Group would actively consider raising its shareholdings in the Associates to over 50% subject to government approval and compliance with relevant regulations.

With the significant investment and effort spent by the Associates in product development and capacity expansion over the past few years, the improved production facilities and the more comprehensive product lines, the Board believes that the Group's profitability and thus its shareholders' returns should continue to improve in the coming years.

Li Shu Fu

Chairman

11 April 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The year of 2006 was again a record year for the Group in terms of both revenues and profitability. The Group's four associates Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") (collectively the "Associates") contracted a record sales of 175,635 units of vehicles in 2006, up 32% from 2005, and achieved encouraging results during the year, despite their significant investments in capacity expansion, technological upgrading, and research and development of core technologies and new products during the period. Of which, the sales of 164,495 units were recognised in the 2006 consolidated financial statements. The remarkable financial performance of the four associates had enabled the Group to report another record profitability with net profit increasing by 88% to around HK\$209 million in 2006, helped by nearly 98% increase in profit contribution from its four associates during the same period. The good results was despite additional charges including net interest expenses and revaluation deficit totaled around HK\$25 million incurred by the issue of a 5-year HK\$741.6 million zero-coupon convertible bonds due 2011 in April 2006.

The Group's turnover, which principally came from its 51%-owned auto parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Co. Ltd. ("Zhejiang Fulin"), was up 21% to RMB127 million in 2006, mainly driven by increased sales of auto parts and components by Zhejiang Fulin to the Company's four vehicle manufacturing associates.

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 its corporate structure, aiming at further improving its operating efficiency and enhancing the transparency of the Group. Key events related to reorganization of the Group include:

August 2006: The Group's 46.8%-owned associate Zhejiang Geely and its 46.8%-owned associate Shanghai Maple proposed to increase their registered capital by way of pro rata subscription by their respective shareholders. As a result, the Group injected US\$91.88 million in cash into the two associates, which was mainly financed by the proceeds of the convertible bonds issued by the Company on 10 April 2006. After the cash injection, the Group's stakes in the two associates were maintained at 46.8%, while the total registered capital of the two associates had been increased from US\$134.5 million to US\$330.77 million to support the two associates' continuous expansion.

August 2006: The Group's 51%-owned subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Co. Ltd. ("Zhejiang Fulin") proposed to increase its registered capital by way of pro rata subscription by their respective shareholders to support the construction of new plant and production facilities. As a result, Zhejiang Fulin's total registered capital was increased from RMB10 million to RMB20 million. The Group contributed RMB5.1 million to the fund raising exercise, maintaining its stake in Zhejiang Fulin at 51%. The capital contribution was mainly funded by the convertible bond issued in April 2006.

December 2006: To further simplify the structure of the Group, the Group established two new 46.8%-owned joint ventures Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") with Zhejiang Geely Holding Group Company Ltd. ("Geely Holding"), which is controlled by the Company's Chairman and major shareholder Mr. Li Shu Fu. The Group's capital contribution to the two new associates was mainly funded by dividend received from its two existing associates Zhejiang Geely and Shanghai Maple, while Geely Holding's capital contribution to the two new associates will be satisfied by the transfer to the two new associates the land, buildings and production facilities in Linhai and Luqiao of Zhejiang province.

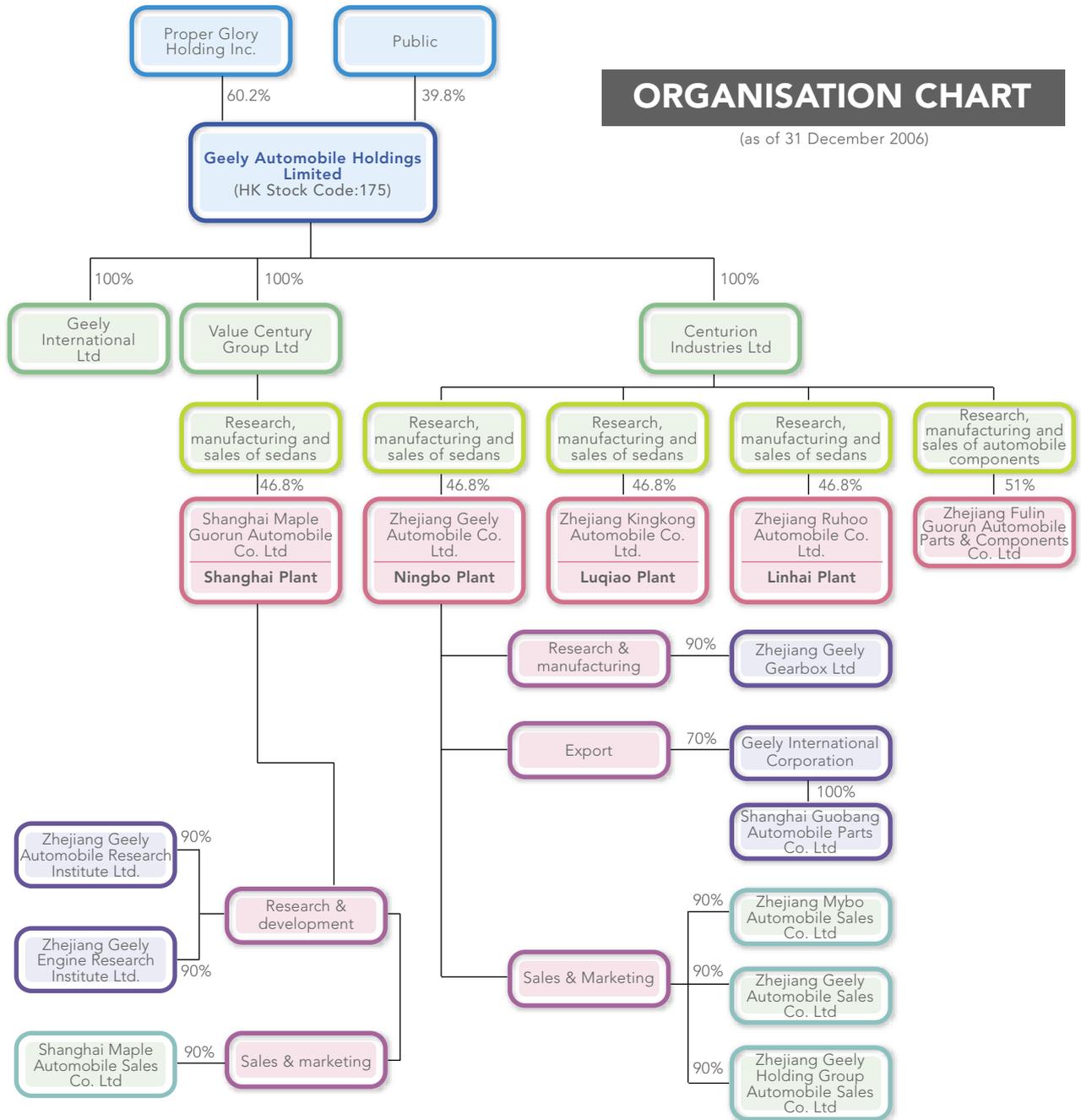
March 2007: To further expand the sources of earnings and the product line of the Group, the Group set up a new production joint venture, named Shanghai LTI Automobile Components Company Limited ("Shanghai LTI"), with Manganese Bronze Holdings Plc ("MBH") to manufacture the iconic London Taxies and three high-end saloon car models in Shanghai. The Group invested US\$53.8 million for a 51% stake in Shanghai LTI, plus a

23% stake or 5.7 million new shares in MBH, which in turn will own 48% stake in the joint venture. The remaining 1% stake of the joint venture will be owned by Shanghai Maple Automobile Company Limited, which is 90%-owned by Geely Holding. Total investment of Shanghai LTI is estimated to be around US\$99.5 million, which will be funded by shareholders' capital contribution and bank borrowings. The Group financed its total investment of US\$53.8 million by the proceeds from a new equity issue in February 2007.

The Group will continue to seek for ways and opportunities to further rationalize and restructure its structure, aiming at improving the its 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 raising its shareholdings in the four associates, which own Geely Holding's four existing sedan manufacturing facilities, to over 50% and consider acquiring the four new production facilities under construction in Xiangtan, Lanzhou, Jinan and Ningbo currently undertaken by Geely Holding, subject to government approval and compliance with relevant regulations.

ORGANISATION CHART

(as of 31 December 2006)



Management Team

The Group's four associates have embarked on an aggressive hiring campaign over the past year to strengthen their research and development capability and enhance their technological know-how in preparation for achieving their ambitious target of selling up to 2 million vehicles per annum and exporting two third of their output to overseas markets by 2015. The 2006 marked an outstanding year in terms of the building up of the Associates' R&D expertise with the conclusion of three important new hires of key R&D professionals:

1. Dr. Zhao Fuquan was appointed as an executive director of the Company on 17 November 2006. Dr. Zhao was also appointed as Vice President, Chief Technology Officer and Head of R&D Centre of Geely Holding, in charge of the group's technology development and exports business to mature markets like Northern America and Europe. Prior to joining Geely Holding and the Company, Dr. Zhao was the Research Executive of Technical Affairs Corporation of Daimler Chrysler and Vice President of Shenyang Brilliance Jinbei Automobile Company Limited and General Manager of its Research and Development Centre. Dr. Zhao is a regular contributor to international automobile magazines and journals, publishing 5 English books and over 100 academic dissertation papers on automobile technologies. He was awarded 2 patents in United States of America and had won many prizes and awards. His research focus is on power train technology.
2. Mr. George Chee was appointed as the Head of Shanghai Maple Research and Development Centre. Prior to joining Geely Holding, Mr. Chee was the Deputy Head of Research and Development for Chery Automobile Company Limited, focusing on car body design.
3. Mr. Liang, Henian was appointed as the Head of Research and Development for the Associates' new product line of commercial vehicles. Prior to joining Geely Holding, Mr. Liang was the Chief Engineer and Deputy General Manager of Great Wall Motor Company Limited, in charge of the Research and Development function of the company.

In addition, Mr. Peter Zhang was appointed as Vice President, Internal Control and International Business Development of the Company effective 26 February 2007. Mr. Zhang is responsible for the Group's internal control function and to assist other management team members in the development of the Group's international businesses. Prior to joining the Company, Mr. Zhang was the Group Internal Control Advisor for BP Plc (British Petroleum) in Beijing. Mr. Zhang holds a doctoral degree in Economics.

The management team of the Group's associate Shanghai Maple had also been adjusted to reflect the new focus and the new role of Shanghai Maple, being the key manufacturing arm of Geely Holding in alternate energy vehicles, high-end and specialized vehicles. Mr. Liu Jin Liang, an executive director of the Company and formerly the Head of Sales and Marketing of Geely Holding, was appointed as Chief Executive Officer of Shanghai Maple's operations, including Shanghai Maple plant and the newly set up Shanghai LTI joint venture. Mr. Liu is responsible for the overall management of Geely Holding's manufacturing facilities in Shanghai. Reporting to Mr. Liu, Mr. Yu Wei, formerly the Head of R&D Centres of Geely Holding was appointed as the General Manager of the Group's 46.8%-owned associate Shanghai Maple, assisting Mr. Liu in the overall management of the Shanghai manufacturing operation.

Financial Resources

During the year, the Group's cashflow mainly came from dividend distribution from its four associates: Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong.

With the commencement of major investment projects including the construction of Phase II of Shanghai plant, the launch of strategic new models: "Geely Kingkong" and "Vision", and the expansion and further upgrading of Ningbo and Luqiao plants, the Group's two associates Zhejiang Geely and Shanghai Maple decided to expand their capitals in August 2006. The Group funded its capital commitments to the two associates with the proceeds of a HK\$741.6 million five-year zero coupon convertible bond issued in April 2006.

To simplify the Group's structure and to fully utilize the tax benefits offered by the Chinese government to foreign invested enterprises in China, the Group has set up two new 46.8%-owned joint ventures: Zhejiang Ruhoo and Zhejiang Kingkong with a total registered capital of RMB386.7 million to own Geely Holding's manufacturing facilities and land in Linhai and Luqiao areas. The Group's capital contribution to the two new joint-ventures amounted to RMB181 million and was financed by dividend distributed by the Group's two existing associates Zhejiang Geely and Shanghai Maple.

The Group's capital commitments to the Shanghai LTI project, which include a 51% stake in the Shanghai LTI joint-venture and a 23% stake in Manganese Bronze Holdings Plc, totaled US\$53.8 million, was funded by a top-up new equity issue in February 2007, involving the issue of 600 million new shares of the Company at HK\$1.06 per share, raising net proceeds of around HK\$609 million for the Company. The new share issue had substantially improved the Group's financial position with its net debt-to-equity ratio improving significantly from nearly 70% at the end of 2006 to around 5% immediately after the issue.

Automobile Parts Manufacturing – Zhejiang Fulin Guorun Automobile Parts & Components Co. Ltd.

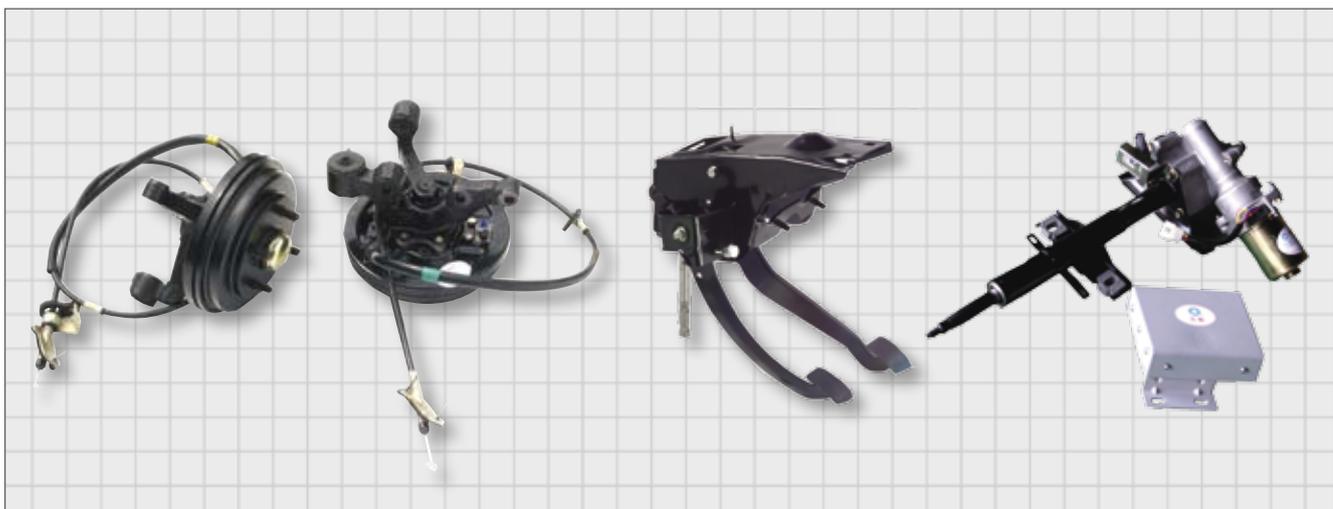
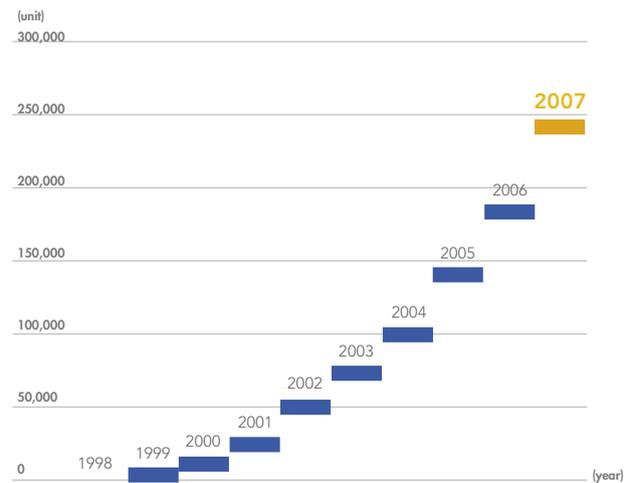
51%-owned Zhejiang Fulin Guorun Automobile Parts and Components Co. Ltd. ("Zhejiang Fulin") is principally engaged in the manufacturing and sales of brake slices and electric power steering for sedans. Zhejiang Fulin recorded a 21% growth in revenues to RMB127 million in 2006 helped by the launch of new models of electric power steering ("EPS") and new braking system

specifically designed for Geely Holding's "Free Cruiser" models. Despite significant improvement in gross margin from around 11% in 2005 to over 13% in 2006, net margin declined slightly from 9.2% in 2005 to 8.7% in 2006 due to significant increase in selling and administrative expenses as a result of the preparation work for the relocation of the plant to new facilities in 2007 and higher taxation expenses following the expiry of income tax exemption in 2006. Despite this, Zhejiang Fulin still managed to record an 14% increase in net profit to RMB11 million.

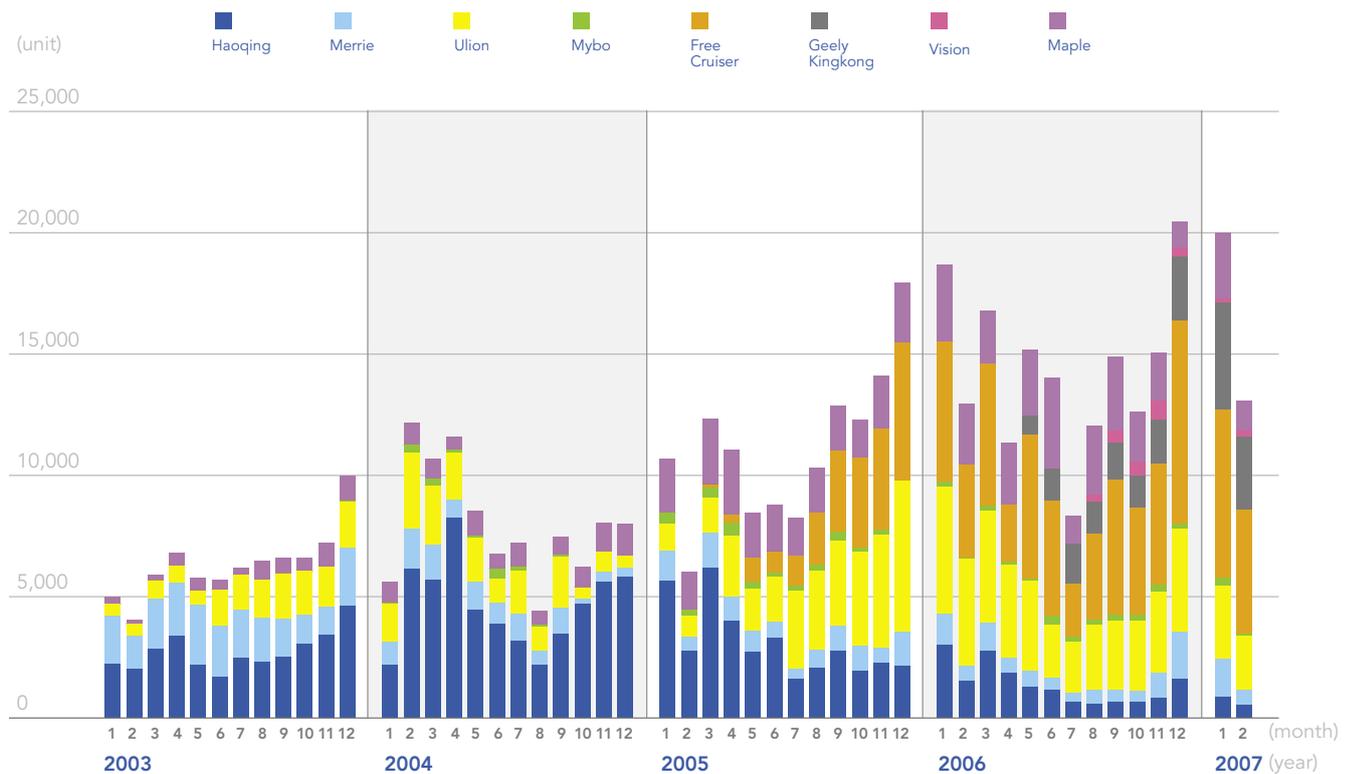
The Board believes that Zhejiang Fulin's earnings performance should improve in 2007, helped by the planned launches of new generation of EPS and braking system, mainly for use on "Geely Kingkong" and "Vision" models, and the continued strong growth in 2007 sales volume projected by the Group's four associates Zhejiang Geely, Shananghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong, which are the major customers of Zhejiang Fulin's products.

Vehicle manufacturing – Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong and Zhejiang Ruhoo

Annual contracted sales volume of Geely and Maple sedans



Monthly contracted sales volume of Geely and Maple sedans



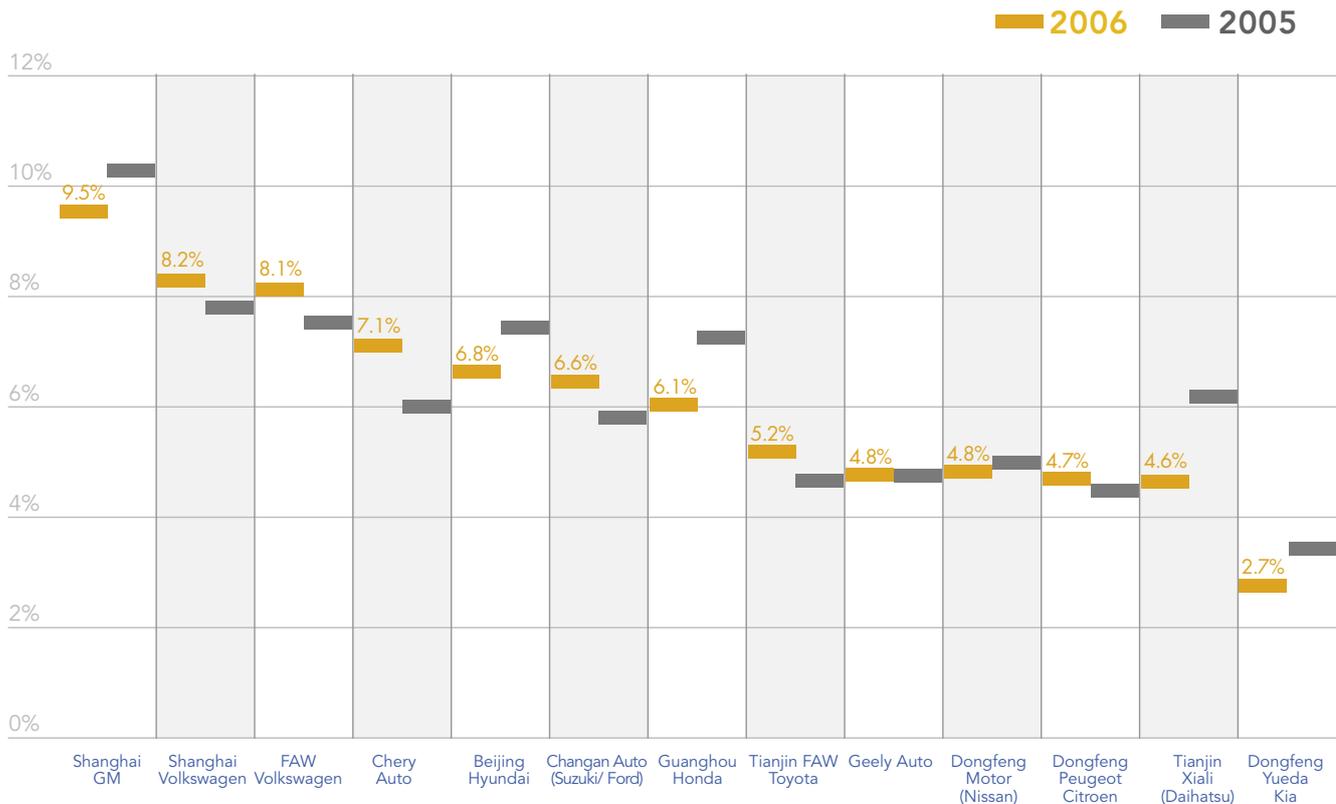
Following a restructuring completed in December 2006, Geely Holdings' auto related businesses were grouped under four associates of the Group: Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong with each company owning production facilities in

different location, including: Zhejiang Geely in Ningbo, Shanghai Maple in Shanghai, Zhejiang Ruhoo in Linhai and Zhejiang Kingkong in Luqiao. All the four companies are 46.8%-owned by the Group and 53.2%-owned by Geely Holding.

The vehicle manufacturing businesses under the four associates continued to be the key earnings contributors to the Group in 2006, accounting for the bulk of the Group's earnings in the year. The market share of Geely and Maple sedans in China's sedan market reached 4.6% in 2006, ranking number nine in terms of sales volume amongst sedan manufacturers in China.

Market share of Geely and Maple sedans

The Group's four sedan manufacturing associates: Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong recorded total net profit of nearly HK\$520 million in 2006, up 98% over 2005, on 33% increase in total revenues to HK\$6,589 million. Average revenues per car increased 7% to HK\$40,055 per car as improved product mix towards higher priced models during the year more than offset a number of price cuts since 2Q 2006 in response to aggressive price competition from other major sedan manufacturers in China during the period.

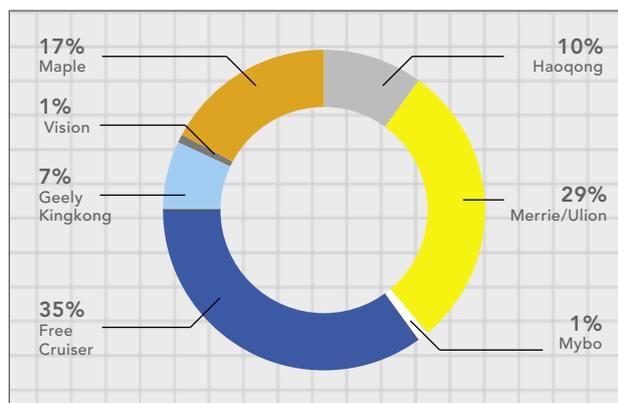


Source: China Association of Automobile Manufacturers

Gross margin, however, increased from 14.2% to 15.6% helped by 5% reduction in the cost of outsourced parts, the reduction of sales tax rates on sedans with engine size ranging from 1.0L to 1.5L and the success in cutting costs. Net profit per car increased significantly by 60% to HK\$3,159 per unit due to the Associates' success in controlling distribution and selling expenses, reduction in finance charges, and lower effective tax rates due to restructuring and better tax planning.

During 2006, the four associates managed to reduce the cost of outsourced automobile parts by around 5%, partly offsetting the average 5-10% cut in the retail prices of their products. The retail prices for most Geely and Maple sedan models, experienced relatively large pressure during the year due to aggressive price competition from other car manufacturers in China.

Breakdown of 2006 contracted sales volume of Geely and Maple sedans by models



During 2006, the Group's four associates continued to expand their product lines towards higher-priced and higher margin models in a bid to further enhance the four associates' profitability and to alleviate the impact of a fluctuating raw material prices. Longer-term, the strategy should also help to further reduce the associates' technology gap with major international automobile companies and to enhance Geely's brand image in both the domestic and export markets. The objective was partly achieved in 2006 through the launches of a number of higher priced models including "Geely Kingkong" sedans in mid 2006, and "Vision" mid-end sedans towards the end of 2006. As a result, the associates' dependence on the lower priced models declined further during 2006 with higher-priced models now accounting for nearly 40% of total contracted sales volume compared with less than 20% in 2005. "Free Cruiser", which was first launched in 2005, had overtook "Haoqing" model as the best selling models of the four associates in 2006, accounting for over one third of the total contracted sales volume of the four associates during the year.

During the year, contracted sales volumes of "Ulion" and "Maple" sedan also recorded healthy growth with their sales volume increasing by 23% and 18% YoY respectively despite fierce competition in the economy sedan market in China. Despite this, the most successful model for the four associates in 2006 remained the "Free Cruiser", a new series of economy sedans jointly developed by Zhejiang Geely and Daewoo International of Korea, first launched in mid 2005. Although "Free Cruiser" only started mass production in mid-2005, total contracted sales volume of the model amounted to 22,668 units in 2005 and further increased to 60,663 units in 2006,

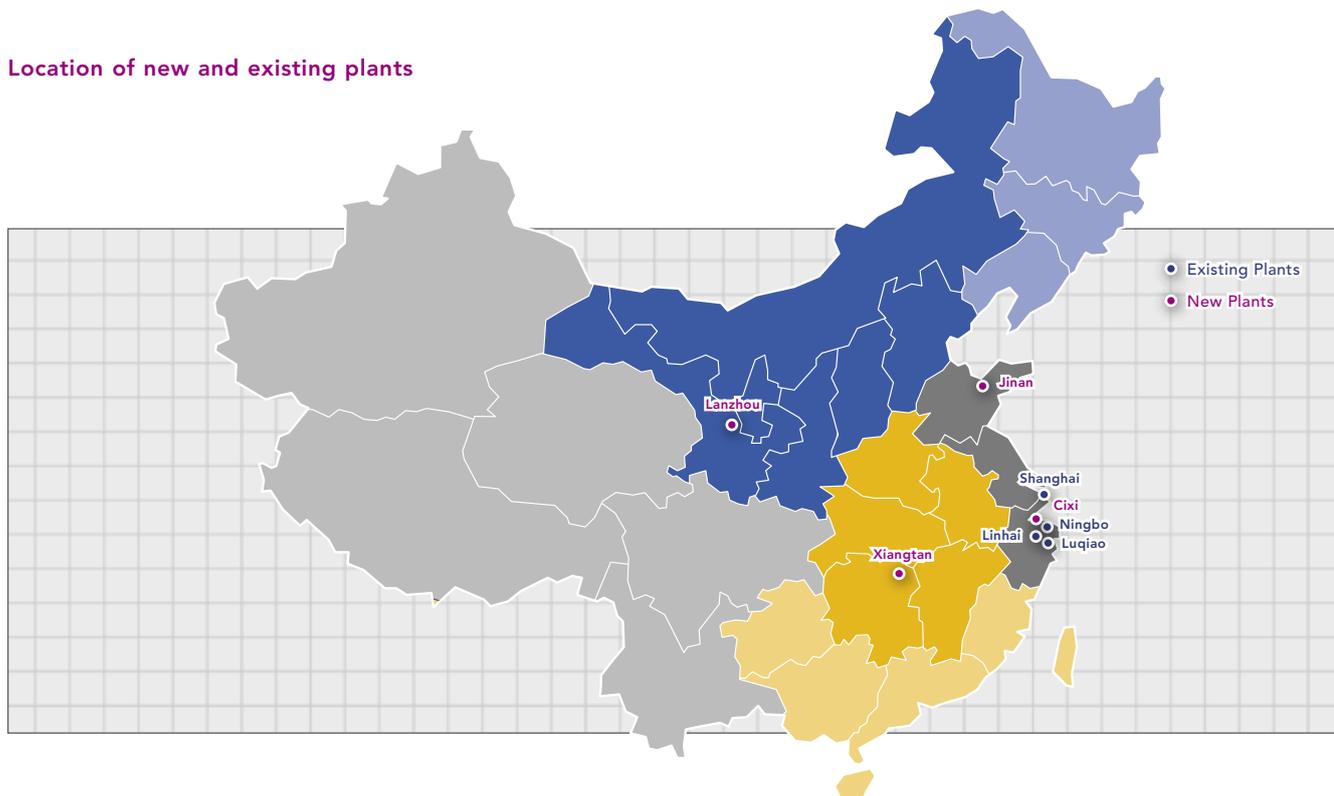
surpassing the low-end Haoqing model to become the best selling models of the four associates in 2006. Its monthly contracted sales volume reached 8,403 units in December 2006, making it one of the best selling economy sedan models in China in 2006.

Production Plants

The Group's four associates Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong own four production facilities in Shanghai, Ningbo, Linhai and Luqiao. The four production plants' combined annual production capacity amounted to 200,000 units of sedans, 200,000 units of engines and 200,000 units of gearboxes based on a single shift basis by the end of 2006. The four production plants are fully-integrated plants, comprising stamping, welding, painting and assembly facilities, and supporting production lines for engines and gearboxes.

The Associate'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 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 of the four 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 Associates' parent Geely Holding, which has agreed to transfer its interests in these new plants to the Group when mass production started.

Location of new and existing plants



The Associate's plan is to expand their combined annual production capacity to over 300,000 units by end of 2007 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 construction of satellite plants in China's less

developed areas including Lanzhou of Gansu province and Xiangtan of Hunan province, and the setting up of SKD/CKD assembly arrangements with local partners in overseas countries. Details about the Associates' existing production plants are summarized below:

Existing Production Plants of the Associates

Name	Interests	Annual capacity (single shift)	Models
Linhai Plant	46.8%	50,000	Haoqing (1.0L, 1.05L, 1.3L) Ulion (1.0L, 1.05L, 1.3L) Merrie (1.0L, 1.05L, 1.3L) GT (1.3L) Mybo (1.5L, 1.8L)
Luqiao Plant	46.8%	50,000	Geely Kingkong (1.5L, 1.6L)
Ningbo Plant	46.8%	50,000	Free Cruiser (1.3L, 1.5L, 1.6L) Vision (1.8L) Engines (1.5L, 1.6L, 1.8L) Manual gearboxes Automatic gearboxes
Shanghai Plant	46.8%	50,000	Shanghai Maple: Marindo (1.3L, 1.5L, 1.8L) Hysoul (1.5L, 1.8L) Hysoon (1.5L, 1.8L) Hyshire (1.5L) Engines (1.5L, 1.8L) Planned-Shanghai LTI: London Taxi TX4 Limousines and saloon cars



Total capital expenditures by the Group's four associates amounted to over RMB500 million in 2006, mainly for the funding of the expansion and upgrading of Shanghai and Ningbo plants, and the development of new products like "Geely Kingkong" and "Vision". The capital expenditures were mainly funded by the capital increase at Zhejiang Geely and Shanghai Maple in 2006, bank borrowings by the two associates during the year and the associates' operational cashflow. Major investment projects completed in 2006 included:

1. Upgrading of Ningbo plant to facilitate the large scale production of "Vision" mid-end sedan model was completed in mid-2006.
2. The construction of factory buildings of Shanghai plant Phase II. The construction was completed in mid 2006 to expand the annual production capacity of the Shanghai plant from 50,000 units

to 150,000 units. After installation of equipment, the Phase II plant could start production within 2007.

3. The technological upgrading and expansion of Shanghai Maple engine plant to increase production capacity to 100,000 units per annum.

Total capital expenditures at the Group level in 2006 amounted to HK\$6 million, being the capital expenditure by the Group's 51%-owned subsidiary Zhejiang Fulin for the construction of a new plant to house its production facilities which will be relocated from the existing plant rented from a connected party to a new plant in mid 2007. To fund the construction of the new plant, Zhejiang Fulin expanded its registered capital from RMB10 million to RMB 20 million in 2006. The Group had made its capital contribution of HK\$5.1 million using part of the proceeds from the convertible bond issued in April 2006.

Total budgeted capital expenditures for the four associates in 2007 amounted to approximately RMB500 million, which will mainly be financed by the capital expansion by Zhejiang Geely and Shanghai Maple in 2006. Major investment projects planned for 2007 include:

1. The final phase of construction of the Phase II of Shanghai Plant. The construction of Shanghai Plant's Phase II facilities started in November 2005 and was completed in mid 2006. Total annual production capacity would be 60,000 units, expandable to 100,000 units. Test production is scheduled to start in March 2007. Total investment is estimated to be around RMB350 million.
2. The construction of ECVT transmission plant in Luqiao is scheduled to be completed by end of 2007.

On the Group front, major capital investment in 2007 should be the construction of the production facilities for the Group's planned 51%-owned joint venture Shanghai LTI in Shanghai. Total investment at Shanghai LTI is estimated to be HK\$774.8 million. The initial construction of the facilities will be funded by the initial capital contribution by its shareholders totaled HK\$422.81 million. The remaining investment will be funded by either bank borrowings or operational cashflow generated by the joint-venture.

To reduce the amount of the initial investment and thus investment risk of Shanghai LTI and to allow Shanghai LTI to start production as quickly as possible, Shanghai LTI plans to lease existing plant and facilities from Shanghai Maple. To facilitate the production at Shanghai LTI and to utilize its production capacity more efficiently, Shanghai Maple plans to gradually relocate its production of the Maple sedans to Phase II of the Shanghai Plant and make available the existing Phase I plant for lease to Shanghai LTI before the end of 2007.

In an undertaking agreed between Geely Holding, which is ultimately controlled by the Company's Chairman Mr. Li Shu Fu, and the Company, Geely Holding has undertaken to sell to the Company all its interests in the four new production plants to avoid engaging in competing businesses with the Company, subject to compliance with applicable requirements of the Listing Rules and applicable laws and regulations upon terms to be mutually agreed as fair and reasonable, and at time determined and agreed by the majority of the Company's independent non-executive Directors. The four plants are currently constructed by Geely Holding for the manufacturing and distribution of Geely sedans in four locations.

Two of the four new plants under construction by Geely Holding

Name	% owned by Geely Holding	Models	Production Capacity (units per annum)	Status
Xiangtan Plant, Hunan	100%	Geely Kingkong	50,000 (Phase I) 50,000 (Phase II) Total: 100,000	Trial production: Dec 2006 Mass production: Mid 2007
Lanzhou Plant, Gansu	100%	Free Cruiser	50,000 (Phase I) 50,000 (Phase II) Total: 100,000	Trial production: Feb 2007 Mass production: 2H 2007

Quality Control

The Group's four associates have set up a quality control system satisfying the ISO9000 quality certifications. The key focus of the Group's four associates in the area of quality control in 2007 is to prepare for the certification of their major production facilities in accordance with the requirements of ISO/TS16949:2002 standards. In addition, to prepare for large scale exports in the coming years, the Group's four associates have started the certifications of their products to satisfy different standards around the World including ECE of Europe, DOT and EPA in the United States.

The Group's four associates currently produce and sell over 30 models of sedans, equipped with 8 series of engines and gearboxes. All their products have passed the Chinese Government's "3C" (China Compulsory Certifications) certifications and the Euro III emission standards, which are now required in most of the areas in China.

Given the critical importance of the quality of outsourced parts to the final quality and reliability of the sedans manufactured by the Group's associates, the four associates have implemented a new parts procurement and supplier policy in 2007, calling for significant bigger R&D investments by their suppliers so that the parts suppliers could catch up with the increasingly more stringent quality requirements adopted by the four associates. The associates have also implemented a new pricing policy, adopting variable prices for auto parts depending on the historic quality standards achieved by each supplier, largely determined by the historical claim rates of their products. An exit mechanism has been set up to eliminate unqualified suppliers from the list of designated suppliers of the four associates.

New Products

Major new product launches by the Associates in 2006 are summarized below:

1. Geely JL-ZA series of automatic gearboxes for 1.5L engines;
2. Geely JL4G18 1.8L all aluminium petroleum engines with VVT technologies;
3. Geely "Free Cruiser" 1.5L family sedans with AT transmission;
4. "Geely Kingkong" 1.5L and 1.6L sedans;
5. Geely "Vision" 1.8L mid-end sedans;
6. Geely "Mybo II Leading" 1.8L sport sedans;
7. Maple "Hyshine AA" 1.5L family sedans;
8. Maple "Hysoon AB" 1.5L, 1.8L sport sedans.

The Group's four associates also started to manufacture right-hand drive version for both "Free Cruiser" and "Geely Kingkong" in 2006, for exports. A small number of Geely right hand sedans were exported to a number

of Asian countries, including Singapore, Pakistan and Bangladesh in 2006.

In 2007, the Group's four associates plan to launch eight new models, Details of the planned new product launches in 2007 follow:

1. Geely "Haoqing", "Haoqing SRV" 2007 facelift;
2. Geely "Merrie Star", "Ulion" 2007 facelift;
3. Geely "Free Cruiser II" economy sedans;
4. Geely "Mybo III" (China Dragon) sport sedans;
5. "Geely Kingkong" Hatchback sedans;
6. Maple "Marindo MB" 1.5L, 1.8L mid-end family sedans;
7. Maple "Hysoon MA" 1.5L, 1.8L sport sedans;
8. A new platform of Maple mid-end sedans.





Longer-terms, the Associates' product development focus called for the development of fifteen brand new models, eight new engines, six types of new manual transmission, six types of new automatic transmission, three types of ECVT (Electronically controlled Continuously Variable Transmission) and one hybrid project by 2010.

Exports

In 2006, the Group's four associates exported about 10,000 units of Geely and Maple sedans, up from 7,000 units in 2005, accounted for over 5% of the four associates' combined contracted sales volume and over 10% of China's total sedan export volume during the year. The four associates' products were sold to over 40 countries and regions, most of which are located in Middle East, Africa and Central America. By the end of 2006, the four associates have set up 26 sales agents and 128 sales and maintenance spots in overseas markets. The Group expects total exports sales volume of the four associates to double to 20,000 units in 2007.

The Group and the Associates consider exports a very important part of their businesses and has set an ambitious target of exporting two third of their output to overseas countries by 2015. To achieve this, the Associates have allocated substantial resources to explore the export markets, including:

1. Development of brand new models tailored to major overseas markets' regulatory requirements and consumer needs;
2. Application for product certifications in the United States and Europe;

3. Construction of dedicated manufacturing plants for export models;
4. Participation in major international car shows to promote "Geely" and "Maple" sedans;
5. Investigation and negotiation with local partners to set up SKD/CKD manufacturing arrangement outside China.

In 2006, the Associates were amongst the first to be awarded the status of "State Designated Automobile and Auto Parts Export Base Enterprises" by the Ministry of Commerce, reflecting the Associates' leading position in motor vehicle exports.

SKD/CKD Manufacturing in Overseas Countries. 2007 will be a ground-breaking year for the Associates' export businesses, when their cooperations with local partners to assembly Geely sedans in Indonesia and Russia are scheduled to commence operation during the year. Both arrangements will call for the eventual assembly of 30,000 units of Geely sedans in each location. The SKD manufacturing arrangement in Indonesia is scheduled to start before mid-2007 and should mainly supply to the South East Asian market as well as other right-hand drive vehicle markets. The Associates' local partners in the Indonesia project include Information Gateway Corporation Sdn Bhd ("IGC") of Malaysia and Astra Automotive Group of Indonesia. While the Associates' partner in Russia is Ural Automobiles & Motors ("AMUR"). The SKD manufacturing arrangement in Russia calls for the assembly of up to 30,000 units of Geely sedans in Ural Automobiles' plant in Russia. The project is scheduled to start in 2H 2007 and shall mainly supply to the Eastern Europe markets such as Russia and Ukraine.

Similar SKD manufacturing arrangements are under the Associates' negotiations with local partners in several countries in Europe, Northern America and Africa to facilitate the sales of Geely sedans to these markets in the future.

Marketing and Promotions

To promote the "Geely" and "Maple" brands and enhance market recognition of the Associates' engine and car design and manufacturing technologies, the Group's four associates participated and sponsored a number of promotional events during 2006, including:

- First appearance in 2006 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 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 2006 China National Sports Car/Racetrack Championship ("CCC"). It has also become the key sponsor and sole engine supplier of the first Asia Geely Formula Racing ("AGF") started in October 2006. Two AGF races were held in 2006 in Beijing and Zhuhai with a total of 9 sponsored teams comprising 18 cars participating in the races.
- The Group's four associates attracted significant attention and gained enormous publicity in the 2006 Beijing Auto Show by taking an innovative approach of setting up a permanent display hall in the Beijing Geely University for the display of Geely sedans exclusively.

In October 2006, Geely brand and trademark logo was awarded the status of "Famous Brand in China" by the State Industry and Commerce Bureau. Despite this, the Associates decided to adopt a new trademark logo for Geely sedans to reflect the rapid development of the Group and the Associates over the past few years and the significant changes in the Associates' targeted market and product lineups. The Associates launched a worldwide campaign, seeking for a new design for Geely sedans' trademark logo in January 2007.

Sales and Distribution

By the end of 2006, the Group's four associates had established a comprehensive distribution and service networks in China and foreign countries, comprising 400 4S independent franchisee stores and 600 independent service stations in China, and 26 agents and 128 sales and service spots in 40 foreign countries.

To cope with an increasingly competitive market in China, characterized by fierce price competition and flurry of new sedan models, the Group's four associates



have adopted a more pro-active approach towards the management and supervision of their distribution and service networks in China, aiming at further improving customer satisfactions, rationalization of distribution network and improving market coverage. In August 2006, a 24-hour national customer call centre was set up to enhance the communications with the customers. Continuous restructuring of the dealers' network has significantly improved the image of Geely brand and provided much better incentives for the Geely dealers. As a result, Geely sedans were awarded the best improving sedan brand in terms of customers' satisfaction based on a J. D. Power survey in 2006.

In 2007, the Group's four associates will devote additional resources to further improve service quality with particular focus on achieving even better customers' satisfaction. Key measures to be implemented in 2007 include: the setting up of additional spare parts distribution centres in different parts of China to enhance the supply of spare parts to customers, and the addition of more spare parts distribution and supply channels.

On the distribution front, more effort will be devoted to the development of second and third tier cities in China



in order to achieve better market coverage and thus higher market shares for Geely sedans.

Research and Development

The major focus of the Associates' Research and Development function includes new car model design, development of engine, gearbox, electronic and electric components. With its extensive investment in research and development, the Associates' R&D team is capable of launching two to three brand new models every year, reflecting their leading position in R&D and technology innovation capabilities in China's automobile sector.



In 2006, the Associates initiated and started a record number of new research and development projects, thus paving way for sustained growth and further improvement in the Group and the Associates' competitiveness over the coming years. In addition to the development of new vehicle models, the Associates' R&D focus also include emission control, quality certifications, collision test, automobile electronics, vibration control, noise reduction, weight reduction, and alternate power like hybrid and ethanol.

To further improve the Associates' technological advantages, a restructuring of their R&D function was implemented in early 2007, aiming to further streamline the Associates' R&D organizations through centralization of management, resources allocation and project planning, and through division of responsibilities and assignment of focuses amongst different R&D organizations. Dr. Zhao Fuquan was appointed to take up the post of Chief Technology Officer to look after the overall planning and management of the Associates' R&D capability.

In addition to the R&D centre in Linhai of Zhejiang province, which is the key location for new model design and the Associates' major testing centre, the Associates have set up several R&D centres in different locations: including a R&D centre in Shanghai focusing on new energy, green and clean fuels, hybrid and electric power and the design and development of classic vehicles, and a R&D centre in Ningbo emphasizing on power train development and research. A new R&D centre in Luqiao has started construction and will house the Associates' R&D capability in the development of automobile electronic and electrical components. In addition, the Associates have set up a new internet-based portal for

attracting auto-related innovation achievements from individuals and independent research institutes and engineering companies all over the world.

In 2006, the Associates' most important R&D achievements included the "JL4G18 VVT engines" and "JL-ZA series of automatic gearboxes". The JL4G18 VVT engines have been installed in the Zhejiang Geely's newest model "Vision" and have become the only engines used in the formula racing cars used by Asian Geely Formula Racing Champion. The JL-ZA series of automatic gearboxes was awarded the only Class 1 Price in Technology Advancement in the auto industry by the Ministry of Science and Technology in 2006.

In addition to building up the Associates' own R&D capability, the Associates have also actively explored opportunities to cooperate with foreign technology partners to shorten development cycle and reduce development costs. In November 2006, the Company signed a Joint-Venture and Technology Transfer agreement with Manganese Bronze Holdings Plc of the United Kingdom to jointly develop a new taxi vehicle and high-end limousine saloons for both domestic and overseas markets. To prepare for the Group's imminent entry into the high-end and larger vehicle market, the Group's associate Zhejiang Geely signed a production licensing agreement with Antonov Plc, an independent engineering company focusing on transmission technology and design, to develop, manufacture and sell "TX-6" six-speed automatic transmission in China.

By the end of 2006, the number of the Associates' R&D staff exceeded 1,500 peoples, representing around 16% of the total number of staff of the Group and the Associates, reflecting the Associates' emphasis on R&D capabilities.

Outlook

We believe there are substantial growth potential for car demand in China in the coming decade, due to China's consistent economy growth, its rising household incomes, and its still low car ownership with only 1% of the population owning a sedan at present.

The Group and the Associates will continue to focus on the operation and expansion of their automobile business, to actively seek for ways and opportunities to expand their 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 37% to 3.8 million units in 2006, surpassing most market expectations. 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.

With the successful launches of the "Geely Kingkong" and "Vision" sedans, JL-ZA series of automatic gearboxes, and JL4G18 VVT engines - considered the Associates' most strategically important new product launches in their history - in 2006, and the significant efforts spent in the exploration of export markets, the Group's associates are well positioned to further increase their combined market shares from 4.6% to 5% in 2007, thus translating into total contracted sales volume of 240,000 units, representing an YoY growth of 37%.



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 raising its shareholdings in the Associates to over 50% subject to government approval and compliance with relevant regulations.

With the significant investment and effort spent by the Associates in production development and capacity expansion over the past few years, 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.

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 proceeds of the convertible bonds issued by the Company on 10 April 2006. As at 31 December 2006, the Group's equity holders fund amounted to HK\$1,030 million (As at 31 December 2005: HK\$798 million). Apart from the shares issued upon conversion of convertible bonds, 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 31 December 2006, the Group's current ratio (current assets/current liabilities) was 1.24 (As at 31 December 2005: 1.23) and the gearing ratio of the Group was 69.5% (As at 31 December 2005: 2.4%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 31 December 2006 amounted to approximately HK\$716 million (As at 31 December 2005: approximately HK\$19 million) were mainly the Company's convertible bonds, bank borrowings and the amount due to immediate holding company. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity. For the bank borrowings, they were secured by notes receivables, interest-bearing and repaid on maturity. While for the amount due to immediate holding company, it was 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 31 December 2006, the total number of employees of the Group including associates was about 9,498 (As at 31 December 2005: 7,714). 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Executive Directors

Mr. Li Shu Fu, aged 43, joined the Group on 9 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 Company Limited (a company incorporated in the PRC, and is ultimately owned by Mr. Li and his associates). Zhejiang Geely Holding Group Company 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 Group namely, Zhejiang Geely Automobile Company Limited (“Zhejiang Geely”) and Shanghai Maple Guorun Automobile Company Limited (“Shanghai Maple”). 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 43, joined the Group on 9 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 23 February 2006.

Mr. Xu Gang, aged 45, joined the Group on 9 June 2005 as the executive director, and is responsible for the business development and administration of the Shanghai Maple. Mr. Xu is also the Vice Chairman of Zhejiang Geely Holding Group Company Limited. 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, including Zhejiang Provincial Finance Bureau and Zhejiang Local Taxation Bureau. Mr. Xu was accredited as “The Best 10 Chinese Management Talents”, “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 45, joined the Group on 9 June 2005 as the executive director, and is responsible for the overall administration of the Zhejiang Geely. Mr. Yang is also the First Vice President of Zhejiang Geely Holding Group Company Limited and Head of Zhejiang Geely Automobile Research Institute Ltd., which is 90% owned by Shanghai Maple. Mr. Yang is also the chairman of the two associated companies of the Group, namely Zhejiang Kingkong Automobile Company Limited (“Zhejiang Kingkong”) and Zhejiang Ruhoo Automobile Company Limited (“Zhejiang Ruhoo”). Mr. Yang graduated from Zhejiang Radio and Television University with focus on production management. Since joining Zhejiang Geely Holding Group Company 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.

Mr. Ang Siu Lun, Lawrence, aged 46, joined the Group on 23 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 57, joined the Group on 9 June 2005 as the Executive Director. Mr. Yin is the Vice President and Chief Financial Officer of Zhejiang Geely Holding Group Company 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 40, joined the Group on 9 June 2005 as the Executive Director and was previously responsible for all the sales functions of Zhejiang Geely in China. Mr. Liu is now responsible for the overall operations of Shanghai Maple and Shanghai LTI. Mr. Liu is the Vice President of Zhejiang Geely Holding Group Company Limited and General Manager of Zhejiang Geely Automobile Sales Co. Ltd., which is 90%-owned by Zhejiang Geely. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial management. Prior to joining Zhejiang Geely Holding Group Company 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 40, joined the Group on 15 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 Group Company 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.

Dr. Zhao Fuquan, aged 43, joined the Group on 17 November 2006 as the Executive Director. Dr. Zhao is the Vice President of Zhejiang Geely Holding Group Company Limited ("Geely Holding") and General Manager of Geely European and American Automobile Industrial Park Limited. Dr. Zhao got a doctorate degree in Engineering Science of Hiroshima University in Japan and has years of on-the-job work experience in Japan, United Kingdom and United States of America. Prior to joining Geely Holding, Dr. Zhao was the Research Executive of Technical Affairs of DaimlerChrysler and Vice President of Shenyang Brilliance JinBei Automobile Company Limited and General Manager of its Research & Development (R&D) Centre. Dr. Zhao, one of the main authors in international automobile magazines, has written 5 English books and has published more than 100 academic dissertation papers on automobile technology. Dr. Zhao was awarded 2 patents in United States of America and has won many prizes and awards, including the Forest R. McFarland Award in year 2001 by the Society of Automotive Engineers (SAE). Dr. Zhao was accredited as a Fellow by the SAE in April 2006. Dr. Zhao is currently a part-time professor in Jilin University, Tongji University, Tianjin University, Huazhong University of Science & Technology, Dalian University of Technology and Hunan University.

Independent Non-Executive Directors

Mr. Song Lin, aged 44, joined the Group as Independent Non-executive Director on 27 September 2004. He holds a Bachelor's degree in Mechanics from the University of Tong Ji in Shanghai, China. He is concurrently Vice Chairman and President 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.

Mr. Lee Cheuk Yin, Dannis, aged 36, joined the Group as Independent Non-executive Director on 28 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 AMVIG Holdings Limited (HK Stock Code 2300) and the Non-executive Director of Norstar Founders Group Limited (HK Stock Code 2339).

Mr. Yeung Sau Hung, Alex, aged 57, joined the Group as Independent Non-executive Director on 6 June 2005. Mr. Yeung is the Chief Executive Officer of DBS Vickers Hong Kong since 1 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, 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 61, joined the Geely Holding as the Vice President and Technical Consultant on 10 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. Zhang Peng, Peter, aged 40, joined the Group on 26 February 2007 as the Vice President and is responsible for Group's internal control and international business development. He holds a bachelor's degree in mechanical engineering, a master's degree in economics and a PhD in economics from leading Chinese universities. Mr. Zhang has rich experience in types of jobs ranging from business development, project management, operational management, strategy and planning to corporate governance and internal controls. He has got more than 10 years working history with major multinational companies. In his most recent roles in BP plc, he was an advisor for Group Internal Control after he returned from BP's North Sea strategy team in Aberdeen.

Mr. Cheung Chung Yan, David, aged 31, joined the Group as the Financial Controller and Company Secretary on 17 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 9 years of experience in auditing, accounting and financial management.

CORPORATE GOVERNANCE REPORT

The Company remains firmly committed to achieving a high standard of corporate governance with an emphasis on a strong and balanced board, and transparency and accountability to all shareholders of the Company.

The Company has complied with 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") throughout the year ended 31 December 2006, 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 paragraphs below describe how the principles and code provisions are applied by the Company.

The Board

The Board of Directors is responsible for overall management of the business and strategic orientations.

Board Composition

As at 31 December 2006, the Board of Directors of the Company (the "Board") comprised nine 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, one third of the directors for the time being or, if their number

is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that each director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting.

On 17 November 2006, Dr. Zhao Fuquan was appointed by the Company as an executive director. His appointment will be subject to re-election by shareholders at the coming AGM.

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 directors. Further, as the whole Board is jointly responsible for selection and approval of candidates for appointment as directors to the Board, the Company does not operate a Nomination Committee. For directors' biographical information, please refer to pages 33 to 35 of this annual report.

The following illustrates the membership and structure of the Company's Board of Directors and the two specialized committees of the Board, as at 31 December 2006:

Executive Directors

Mr. Li Shu Fu (*Chairman*)
Mr. Gui Sheng Yue (*Chief Executive Officer or CEO*)
Mr. Xu Gang
Mr. Yang Jian
Mr. Ang Siu Lun, Lawrence
Mr. Yin Da Qing, Richard
Mr. Liu Jin Liang
Mr. Zhao Jie
Dr. Zhao Fuquan

Independent Non-executive Directors

Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Audit Committee

Mr. Lee Cheuk Yin, Dannis (*Chairman*)
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Remuneration Committee

Mr. Gui Sheng Yue (*Chairman*)
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex

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. With effect from 23 February 2006, Mr. Gui Sheng Yue, an executive director, was appointed as the Chief Executive Officer of the Company and Mr. Li Shu Fu resigned from the Chief Executive Officer. Mr. Li Shu Fu, the founder of the Group, remains the role of Chairman of the Board.

Independent Non-executive Directors

As at 31 December 2006, there were three 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 31 December 2006 pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive directors have been 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 given sufficient time and attention 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, clear and understandable assessment of the Group's financial and operational performance, position and prospects. The Group has adopted the Hong Kong Financial Reporting Standards ("HKFRSs") 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 may 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.

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 the Officers (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 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 four regular board meetings and twenty-two ad-hoc board meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 44 of this report.

For regular board meetings, 14-day notices are given to directors beforehand. For other type of board meetings, reasonable notices are given to directors as well. Board papers (including the board meeting agenda) are circulated before the board meetings to enable the directors to make informed decisions on matters to be raised. The directors are provided with opportunities to include matters in the agenda for board meetings. The Company Secretary and Qualified Accountant shall attend all 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, the Codes on Takeovers and Mergers and Share Repurchases, the Companies Ordinance, the Securities and Futures Ordinance and the other applicable laws, rules and regulations.

Internal Control

The Board assumes the responsibilities of 1) the effectiveness of the system of internal control and risk management and 2) reviewing the effectiveness of such internal control system at least annually and more frequently should the need arise.

In the past, the Board had considered the need for an internal audit function to conduct such internal control review of the Group periodically, but had decided that, because of the scale and focus of the Company and its subsidiaries (collectively known as the "Group"), it was not justified. But having re-considered the following factors, the Board decided in November 2006 that it is necessary, appropriate and crucial to set up an internal control function for the Group soon:

- The Group's 46.8%-owned associates still remain the key earnings contributors to the Group's earnings and these associates have been expanding fast since their dates of incorporation; and
- The Group still actively considers raising its shareholding in the associates to over 50%, aiming at improving the Group's overall transparency and its effectiveness as the ultimate holding company of Geely Holding's auto-related businesses, subject to government approval and compliance with relevant regulations. If successful, the existing associates will become subsidiaries of the Group and their financial results and position will be consolidated at each balance sheet date.

A plan to systematically review the Group's system of internal control is being developed and will be reviewed and discussed with the members of the Audit Committee in due course. But the key procedures within the Group's system of internal control will include at least the following:

- There will be a comprehensive budgeting system with the annual budget being approved by the Board. Actual results and updated forecasts are prepared regularly and compared against the budget;
- The annual capital investment budget will be approved by the Board together with significant individual items prior to commitment;

- Each operating unit will be required to comply with defined policies and procedures, and authorization levels will be clearly defined and communicated. Regular internal financial control reviews and investigations will be carried out by the Group staff and followed up by the management;
- Control procedures will be set up and put in place to ensure the compliance with the relevant laws and regulations; and
- Periodic review of the key risks facing the Group and its businesses and key mitigating actions.

The Group's internal control system will be designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system will include a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

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 31 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.

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 44 of this report.

On 10 November 2006, Deloitte Touche Tohmatsu has resigned as the auditors of the Company and its subsidiaries (together, the "Group") due to the fact that the Company and Deloitte Touche Tohmatsu could not reach a consensus in relation to the audit fees for the financial year ended 31 December 2006. On the same day, Moores Rowland Mazars has been appointed as the auditors of the Group to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu and to hold office until the next annual general meeting of the Company. For further details, please refer to the Company's announcement dated 13 November 2006.

The Audit Committee has reviewed with the management of the Company and 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 31 December 2006.

For the year ended 31 December 2006, the auditors of the Company received approximately HK\$1.2 million for the Group's audit service, approximately HK\$1.4 million for due diligence services and approximately HK\$0.6 million for works relating to the issue of comfort letter on the convertible bonds issued in April 2006.

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 31 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 six meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 44 of this report.

Investor Relations General Meetings

Five general meetings were held during the year. The first general meeting was an extraordinary general meeting held on Thursday, 4 May 2006 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 4 May 2006 (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 the 2006 annual general meeting held on Friday, 19 May 2006 at 10:00 a.m.

The third general meeting was an extraordinary general meeting held on Thursday, 31 August 2006 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 31 August 2006 (which can be downloaded from the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>)).

The fourth and fifth general meetings were extraordinary general meetings held on Wednesday, 20 December 2006. For detailed voting results of the extraordinary general meetings, please refer to the Company's

announcement dated 20 December 2006 (which can be downloaded from the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>)).

Communication Channels

It is the Company's aim to maintain open and effective communication with the shareholders. 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) critical information regarding the Company's operations and/or deals goes out to shareholders and investors in the form of announcements and/or circulars in line with Stock Exchange's requirement,
- (iii) 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
- (iv) the Company's website publicizes contact details of the Company Secretary, an Executive Director and senior management staff.

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 Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, 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.

Attendance record at the meetings of the Board of Directors and specialized board committees held during the year ended 31 December 2006

Name and designation	No. of regular meetings	Board		Audit Committee		Remuneration Committee		
		Attendance	No. of ad-hoc meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
Executive Director								
Mr. Li Shu Fu (ex CEO)	4	4	22	1	N/A	N/A	N/A	N/A
Mr. Xu Gang	4	3	22	0	N/A	N/A	N/A	N/A
Mr. Yang Jian	4	3	22	0	N/A	N/A	N/A	N/A
Mr. Ang Siu Lun, Lawrence**	4	4	22	21	N/A	N/A	6	1
Mr. Gui Sheng Yue (CEO)	4	4	22	20	N/A	N/A	6	6
Mr. Yin Da Qing, Richard	4	3	22	1	N/A	N/A	N/A	N/A
Mr. Liu Jin Liang	4	3	22	0	N/A	N/A	N/A	N/A
Mr. Zhao Jie	4	3	22	0	N/A	N/A	N/A	N/A
Dr. Zhao Fuquan*	4	0	22	0	N/A	N/A	N/A	N/A
Independent Non-executive Director								
Mr. Lee Cheuk Yin, Dannis	4	3	22	5	3	3	6	6
Mr. Song Lin	4	3	22	0	3	0	N/A	N/A
Mr. Yeung Sau Hung, Alex	4	4	22	4	3	3	6	6

*: Joined the Board during the year.

** : Resigned from the chairman of Remuneration Committee during the year.

"N/A": Not applicable

DIRECTORS' REPORT

The Directors present their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2006.

Principal Activities

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 32 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 55. The directors now recommend the payment of a final dividend of HK1 cent per share and a special dividend of HK0.2 cent per share to the shareholders on the register of members on 14 May 2007.

Closing of Register of Members

The register of members of the Company will be closed from 10 May 2007 to 14 May 2007, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed dividends, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 9 May 2007.

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 4 of the annual report.

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 consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in note 23 to the consolidated financial statements.

Reserves

Details of the movements during the year in the reserves of Group are set out in the consolidated statement of changes in equity on page 57.

Directors

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

Executive directors:

Mr. Li Shu Fu (*Chairman*)
 Mr. Gui Sheng Yue (*Chief Executive Officer*)
 Mr. Xu Gang
 Mr. Yang Jian
 Mr. Ang Siu Lun, Lawrence
 Mr. Liu Jin Liang
 Mr. Yin Da Qing, Richard
 Mr. Zhao Jie
 Dr. Zhao Fuquan (Appointed on 17 November 2006)

Independent non-executive directors:

Mr. Lee Cheuk Yin, Dannis
 Mr. Song Lin
 Mr. Yeung Sau Hung, Alex

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs. Yang Jian, Yin Da Qing, Richard, Liu Jin Liang and Dr. Zhao Fuquan 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' and Chief Executives' Interests and Short Positions in the Securities of the Company and its Associated Corporations

As at 31 December 2006, 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 interest 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 were as follows:

(I) Interests and short positions in the securities of the Company

Name of director	Capacity	Number of securities in the Company		Shareholding percentage (%)
		Long position	Short position	
Shares				
Mr. Li Shu Fu (Note 1)	Corporate	2,500,087,000	–	60.22%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.05%
Share options				
Mr. Ang Siu Lun, Lawrence	Personal	45,000,000 (Note 2)	–	1.08%
Mr. Gui Sheng Yue	Personal	23,000,000 (Note 2)	–	0.55%
Mr. Xu Gang	Personal	23,000,000 (Note 2)	–	0.55%
Mr. Yang Jian	Personal	23,000,000 (Note 2)	–	0.55%
Mr. Liu Jin Liang	Personal	18,000,000 (Note 2)	–	0.43%
Mr. Zhao Jie	Personal	18,000,000 (Note 2)	–	0.43%

Name of director	Capacity	Number of securities in the Company		Shareholding percentage (%)
		Long position	Short position	
Share options				
Mr. Yin Da Qing, Richard	Personal	16,000,000 (Note 2)	–	0.39%
Dr. Zhao Fuquan	Personal	12,000,000 (Note 2)	–	0.29%
Mr. Song Lin	Personal	1,000,000 (Note 2)	–	0.02%
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 2)	–	0.02%
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 2)	–	0.02%

Note:

- (1) Proper Glory Holding Inc. ("Proper Glory") is a private company incorporated in the British Virgin Islands and is wholly owned by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu.

- (2) This share option interest is 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 as at 31 December 2006.

(II) Interests and short positions in the securities of the associated corporations of the Company

Name of Director	Name of its associated corporations	Number of shares in its associated corporations		Shareholding percentage (%)
		Long position	Short position	
Mr. Li Shu Fu	Geely Group Limited	50,000	–	100%
Mr. Li Shu Fu	Zhejiang Geely Automobile Company Limited	(Note 1)	–	(Note 1)
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	(Note 2)	–	(Note 2)
Mr. Li Shu Fu	Zhejiang Kingkong Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 4)	–	(Note 4)

Notes:

- (1) Zhejiang Geely Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Geely Merrie Automobile Company Limited. Zhejiang Geely Merrie Automobile Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 72.7%-owned by Mr. Li.
- (2) Shanghai Maple Guorun Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Shanghai Maple Automobile Company Limited. Shanghai Maple Automobile Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 72.7%-owned by Mr. Li.
- (3) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Geely Holding Limited. Geely Holding Limited is incorporated in the PRC and is 55%-owned by Mr. Li.

- (4) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 72.7%-owned by Mr. Li.

Save as disclosed above, as at 31 December 2006, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.

Interests and Short Positions in Shares and Underlying Shares of Other Persons

As at 31 December 2006, the following persons (other than the directors or the chief executive of the Company) had interests or short positions in the shares and underlying 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
		Long position	Short position	Percentage (%)
Proper Glory Holding Inc. (Note)	Beneficial owner	2,500,000,000	–	60.22
Geely Group Ltd. (Note)	Beneficial owner	87,000	–	0.002
	Corporate	2,500,000,000	–	60.22

Note:

Proper Glory Holding 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.

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 31 December 2006 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share Options

Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

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

Director	Exercise Period	Exercise price per share HK\$	Outstanding at 1.1.2006	Granted during the year	Outstanding at 31.12.2006
Mr. Ang Siu Lun, Lawrence	23.2.2004 – 22.2.2009 5.8.2005 – 4.8.2010	0.95 0.70	35,000,000 10,000,000	– –	35,000,000 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. Zhao Jie	5.8.2005 – 4.8.2010	0.70	18,000,000	–	18,000,000
Dr. Zhao Fuquan	28.11.2006 – 27.11.2011	0.89	–	12,000,000	12,000,000
Mr. Song Lin	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Mr. Lee Cheuk Yin, Dannis	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Mr. Yeung Sau Hung, Alex	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Employees	5.8.2005 – 4.8.2010 10.7.2006 – 16.5.2011 28.11.2006 – 27.11.2011	0.70 0.93 0.89	88,500,000 – –	– 10,000,000 3,000,000	88,500,000 10,000,000 3,000,000
			<u>254,500,000</u>	<u>28,000,000</u>	<u>282,500,000</u>

Arrangements to Purchase Shares or Debentures

Other than the share options disclosed above, at no time during the year was the Company, its holding company 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 29 to the consolidated financial statements.

Save as disclosed above, no contracts of significance to which the Company, its holding company 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.

Connected Transactions

During the year, the Group entered into certain related party transactions which also constitute connected transactions under the Listing Rules. Details of these transactions are set out in note 29 to the consolidated financial statements. The following transaction between certain connected parties and the Group has been entered into is ongoing for which relevant announcement had been made by the Company in accordance with the requirements of the Listing Rules.

Model Code for Securities Transactions by Directors

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 the Officers (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.

Continuing Connected Transactions

On 9 May 2005, Zhejiang Fulin Guorun Automobile Parts & Components Company Limited ("Zhejiang Fulin"), a subsidiary of the Company, entered into a supply agreement with Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), an associated company of the Group. Prior to the entering into of the supply agreement, Zhejiang Fulin had been in its usual and ordinary course of business, selling automobile parts and components on normal commercial terms to an associated company of the Group, Zhejiang Geely 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 19 May 2005 and was appointed as the Chairman of the Company on 6 June 2005. Therefore, the transactions between Zhejiang Fulin and Zhejiang Geely under the supply agreement would automatically constitute continuing connected transactions for the Company since 19 May 2005. On 20 March 2006, Zhejiang Fulin entered into the supplemental supply agreement with

Zhejiang Geely to amend the annual caps as stated in the supply agreement. Save for this, other terms of the Supply Agreement would remain unchanged. The consideration payable under the transactions pursuant to the supply agreement and supplemental 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 and its subsidiaries than those offered by Zhejiang Fulin 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\$127 million which, did not exceed the annual cap of HK\$238 million for the year ended 31 December 2006 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be approximately HK\$127 million which, did not exceed the annual cap of HK\$238 million for the year ended 31 December 2006 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 31 December 2006.

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.

Major Customers and Suppliers

The percentage of purchases attributable to the Group's five largest suppliers and the largest supplier are 33.9% and 10.0%, 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 99.8% respectively, of the Group's total sales for the year. Zhejiang Geely Automobile Company Limited, an associate of the Group, is the Group'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 own 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 37 to 44 of the annual report.

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 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 Audit Committee currently comprises Mr. Lee Cheuk Yin, Dennis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2006.

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 the latest practicable date prior to the issue of the annual report, such obligation has been complied with.

Auditors

A resolution will be submitted to the annual general meeting to appoint the auditors of the Company.

On behalf of the Board

Li Shu Fu

Chairman

11 April 2007

INDEPENDENT AUDITORS' REPORT

Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

To the members of

Geely Automobile Holdings Limited

(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 (collectively referred to as the "Group") set out on pages 55 to 100, which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of state of the affairs of the Group as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong 11 April 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover/Revenue	6	127,006	101,411
Cost of sales		(110,036)	(90,649)
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Gross profit		16,970	10,762
Other income	8	18,224	681
Distribution and selling expenses		(3,016)	(379)
Administrative expenses		(22,542)	(18,378)
Finance costs	9	(32,390)	–
Fair value loss on embedded derivative components of convertible bonds		(4,742)	–
Share of results of associates	15	243,230	122,691
<hr/>			
Profit before taxation		215,734	115,377
Taxation	10	(1,585)	–
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Profit for the year	9	214,149	115,377
<hr/>			
Attributable to:			
Equity holders of the Company		208,752	110,827
Minority interests		5,397	4,550
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		214,149	115,377
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Dividends	11	57,327	41,203
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Earnings per share			
Basic	12	HK5.05 cents	HK2.69 cents
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Diluted	12	HK4.95 cents	N/A
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CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	14	12,282	7,433
Interest in associates	15	1,666,999	786,996
		1,679,281	794,429
Current assets			
Inventories	16	9,910	5,703
Trade and other receivables	17	59,065	44,840
Dividend receivables from associates		74,840	8,220
Convertible bonds – embedded derivatives	18	115,894	–
Bank balances and cash		20,972	8,449
		280,681	67,212
Current liabilities			
Trade and other payables	19	23,653	34,817
Amounts due to related companies	20	–	923
Amount due to a minority shareholder	21	–	4,588
Amount due to immediate holding company	22	11,220	14,220
Taxation		293	–
Convertible bonds – embedded derivatives	18	169,782	–
Short-term bank borrowings (secured)	17(b)	22,250	–
		227,198	54,548
Net current assets		53,483	12,664
Total assets less current liabilities		1,732,764	807,093
Capital and reserves			
Share capital	23	83,028	82,405
Reserves		947,129	715,675
Equity attributable to equity holders of the Company		1,030,157	798,080
Minority interests		19,769	9,013
Total equity		1,049,926	807,093
Non-current liabilities			
Convertible bonds	18	682,838	–
		1,732,764	807,093

The consolidated financial statements on pages 55 to 100 were approved and authorised for issue by the Board of Directors on 11 April 2007 and are signed on its behalf by:

Li Shu Fu
Director

Gui Sheng Yue
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Accumulated profits	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	82,405	533,964	–	1,179	3,089	32,810	653,447	4,466	657,913
Exchange differences on translation of foreign operations 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 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 31 December 2005	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
At 1 January 2006	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	31,690	–	–	31,690	459	32,149
Profit for the year	–	–	–	–	–	208,752	208,752	5,397	214,149
Total recognised income for the year	–	–	–	31,690	–	208,752	240,442	5,856	246,298
Shares issued upon conversion of convertible bonds	623	27,555	–	–	–	–	28,178	–	28,178
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	4,900	4,900
Recognition of share based payments	–	–	–	–	4,660	–	4,660	–	4,660
Dividend paid	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
At 31 December 2006	83,028	561,519	56,694	45,646	13,287	269,983	1,030,157	19,769	1,049,926

Note: Deemed contribution from shareholders mainly represented difference between the consideration received/paid and the fair value of net assets disposed/acquired by the associates of the Group to/from Zhejiang Geely Holding Group Company Limited and its subsidiaries (collectively referred to as "Zhejiang Geely Holding Group"). Zhejiang Geely Holding Group is beneficially owned by the substantial shareholder of the Company.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
OPERATING ACTIVITIES			
Cash used in operations	24	(8,316)	(7,636)
Income taxes paid		(1,292)	–
Net cash used in operating activities		(9,608)	(7,636)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(6,050)	(2,292)
Proceeds from disposal of property, plant and equipment		46	–
Investment in associates		(896,362)	–
Dividend received from associates		228,159	48,502
Interest received		13,401	57
Net cash (used in) from investing activities		(660,806)	46,267
FINANCING ACTIVITIES			
Dividend paid		(41,203)	(41,203)
Net proceeds from the issuance of convertible bonds		727,873	–
(Repayment to) Advance from immediate holding company		(3,000)	14,220
Repayment to former ultimate holding company		–	(3,000)
Capital contribution from a minority shareholder		4,900	–
Interest paid		(101)	–
Repayment to related companies		(960)	(1,329)
Repayment to a minority shareholder		(4,771)	(439)
Net cash from (used in) financing activities		682,738	(31,751)
Increase in cash and cash equivalents		12,324	6,880
Cash and cash equivalents at beginning of year		8,449	1,499
Effect of foreign exchange rate changes		199	70
Cash and cash equivalents at end of year, represented by			
Bank balances and cash		20,972	8,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

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 "SEHK"). Its parent company is Proper Glory Holding 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 32.

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

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out in note 4 below.

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

3. EFFECTS OF APPLICATION OF HKFRSs NOT YET EFFECTIVE

The Group has not early applied 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 results and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is an entity in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement 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 (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 income statement in the period in which the foreign operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including dividend receivables from associates and trade and other receivables) are initially measured 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 income statement 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.

Financial liabilities and equity instruments

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.

Other financial liabilities

Other financial liabilities (including short-term bank borrowings, trade and other payables and amounts due to related parties) are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible bonds

In the case that the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument, the issuer recognises the convertible bonds as liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. An embedded option-based derivative (such as a put, call, and conversion) is separated from its host contract on the basis of the stated terms of the option feature. At the date of issue, both the embedded derivatives and liability component are recognised at fair value.

Issue costs are apportioned between the liability component and the conversion option derivative of the convertible bonds based on their relative fair value at the date of issue. The portion relating to the conversion option derivative is charged directly to the income statement and the remaining portion is deducted from the liability component.

The liability component is subsequently measured at amortised cost, using the effective interest method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid (if any) is added to the carrying amount of the liability component. The embedded derivatives are subsequently measured at their fair values at each balance sheet date with changes in fair value recognised in income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement.

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 income statement.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value.

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, returns 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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Equity-settled share-based transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in income statement with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify to be recognised as assets. Corresponding adjustments have been made to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement 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.

Related parties

A party is related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate of the Group;
- (iii) the party is a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group or its shareholders;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include convertible bonds, short-term bank borrowings, trade and other receivables, trade and other payables, amounts due from/to related parties. 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 31 December 2006 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 its associates. 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 an 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 and notes receivable is limited because the counterparties are either banks or guaranteed by banks with high credit ratings assigned by credit-rating agencies.

Interest rate risk

The Group's interest rate risk relates primarily to short-term bank borrowings (see note 17(b) for details).

(b) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair value of financial instruments *(Continued)*

- (ii) the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes-Merton pricing model).

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidation financial statements approximate their fair values:

	2006	
	Carrying amount HK\$'000	Fair value HK\$'000
Financial liabilities		
Convertible bonds	682,838	689,742

6. TURNOVER/REVENUE

Turnover/revenue represents the consideration from sales, net of discounts, returns and related sales taxes, of automobile parts and components.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

No business segment information has been presented for the years ended 31 December 2006 and 31 December 2005 as the directors considered that the Group is principally engaged in manufacturing and trading of automobile parts and related automobile components which accounts for the total turnover and trading profits of the Group for the years.

Geographical segments

The Group's activities and operations are based in the People's Republic of China (the "PRC"). Accordingly, no geographical analysis is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

8. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Bank interest income	13,401	57
Net exchange gain	3,929	–
Sundry income	894	624
	18,224	681

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2006 HK\$'000	2005 HK\$'000
Finance costs		
Effective interest expense on convertible bonds	32,289	–
Interest on bank borrowings wholly repayable within one year	101	–
	32,390	–

Staff costs, including directors' emoluments

Salaries, wages and other benefits	13,181	10,284
Retirement benefit scheme contributions	481	297
Recognition of share based payments (included in administrative expenses)	4,660	5,538
	18,322	16,119

Other items

Cost of sales	110,036	90,649
Auditors' remuneration	1,192	580
Depreciation	1,403	811
Operating leases charges on premises	1,220	1,478
Share of tax of associates (included in share of results of associates)	26,770	28,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

10. TAXATION

	2006 HK\$'000	2005 HK\$'000
Current tax:		
PRC foreign enterprise income tax, current year	1,585	–

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 foreign enterprise income tax for the two years starting from its first profit-making year (i.e. year 2004), followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	215,734	115,377
Less: Share of results of associates	(243,230)	(122,691)
	(27,496)	(7,314)
Tax at the applicable tax rate	(9,074)	(2,414)
Tax effect of expenses not deductible in determining taxable profit	12,709	5,480
Effect of tax exemption granted to the PRC subsidiary	(2,050)	(3,066)
Tax expense for the year	1,585	–

The applicable tax rate is the PRC's foreign enterprise income tax rate of 33% (2005: 33%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

11. DIVIDENDS

A final dividend for the year ended 31 December 2005 of HK\$0.01 per share amounting to HK\$41,203,000 was paid to the shareholders during the year.

A final dividend and a special dividend for the year ended 31 December 2006 of HK\$0.01 per share and HK\$0.002 per share respectively, amounting to HK\$57,327,000, have been proposed by the Board of Directors after the balance sheet date. The proposed dividend will be accounted for as an appropriation of accumulated profits in the year ending 31 December 2007 if it is approved by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$208,752,000 (2005: HK\$110,827,000) and weighted average number of ordinary shares of 4,134,231,655 shares (2005: 4,120,264,902 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	2006	2005
Issued ordinary shares at 1 January	4,120,264,902	4,120,264,902
Effect of shares issued upon conversion of convertible bonds	13,966,753	–
Weighted average number of ordinary shares at 31 December	4,134,231,655	4,120,264,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

12. EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company of HK\$245,783,000 and the weighted average number of ordinary shares of 4,969,511,119 shares, calculated as follows:

(i) Profit attributable to equity holders of the Company (diluted)

	2006 HK\$'000
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders)	208,752
After tax effect of effective interest on the liability component of convertible bonds	32,289
After tax effect of fair value losses on embedded derivative components of convertible bonds	4,742
	<hr/>
Earnings for the purpose of diluted earnings per share	245,783

(ii) Weighted average number of ordinary shares (diluted)

	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,134,231,655
Effect of deemed conversion of convertible bonds	802,134,831
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	33,144,633
	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,969,511,119

No diluted earnings per share has been presented for the year ended 31 December 2005 as the exercise price of the share options was higher than the average market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The emoluments paid or payable to each of the twelve (2005: twenty) directors are as follows:

2006

Name of director	Fees HK\$'000	Salaries HK\$'000	Rental allowance HK\$'000	Contribution	Sub-total HK\$'000	Share	Total HK\$'000
				to retirement benefit scheme HK\$'000		based payment (Note) HK\$'000	
Mr. Gui Sheng Yue	-	1,320	93	12	1,425	332	1,757
Mr. Ang Siu Lun, Lawrence	-	1,400	-	12	1,412	145	1,557
Mr. Zhao Jie	1	596	-	-	597	260	857
Dr. Zhao Fuquan	1	-	-	-	1	548	549
Mr. Li Shu Fu	2	228	-	-	230	-	230
Mr. Lee Cheuk Yin, Dannis	120	-	-	-	120	62	182
Mr. Yeung Sau Hung, Alex	120	-	-	-	120	62	182
Mr. Song Lin	102	-	-	-	102	62	164
Mr. Liu Jin Liang	10	-	-	-	10	260	270
Mr. Xu Gang	10	-	-	-	10	332	342
Mr. Yang Jian	10	-	-	-	10	332	342
Mr. Yin Da Qing, Richard	10	-	-	-	10	231	241
	386	3,544	93	24	4,047	2,626	6,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(a) Directors' remuneration (Continued)

2005

Name of director	Fees HK\$'000	Salaries HK\$'000	Rental allowance HK\$'000	Contribution	Sub-Total HK\$'000	Share-	Total HK\$'000
				to retirement benefit scheme HK\$'000		based payment (Note) HK\$'000	
Mr Ang Siu Lun, Lawrence	–	1,300	–	12	1,312	751	2,063
Mr Gui Sheng Yue	–	438	42	7	487	526	1,013
Mr. He Xue Chu	–	342	–	6	348	–	348
Mr. Ku Wai Kwan	–	285	–	6	291	–	291
Mr. Zhou Teng	–	285	–	6	291	–	291
Mr Wong Hing Kwok	–	142	–	6	148	–	148
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120	–	120
Mr. Yeung Sau Hung, Alex	70	–	–	–	70	–	70
Mr. Xu Xing Yao	62	–	–	–	62	–	62
Mr. Liu Ming Hui	21	–	–	–	21	–	21
Mr. Song Lin	10	–	–	–	10	–	10
Mr. Nan Yang	8	–	–	–	8	–	8
Mr. Xu Gang	6	–	–	–	6	526	532
Mr. Yang Jian	6	–	–	–	6	526	532
Mr. Yin Da Qing, Richard	6	–	–	–	6	366	372
Mr. Liu Jin Liang	6	–	–	–	6	411	417
Mr. Zhang Zhe	5	–	–	–	5	–	5
Mr. Li Shu Fu	3	–	–	–	3	–	3
Mr. Zhao Jie	3	–	–	–	3	411	414
Mr. Shim Bong Sup	3	–	–	–	3	–	3
	329	2,792	42	43	3,206	3,517	6,723

No director waived any emoluments during the years ended 31 December 2006 and 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

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

(a) Directors' remuneration *(Continued)*

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4 and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Options" in the directors' report and in note 28 to these consolidated financial statements.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: five) 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 31 December 2006 are as follows:

	2006 HK\$'000
Basic salaries and allowances	605
Retirement benefits scheme contributions	12
Share-based payment expense	15
	<hr/>
	632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Leasehold improvements	Furniture and fixtures, office equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
At 1 January 2005	5,685	76	720	6,481
Exchange adjustments	120	–	11	131
Additions	1,702	366	224	2,292
At 31 December 2005	7,507	442	955	8,904
Exchange adjustments	300	–	27	327
Additions	5,714	19	317	6,050
Disposals	(61)	–	(43)	(104)
At 31 December 2006	13,460	461	1,256	15,177
DEPRECIATION				
At 1 January 2005	444	56	150	650
Exchange adjustments	10	–	–	10
Charges for the year	624	27	160	811
At 31 December 2005	1,078	83	310	1,471
Exchange adjustments	44	–	5	49
Charges for the year	1,100	131	172	1,403
Eliminated upon disposal	(14)	–	(14)	(28)
At 31 December 2006	2,208	214	473	2,895
NET BOOK VALUE				
At 31 December 2006	11,252	247	783	12,282
At 31 December 2005	6,429	359	645	7,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

15. INTEREST IN ASSOCIATES

	2006 HK\$'000	2005 HK\$'000
Share of net assets	1,666,999	786,996

At 31 December 2006, the Group had interest 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 *	PRC	USD231,008,000	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 *	PRC	USD99,763,600	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

15. INTEREST 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
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	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江陸虎汽車有限公司 Zhejiang Ruhoo Automobile Company Limited *	PRC	RMB151,677,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

15. INTEREST IN ASSOCIATES *(Continued)*

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江金剛汽車有限公司 Zhejiang Kingkong Automobile Company Limited *	PRC	RMB235,000,000	46.8%	Research, development, production and sales of sedans and related automobile components in the PRC
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited #	PRC	RMB10,000,000	42.1%	Production of automobile components in the PRC
上海國邦汽車配件有限公司 Shanghai Guobang Automobile Parts Company Limited #	PRC	RMB1,000,000	39.3%	Marketing and sales automobile components in the PRC

* These associates are sino-foreign equity joint ventures established in the PRC for a period of 30 to 50 years.

Translation of registered name in Chinese for identification purpose

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

15. INTEREST IN ASSOCIATES *(Continued)*

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

	2006 HK\$'000	2005 HK\$'000
Total assets	6,949,568	6,064,557
Total liabilities	(3,388,365)	(4,382,943)
Net assets	3,561,203	1,681,614
Group's share of net assets of associates	1,666,999	786,996
Revenue	6,588,845	4,970,570
Profit for the year attributable to equity holders of the associates	519,611	262,161
Group's share of results of associates for the year	243,230	122,691

16. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
At costs:		
Raw materials	5,656	2,366
Work in progress	1,000	1,288
Finished goods	3,254	2,049
	9,910	5,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

17. TRADE AND OTHER RECEIVABLES

	Note	2006 HK\$'000	2005 HK\$'000
Trade and notes receivables			
Trade receivables	(a)	20,538	43,966
Notes receivables	(b)	37,405	–
		57,943	43,966
Other receivables			
Deposits, prepayments and other receivables		1,122	874
		59,065	44,840

(a) Trade receivables

The trade receivables comprise:

	2006 HK\$'000	2005 HK\$'000
Trade receivables from an associate	20,538	24,925
Trade receivables from a related company of an associate	–	19,041
	20,538	43,966

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:

	2006 HK\$'000	2005 HK\$'000
0 – 60 days	20,503	43,489
61 – 90 days	35	67
Over 90 days	–	410
	20,538	43,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

17. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Notes receivables

All notes receivables are denominated in Renminbi (“RMB”) and are primarily notes received from an associate for settlement of trade receivable balances. At 31 December 2006, all notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from 31 December 2006.

During the year, the Group has discounted notes receivables to banks in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of notes receivables and has recognised the cash received as secured short-term bank borrowings, which is wholly repayable within one year, as reported in the consolidated balance sheet. At the balance sheet date, the carrying amount of discounted notes receivables and the associated financial liabilities was HK\$22,250,000 (2005: nil). The effective interest rate for the short-term bank borrowings on discounting notes receivables is 3.72% per annum.

18. CONVERTIBLE BONDS

On 10 April 2006, the Company issued HK\$741.6 million zero coupon convertible bonds due 2011 (“CB 2011”). The CB 2011 are listed on the Singapore Stock Exchange.

The CB 2011 are convertible into fully paid ordinary shares of HK\$0.02 each of the Company at an initial conversion price of HK\$0.90 per share, subject to adjustment in certain events, at any time on or after 10 May 2006 and up to the close of business on 10 March 2011, unless previously redeemed, converted or purchased and cancelled.

The Company may, at its option, satisfy its obligation to deliver shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to relevant holder a cash amount which equal to the number of shares deliverable upon exercise of the conversion right and average closing price of the shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

18. CONVERTIBLE BONDS *(Continued)*

Conversion price reset

If the average of the closing prices (the "Average Market Price") of the shares for the period of 20 consecutive trading days immediately prior to 10 April 2007 and 10 April 2008 (each a reset date) is less than the conversion price on the reset date (after taking into account any adjustments in certain events which may have occurred prior to the reset date), the conversion price shall be adjusted on the relevant reset date so that the Average Market Price will become the adjusted conversion price with effect from the relevant reset date, provided that:

- (i) any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than 80% of the conversion price prevailing on the relevant reset date (after taking into account any adjustments as in certain events which may have occurred prior to the reset date); and
- (ii) the conversion price shall not be reduced below the then par value (currently HK\$0.02 per share) of the shares unless under applicable law then in effect the CB 2011 could be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

Redemption

On or at any time after 10 April 2008 and prior to 10 March 2011, the Company may redeem all, but not some only, of the bonds at the early redemption amount if:

- (i) the closing price of the Company's shares on the SEHK shall have been at least 130% of the applicable early redemption amount divided by the conversion ratio for each of the 30 consecutive trading day period; or
- (ii) at any time providing at least 90% of the principal amount of the CB 2011 has been converted, redeemed or purchased and cancelled.

On 10 April 2009, the holder of each bond will have the right at such holder's option, to require the Company to redeem all or some of the bonds at 115.123% of their principal amount.

Unless previously converted, redeemed or purchased and cancelled, the CB 2011 will be redeemed at 126.456% of their outstanding principal amount on 10 April 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

18. CONVERTIBLE BONDS (Continued)

The convertible bonds contain a liability component and the embedded derivatives (comprising a put option, a call option and conversion option), which are required to be accounted for separately. The movements of the convertible bonds for the year are set out below:

	2006 HK\$'000
Liability component	
Fair value at inception	689,917
Issuing costs	(13,632)
Conversion during the year	(25,736)
Accrued effective interest charges	32,289
	<hr/> 682,838
Fair value of embedded derivative financial assets	
Fair value at inception	141,126
Conversion during the year	(8,252)
Changes in fair value	(16,980)
	<hr/> 115,894
Fair value of embedded derivative financial liabilities	
Fair value at inception	192,714
Conversion during the year	(10,694)
Changes in fair value	(12,238)
	<hr/> 169,782
	<hr/> 736,726

The principal amount of the convertible bonds converted during the year was HK\$27.7 million and the principal amount outstanding at 31 December 2006 is HK\$713.9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

18. CONVERTIBLE BONDS *(Continued)*

At initial recognition, the liability component was measured at fair value by using the discounted cash flow method. Subsequently, interest on the liability component is calculated using the effective interest method by applying the effective interest rate of 6.76% per annum.

The derivatives embedded in the convertible bonds are measured at fair value at both issuance date and 31 December 2006 by an independent professional valuer, BMI Appraisal Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method.

19. TRADE AND OTHER PAYABLES

	2006 HK\$'000	2005 HK\$'000
Trade payables		
To third parties	19,498	27,047
Other payables		
Accrued charges and other creditors	4,155	7,770
	23,653	34,817

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

	2006 HK\$'000	2005 HK\$'000
0 – 60 days	16,379	24,576
61 – 90 days	1,407	1,989
Over 90 days	1,712	482
	19,498	27,047

20. AMOUNTS DUE TO RELATED COMPANIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

21. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

22. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company was unsecured, interest-free and repayable on demand.

23. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 1 January 2005, 31 December 2005 and 2006	8,000,000,000	160,000
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
Balance at 1 January 2005, 31 December 2005 and 1 January 2006	4,120,264,902	82,405
Shares issued upon conversion of convertible bonds (Note)	31,123,594	623
Balance at 31 December 2006	4,151,388,496	83,028

Note: During the year ended 31 December 2006, convertible bonds of principal amount of HK\$27.7 million have been converted into 31,123,594 ordinary shares of the Company at conversion price of HK\$0.89 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

24. CASH USED IN OPERATIONS

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	215,734	115,377
Depreciation	1,403	811
Interest income	(13,401)	(57)
Finance costs	32,390	–
Share of results of associates	(243,230)	(122,691)
Loss on disposal of property, plant and equipment	30	–
Net exchange gain	(3,929)	–
Fair value loss on embedded derivative components of convertible bonds	4,742	–
Share-based payment expense	4,660	5,538
Changes in working capital		
Inventories	(3,979)	3,112
Trade and other receivables	(12,458)	(32,919)
Amount due from an associate	–	338
Amounts due from related companies	–	613
Trade and other payables	(12,528)	22,242
Short-term bank borrowings raised, net	22,250	–
Cash used in operations	(8,316)	(7,636)

25. MAJOR NON-CASH TRANSACTION

During the year, 31,123,594 ordinary shares were issued upon conversion of convertible bonds and were satisfied by transferring HK\$28,178,000 from respective liability and embedded derivative components of the convertible bonds to share capital and share premium accordingly.

26. COMMITMENTS

Capital expenditure commitments

During the year, the Company had entered into a contract with a related party to establish a sino-foreign equity joint venture in the PRC in which the Company will invest approximately HK\$418,580,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

26. COMMITMENTS (Continued)

Operating lease commitments

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:

	2006 HK\$'000	2005 HK\$'000
Within one year	926	1,706
In the second to fifth year inclusive	–	1,212
	<hr/> 926	<hr/> 2,918

Leases are negotiated and rentals are fixed for an average term of two years.

27. 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 17% 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 31 December 2006, the aggregate employer's contributions made by the Group and charged to the income statement are HK\$481,000 (2005: HK\$297,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

28. 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 31 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 CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

28. 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:

2006

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Outstanding at 31 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. Zhao Jie	5.8.2005 – 4.8.2010	0.70	18,000,000	–	18,000,000
Dr. Zhao Fuquan	28.11.2006 – 27.11.2011	0.89	–	12,000,000	12,000,000
Mr. Song Lin	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Mr. Lee Cheuk Yin, Dannis	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Mr. Yeung Sau Hang, Alex	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
			166,000,000	15,000,000	181,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
Employees	5.8.2005 – 4.8.2010	0.70	88,500,000	–	88,500,000
	10.7.2006 – 16.5.2011	0.93	–	10,000,000	10,000,000
	28.11.2006 – 27.11.2011	0.89	–	3,000,000	3,000,000
			254,500,000	28,000,000	282,500,000
			HK\$	HK\$	HK\$
Weighted average exercise price per share			0.73	0.91	0.75
Weighted average remaining contractual life of options outstanding at 31 December 2006					3.52 years
Number of options exercisable at 31 December 2006					263,820,000
					HK\$
Weighted average exercise price per share of options exercisable at 31 December 2006					0.74

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

28. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

2005

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Cancelled during the year	Outstanding at 31 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 18 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
			HK\$	HK\$	HK\$	HK\$
Weighted average exercise price per share			0.95	0.70	0.70	0.73
Weighted average remaining contractual life of options outstanding at 31 December 2005						4.40 years
Number of options exercisable at 31 December 2005						108,170,000
						HK\$
Weighted average exercise price per share of options exercisable at 31 December 2005						0.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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 31 December 2006, options were granted on 23 May 2006 and 28 November 2006. During the year ended 31 December 2005, options were granted on 5 August 2005. The estimated total fair values of the options granted in 2006 and 2005 are approximately HK\$3,644,000 and HK\$8,186,000 respectively.

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

Grant date	2006				2005
	28 November 2006		23 May 2006		5 August 2005
	(Lot 1)	(Lot 2)	(Lot 1)	(Lot 2)	
Exercise price	HK\$0.89	HK\$0.89	HK\$0.93	HK\$0.93	HK\$0.7
Expected volatility	47.65%	58.30%	38%	38%	40.2%
Expected life	0.5 year	1 year	1 year	3 years	2 years
Risk-free rate	3.595%	3.663%	4.213%	4.432%	3.589%
Expected dividend yield	2.81%	1.40%	0.75%	2.00%	0.98%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year, adjusted for any expected changes to future volatility based on publicly available information. 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\$4,660,000 for the year ended 31 December 2006 (2005: HK\$5,538,000) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

29. CONNECTED AND RELATED PARTY TRANSACTIONS

Certain transactions fell under the definition of continuing connected transactions under the Listing Rules are disclosed in Directors' Report.

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties:

(a) Transactions

Name of related parties	Nature of transactions	2006 HK\$'000	2005 HK\$'000
Associates			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of automobile parts and components	126,796	27,478
	Dividend income	241,096	56,262
Shanghai Maple Guorun Automobile Company Limited (上海華普國潤汽車有限公司)	Dividend income	53,683	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
Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	326	462

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

29. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2006 HK\$'000	2005 HK\$'000
Short-term benefit	5,090	4,375
Retirement benefits scheme contribution	48	75
Share-based payments	4,660	5,538
	9,798	9,988

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

30. POST BALANCE SHEET EVENTS

a) Placing of existing shares and subscription for new shares

On 15 February 2007, the Company, its immediate holding company, Proper Glory Holding Inc. ("PGH") and an independent financial institution ("the Placing Agent") entered into an placing and subscription agreement, pursuant to which the Placing Agent, on a fully underwritten basis, procured third party purchasers to acquire, and PGH sold 600,000,000 existing shares at the placing price of HK\$1.06 per Share. PGH subscribed 600,000,000 new shares of the Company (the "Subscription") at the placing price.

The net proceeds from the Subscription were approximately HK\$609 million and were applied by the Company as to approximately HK\$418.58 million to fund the capital contribution of a newly established subsidiary, Shanghai Geely Maple Automobile Components Company Limited (the "SGM"), on 7 March 2007 and the remaining balance as general working capital of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

30. POST BALANCE SHEET EVENTS *(Continued)*

b) Proposed disposal of interest in the SGM

On 22 March 2007, the Company and Manganese Bronze Holdings plc. (the "MBH"), whose shares are listed on the London Stock Exchange, entered into an equity transfer agreement and other related agreements, pursuant to which but subject to the approval of shareholders of the Company, the Company will transfer 48% interest in the equity of the SGM to the MBH in return for approximately 23% interest in the enlarged issued share capital of the MBH.

Details of the equity transfer agreement and other related agreements and the transactions contemplated thereunder are set out in the Company's announcement dated 22 March 2007 and circular dated 2 April 2007.

c) The establishment of two sino-foreign equity joint venture companies

On 26 March 2007, Centurion Industries Limited, a wholly-owned subsidiary of the Company, entered into joint venture agreements to jointly establish two sino-foreign equity joint venture companies, namely Hunan Geely Automobile Components Company Limited and the Lanzhou Geely Automobile Components Company Limited, with two related companies Zhejiang Haoqing Automobile Manufacturing Company Limited in Hunan Province and Zhejiang Geely Merrie Automobile Company Limited in Gansu Province respectively, to engage in the research and development, production, marketing and sales of sedan related components in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

31. BALANCE SHEET OF THE COMPANY

	As at 31 December	
	2006	2005
	HK\$'000	HK\$'000
Non-current assts		
Property, plant and equipment	315	452
Investments in subsidiaries	1	1
	316	453
Current assets		
Other receivables	715	676
Amount due from subsidiaries	1,126,871	445,464
Convertible bonds – embedded derivatives	115,894	–
Bank balances and cash	8,234	6,991
	1,251,714	453,131
Current liabilities		
Other payables	2,148	672
Amount due to immediate holding company	11,220	14,220
Convertible bonds – embedded derivatives	169,782	–
	183,150	14,892
Net current assets	1,068,564	438,239
Total assets less current liabilities	1,068,880	438,692
Capital and reserves		
Share capital	83,028	82,405
Reserves	303,014	356,287
Total equity	386,042	438,692
Non-current liabilities		
Convertible bonds	682,838	–
	1,068,880	438,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

32. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2006 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	
Centurion Industries Limited	British Virgin Islands	USD1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
吉利國際貿易有限公司 Geely International Limited	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	USD2,459,200	–	100%	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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