THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Geely Automobile Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

吉 利 汽 車 控 股 有 限 公 司
GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 175)

I) DISCLOSEABLE TRANSACTION RELATING TO THE DISPOSAL OF A 48% INTEREST IN THE EQUITY OF THE JV; II) VERY SUBSTANTIAL ACQUISITION RELATING TO THE PROPOSED ACQUISITION OF AN APPROXIMATELY 23% INTEREST IN THE ENLARGED ISSUED SHARE CAPITAL OF MANGANESE BRONZE HOLDINGS PLC; AND III) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Financial adviser to Geely Automobile Holdings Limited

CIMB

CIMB-GK Securities (HK) Limited

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Quam
Financial Services Group

Quam Capital Limited

A letter from the Board is set out on pages 10 to 50 of this circular. A letter from the Independent Board Committee is set out on page 51 of this circular. A letter from Quam Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 80 of this circular.

A notice convening the EGM of Geely Automobile Holdings Limited to be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Wednesday, 18 April 2007 at 10:00 a.m. is set out on pages 220 to 223 of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment thereof should you so wish.

2 April 2007

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In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Affiliate"	means any person which is directly or indirectly controlled by, under common control with or controlling a party, and its officers, directors, managers, and employees; control for the purpose of this definition being taken to mean direct or indirect ownership of 50% or more of the registered capital or the voting rights of said person, or the power to appoint the majority of directors on the board, the chairman, general manager or other principal person in charge of said person
"Agreements"	collectively the Equity Transfer Agreement, the Amended and Restated JV Agreement, the Shareholders' Agreement and the Other Project Documents
"Amended and Restated JV Agreement"	the joint venture agreement entered into between Luck Empire, Manganese Bronze and Shanghai Maple which sets out the principal terms for the establishment of the Shanghai LTI JV
"Additional Supplemental Agreement"	the supplemental agreement to the Master Agreement dated 22 March 2007 entered into between the Company and Manganese Bronze
"Announcement"	an announcement of the Company dated 22 March 2007 in relation to i) discloseable transaction relating to the disposal of a 48% in the equity of the JV, ii) very substantial acquisition relating to the proposed acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze and iii) the Non-Exempt Continuing Connected Transactions
"Annual Caps"	The maximum aggregated annual value of the transactions contemplated under i) the Land and Facilities Contract; ii) the Contract Manufacturing Agreement; iii) the Supply and Purchase Agreement for Parts and Components; and iv) the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly
"Asia"	those countries listed on the United Nations' website as being situated in the geographical areas of Eastern Asia, South-Central Asia, and South-Eastern Asia between 1995 and 2005 but specifically excluding Western Asia, Australia, New Zealand, India, Iran and Russia
"associate(s)"	has the meaning ascribed to it under the Listing Rules

"Board"	the board of Directors of the Company
"Business Day"	a day, other than a Saturday, Sunday or public holiday, on which banks in Hong Kong, the PRC (excluding Hong Kong) and the United Kingdom are open for general business
"Centurion"	Centurion Industries Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company and is principally engaged in investment holding
"Company"	Geely Automobile Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange
"Components"	body panels, chasses, brackets, closures, and other body in white structural parts to be manufactured by the Shanghai Maple JV
"connected person(s)"	has the meanings ascribed to it under the Listing Rules
"Contract Manufacturing Agreement"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between the Shanghai LTI JV and the Shanghai Maple JV as referred to under the sub-section headed "Contract Manufacturing Agreement" of the section headed "Other Project Documents" of this circular
"Director(s)"	the director(s) of the Company
"Distribution and Sales Agreement for Outside of Asia"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between Shanghai Maple and LTI as referred to under the sub-section headed "Distribution and Sales Agreement for Outside of Asia" of the section headed "Other Project Documents" of this circular
"End Customers"	means the end users of the LTI TX Series Products to be manufactured by Shanghai Maple and which are sold by Shanghai Maple in Asia and the end users of the saloon cars to be manufactured by the Shanghai Maple and sold in and outside of Asia excluding the United Kingdom
"End Distributor"	means LTI which shall sell the LTI TX Series Products outside Asia and sell the saloon cars in the United Kingdom

"Enlarged Group"	the Group as enlarged after the completion of the acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze
"EGM"	an extraordinary general meeting of the Company to be convened to approve the Equity Transfer Agreement, the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions
"Equity Transfer Agreement"	the agreement dated 22 March 2007 entered into between the Company and Manganese Bronze which sets out the principal terms of the transfer of a 48% equity interest in the JV to Manganese Bronze
"Fulin Guorun"	Zhejiang Fulin Guorun Automobile Parts & Components Co. Ltd., a company incorporated in the PRC, and owned as to 51% by Centurion and 49% by Zhejiang Fulin Automobiles Parts and Components Co. Ltd, respectively
"Geely Group"	Geely Group Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Li
"Geely Holding"	浙江吉利控股集團有限公司 (Geely Holding Group Company Limited), a private limited liability company incorporated in Zhejiang Province, the PRC, and is owned as to 72.7% by Mr. Li and as to 27.3% by Mr. Li Xu Bing, brother of Mr. Li, respectively
"Geely Holding Limited"	吉利集團有限公司(Geely Holding Limited), a private limited liability company incorporated in Zhejiang Province, the PRC, and is owned as to 55% by Mr. Li and as to 45% by Mr. Li Xu Bing, the brother of Mr. Li, respectively. It is principally engaged in investment holding
"Group"	the Company and its subsidiaries
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hunan Geely JV"	湖南吉利汽車部件有限公司 (Hunan Geely Automobile Components Company Limited), a sino-foreign joint venture to be established in the PRC with limited liability which will be owned as to 53.19% by Zhejiang Haoqing and as to 46.81% by Centurion respectively
"Independent Board Committee"	the independent committee of the Board comprising only the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the terms of the

	Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions
"Independent Shareholders"	Shareholders other than Mr. Li and his associates
"JV"	Shanghai Geely Maple Automobile Components Company Limited (上海帝華汽車部件有限公司) a sino-foreign joint venture established in the PRC with limited liability which is owned as to 99.0% by the Company and as to 1.0% by Shanghai Maple, respectively
"JV Agreement"	the joint venture agreement dated 9 November 2006 entered into between the Company and Shanghai Maple which sets out the principal terms of the establishment of the JV
"Land and Facilities Contract"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between Shanghai Maple JV and the Shanghai LTI JV as referred to under the sub-section headed "Land and Facilities Contract" of the section headed "Other Project Documents" of this circular
"Lanzhou Geely JV "	蘭州吉利汽車部件有限公司(Lanzhou Geely Automobile Components Company Limited), a sino-foreign joint venture to be established in the PRC with limited liability which will be owned as to 53.19% by Zhejiang Geely Merrie and as to 46.81% by Centurion respectively
"Latest Practicable Date"	29 March 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Linkstate"	Linkstate Overseas Limited, a limited liability company incorporated in the British Virgin Islands and is wholly-owned by the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"London Stock Exchange"	London Stock Exchange plc
"Luck Empire"	Luck Empire Investment Limited, a limited liability company established under the laws of Hong Kong and is indirectly wholly-owned by the Company

"LTI"	LTI Ltd., a wholly-owned subsidiary of Manganese Bronze
"LTI TX Series Products"	the London taxi vehicle, known as TX series products
"Manganese Bronze"	Manganese Bronze Holdings Plc, a public limited liability company incorporated under the Laws of England and Wales whose shares are listed on the London Stock Exchange
"Manganese Bronze Group"	Manganese Bronze and its subsidiaries
"Master Agreement"	the master agreement dated 9 November 2006 entered into between the Company and Manganese Bronze
"MB Consideration Shares"	5.7 million new Manganese Bronze's ordinary shares to be issued to Linkstate as consideration under the Equity Transfer Agreement
"MB Shares"	share(s) of nominal values of GBP0.25 each in the share capital of Manganese Bronze
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules
"Moores Rowland"	Moores Rowland Mazars
"Mr. Li"	Mr. Li Shu Fu, a Director holding 52.33% beneficial interest in the issued share capital of the Company
"MRI Moores Rowland"	MRI Moores Rowland LLP, London
"Non-Exempt Continuing Connected Transactions"	The transactions contemplated under i) the Land and Facilities Contract; ii) the Contract Manufacturing Agreement; iii) the Supply and Purchase Agreement for Parts and Components; and iv) the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly
"Other Project Documents"	Collectively, i) the Land and Facilities Contract; ii) the Contract Manufacturing Agreement; iii) the Supply and Purchase Agreement for Parts and Components; iv) the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly; v) the Trademark Licence Agreement (Shanghai LTI JV); vi) the Trademark Licence Agreement (Shanghai Maple); vii) the Technology and IPR License Agreement (Shanghai LTI JV); viii) the Technology and IPR License Agreement (Shanghai Maple); ix) the Distribution and Sales Agreement for Outside of Asia

"PRC"	The People's Republic of China
"Products"	automobile parts, components and sub-assemblies for use in LTI TX Series Products and three saloon car models
"Proper Glory"	Proper Glory Holding Inc., a company incorporated in the British Virgin Islands and is wholly-owned by the Geely Group
"Quam Capital"	Quam Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Shanghai LTI JV"	上海英倫帝華汽車部件國際有限公司(Shanghai LTI Automobile Components Company Limited), formerly the JV, which will be owned as to 51.0% by Luck Empire, 48.0% by Manganese Bronze and 1.0% by Shanghai Maple, respectively upon completion of the Equity Transfer Agreement and the Amended and Restated JV Agreement
"Shanghai Maple"	上海華普汽車有限公司 (Shanghai Maple Automobile Company Limited), a limited liability company incorporated in the PRC and is owned as to 90.00% by Geely Holding and as to 10.00% by 浙江華普資產管理有限公司 (Zhejiang Maple Assets Management Company Limited) respectively, which is in turn owned by the senior management of Geely Holding. It is principally engaged in manufacturing and sales of automobile and related components, and manufacturing of air conditioning related parts
"Shanghai Maple JV"	上海華普國潤汽車有限公司 (Shanghai Maple Guorun Automobile Company Limited), a sino-foreign joint venture established in the PRC with limited liability and owned as to 53.19% by Shanghai Maple and as to 46.81% by Value Century Group Limited, a wholly-owned subsidiary of the Company, respectively. It has a production facility in Shanghai. The Shanghai production plant is a fully-integrated plant, comprising stamping, welding, painting and assembly facilities and supporting production and testing lines for engines and gearboxes

"Share(s)"	share(s) of HK$0.02 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the share(s) of the Company
"Shareholders' Agreement"	the shareholders' agreement dated 22 March 2007 entered into between Manganese Bronze and the Company which sets out the principal terms to give effect to the provisions of the Amended and Restated JV Agreement and also give effect to the other provisions in relation to the transfer of 48.0% equity interest of the JV from the Company to Manganese Bronze
"Site"	certain parcel of land located at Fengjing Industry Park, Jinshan District, Shanghai, the PRC and consisting of 440,000 sq. m. in area
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 23 January 2007 entered into between the Company and Manganese Bronze which sets out the licensing of technologies and intellectual property rights under the scope of the Other Project Documents
"Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between the Shanghai LTI JV and Shanghai Maple as referred to under the sub-section headed "Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly" of the section headed "Other Project Documents" of this circular
"Supply and Purchase Agreement for Parts and Components"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between the Shanghai LTI JV and LTI as referred to under the sub-section headed "Supply and Purchase Agreement for Parts and Components" of the section headed "Other Project Documents" of this circular
"Technology and IPR License Agreement (Shanghai LTI JV)"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between LTI and the Shanghai LTI JV as referred to under the sub-section headed "Technology and IPR License Agreement (Shanghai LTI JV)" of the section headed "Other Project Documents" of this circular
"Technology and IPR License Agreement (Shanghai Maple)"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between LTI and Shanghai Maple as referred to under the sub-section headed "Technology and IPR License Agreement (Shanghai Maple)" of the section headed "Other Project Documents" of this circular

"Trademark Licence Agreement (Shanghai LTI JV)"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between LTI and the Shanghai LTI JV as referred to under the sub-section headed "Trademark Licence Agreement (Shanghai LTI JV)" of the section headed "Other Project Documents" of this circular
"Trademark Licence Agreement (Shanghai Maple)"	the agreement, being one of the Other Project Documents, dated 22 March 2007 entered into between the Shanghai Maple and LTI as referred to under the sub-section headed "Trademark Licence Agreement (Shanghai Maple)" of the section headed "Other Project Documents" of this circular
"Transfers"	the transfer by the Company of a 48.0% interest in the equity of the JV to Manganese Bronze and a 51.0% interest in the equity of the JV to Luck Empire
"Tools"	Shanghai LTI JV's tools to be utilized by the Shanghai Maple JV to produce the Components and which will at all times remain under the ownership of the Shanghai LTI JV
"United Kingdom"	United Kingdom of Great Britain and Northern Ireland
"Zhejiang Geely Merrie"	浙江吉利美日汽車有限公司 (Zhejiang Geely Merrie Automobile Company Limited), a limited liability company incorporated in the PRC and is owned as to 90.00% by Geely Holding and as to 10.00% by 浙江華普資產管理有限公司 (Zhejiang Maple Assets Management Company Limited) respectively, which is in turn owned by the senior management of Geely Holding. It is principally engaged in manufacturing and managing of automobile, automobile power generators and related components. It is also engaged in exporting of products it produces and importing machineries, accessories and raw materials required in its business.
"Zhejiang Haoqing"	浙江豪情汽車製造有限公司 (Zhejiang Haoqing Automobile Manufacturing Company Limited), a company incorporated in the PRC with limited liability, and is beneficially owned as to 90% by Geely Holding and as to 10% by 浙江華普資產管理有限公司 (Zhejiang Maple Assets Management Co. Ltd) respectively, which is in turn owned by the senior management of Geely Holding. It is principally engaged in manufacturing and distribution of Haoqing's series models

"Zhejiang JV"	浙江吉利汽車有限公司，前稱浙江吉利國潤汽車有限公司 (Zhejiang Geely Automobile Company Limited, formerly known as Zhejiang Geely Guorun Automobile Company Limited), a sino-foreign joint venture company incorporated in the PRC, and owned as to 53.19% by Zhejiang Geely Merrie and 46.81% by Centurion, respectively
"Zhejiang Kingkong JV"	浙江金剛汽車有限公司，(Zhejiang Kingkong Automobile Company Limited, a sino-foreign joint venture established in the PRC with limited liability which is owned as to 53.19% by Geely Holding Limited and as to 46.81% by Centurion, respectively
"Zhejiang Ruhoo JV"	浙江陸虎汽車有限公司 (Zhejiang Ruhoo Automobile Company Limited), a sino-foreign joint venture established in the PRC with limited liability which is owned as to 53.19% by Zhejiang Haoqing and as to 46.81% by Centurion, respectively
"GBP" or "£"	British pound sterling, the lawful currency of the United Kingdom
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"sq. m."	square meters
"%"	per cent.

Unless otherwise specified in this circular, amounts denominated in GBP and RMB have been converted, for the purpose of illustration only, into HK$ as follows:

GBP1 = HK$15.2712
RMB1 = HK$1.0088

No representation is made that any amount in HK$ could have been or could be converted at the above rate or at any other rates or at all.

Certain English translation of Chinese names or words in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.

吉 利 汽 車 控 股 有 限 公 司
GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 175)

Executive Directors:
Mr. Li Shu Fu
Mr. Gui Sheng Yue
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

Independent non-executive Directors:
Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Registered office:
P.O. Box 309
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Cayman Islands
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Principal place of business in Hong Kong:
Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

2 April 2007

To the Shareholders

Dear Sir or Madam,

I) DISCLOSEABLE TRANSACTION RELATING TO THE DISPOSAL OF A 48% INTEREST IN THE EQUITY OF THE JV; II) VERY SUBSTANTIAL ACQUISITION RELATING TO THE PROPOSED ACQUISITION OF AN APPROXIMATELY 23% INTEREST IN THE ENLARGED ISSUED SHARE CAPITAL OF MANGANESE BRONZE HOLDINGS PLC; AND III) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

The Board is pleased to announce that on 22 March 2007, the Company and Manganese Bronze entered into the Additional Supplemental Agreement to the Master Agreement, pursuant to which both parties agreed to extend the deadline to on or before 31 March 2007 for the satisfaction of the conditions to the Master Agreement, namely (a) to establish the JV under the laws of the PRC; (b) the Company to obtain Independent Shareholders' approval on the JV Agreement; and (c) the entering into of the Equity Transfer Agreement, the Amended and Restated JV Agreement, the Shareholders' Agreement and the Other Project Documents and the implementation thereof by Manganese Bronze has been approved by its shareholders in a general meeting held in compliance with relevant rules and regulations of the London Stock Exchange.

The JV Agreement was approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 20 December 2006 and the JV was duly established under the laws of the PRC on 7 March 2007. Manganese Bronze's shareholders approved the entering into of the Equity Transfer Agreement, the Amended and Restated JV Agreement, the Shareholders' Agreement and the Other Project Documents by Manganese Bronze on 10 January 2007. On 22 March 2007, the Company and Manganese Bronze entered into the Equity Transfer Agreement and the Shareholders' Agreement, and caused their respective affiliates, which are parties to the relevant documents, to enter into the Amended and Restated JV Agreement and the Other Project Documents. As at the Latest Practicable Date, all conditions set out in the Master Agreement have been fulfilled.

Pursuant to the Equity Transfer Agreement, the Company will transfer a 48.0% interest in the equity of the JV to Manganese Bronze. Manganese Bronze will satisfy the consideration by issuing 5.7 million new MB Shares to Linkstate, representing an approximately 23% of Manganese Bronze's enlarged issued ordinary share capital. The Company will at the same time transfer a 51% interest in the equity of the JV to Luck Empire, an indirect wholly-owned subsidiary of the Company.

Upon completion of the Transfers, the JV will be held as to 51% by Luck Empire, 48% by Manganese Bronze and 1% by Shanghai Maple, respectively and will change its name to that of the Shanghai LTI JV. The Shanghai LTI JV will continue to be accounted for as a subsidiary of the Company.

The transactions contemplated under the Equity Transfer Agreement constitute a very substantial acquisition of Manganese Bronze's interests by the Company and a discloseable disposal of the Company's interest in the JV under the Listing Rules. The Equity Transfer Agreement is therefore subject to the approval of the Shareholders at the EGM. As Manganese Bronze is an independent third party prior to the entering into of the Equity Transfer Agreement and has no interest in the Shares and no Shareholder has a material interest in the Equity Transfer Agreement which is different from that of the other Shareholders, no Shareholder is required to abstain from voting in the proposed ordinary resolution to approve the Equity Transfer Agreement at the EGM.

Shanghai Maple is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that Shanghai Maple is beneficially owned by Mr. Li and his associates. Accordingly, the Amended and Restated JV Agreement constitutes a connected transaction for the Company and is subject to the requirements of reporting, announcement, and the approval by the Independent Shareholders (by way of poll) as set out in Chapter 14A of the Listing Rules. Proper Glory and Geely Group (both wholly-owned by Mr. Li, and holding in aggregate, 52.33% in the issued share capital of the Company) and their associates will abstain from voting for the resolution to approve the Amended and Restated JV Agreement to be put forward at the EGM.

Upon completion of the Equity Transfer Agreement, Manganese Bronze will have an interest of 48% in the Shanghai LTI JV and will become a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Contract Manufacturing Agreement; the Land and Facilities Contract; the Supply and Purchase Agreement for Parts and Components; and the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Proper Glory and Geely Group (both wholly-owned by Mr. Li, and holding in aggregate, 52.33%

in the issued share capital of the Company) and their associates will abstain from voting for the resolutions to approve the Contract Manufacturing Agreement; the Land and Facilities Contract; the Supply and Purchase Agreement for Parts and Components; the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions to be put forward at the EGM.

An Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions. Quam Capital has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with further information on, among other things, details of the Agreements, the letter from the Independent Board Committee, the letter from Quam Capital to advise the Independent Board Committee and the Independent Shareholders on the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the transactions contemplated thereunder, and the notice to convene the EGM.

EQUITY TRANSFER AGREEMENT

Date: 22 March 2007

Parties:

(1) The Company

(2) Manganese Bronze

Manganese Bronze, whose shares are listed on the London Stock Exchange, is a third party independent of the Company and the connected persons of the Company prior to the completion of the Equity Transfer Agreement.

Asset to be transferred: The Company will transfer a 48.0% interest in the equity of the JV to Manganese Bronze.

Consideration: To be satisfied by the issue of 5.7 million new MB Shares, representing approximately 23% of Manganese Bronze's enlarged issued ordinary share capital, by Manganese Bronze to Linkstate. Such shares have a market value of approximately GBP29.24 million (equivalent to approximately HK$446.53 million), based on the closing price of the MB Shares on 8 November 2006, the date prior to the trading suspension of the Shares for the Company pending the release of the announcement of the Company dated 13 November 2006 in relation to the formation of the JV and the entering into of the Master Agreement.

The consideration was determined based on arm's length negotiations between the Company and Manganese Bronze with reference to the share price of Manganese Bronze at the time of negotiation of the Equity Transfer Agreement and the shareholding structure of Manganese Bronze upon completion of the Transfers.

At the same time of the execution of the Equity Transfer Agreement, the Company will also assign its remaining 51% interest in the JV to Luck Empire, an indirect wholly-owned subsidiary of the Company.

Conditions precedent

The submission of the Equity Transfer Agreement to the PRC approval authority for approval of the Transfers is conditional upon, among other things, the following conditions precedent, as set out in the Equity Transfer Agreement, being satisfied within 90 days (or such later date as may be agreed by the parties) of the date of the Equity Transfer Agreement:

(a) The Company and Shanghai Maple have each made capital contributions in cash and in full to its subscription to the registered capital of the JV and such capital contributions by the Company and Shanghai Maple have been verified by an independent accountant registered in the PRC;

(b) the shareholders of Manganese Bronze approving the relevant transactions relating to the Transfers;

(c) Luck Empire, Manganese Bronze and Shanghai Maple have executed the Amended and Restated JV Agreement; and

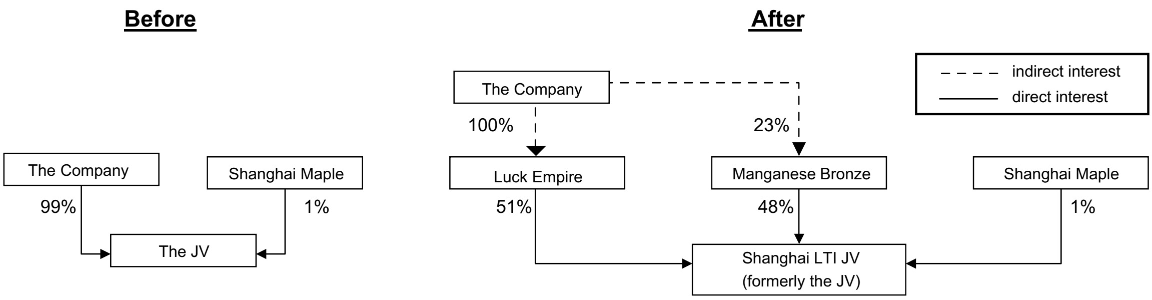
(d) the Shareholders of the Company approving the Equity Transfer Agreement at the EGM.

The parties will apply to the PRC approval authorities for approval of the Transfers, if the business license of the Shanghai LTI JV is not obtained within 120 days (or such later date the parties may agree) of the date of the Equity Transfer Agreement, the Equity Transfer Agreement will lapse and all the obligations and liabilities of the parties to the Equity Transfer Agreement will cease and terminate.

As at the Latest Practicable Date, conditions (b) and (c) set out above have been fulfilled. The Transfers shall be deemed completed on the date the business license of the Shanghai LTI JV has been issued by the relevant PRC authorities and Manganese Bronze shall issue the MB Consideration Shares to Linkstate within 10 Business Days thereof.

Upon the issue of the MB Consideration Shares by Manganese Bronze to Linkstate, the Company will become the single largest shareholder of Manganese Bronze. As at the Latest Practicable Date, the Company intends to hold its interest in Manganese Bronze as a long-term investment and Manganese Bronze will be accounted for as an associated company of the Company.

Shareholding structure of the JV before and after completion of the Equity Transfer Agreement:



Upon completion of the transfer of the Company's 48% interest in the equity of the JV to Manganese Bronze and the transfer of a 51% interest in the JV to Luck Empire, the JV will be held as to 51% by Luck Empire, as to 48% by Manganese Bronze and as to 1% by Shanghai Maple, respectively. The JV will also change its name to that of the Shanghai LTI JV. It would also continue to be accounted for as a subsidiary of the Company.

AMENDED AND RESTATED JV AGREEMENT

Date: 22 March 2007

Parties:
(1) Luck Empire
(2) Shanghai Maple
(3) Manganese Bronze

Proposed terms: *Change of name*

The aforesaid parties agreed to change the name of the JV to Shanghai LTI Automobile Components Company Limited (上海英倫帝華汽車部件國際有限公司).

Scope of business

To engage in the manufacturing, sales, and distribution of automobile parts, components and sub-assemblies; design, research and development in relation to the above and provision of aftersales services.

Scale of production

Estimated annual production of 10,000 units of the Products needed for the final assembly by Shanghai Maple (who under the PRC laws will hold the relevant approved automobile products catalogue) of 10,000 units of LTI TX Series Products and an additional capacity of 30,000 units of the Products for three saloon car models within the first three years of operation of Shanghai LTI JV.

Term

50 years.

Preemptive rights

No party may sell, assign, pledge or otherwise dispose of all or any part of its equity interest in the registered capital of the Shanghai LTI JV unless each other party has consented in writing to such sale, assignment, pledge or disposition.

Board composition

The board of the Shanghai LTI JV will comprise 5 members. Luck Empire will have the right to nominate 2 members (including the Chairman), Manganese Bronze will have the right to nominate 2 members (including the Vice Chairman) and Shanghai Maple will have the right to nominate 1 member to the board of the Shanghai LTI JV. The quorum for board meeting of the Shanghai LTI JV will be two thirds or more of the then total number of directors and must consist of at least one director nominated by each party.

Profit distribution

After recovering prior years' losses, paying taxes in accordance with the PRC law and making contributions to the Shanghai LTI JV's reserve fund, employee bonus and welfare fund and enterprise development fund, all of the remaining earnings of the Shanghai LTI JV shall be distributed to the aforesaid parties by way of a dividend unless the board of the Shanghai LTI JV decides otherwise. Any dividend declared by the board of the Shanghai LTI JV shall be distributed to the aforesaid parties in proportion to each of the aforesaid party's equity interest in the registered capital of the Shanghai LTI JV at the time of distribution.

Non-Compete

Neither party may during the term of the Amended and Restated JV Agreement and three years thereafter, directly or indirectly design, develop, produce, or assemble in the PRC products similar to the LTI TX Series Products for use in Asia, or market or sell in Asia products similar to the LTI TX Series Products manufactured in the PRC other than as expressly provided in the Amended and Restated JV Agreement.

Each party shall not establish, acquire, operate or maintain a manufacturing plant in the PRC for products similar to the Products nor design, develop, produce, assemble, market or sell the Products in the PRC.

Upon full operation of the Shanghai LTI JV, the Shanghai LTI JV is intended to be the only production facility for the LTI TX Series Products outside of the United Kingdom. Manganese Bronze undertakes with Luck Empire and Shanghai Maple that Manganese Bronze will not manufacture or licence or procure others to manufacture the LTI TX Series Products elsewhere in the PRC or in other part of the world unless the Shanghai LTI JV is unable to manufacture the LTI TX Series Products meeting the specification, price, or quality or delivery terms that Manganese Bronze specifies or would be able to manufacture or obtain elsewhere.

Purchase of the Shanghai LTI JV as a going concern

In the event that either Manganese Bronze, Luck Empire or Shanghai Maple is the subject of proceedings for liquidation or dissolution or ceasing to carry on business or the Shanghai LTI JV is subject to early termination, the non-breaching party may elect to purchase the Shanghai LTI JV as a going concern at fair market value in accordance with the procedures set out in the Amended and Restated JV Agreement.

Conditions precedent

The Amended and Restated JV Agreement will become effective upon the approval by the Shanghai Foreign Investment Commission or its local delegate and their respective successors of this agreement and the amended and restated articles of association of Shanghai LTI JV.

SHAREHOLDERS' AGREEMENT

Date: 22 March 2007

Parties:
(1) Manganese Bronze
(2) The Company

Proposed terms: *Sale restrictions for the MB Consideration Shares*

Following the issue of the MB Consideration Shares, without the prior written consent of the board of directors of Manganese Bronze, neither the Company nor Linkstate shall sell, transfer or otherwise dispose of

i) all or any interest in any of the MB Consideration Shares for a period of two years from the date of the Shareholders' Agreement;

ii) any interest in more than 25% of the MB Consideration Shares between the second and fifth anniversaries of the date of the Shareholders' Agreement;

iii) any interest in more than a further 25% of the MB Consideration Shares in addition to condition (ii) above in the period between the fifth and tenth anniversaries of the date of the Shareholders' Agreement; and

iv) any interest in any of the MB Consideration Shares to any company or other person which is determined in good faith by the board of directors of Manganese Bronze to be a competitor of Manganese Bronze.

Takeover restrictions

Following the Transfers, the Company (for itself and Linkstate) undertakes with Manganese Bronze:

i) not, directly or indirectly, to make, assist or cooperate with others in making an offer for all or part of the issued ordinary share capital of Manganese Bronze unless the Company has given a notification to the board of Manganese Bronze four weeks in advance. However, the Company and Linkstate may increase its shareholding in Manganese Bronze to 29.9% without prior approval of the board of Manganese Bronze but shall notify the board of Manganese Bronze in accordance with listing rules of the London Stock Exchange; and

ii) not to accept any offer for the MB Consideration Shares which would confer control on a third party, except where such bid or offer is recommended by the board of directors of Manganese Bronze.

As at the Latest Practicable Date, the Company does not have any intention to increase its proposed interest in Manganese Bronze.

Right of Manganese Bronze

If during the period of 10 years from the date of the Shareholders' Agreement, the Amended and Restated JV Agreement or the Equity Transfer Agreement terminates as a result of either i) the loss, termination, suspension or non-renewal of any licence required by the Shanghai LTI JV in the PRC or otherwise by operation of any PRC law or ii) the Amended and Restated JV Agreement has been terminated by reason of any breach thereof by the Company or by reason of any legally binding order granted, made or issued in the PRC, the Company hereby grants to Manganese Bronze the right in such circumstances by written notice to purchase the MB Consideration Shares from Linkstate for a total aggregate sum of GBP1, which represents the nominal value to reverse their respective shareholdings in each other to the original position before entering into of the Equity Transfer Agreement.

If such right is exercised by Manganese Bronze, the Company or its Affiliate shall be entitled to acquire the entire shareholding of Manganese Bronze in the Shanghai LTI JV for GBP1, which represents the nominal value to reverse their respective shareholdings in each other to the original position before entering into of the Equity Transfer Agreement.

Conditions precedent

The rights and obligations of the parties under the Shareholders' Agreement are in all respects conditional upon and subject to i) the completion of the Transfers; ii) the appointment of two non-executive directors nominated by the Company to the board of Manganese Bronze, provided the Company holds in excess of 20% of Manganese Bronze's issued ordinary shares; and iii) the allotment and issue of MB Consideration Shares to Linkstate pursuant to the Equity Transfer Agreement.

In the event that the conditions precedent have not been fulfilled within 120 days (or such other time period mutually agreed by the parties) of the date of the Shareholders' Agreement, the Shareholders' Agreement shall automatically terminate.

OTHER PROJECT DOCUMENTS

On 22 March 2007, the relevant parties, namely Shanghai LTI JV, Shanghai Maple JV, Shanghai Maple and LTI, entered into the following Other Project Documents to facilitate the operation of the Shanghai LTI JV:

1. Land and Facilities Contract to govern the leasing arrangements of the Site, the manufacturing plant and equipment located on the Site;

2. Contract Manufacturing Agreement to govern the supply of the Components by Shanghai Maple JV to the Shanghai LTI JV;

3. Supply and Purchase Agreement for Parts and Components to govern the supply of parts and components by the Shanghai LTI JV to LTI;

4. Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly to govern the purchase of automobile parts, components and sub-assembly by Shanghai Maple from the Shanghai LTI JV;

5. Trademark Licence Agreement (Shanghai LTI JV) to govern the license of LTI's trademarks to the Shanghai LTI JV on a royalty-free basis;

6. Trademark Licence Agreement (Shanghai Maple) to govern the license of LTI's trademarks to Shanghai Maple on a royalty-free basis;

7. Technology and IPR License Agreement (Shanghai LTI JV) to govern the grant by LTI to the Shanghai LTI JV a non-assignable licence to use the brand names, technology and other rights needed to manufacture the automobile parts, components and sub-assemblies for use in various models of London taxi or for manufacturing the London taxi models to be manufactured in the PRC;

8. Technology and IPR License Agreement (Shanghai Maple) to govern the grant by LTI to Shanghai Maple a non-assignable licence to use the brand names, technology and other rights needed for manufacturing the London taxi models to be manufactured in the PRC; and

9. Distribution and Sales Agreement for Outside of Asia to govern the appointment of LTI as the exclusive world-wide distributor for London taxis to be manufactured by Shanghai Maple for all territories of the world outside Asia.

A. The transactions contemplated under the following Other Project Documents will constitute non-exempt continuing connected transactions of the Company and be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules:

(1) Land and Facilities Contract

Parties: (1) Shanghai Maple JV (as lessor)
(2) Shanghai LTI JV (as lessee)

Term: 20 years

Subject Matter:

Pursuant to the Land and Facilities Contract, Shanghai Maple JV agrees to lease the land and buildings and equipment located on the Site to the Shanghai LTI JV for a term of 20 years with automatic renewal each year thereafter. Shanghai Maple JV will invest approximately RMB500 million (equivalent to approximately HK$504.40 million) to construct certain building and purchase certain equipment, including painting shop equipment (the "Equipment") costing approximately RMB100 million (equivalent to approximately HK$100.88 million) and certain buildings (the "Buildings") costing approximately RMB400 million (equivalent to approximately HK$403.52 million) (the Equipment and the Buildings together, the "Facilities") to be located on the Site.

Pricing policy:

The rent for the Site (inclusive of all land use fees, if any) for each year shall be RMB3 per square meter, amounting to approximately RMB1.3 million per annum, payable by Shanghai LTI JV to Shanghai Maple JV to be proportionally adjusted based on the actual size of the Site in use. The rent for the Site shall be payable by the Shanghai LTI JV in twelve equal monthly installments on the first business day of each and every calendar month, in advance.

The rent for the Facilities shall be based on the annual linear depreciation of the value of Shanghai Maple JV's total investment in the Facilities (depreciated over twenty years for the Buildings and over eight years for the Equipment). Assuming an estimated investment value of no more than RMB400,000,000 in the Buildings and no more than RMB100,000,000 in the Equipment, the total rent for the Facilities shall not be more than RMB32,000,000 per year, payable by Shanghai LTI JV proportionately based on its percentage proportion of use (as measured by production amount at the premises) of the Facilities as compared to Shanghai Maple JV during that year. The use of Facilities by the parties shall be subject to independent audit and the parties shall further ascertain the precise amount of rent in relation to the Facilities payable by Shanghai LTI JV every year. The rent for the Facilities shall be payable by the Shanghai LTI JV on a yearly basis.

Annual caps:

The table below sets out the proposed annual caps for the rental payable by the Shanghai LTI JV to Shanghai Maple JV pursuant to the Land and Facilities Contract for the three years ending 31 December 2009:

	Year ending 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Rental payable by the Shanghai LTI JV	17,000 (equivalent to approximately HK$17.15 million)	33,000 (equivalent to approximately HK$33.29 million)	33,000 (equivalent to approximately HK$33.29 million)

The proposed annual caps for the rental payable by the Shanghai LTI JV to Shanghai Maple JV for the three years ending 31 December 2009 have been determined by the Directors with reference to the rental charge by Shanghai Maple JV for the Site and the Facilities and the estimated percentage portion of use of the Facilities by the Shanghai LTI JV in the three years ending 31 December 2009. The Directors are of the opinion that terms of the Land and Facilities Contract are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(2) Contract Manufacturing Agreement

Parties: (1) Shanghai Maple JV (as supplier)
(2) Shanghai LTI JV (as buyer)

Term: 50 years

Subject Matter:

Pursuant to the Contract Manufacturing Agreement, Shanghai Maple JV will license the use of its press machines and related facilities required for the production of the Components to Shanghai LTI JV and will manufacture the Components for the Shanghai LTI JV. The Shanghai LTI JV agrees to grant to Shanghai Maple JV a non-exclusive, royalty-free licence to use the Tools in the PRC to manufacture the Components, and the Shanghai Maple JV agrees to manufacture for and supply to the Shanghai LTI JV the Components in accordance with the product specification set out in the Contract Manufacturing Agreement.

Pricing basis:

Pursuant to the Contract Manufacturing Agreement, the Components to be manufactured by the Shanghai Maple JV shall be sold to the Shanghai LTI JV at a price of cost plus 3%. Cost shall include fixed cost based on pro-rata production volume and the cost calculations shall be audited by the Shanghai Maple JV annually and mutually agreed between Shanghai LTI JV and Shanghai Maple JV. The consideration to Shanghai Maple JV under the Contract Manufacturing Agreement was determined by the parties on an arm's length basis. Every three years, the board of the Shanghai LTI JV will formally evaluate whether it would be necessary or appropriate to initiate discussions with the Shanghai Maple JV in relation to the pricing basis to ensure fairness to the Shanghai LTI JV by making reference to the prevailing fair market price at the time of the evaluation. The first of these evaluations shall commence on the third anniversary of the commencement of production.

Product Warranties:

Shanghai Maple JV represents, warrants and agrees that all products manufactured by Shanghai Maple JV on behalf of Shanghai LTI JV will be free from defects for a period of six months after being incorporated into the Shanghai LTI JV's products. Shanghai Maple JV agrees to replace any such defective products where such defect shall have come to the attention of Shanghai LTI JV within the said six months period.

Annual caps:

The table below sets out the proposed annual caps for the purchase of the Components by the Shanghai LTI JV from the Shanghai Maple JV for the three years ending 31 December 2009:

	Year ending 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of the Components by the Shanghai LTI JV	0 *(Note)* (equivalent to approximately HK$0 million)	151,000 (equivalent to approximately HK$152.33 million)	521,000 (equivalent to approximately HK$525.58 million)

Note: As production will only commence in mid 2008, the annual cap for 2007 is zero.

The proposed annual caps for the purchase of the Components by the Shanghai LTI JV from the Shanghai Maple JV for the three years ending 31 December 2009 have been determined by the Directors with reference to the estimated labor, manufacturing and the direct material costs for the production of the Components, taking into account the number of sedans to be sold by the Shanghai LTI JV, based on the budget for the Shanghai LTI JV. The Directors have also considered the scale of operation of the Shanghai LTI JV in determining the annual caps. As the Shanghai LTI JV will be at its initial stage of operation in 2008 and mass production will only commence in mid 2008, the annual cap for 2009 is much higher than 2008. The Directors are of the opinion that terms of the Contract Manufacturing Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(3) Supply and Purchase Agreement for Parts and Components

Parties: (1) Shanghai LTI JV (as supplier)
(2) LTI (as purchaser)

Term: 50 years

Subject Matter:

Pursuant to the Supply and Purchase Agreement for Parts and Components, the Shanghai LTI JV agrees to supply to LTI and LTI agrees to purchase from the Shanghai LTI JV automobile parts and components to be incorporated into LTI's products in accordance with product specification set out in the Supply and Purchase Agreement for Parts and Components.

Pricing basis:

The parts and components to be manufactured by the Shanghai LTI JV shall be sold to LTI at a price of cost plus 3%. The consideration to the Shanghai LTI JV under the Supply and Purchase Agreement for Parts and Components was determined by the parties on an arm's length basis. Every three years, the board of the Shanghai LTI JV will formally evaluate whether it would be necessary or appropriate to initiate discussions with LTI in relation to the pricing basis to ensure fairness to the Shanghai LTI JV by making reference to the prevailing fair market price at the time of the evaluation. The first of these evaluations shall commence on the third anniversary of the commencement of production.

Product Warranties:

Shanghai LTI JV represents, warrants and agrees that all products manufactured by the Shanghai LTI JV on behalf of LTI will meet the product specification and therefore will be free from defects (excluding defects that arise from defective products specification) for a period of 36 months or 100,000 driving miles (whichever occurs first) after being incorporated into the LTI's products and delivered to the end users, provided that the component suppliers to Shanghai LTI JV have provided the same warranties and the Shanghai LTI JV agrees to replace any defective products where any defect shall have come to the attention of the LTI within the abovementioned period.

Annual Caps:

The table below sets out the proposed annual caps for the purchase of parts and components by LTI from the Shanghai LTI JV for the three years ending 31 December 2009:

	Year ending 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of parts and components by LTI	0 *(Note)* (equivalent to approximately HK$0 million)	107,000 (equivalent to approximately HK$107.94 million)	180,000 (equivalent to approximately HK$181.58 million)

Note: As production will only commence in mid 2008, the annual cap for 2007 is zero.

The proposed annual caps for the purchase of parts and components by LTI from the Shanghai LTI JV for the three years ending 31 December 2009 have been determined by the Directors based on the projected units of parts and components to be purchased by LTI and the unit direct material cost and labour cost for the parts and components, based on the budget for the Shanghai LTI JV. The Directors have also considered the scale of operation of the Shanghai LTI JV in determining the annual caps. As the Shanghai LTI JV will be at its initial stage of operation in 2008 and mass production will only commence in mid 2008, the annual cap for 2009 is much higher than 2008. The Directors are of the opinion that terms of the Supply and Purchase Agreement for Parts and Components are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(4) Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly

Parties: (1) Shanghai LTI JV (as supplier)
(2) Shanghai Maple (as buyer)

Term: 50 years

Subject Matter:

Pursuant to the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly, the Shanghai LTI JV agrees to supply to the Shanghai Maple and Shanghai Maple agrees to purchase from the Shanghai LTI JV the automobile parts, components and sub-assembly to be used in the LTI TX Series Products and saloon cars in accordance with product specification set out in the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly.

Pricing basis:

Pursuant to the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly, the Shanghai LTI JV and the Shanghai Maple shall jointly determine the selling price to End Customers and End Distributor. The percentage of the selling price charged to the End Customers to be retained by Shanghai Maple shall be (a) 8% of the selling price or (b) a percentage made available to the Group in similar transactions of the aforesaid products to be entered into with independent third parties who help in the final assembly and sales distribution, whichever is lower (excluding tax). Such percentage retained by Shanghai Maple is also to cover any commission or payment Shanghai Maple may choose to pay to its dealers, distributors or sales agents. Shanghai Maple shall also retain (a) 1.5% of the selling price to the End Distributor or (b) a percentage made available to the Group in similar transactions of the aforesaid products to be entered into with independent third parties who help in the final assembly, whichever is lower (excluding tax). Such pricing basis pursuant to the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly was determined by the parties on an arm's length basis.

Product Warranties:

Shanghai LTI JV represents, warrants and agrees that all products manufactured by the Shanghai LTI JV on behalf of Shanghai Maple will meet the product specification and therefore will be free from defects (excluding defects that arise from defective products specification) for a period of (a) 36 months or 100,000 driving miles (whichever occurs first; applicable to products to be used in Shanghai Maple's products to be sold to the End Distributor only) or (b) 24 months or 60,000 driving miles (whichever occurs first; applicable to products to be used in Shanghai Maple's products to be sold in the PRC and Asia only) after being incorporated into the Shanghai Maple's products and delivered to the end users, and Shanghai LTI JV agrees to replace any defective products where any defect shall have come to the attention of Shanghai Maple within the abovementioned period.

Annual Caps:

The table below sets out the proposed annual caps for the purchase of automobile parts, components and sub-assembly by the Shanghai Maple from the Shanghai LTI JV for the three years ending 31 December 2009:

	Year ending 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of automobile parts, components and sub-assembly by Shanghai Maple	0 *(Note)* (equivalent to approximately HK$0 million)	480,000 (equivalent to approximately HK$484.22 million)	2,676,000 (equivalent to approximately HK$2,699.55 million)

Note: As production will only commence in mid 2008, the annual cap for 2007 is zero.

The proposed annual caps for the purchase of automobile parts, components and sub-assembly by the Shanghai Maple from the Shanghai LTI JV for the three years ending 31 December 2009 have been determined by the Directors with reference to the projected units of sedan to be sold and the estimated selling price per sedan, based on the budget for the Shanghai LTI JV. The Directors have also considered the scale of operation of the Shanghai LTI JV in determining the annual caps. As the Shanghai LTI JV will be at its initial stage of operation in 2008 and mass production will only commence in mid 2008, the annual cap for 2009 is much higher than 2008. The Directors are of the opinion that terms of the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Duration in excess of three years

The Land and Facilities Contract, the Contract Manufacturing Agreement, the Supply and Purchase Agreement for Parts and Components and the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly have durations of more than three years. The Directors consider that a longer duration for these agreements will facilitate and ensure production continuity during the term of the Shanghai LTI JV, which will be beneficial to both the Company and Manganese Bronze. Pursuant to Rule 14A.35(1) of the Listing Rules, Quam Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders on why a longer period for the above agreements is required and that it is normal business practice for agreements of the relevant types to be of such durations.

B. The transactions contemplated under the following Other Project Documents will constitute continuing connected transactions of the Company but are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules:

(1) Trademark Licence Agreement (Shanghai LTI JV)

Parties: (1) LTI (as licensor)
(2) Shanghai LTI JV (as licensee)

Term: Terminate upon termination of the Amended and Restated JV Agreement

Subject Matter:

Pursuant to the Trademark License Agreement (Shanghai LTI JV), LTI agrees to license its trademarks to the Shanghai LTI JV on a royalty-free basis to be used by the Shanghai LTI JV in connection with manufacturing the automobile parts, components and sub-assemblies.

(2) Technology and IPR License Agreement (Shanghai LTI JV)

Parties: (1) LTI (as licensor)
(2) Shanghai LTI JV (as licensee)

Term: Terminate upon termination of the Amended and Restated JV Agreement

Subject Matter:

Pursuant to the Technology and IPR License Agreement (Shanghai LTI JV), LTI will grant to the Shanghai LTI JV a non-assignable licence to use the brand names, technology and other rights needed to manufacture the automobile parts, components and sub-assemblies for use in various models of London taxi or for manufacturing the London taxi models to be manufactured in the PRC for the duration of the Shanghai LTI JV. The Shanghai LTI JV may not sub-licence such rights to any other person save with the prior consent of LTI. No licence fee is payable under this agreement for the grant of such rights.

As these agreements involve zero consideration, each of the applicable percentage ratios (as defined in the Listing Rules) for the transactions contemplated under the Trademark License Agreement (Shanghai LTI JV) and the Technology and IPR License Agreement (Shanghai LTI JV) is less than 0.1%. The transactions contemplated under the Trademark License Agreement (Shanghai LTI JV) and the Technology and IPR License Agreement (Shanghai LTI JV) are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules.

C. Other Project Documents that will not constitute continuing connected transactions of the Company:

(1) Distribution and Sales Agreement for Outside of Asia

Parties: (1) Shanghai Maple (as supplier)
(2) LTI (as distributor)

Term: 50 years

Subject Matter:

Under the terms of the Distribution and Sales Agreement for Outside of Asia, LTI is appointed exclusive world-wide distributor for London taxis to be manufactured by Shanghai Maple for all territories of the world outside Asia.

Pricing basis:

Pursuant to the Distribution and Sales Agreement for Outside of Asia, the London taxis to be manufactured by the Shanghai Maple shall be sold to LTI at a price of cost plus 1.5%.

(2) Trademark Licence Agreement (Shanghai Maple)

Parties: (1) LTI (as licensor)
(2) Shanghai Maple (as licensee)

Term: Terminate upon termination of the Amended and Restated JV Agreement

Subject Matter:

Pursuant to the Trademark Licence Agreement (Shanghai Maple), LTI agrees to license its trademarks to the Shanghai Maple on a royalty-free basis to be used by the Shanghai Maple in connection with the manufacturing of the LTI TX Series Products.

(3) Technology and IPR License Agreement (Shanghai Maple)

Parties: (1) LTI (as licensor)
(2) Shanghai Maple (as licensee)

Term: Terminate upon termination of the Amended and Restated JV Agreement

Subject Matter:

Pursuant to the Technology and IPR License Agreement (Shanghai Maple), LTI will grant to the Shanghai Maple a non-assignable licence to use the brand names, technology and other rights needed for manufacturing the London taxi models in the PRC for the duration of the Shanghai LTI JV. The Shanghai Maple may not sub-licence such rights to any other person save with the prior consent of LTI. No licence fee is payable under this agreement for the grant of such rights.

INFORMATION ON MANGANESE BRONZE

Manganese Bronze was incorporated on 10 March 1899 in England and Wales and is a company whose shares are listed on the London Stock Exchange. Manganese Bronze is principally engaged in manufacturing, sales and distribution of taxis mainly in the United Kingdom and providing finance for the purchase of taxis manufactured by the Manganese Bronze Group. United Kingdom is the core market of the Manganese Bronze Group's taxi sales business which accounted for an average of 95% of the turnover of the Manganese Bronze Group for the two years ended 31 July 2006. As at 31 January 2007, the Manganese Bronze Group's total assets amounted to approximately GBP58.45 million (equivalent to approximately HK$892.60 million).

The following table sets out a summary of the audited financial information prepared under International Financial Reporting Standards ("IFRS") of the Manganese Bronze Group for the two years ended 31 July 2006 and the six months ended 31 January 2007:

	For the year ended 31 July 2005 *GBP'000* (audited and restated)	For the year ended 31 July 2006 *GBP'000* (audited)	For the six months ended 31 January 2007 *GBP'000* (audited)
Profit before taxation from continuing operations	2,503 (equivalent to approximately HK$38.22 million)	3,756 (equivalent to approximately HK$57.36 million)	658 (equivalent to approximately HK$10.05 million)
Profit after taxation	2,048 (equivalent to approximately HK$31.28 million)	2,750 (equivalent to approximately HK$42.00 million)	657 (equivalent to approximately HK$10.03 million)
Net asset value	19,582 (equivalent to approximately HK$299.04 million)	21,469 (equivalent to approximately HK$327.86 million)	21,685 (equivalent to approximately HK$331.16 million)

As noted in an announcement of Manganese Bronze dated 4 October 2006, Manganese Bronze has been seeking a manufacturing partner in the PRC in order to develop a low cost manufacturing facility and to gain access to a country with a growing vehicle market. As advised by Manganese Bronze, the Transfers would provide an opportunity for them to access the PRC automobile market.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF MANGANESE BRONZE

(i) For the period from 1 August 2003 to 31 July 2004

(A) Results of operation

The statutory financial statements for Manganese Bronze for the year ended 31 July 2004 were prepared in accordance with applicable UK law and accounting standards ("UK GAAP"). For the purposes of this circular, financial statements of Manganese Bronze have been restated to International Financial Reporting Standards ("IFRS").

The results for the year ended 31 July 2004 included accounting practice adjustments made as a result of restating from UK GAAP to IFRS. Consequently, the results have been restated from a loss before tax of £1.2 million to a profit before tax of £1.6 million, including a loss before tax of £6.7 million from discontinued operations.

The restated profit before taxation for the year ended 31 July 2004 of £1.6 million was a significant improvement on the 2003 loss of £1.2 million, and included an impairment provision on the Zingo fixed assets of £2.6 million. The results for the year ended 31 July 2003, however, included net exceptional costs of £5.7 million (£7.5 million loss on the sale of the components division and £1.8 million profit on the disposal of property in Coventry) whilst the results for the year ended 31 July 2004 included a net exceptional income of £3.9 million, including a profit of £4.7 million from the sale of a property in Holloway Road, London.

Overall taxi volumes increased from 2,320 vehicles for the year ended 31 July 2003 to 2,494 vehicles for the year ended 31 July 2004 with both UK and overseas sales rising. Overseas sales increased by 233% to 223 vehicles, of which the United States was the largest overseas market with 168 vehicles. Manganese Bronze Group's turnover, after excluding discontinued operations, of £86.0 million was consistent with the year ended 31 July 2003. Taxi sales in the UK during the year were 2,271 vehicles, a marginal increase over 2003 when 2,253 vehicles were sold. Just over half of these sales (55%) were in London. Whilst there had been an increase in the number of taxi journeys in London over the 12 months ended 31 July 2003, drivers delayed purchasing new vehicles for a number of reasons; lingering concerns over the reliability of the new TXII model; the possibility of changes to the London Conditions of Fitness; and the potential impact of proposals for tighter emissions controls on London's taxis.

Product development expenditure was low during the year ended 31 July 2004 with no major product developments launched. This lower level of expenditure continued until Manganese Bronze began the development programme to comply with the Euro IV emission regulations, which came into effect in January 2007.

(B) Segmental Information

The Manganese Bronze Group was organised into three operating divisions – vehicle sales, vehicle services, and property.

The vehicle sales segment included the design, development, manufacture, and retailing of new purpose built taxis, along with the sale of used vehicles taken in part exchange, parts, and vehicle maintenance.

The vehicle services segment comprised taxi finance, the US-based advertising business, and the Zingo mobile phone taxi hailing service.

The property segment comprised rental income received and costs associated with the Group's property portfolio, which included a freehold property in Manchester, leased properties in London, Coventry, Birmingham and Leeds, and investment properties in Ipswich and Birmingham.

Segment information about these divisions is presented below:

	Year ended 31 July 2004 *£'000*
Revenue	
Vehicle sales	83,821
Vehicle services	1,929
Property	312
Continuing operations	86,062
Vehicle services – Zingo	650
Discontinued operations	650
Total	86,712
Result	
Vehicle sales	2,991
Vehicle services	1,259
Property	5,029
Total operating profit from continuing operations	9,279
Investment revenues	83
Finance costs	(1,089)
Profit before tax from continuing operations	8,273
Tax	(233)
Loss from discontinued operations	(6,672)
Profit after tax	1,368

Head office costs have been allocated to segments based on operating profit.

(C) Material acquisitions and disposals

During the year ended 31 July 2004, the Manganese Bronze Group disposed of the freehold properties held in Holloway Road, London and Fishponds Road, Bristol and acquired a leasehold property in Brewery Road, London.

(D) Liquidity, financial resources and capital structure

As at 31 July 2004, the Manganese Bronze Group had net assets of £18.4 million (2003: £22.6 million) and net debt of £1.7 million (2003: net cash £1.7 million). Dividends of £5.0 million (2003: £0.2 million) were paid in the year ended 31 July 2004, of which £4.5 million related to the sale of the components division and the sale and leaseback of the Coventry site, which occurred in July 2003. Total debt as at 31 July 2004 was represented by cash at bank of £6.4 million (2003: £8.7 million), less the stocking loan for finished vehicles of £7.4 million (2003: £6.6 million) and finance leases of £0.7 million (2003: £0.4 million). As at 31 July 2004, the Manganese Bronze Group had £3.0 million overdraft facility that was not utilized.

As at 31 July 2004, the Manganese Bronze Group had an uncommitted overdraft facility of £3.0 million (2003: £3.0 million) which was linked to base rate. The uncommitted and committed stocking finance facility of £13.4 million (2003: £13.4 million) and £7.4 million (2003: £6.7 million) respectively were linked to Finance House Base Rate (FHBR). The finance contracts were fixed at an average rate of 9.9% (2003: 8.28%) with the average calculated over the life of the contract, normally 18 months. The preference shares were issued at a rate of 8.25% without a repayment date.

Fixed rate financial liabilities totalled £1.3 million (2003: £1.0 million) as at 31 July 2004, comprising preference share capital and £0.7 million (2003: £0.4 million) of finance contracts. Floating rate financial liabilities totalled £7.4 million (2003: £6.7 million) comprising the £7.4 million (2003: £6.7 million) stocking loan. The weighted average interest rate of fixed-rate liabilities at 31 July 2004 was 9.11% (2003: 8.26%).

(E) Gearing ratio

As at 31 July 2004, the Manganese Bronze Group's gearing ratio was 9.4% which was defined as the ratio of total net debt to total net assets.

(F) Treasury policies and foreign exchange exposure

Treasury policy sought to reduce the risks arising from the currency and maturity of the Manganese Bronze Group's financial instruments. The main risks arose from the Manganese Bronze Group's financial instruments were interest rate risk, currency risk and liquidity risk. Speculation, including the use of complex financial derivative products, was not part of the Manganese Bronze Group's treasury activities. Financial instruments were sterling denominated where possible. Material foreign currency commitments were hedged for six months ahead using forward contracts. Borrowings and, where they arose, deposits were fixed for periods of up to one year. The functional currency of the Manganese Bronze Group was sterling.

The Manganese Bronze Group sought to minimise interest rate risk by maximising interest received on cash at bank by placing deposits on the money market at the prevailing market rate, for periods up to one month.

The Manganese Bronze Group's main currency exposure was to the Japanese yen, a consequence of the purchase of taxi gearboxes. Financial contracts were used to hedge this exposure.

The Manganese Bronze Group's liquidity policy throughout the year was to maximise the return on funds placed on deposit and to minimise the associated risk by placing funds in low-risk cash deposits.

(G) Charges on Manganese Bronze Group's assets

As at 31 July 2004, the Manganese Bronze Group had no charges on its assets.

(H) Contingent liabilities

Manganese Bronze had given a guarantee to HSBC in respect of any amounts outstanding on the Manganese Bronze's borrowing facilities. As at 31 July 2004, the relevant Manganese Bronze Group's net borrowings amounted to nil (2003: nil). Certain subsidiaries of Manganese Bronze provided warranties and sometimes extended warranties in respect of their products. The directors of Manganese Bronze reviewed the position regularly and considered that appropriate provisions have been made to cover known and expected costs likely to arise under these warranties.

(I) Employees and remuneration policies

The average number of staff employed by the Manganese Bronze Group decreased to 521 during the year ended 31 July 2004 (2003: 880). Manganese Bronze Group was committed to developing its employment policies in line with best practice, and to providing equal opportunities for all regardless of sex, marital status, ethnic origin, religion or disability.

(ii) For the period from 1 August 2004 to 31 July 2005

(A) Results of operation

The statutory financial statements for Manganese Bronze for the year ended 31 July 2005 were prepared in accordance with applicable UK law and accounting standards ("UK GAAP"). For the purposes of this Circular, financial statements of Manganese Bronze have been restated to International Financial Reporting Standards ("IFRS"). The results for the year ended 31 July 2005 included accounting practice adjustments made as a result of restating from UK GAAP to IFRS.

The profit before taxation for the year ended 31 July 2005 increased from £1.6 million to £2.0 million. The main factors underlying the trading turnaround were increased taxi volumes, improved product mix, cessation of Zingo losses and cost savings.

Overall taxi volumes increased by 1%, with 2,521 vehicles sold (2004: 2,494 vehicles). UK sales rose by 6% to 2,412 vehicles (2004: 2,271 vehicles). Manganese Bronze Group's turnover, after excluding discontinued operation, of £87.3 million increased by 1.5% over the previous year (2004: £86.0 million). During 2005, Manganese Bronze started the work required to make the TXII comply with Euro IV emissions standards, which became effective from January 2007. In parallel with this effort, Manganese Bronze have also been developing a modified braking system to incorporate anti-lock braking. In total, Manganese Bronze have invested over £4 million in upgrading the vehicle over the next 12 months. Manganese Bronze also introduced a revised rear suspension incorporating coil springs rather than the traditional leaf springs to further improve the ride quality of the taxi. Manganese Bronze successfully completed the development of three prototype hybrid-powered taxis during the year.

(B) Segmental Information

The Manganese Bronze Group was organised into three operating divisions – vehicle sales, vehicle services, and property.

The vehicle sales segment included the design, development, manufacture, and retailing of new purpose built taxis, along with the sale of used vehicles taken in part exchange, parts, and vehicle maintenance.

The vehicle services segment comprised taxi finance, the US-based advertising business, and the Zingo mobile phone taxi hailing service.

The property segment comprised rental income received and costs associated with the Group's property portfolio, which included a freehold property in Manchester, leased properties in London, Coventry, Birmingham and Leeds, and investment properties in Ipswich and Birmingham.

Segment information about these divisions is presented below:

	Year ended 31 July 2005 *£'000*
Revenue	
Vehicle sales	84,971
Vehicle services	2,042
Property	310
Continuing operations	87,323
Vehicle services – Zingo	275
Discontinued operations	275
Total	87,598
Result	
Vehicle sales	2,217
Vehicle services	838
Property	(79)
Total operating profit from continuing operations	2,976
Investment revenues	251
Finance costs	(724)
Profit before tax from continuing operations	2,503
Tax	94
Loss from discontinued operations	(549)
Profit after tax	2,048

Head office costs have been allocated to segments based on operating profit.

(C) Material acquisitions and disposals

On 9 June 2005, LTI Limited, a wholly-owned subsidiary of Manganese Bronze, acquired 86% of the issued share capital of London Taxis North America Holdings Incorporated for a consideration of £2,554,000.

(D) Liquidity, financial resources and capital structure

The Manganese Bronze Group had net assets of £19.6 million (2004: £18.4 million) and net cash of £3.3 million (2004: £1.7 million net debt). The net cash position was made up of £9.6 million (2004: £6.4 million) of cash deposits less stocking loans for finished vehicles of £5.6 million (2004: £7.4 million) and finance leases of £0.7 million (2004: £0.7 million). The Manganese Bronze Group had a total stocking loan facility of £13.4 million (2004: £13.4 million) and an unused and unchanged overdraft facility of £3.0 million. The balance on the stocking loan included amounts owed by the Manganese Bronze Group's third-party owned dealers for whom the Manganese Bronze Group provided payment guarantees.

The Manganese Bronze Group had an uncommitted overdraft facility of £3.0 million (2004: £3.0 million) which was linked to base rate. The uncommitted and committed sterling denominated stocking finance facility of £13.4 million (2004: £13.4 million) and £5.1 million (2004: £7.4 million) respectively were linked to Finance House Base Rate (FHBR). The committed US dollar denominated stocking finance facility of £0.5 million (2004: £nil) was linked to the US Federal Funds Rate. The sterling denominated finance contracts of £0.2 million at 31 July 2005 (2004: £0.7 million) were fixed at an average rate of 9.9% (2004: 9.9%), with the average calculated over the life of the contract, normally 18 months. The US dollar denominated finance contracts of £0.5 million (2004: £nil) were fixed at an average rate of 3.4%, with the average calculated over the four-year life of the contract. The preference shares were issued at a rate of 8.25% without a repayment date.

Fixed-rate financial liabilities totalled £2.1 million as at 31 July 2005 (2004: £1.3 million), comprising preference share capital, £0.7 million (2004: £0.7 million) of finance contracts, and deferred/contingent consideration of £0.7 million (2004: £nil). Floating-rate financial liabilities totalled £5.6 million (2004: £7.4 million) comprising the sterling denominated £5.1 million (2004: £7.4 million) and US dollar denominated £0.5 million (2004: £nil) stocking loans. The weighted average interest rate of fixed rate liabilities as at 31 July 2005 was 4.24% (2004: 9.11%).

(E) Gearing ratio

As at 31 July 2005, the Manganese Bronze Group's gearing ratio was nil which was defined as the ratio of total net debt to total net assets.

(F) Treasury policies and foreign exchange exposure

Treasury policy sought to reduce the risks arising from the currency and maturity of the Manganese Bronze Group's financial instruments. The main risks arose from the Manganese Bronze Group's financial instruments were interest rate risk, currency risk and liquidity risk. Speculation, including the use of complex financial derivative products, was not part of the Manganese Bronze Group's treasury activities. Financial instruments were sterling denominated where possible. Material foreign currency commitments were hedged for six months ahead using forward contracts. Borrowings and, where they arose, deposits were fixed for periods of up to one year. The functional currency of the Manganese Bronze Group was sterling.

The Manganese Bronze Group sought to minimise interest rate risk by maximising interest received on cash at bank by placing deposits on the money market at the prevailing market rate, for periods up to one month.

The Manganese Bronze Group's main currency exposure was to the Japanese yen, a consequence of the purchase of taxi gearboxes. Forward contracts were used to hedge this exposure.

The Manganese Bronze Group's liquidity policy throughout the year was to maximise the return on funds placed on deposit and to minimise the associated risk by placing funds in low-risk cash deposits.

(G) Charges on Manganese Bronze Group's assets

As at 31 July 2005, the Manganese Bronze Group had no charges on its assets.

(H) Contingent liabilities

Manganese Bronze Group had given a guarantee to HSBC in respect of any amounts outstanding on the Manganese Bronze Group's borrowing facilities. As at 31 July 2005, the relevant Manganese Bronze Group's net borrowings amounted to £nil (2004: £nil). Certain subsidiaries of the Manganese Bronze Group provided warranties and sometimes extended warranties in respect of their products. The directors of Manganese Bronze reviewed the position regularly and considered that appropriate provisions have been made to cover known and expected costs likely to arise under these warranties. Contingent consideration of £510,000 associated with the acquisition of London Taxi North America Holdings Incorporated on 9 June 2005, representing the amount that was reasonably expected to be payable upon the achievement of advertising revenue targets, was included within deferred/contingent liabilities. Further performance related payments up to a maximum of £115,000 may become payable between the date of acquisition and June 2009.

(I) Employees and remuneration policies

The average number of staff employed by the Manganese Bronze Group decreased to 477 during the year ended 31 July 2005 (2004: 521). Manganese Bronze Group was committed to developing its employment policies in line with best practice, and to providing equal opportunities for all regardless of sex, marital status, ethnic origin, religion or disability.

(iii) For the period from 1 August 2005 to 31 July 2006

(A) Results of operation

The Manganese Bronze Group's results for the year ended 31 July 2006 recorded a profit before taxation of £3.7 million (2005: £2.0 million).

Profit before tax, excluding the profit on the sale of properties in Ipswich of £1.1 million, increased by 29% to £2.6 million (2005: £2.0 million). The overall result benefited from lower depreciation and general cost savings, partly offset by lower taxi sales and higher costs of utilities, which were not been passed on to customers.

Sales of new taxis in the UK decreased by 1% to 2,388 vehicles from 2,412 vehicles with London sales marginally ahead of previous year but regional sales slightly weaker. Sales volumes were impacted by the anticipated launch of TX4, news of the change in London emissions regime and the uncertainty caused by regional reviews of taxi regulations. Overseas sales of 92 vehicles (2005: 109 vehicles) included significant sales to relatively new markets, such as South Africa and Nigeria. Revenue from continuing operations declined by 4% to £83.8 million (2005: £87.3 million) due to marginally lower new sales and correspondingly lower used vehicle sales.

During the year ended 31 July 2006, Manganese Bronze made significant investment in the development and launch of the next generation purpose-built taxi – the TX4, which was the most technologically advanced taxi Manganese Bronze had produced and met all the requirements of Euro IV emission legislation as well as Transport for London's Conditions of Fitness. The immediate outlook for Manganese Bronze would be dependent on the impact of the introduction of the new London taxi, the TX4, and Manganese Bronze's potential to maximise the opportunity arising from the impact of emissions regulations. The opening of Manganese Bronze's new Mann & Overton dealership in Brewery Road was timed to coincide with this increased opportunity.

(B) Segmental Information

The Manganese Bronze Group was organised into three operating divisions – vehicle sales, vehicle services, and property.

The vehicle sales segment included the design, development, manufacture, and retailing of new purpose built taxis, along with the sale of used vehicles taken in part exchange, parts, and vehicle maintenance.

The vehicle services segment comprised taxi finance and the US-based advertising business.

The property segment comprised rental income received and costs associated with the Group's property portfolio, which included a freehold property in Manchester, leased properties in London, Coventry, Birmingham and Leeds, and investment properties in Ipswich and Birmingham. The two investment properties were disposed of during the year ended 31 July 2006.

Segment information about these divisions is presented below:

	Year ended 31 July 2006
	£'000
Revenue	
Vehicle sales	81,127
Vehicle services	2,300
Property	397
Continuing operations	83,824
Total	83,824
Result	
Vehicle sales	2,788
Vehicle services	386
Property	938
Total operating profit from continuing operations	4,112
Investment revenues	304
Finance costs	(660)
Profit before tax from continuing operations	3,756
Tax	(920)
Loss from discontinued operations	(86)
Profit after tax	2,750

Head office costs have been allocated to segments based on operating profit.

(C) Material acquisitions and disposals

Manganese Bronze completed the disposal of its surplus properties in Birmingham, for the sum of £0.8 million, and in Ipswich, for the sum of £4.2 million, on 5 August 2005 and 31 March 2006 respectively. The Group had made no significant acquisitions during the year ended 31 July 2006.

(D) Liquidity, financial resources and capital structure

During the year ended 31 July 2006, the Manganese Bronze Group's net assets increased to £21.5 million (2005: £19.6 million) and total cash and cash equivalents increased to £12.9 million (2005: £9.6 million). The cash position improved despite high capital investment of £6.2 million (2005: £2.9 million) and a planned build up of inventories to £17.6 million (2005: £15.3 million), the latter due to the phase out of TXII and introduction of the TX4.

Net cash, being cash and cash equivalents less bank overdrafts and loans and obligations under finance leases reduced to £2.6 million as at 31 July 2006 (2005: £3.3 million) mainly due to an increased stocking loan reflecting the planned inventory build up. The inventory of finished vehicles was financed through a £13.4 million stocking facility from Lloyds TSB plc which was utilised by £9.2 million (2005: £5.1 million).

The Manganese Bronze Group's overdraft facility of £2.5 million (2005: 3.0 million) was provided by HSBC Bank plc and attracted interest at a rate of 1% above the bank's base rate. The Manganese Bronze Group's sterling denominated stocking loan facility of £13.4 million (2005: £13.4 million) was provided by Lloyds TSB Group PLC and attracted interest linked to the Finance House base rate. The Manganese Bronze Group's US dollar denominated stocking loan facility was repaid during the year, and attracted interest linked to the US Federal Funds rate. As at 31 July 2006, the Manganese Bronze Group had available £6.1 million (2005: £11.3 million) of undrawn committed borrowing facilities.

(E) Gearing ratio

As at 31 July 2006, the Manganese Bronze Group's gearing ratio was nil which was defined as the ratio of total net debt to total net assets.

(F) Treasury policies and foreign exchange exposure

Treasury policy sought to reduce the risks arising from the currency and maturity of the Manganese Bronze Group's financial instruments. The main risks arose from the Manganese Bronze Group's financial instruments were interest rate risk, currency risk and liquidity risk. Speculation, including the use of complex financial derivative products, was not part of the Manganese Bronze Group's treasury activities. Financial instruments were sterling denominated where possible. Material foreign currency commitments were hedged for up to 12 months ahead using forward contracts. Borrowings and, where they arose, deposits were fixed for periods of up to one year. The functional currency of the Manganese Bronze Group was sterling.

The Manganese Bronze Group sought to minimise interest rate risk by maximising interest received on cash at bank by placing deposits on the money market at the prevailing market rate, for periods up to one month.

The Manganese Bronze Group utilised currency derivatives to hedge significant future transactions and cash flows. The Manganese Bronze Group's main currency exposure was to the euro (2005: Japanese yen), a consequence of the purchase of taxi components. Forward contracts were used to hedge this exposure.

The Manganese Bronze Group's liquidity policy throughout the year was to maximise the return on funds placed on deposit and to minimise the associated risk by placing funds in low-risk cash deposits.

(G) Charges on Manganese Bronze Group's assets

As at 31 July 2006, the Manganese Bronze Group had no charges on its assets.

(H) Contingent liabilities

Manganese Bronze had given a guarantee to HSBC in respect of any amounts outstanding on the Manganese Bronze Group's borrowing facilities. As at 31 July 2006, the relevant Manganese Bronze Group's net borrowings amounted to £521,000 (2005: £nil). Certain subsidiaries of Manganese Bronze provided warranties and sometimes extended warranties in respect of their products. The directors of Manganese Bronze reviewed the position regularly and considered that appropriate provisions have been made to cover known and expected costs likely to arise under these warranties. Contingent consideration of £80,000 (2005: £510,000) associated with the acquisition of London Taxi North America Holdings Incorporated on 9 June 2005, representing the amount that was reasonably expected to be payable upon the achievement of advertising revenue targets, was included within deferred/contingent liabilities. Subsequent to 31 July 2006, an agreement was reached with the previous owners to accept this amount as full and final settlement. The directors of Manganese Bronze were notified of a potential legal claim from certain of the minority shareholders in London Taxi North America. The directors of Manganese Bronze believed this potential claim to be without legal basis.

(I) Employees and remuneration policies

The average number of staff employed by the Manganese Bronze Group increased marginally to 479 (2005: 477). The Manganese Bronze Group was committed to developing its employment policies in line with best practice, and to providing equal opportunities for all regardless of sex, marital status, ethnic origin, religion or disability.

(iv) For the period from 1 August 2006 to 31 January 2007

(A) Results of operation

The profit before tax for the six months ended 31 January 2007 was £0.7 million (2006: £1.0 million) including run-off cost of £0.7 million to sell final TXII taxis and one off head office costs of £0.5 million.

Total vehicle sales increased by 20.9% in the first half to 1,347 vehicles compared with 1,114 vehicles sold during the six months ended 31 January 2006. The new TX4, featuring a Euro IV engine, a modified braking system to incorporate anti-lock braking, revised rear suspension, and external and internal facelift, has been very well received by the UK market. Since the launch of the TX4, growth has been even stronger, with UK sales in the second quarter of 747 vehicles, an increase of 40% compared with 534 vehicles last year. Customers, the taxi trade press, and passengers alike have all commented favourably on the added refinements introduced on the TX4.

Vehicle sales operating profit of £0.9 million was in line with the comparable period previous year. This, however, included the TXII run-off costs and higher depreciation charges, the latter due to TX4 development and tooling costs of almost £5.5 million, which will be written off over five years.

In January 2007, Manganese Bronze's shareholders approved the establishment of a Chinese joint venture, the Shanghai LTI JV, which will produce London taxis, as well as a limousine and two large saloons, in Shanghai. Manganese Bronze believed that the continuing demand for the TX4 will drive sales higher in the second half. Manganese Bronze also expected that significant progress will be made in Shanghai in transferring Manganese Bronze's intellectual property to the Company, and in preparing the Shanghai facility for the start of production.

(B) Segmental Information

The Manganese Bronze Group was organised into three operating divisions – vehicle sales, vehicle services, and property.

The vehicle sales segment included the design, development, manufacture, and retailing of new purpose built taxis, along with the sale of used vehicles taken in part exchange, parts, and vehicle maintenance.

The vehicle services segment comprised taxi finance, the US-based advertising business.

The property segment comprised rental income received and costs associated with the Group's property portfolio, which included a freehold property in Manchester, leased properties in London, Coventry, Birmingham and Leeds, and investment properties in Ipswich and Birmingham. The two investment properties were disposed of during the year ended 31 July 2006.

Segment information about these divisions is presented below:

	Six months ended 31 January 2007 *£'000*
Revenue	
Vehicle sales	44,713
Vehicle services	761
Property	–
Continuing operations	45,474
Total	45,474
Result	
Vehicle sales	860
Vehicle services	141
Property	–
Total operating profit from continuing operations	1,001
Investment revenues	75
Finance costs	(418)
Profit before tax from continuing operations	658
Tax	(1)
Profit after tax	657

Head office costs have been allocated to segments based on operating profit.

(C) Material acquisitions and disposals

During the six months ended 31 January 2007, the Manganese Bronze Group did not have any material acquisitions and disposals.

(D) Liquidity, financial resources and capital structure

Net funds as at 31 January 2007 were £0.6 million (2006: £2.3 million net debt), despite high capital expenditure in the last twelve months of £8.4 million on TX4, Brewery Road and the London TXII rental fleet. Cash in bank at 31 January, 2007 was £8.8 million (2006: £6.8 million).

The Manganese Bronze Group's overdraft facility of £2.5 million (2006: £2.5 million) was provided by HSBC Bank plc and attracted interest at a rate of 1% above the bank's base rate. The Manganese Group's sterling denominated stocking loan facility of £13.4 million (2006: £13.4 million) was provided by Lloyds TSB Group PLC and attracted interest linked to the Finance House Base Rate.

(E) Gearing ratio

As at 31 January 2007, the Manganese Bronze Group's gearing ratio was nil which was defined as the ratio of total net debt to total net assets.

(F) Treasury policies and foreign exchange exposure

Treasury policy sought to reduce the risks arising from the currency and maturity of the Manganese Bronze Group's financial instruments. The main risks arose from the Manganese Bronze Group's financial instruments were interest rate risk, currency risk and liquidity risk. Speculation, including the use of complex financial derivative products, was not part of the Manganese Bronze Group's treasury activities. Financial instruments were sterling denominated where possible. Material foreign currency commitments were hedged for up to 12 months ahead using forward contracts. Borrowings and, where they arose, deposits were fixed for periods of up to one year. The functional currency of the Manganese Bronze Group was sterling. The Manganese Bronze Group utilised currency derivatives to hedge significant future transactions and cash flows.

The Manganese Bronze Group sought to minimize interest rate risk by maximising interest received on cash at bank by placing deposits on the money market at the prevailing market rate, for periods up to one month.

The Manganese Bronze Group's main currency exposure was to the euro (2006: Japanese yen), a consequence of the purchase of taxi components. Forward contracts were used to hedge this exposure.

The Manganese Bronze Group's liquidity policy throughout the period was to maximise the return on funds placed on deposit and to minimize the associated risk by placing funds in low-risk cash deposits.

(G) Charges on Manganese Bronze Group's assets

As at 31 January 2007, the Manganese Bronze Group had no charges on its assets.

(H) Contingent liabilities

Manganese Bronze had given a guarantee to HSBC in respect of any amounts outstanding on the Manganese Bronze Group's borrowing facilities. As at 31 January 2007, the relevant Manganese Bronze Group's net borrowings amounted to £nil (2006: £nil). Certain subsidiaries of Manganese Bronze provided warranties and sometimes extended warranties in respect of their products. The directors of Manganese Bronze reviewed the position regularly and considered that appropriate provisions were made to cover known and expected costs likely to arise under these warranties. The directors of Manganese Bronze were notified of a potential legal claim from certain of the minority shareholders in London Taxi North America. The directors of Manganese Bronze believed this potential claim to be without legal basis.

(I) Employees and remuneration policies

The average number of staff employed by the Manganese Bronze Group decreased marginally to 470. The Manganese Bronze Group was committed to developing its employment policies in line with best practice, and to providing equal opportunities for all regardless of sex, marital status, ethnic origin, religion or disability.

FINANCIAL EFFECTS OF THE TRANSFERS

Upon completion of the Transfers, the Group will be interested in approximately 23% in the enlarged share capital of Manganese Bronze. Manganese Bronze will become an associated company of the Company and its results will be equity accounted for in the consolidated financial statements of the Group. Shanghai LTI JV will become an indirect 51%-owned subsidiary of the Company and its results will be consolidated in the consolidated financial statements of the Group. Detailed financial effects of the Transfers on the earnings and assets and liabilities to the Group are illustrated in the section headed "Appendix III – Pro Forma Financial Information" of this circular.

REASONS FOR THE TRANSFERS AND THE FORMATION OF THE SHANGHAI LTI JV

It is estimated that mass production of the Shanghai LTI JV will commence in mid 2008. As the Group is principally engaged in the manufacturing and trading of automobile parts and related automobiles in the PRC, the Transfers and the establishment of the Shanghai LTI JV serve as the initial steps towards co-operation with Manganese Bronze. The Directors are of the view that the co-operation with Manganese Bronze would enable the Group to tap into Manganese Bronze's car manufacturing technology techniques and to participate in the manufacturing of London taxi. Furthermore, the co-operation with Manganese Bronze would also provide new sources of earnings to the Group from the share of profit from i) the Shanghai LTI JV upon the mass production of the Shanghai LTI JV; and ii) Manganese Bronze upon the receipt of the MB Consideration Shares from Manganese Bronze. Accordingly, the Directors consider the terms of the Equity Transfer Agreement and the Amended and Restated JV Agreement are fair and reasonable and the formation of the Shanghai LTI JV is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Group intends to hold its interest in Manganese Bronze upon completion of the Transfers as a long-term investment and Manganese Bronze will be accounted for as an associated company of the Company.

REASONS FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Directors consider that the Non-Exempt Continuing Connected Transactions will ensure the smooth operation of the Shanghai LTI JV and the Non-Exempt Continuing Connected Transactions to be entered into in the ordinary course of businesses of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Shanghai Maple JV obtained the land use rights for the Site on 15 March 2007. In the interest of time, the Directors consider that it is in the interest of the Shanghai LTI JV to enter into the Land and Facilities Contract with terms based on normal commercial terms or no less favourable terms than those quoted by independent third parties (as the case maybe) as it would be time consuming for the Shanghai LTI JV, a sino-foreign joint venture, to obtain such land use rights.

The Shanghai Maple JV produces the Components in its ordinary and usual course of business for use in automobile manufacturing. The Directors consider that the purchase of the Components from the Shanghai Maple JV based on normal commercial terms or no less favourable terms than those quoted by independent third parties (as the case maybe) would streamline the manufacturing process of the Shanghai LTI JV and ensure the quality of the Components will still remain within the control of the Shanghai LTI JV.

In addition, Shanghai Maple, in its ordinary and usual course of business, performs final assembly, sale and distribution of automobiles in the PRC. As Shanghai Maple holds the relevant approved automobile products catalogue which is required for the sale of automobiles in the PRC under the PRC laws, and the terms of the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly are based on normal commercial terms or no less favourable terms than those quoted by independent third parties (as the case maybe), the Directors consider that it is in the interest of the Shanghai LTI JV to supply the automobile parts, components and sub-assembly to Shanghai Maple for final assembly, sales and distribution.

The Directors also consider that entering into of the Supply and Purchase Agreement for Parts and Components with selling price of automobile parts and components to LTI based on normal commercial terms or no less favourable terms than those quoted by independent third parties (as the case maybe) would enhance the demand of products produced by the Shanghai LTI JV.

REQUIREMENTS OF THE LISTING RULES

The Equity Transfer Agreement constitutes a very substantial acquisition of Manganese Bronze's interests by the Company and a discloseable disposal of the Company's interest in the JV under the Listing Rules. The Equity Transfer Agreement is therefore subject to the approval of the Shareholders at the EGM. As Manganese Bronze is an independent third party prior to entering into of the Equity Transfer Agreement and has no interest in the Shares and no Shareholder has a material interest in the Equity Transfer Agreement which is different from that of the other Shareholders, no Shareholder is required to abstain from voting in the proposed ordinary resolution to approve the Equity Transfer Agreement at the EGM.

Shanghai Maple is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that Shanghai Maple is beneficially owned by Mr. Li and his associates. Accordingly, the Amended and Restated JV Agreement constitutes a connected transaction for the Company under Chapters 14 and 14A of the Listing Rules and is subject to the requirements of reporting, announcement, and the approval by the Independent Shareholders (by way of poll) as set out in Chapter 14A of the Listing Rules. Proper Glory and Geely Group (both wholly-owned by Mr. Li, and holding in aggregate, 52.33% in the issued share capital of the Company) and their associates will abstain from voting for the resolution to approve the Amended and Restated JV Agreement to be put forward at the EGM.

Upon completion of the Equity Transfer Agreement, Manganese Bronze will have an interest of 48% in the Shanghai LTI JV and will become a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Contract Manufacturing Agreement; the Land and Facilities Contract; the Supply and Purchase Agreement for Parts and Components; and the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Proper Glory and Geely Group (both wholly-owned by Mr. Li, and holding in aggregate, 52.33% in the issued share capital of the Company) and their associates will abstain from voting for the resolutions to approve the Contract Manufacturing Agreement; the Land and Facilities Contract; the Supply and Purchase Agreement for Parts and Components; the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions to be put forward at the EGM.

INDEPENDENT BOARD COMMITTEE/INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions. Quam Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The Company will convene the EGM at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Wednesday, 18 April 2007, at 10:00 a.m. at which ordinary resolutions will be proposed for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement, the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions. Proper Glory and Geely Group, (both wholly-owned by Mr. Li, and holding in aggregate, 52.33% in the issued share capital of the Company) and their associates will abstain from voting for the resolutions to approve the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions to be put forward at the EGM.

A form of proxy for use by the Shareholders and the Independent Shareholders at the EGM and at any adjournment thereof is enclosed. Whether or not you propose to attend and vote at the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrars in Hong Kong, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM, or any adjourned meeting, should you so wish.

PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 80, every resolution submitted to a general meeting shall be determined on a show of hands in the first instance by the Shareholders present in person, but a poll may be demanded (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) by the Chairman or by:

(a) at least 5 Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or

(b) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(c) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(d) any Director or any Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights at such meeting.

GENERAL

You are advised to read carefully the letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders set out on page 51 of this circular in respect of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions. Your attention is also drawn to the letter of advice from Quam Capital containing its advice to the Independent Board Committee and the Independent Shareholders set out on pages 52 to 80 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board of
Geely Automobile Holdings Limited
David C.Y. Cheung
Company Secretary

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

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 175)

2 April 2007

To the Independent Shareholders

Dear Sir or Madam,

I) DISCLOSEABLE TRANSACTION RELATING TO THE DISPOSAL OF A 48% INTEREST IN THE EQUITY OF THE JV; II) VERY SUBSTANTIAL ACQUISITION RELATING TO THE PROPOSED ACQUISITION OF AN APPROXIMATELY 23% INTEREST IN THE ENLARGED ISSUED SHARE CAPITAL OF MANGANESE BRONZE HOLDINGS PLC; AND III) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 2 April 2007 (the "Circular'') to the Shareholders, of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions, details of which are set out in the letter from the Board in the Circular.

Having taken into account of the advice of Quam Capital, the independent financial adviser, we consider that the entering into of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components and the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly is in the interests of the Company and the Shareholders as a whole and the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Land and Facilities Contract, the Supply and Purchase Agreement for Parts and Components, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Annual Caps in relation to the Non-Exempt Continuing Connected Transactions.

Yours faithfully,
Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex
Independent Board Committee

The following is the full text of the letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly, the Supply and Purchase Agreement for Parts and Components and the Land and Facilities Contract and the Annual Caps.

Quam Financial Services Group
Quam Capital Limited 華富嘉洛企業融資有限公司
A Member of The Quam Group

2 April 2007

To the Independent Board Committee and the Independent Shareholders
Geely Automobile Holdings Limited
Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Dear Sir or Madam,

THE AMENDED AND RESTATED JV AGREEMENT AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Amended and Restated JV Agreement, the Contract Manufacturing Agreement, the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly, the Supply and Purchase Agreement for Parts and Components and the Land and Facilities Contract (collectively, hereinafter referred to as the "**Non-Exempt Continuing Connected Transactions Agreements**") and the Annual Caps. Details of the terms of the Amended and Restated JV Agreement and the Non-Exempt Continuing Connected Transactions Agreements are set out in the "Letter from the Board" contained in the circular issued by the Company to the Shareholders dated 2 April 2007 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Amended and Restated JV Agreement and each of the Non-Exempt Continuing Connected Transactions Agreements have been entered into by the Group within its ordinary and usual course of business based on normal commercial terms; and their respective terms and conditions together with the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and to advise the Independent Shareholders as to whether to vote in favour of the Amended and Restated JV Agreement, the Non-Exempt Continuing Connected Transactions Agreements and the adoption of the Annual Caps. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders.

Quam Capital Limited is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Amended and Restated JV Agreement, the Non-Exempt Continuing Connected Transactions Agreements and the Annual Caps.

In formulating our recommendation, we have relied on the information, facts supplied by the Company and its advisers, and the opinions expressed by and the representations of the Directors and management of the Company. We have assumed that all the information and representations contained or referred to in the Circular were true and accurate in all respects at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time that they were made and continue to be true at the date thereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Directors have confirmed to us that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Shanghai Maple, Manganese Bronze or any of their respective subsidiaries or associates.

A. THE AMENDED AND RESTATED JV AGREEMENT

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for entering into the Amended and Restated JV Agreement

(a) Principal activities of the Shanghai LTI JV

Pursuant to the Amended and Restated JV Agreement, the business scope of the Shanghai LTI JV is to engage in the manufacturing, sales and distribution of automobile parts, components and sub-assemblies; design, research and development in relation to the above and provision of aftersales services.

As the above is in line with the Group's core business of manufacturing and trading of automobile parts and related automobiles in the PRC, we are of the view that the entering into of the Amended and Restated JV Agreement by the Group is within its usual and ordinary course of the business.

(b) Background of and reasons for the Amended and Restated JV Agreement

As disclosed in its interim report for the six months ended 30 June 2006, it is a stated policy and objective of the Company to continue to upgrade and expand its production facilities to improve quality and reduce costs, to invest in product and technology innovation and to establish strategic alliances with major suppliers, with an aim to develop the Group into an internationally competitive sedan manufacturer.

Manganese Bronze, a company incorporated under the Laws of England and Wales, is principally engaged in production, sales and distribution of taxi mainly in the United Kingdom; and provision of finance for the purchase of taxi manufactured by the Manganese Bronze Group. Its shares are listed on the main board of the London Stock Exchange. For the two financial years ended 31 July 2006 and the six months ended 31 January 2007, the Manganese Bronze Group has recorded an audited profit after taxation of around GBP2.05 million (equivalent to around HK$31.28 million), GBP2.75 million (equivalent to around HK$42.00 million) and GBP0.66 million (equivalent to around HK$10.03 million) respectively under the International Financial Reporting Standards.

As the initial step towards the strategic business co-operation with Manganese Bronze, the Company entered into the JV Agreement with Shanghai Maple on 9 November 2006 for the joint establishment of the JV (the predecessor of the Shanghai LTI JV). On the same date, the Company and Manganese Bronze also entered into the Master Agreement, the Supplemental Agreement and the Additional Supplemental Agreement on 23 January 2007 and 22 March 2007 respectively, regarding their future co-operation in relation to the JV. Details of the Master Agreement and the Supplemental Agreement are disclosed in the Company's circular and announcement dated 1 December 2006 and 23 January 2007 respectively; whereas details of the Additional Supplemental Agreement are set out in the section headed "Letter from the Board" of the Circular.

The JV was duly established under the laws of the PRC on 7 March 2007. Pursuant to the Master Agreement and the Additional Supplemental Agreement, on 22 March 2007, the Company and Manganese Bronze entered into the Equity Transfer Agreement, and also caused their respective affiliates which are parties to the relevant documents to enter into, among others, the Amended and Restated JV Agreement and the Non-Exempt Continuing Connected Transactions Agreements. Pursuant to the Equity Transfer Agreement, the Company will transfer a 48% equity interest in the JV to Manganese Bronze in exchange for 5.7 million new MB Shares to be issued to Linkstate by Manganese Bronze, representing around 23% of its then enlarged share capital. Upon completion of the Transfers, the name of the JV will be changed to that of the Shanghai LTI JV.

It is noted that the business objectives of the Shanghai LTI JV as stated in the Amended and Restated JV Agreement are to (i) make full use of the advantages of each of Luck Empire, Shanghai Maple and Manganese Bronze; (ii) strengthen its capabilities in the areas of technology, research and development; (iii) design, develop and manufacture the Products in mainland China; (iv) maximise the sales of the Products to Shanghai Maple for assembly of the LTI TX Series Products and three saloon car models in mainland China; (v) enhance its competitiveness in the automobile parts and components market; (vi) improve its economic efficiency; and (vii) make maximum profits and derive investment returns satisfactory to each of Luck Empire, Shanghai Maple and Manganese Bronze.

It is also noted that as disclosed in the document issued by Manganese Bronze on 22 December 2006 in respect of the Amended and Restated JV Agreement, it has achieved only limited success in making sales in foreign markets during the financial year ended 31 July 2006 mainly due to the relatively high production cost of vehicles in the United Kingdom, which has also been a major factor limiting sales in its home market for many years. It is also stated that China offers both a rapidly expanding market for vehicles and also a highly skilled workforce with labour costs around 10% of those in the United Kingdom, and the joint venture contemplated under the Amended and Restated JV Agreement and the related arrangements will result in the production of the London taxi at a significantly reduced cost.

In view of the Manganese Bronze Group's principal activities and track record and the Shanghai LTI JV's business objectives, we concur with the Directors' view that the co-operation with Manganese Bronze, through its participation in the Shanghai LTI JV, can enable the Group to tap into Manganese Bronze's car manufacturing technology and to participate in the production of London taxi; and provide the Group with new sources of income to be generated by the Shanghai LTI JV and Manganese Bronze. This conforms to the stated long-term business strategy of the Group as discussed above.

In light of the foregoing, we are of the view that the entering into of the Amended and Restated JV Agreement by the Group is in the interests of both the Company and the Shareholders as a whole, as it will materialise and formalise the strategic alliance between the Group and Manganese Bronze.

2. Principal terms of the Amended and Restated JV Agreement

Set out below is the summary of the principal terms and conditions of the Amended and Restated JV Agreement:

(a) Profit sharing

Under the Amended and Restated JV Agreement, all of the distributable earnings of the Shanghai LTI JV will be distributed to the parties thereto by way of dividend in accordance with their then proportionate interest in the registered capital of the Shanghai LTI JV. As such, we are of the view that the terms of the Amended and Restated JV Agreement are on normal commercial terms, fair and reasonable and in the interests of both the Company and the Shareholders as a whole in this regard.

(b) Pre-emptive rights

No party may sell, assign, pledge or otherwise dispose of all or any part of its equity interest in the registered capital of the Shanghai LTI JV unless each other party has consented in writing to such sale, assignment, pledge or disposition.

It is noted that if any party intends to sell, assign, pledge or dispose of, or receives an offer by a third party to purchase, its then equity interest in the Shanghai LTI JV, such party is obliged to (i) serve a written notice to each other party with details of the terms and conditions of its proposed sale, assignment, pledge or disposal (the "**Offer Terms**") and the identity of the proposed third party together with the terms and conditions of any offer made by it; and (ii) offer to sell the same to each other party on terms and conditions no less favourable to each other party than the Offer Terms.

Given that the aforementioned provisions will help safeguard the Group's interest in the Shanghai LTI JV regarding the continued participation of both Manganese Bronze and Shanghai Maple, we consider the terms of the Amended and Restated JV Agreement are fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole in this regard.

(c) Management of the Shanghai LTI JV

The board of directors of the Shanghai LTI JV will comprise five members, of which two (including the chairman) will be nominated by Luck Empire, two (including the vice chairman) will be nominated by Manganese Bronze and the remaining one will be nominated by Shanghai Maple. The quorum of board meeting will be two thirds or more of the then total number of directors and must consist of directors nominated by Luck Empire and Manganese Bronze, respectively.

It is also noted that any changes to the provisions of the articles of association of the Shanghai LTI JV, and the amount of its registered capital will be subject to the unanimous approval of all the directors of the Shanghai LTI JV.

The provisions mentioned above will ensure there will be sufficient management control afforded to the Group in the operations of the Shanghai LTI JV. In this regard, we consider the terms of the Amended and Restated JV Agreement are fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

(d) Disposal of the Shanghai LTI JV

In the event that any of the joint venture partners is the subject of proceedings for liquidation or dissolution or ceasing to carry on business or the Shanghai LTI JV is subject to early termination, the non-breaching party may elect to purchase the Shanghai LTI JV as a going concern at fair market value.

It is noted that in such event, the fair market value of the Shanghai LTI JV is to be determined based on appraisals on the Shanghai LTI JV together with its subsidiaries (if any), by independent appraisers separately engaged by the parties involved and the external auditor of the Shanghai LTI JV (if necessary), on a going concern basis. As such, we are of the opinion that the terms of the Amended and Restated JV Agreement are on normal commercial terms, fair and reasonable and in the interests of both the Company and the Shareholders as a whole in this regard.

(e) Non-competition provisions

There are various non-competition provisions including an undertaking in respect of the production of the LTI TX Series Products given by Manganese Bronze in favour of Luck Empire and Shanghai Maple, details of which are set out in the section headed "Letter from the Board" of the Circular.

Given that the aforesaid non-competition provisions will provide sufficient safeguards for the Group's interests and substantial investment in the business co-operation with Manganese Bronze through the Shanghai LTI JV, we consider the terms of the Amended and Restated JV Agreement are on normal commercial terms, fair and reasonable and in the interests of both the Company and the Shareholders as a whole.

3. Funding commitment of the Group under the Amended and Restated JV Agreement

(a) Capital contribution

The Group is not required to make any additional capital contribution to the registered capital of the Shanghai LTI JV, apart from its share of the capital contribution in the amount of US$53,754,178.50 (equivalent to around HK$418.58 million) in cash to the registered capital of the JV (the "**Capital Contribution**") in accordance to the terms of the JV Agreement. Pursuant to the Amended and Restated JV Agreement, the Company shall have made the full payment of the Capital Contribution prior to its effective date, which is also a condition to the completion of the Transfers.

It is noted that as disclosed in the Company's announcement dated 15 February 2007, the Directors have earmarked around HK$418.58 million for the payment of the Capital Contribution, of the net proceeds of around HK$609 million raised through a top-up placement of the Shares effected by the Company in February 2007.

As such, the entering into of the Amended and Restated JV Agreement will not have any adverse impact on the working capital requirements of the Group.

(b) Additional funding for the Shanghai LTI JV

Pursuant to the Amended and Restated JV Agreement, the Shanghai LTI JV may obtain additional funds through external financing and/or equity contribution to finance its further investment. Nevertheless, it should be noted that none of Luck Empire, Manganese Bronze or Shanghai Maple has any obligation to contribute additional funds to the Shanghai LTI JV or to provide any guarantee or other security to a third party or financial institutions for any loan to be granted to the Shanghai LTI JV.

Furthermore, the Directors confirmed that the Group will not contribute additional funding to the Shanghai LTI JV or to provide guarantee or other security to a third party or financial institutions for any loan to be granted to the Shanghai LTI JV for the difference between the total investment and the registered capital amounts.

4. Possible financial impacts of the entering into of the Amended and Restated JV Agreement on the Group

As discussed above, (i) there is no financing obligation in respect of any further capital contribution by the Group to the Shanghai LTI JV as a result of its entering into of the Amended and Restated JV Agreement; and (ii) the Group has no obligation to, and the Directors have also confirmed that the Group will not, finance any additional funding required by the Shanghai LTI JV or to provide guarantee or other security to a third party or financial institutions for any loan to be granted to the Shanghai LTI JV for the difference between the total investment and the registered capital amounts.

In view of the foregoing, there will not be any adverse impact on the financial position of the Group as a result of its entering into of the Amended and Restated JV Agreement.

RECOMMENDATION

Having considered the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the entering into of the Amended and Restated JV Agreement by the Group materialises and formalises its business co-operation with Manganese Bronze, which is in line with its stated long-term business objective and strategy;
- the terms of the Amended and Restated JV Agreement and in particular the profit sharing provision, which is in proportion to the respective equity interests of the joint venture partners; and
- there will not be any adverse impact on the financial position of the Group as a result of its entering into of the Amended and Restated JV Agreement,

we are of the view that the entering into of the Amended and Restated JV Agreement by the Group is conducted within its ordinary and usual course of business based on normal commercial terms, and it is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Amended and Restated JV Agreement.

B. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AGREEMENTS AND THE ANNUAL CAPS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Non-Exempt Continuing Connected Transactions Agreements and the Annual Caps

On 22 March 2007, in conjunction with the Amended and Restated JV Agreement, the Group also entered into the following inter-related contractual arrangements relating to the Shanghai LTI JV's future business operations with Shanghai Maple, the Shanghai Maple JV or LTI:

- the Contract Manufacturing Agreement regarding the purchase of the Components by the Shanghai LTI JV from the Shanghai Maple JV;
- the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly regarding the supply of automobile parts, components and sub-assembly by the Shanghai LTI JV to Shanghai Maple;
- the Supply and Purchase Agreement for Parts and Components regarding the supply of automobile parts and components by the Shanghai LTI JV to LTI; and
- the Land and Facilities Contract regarding the leasing arrangements of the Site including the buildings and equipment thereon for the Shanghai LTI JV as its production facilities.

Each of the aforementioned Non-Exempt Continuing Connected Transactions Agreements is for the implementation and facilitation of the co-operation between the Company and Manganese Bronze in relation to the manufacturing operations of the Shanghai LTI JV in future; and therefore forms an integral part of the business alliance between the two companies in form of the Shanghai LTI JV.

Given the Group's business nature and the Shanghai LTI JV's business objectives as described under the section A above, it is reasonable to expect that the Non-Exempt Continuing Connected Transactions mentioned above will continue to take place on a regular basis in the Group's ordinary and usual course of business in future. As such, we are of the view that it would be impractical for the Company to strictly comply with the Listing Rules requirements regarding "connected transactions" on each occasion when they arise. In this respect, we consider that it is in the interests of the Company and the Shareholders as a whole to have the Non-Exempt Continuing Connected Transactions Agreements in place and to adopt the Annual Caps, as that would help facilitate the smooth operation and future development of the Group's business for the next three financial years ending 31 December 2009.

2. Principal terms of the Non-Exempt Continuing Connected Transactions Agreements (save for the term related to tenure)

Set out below are the principal terms of the Non-Exempt Continuing Connected Transactions Agreements (except for the term related to tenure which is discussed separately in section 3 below) and the nature of the subject transactions related thereto:

(a) The Contract Manufacturing Agreement

(i) Nature of the transactions

Pursuant to the Contract Manufacturing Agreement, the Shanghai Maple JV will license the use of its press machines and related facilities required for the production of the Components to the Shanghai LTI JV and will manufacture the Components for the Shanghai LTI JV. The Shanghai LTI JV also agreed to grant to the Shanghai Maple JV a non-exclusive and royalty-free licence to use the Tools in the PRC to manufacture the Components, and the Shanghai Maple JV agreed to manufacture for and supply to the Shanghai LTI JV the Components in accordance with the product specification set out in the Contract Manufacturing Agreement.

We have reviewed the Contract Manufacturing Agreement and noted that the Shanghai Maple JV shall manufacture and supply the Components solely and exclusively for the Shanghai LTI JV and shall not sell or transfer the Components to any party other than the Shanghai LTI JV. We were advised that all the Components to be manufactured and supplied by the Shanghai Maple JV will be utilised by the Shanghai LTI JV for its production of automobile parts, components and sub-assembly under the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly and the Supply and Purchase Agreement for Parts and Components, details of which are set out below.

As advised by the Company, the Shanghai Maple JV has been principally engaged in the manufacture of the Components for use in automobile manufacturing for more than three years.

Based on the above, we are of the view that the entering into of the Contract Manufacturing Agreement is conducted within the usual and ordinary course of business of both the Group and the Shanghai Maple JV. Furthermore, we concur with the Directors' view that it will help streamline the manufacturing process of the Shanghai LTI JV by securing a reliable source of supply of the Components for its production. In this respect, we consider that it is in the interests of both the Company and the Shareholders as a whole.

(ii) Pricing basis

Pursuant to the Contract Manufacturing Agreement, the Components to be manufactured by the Shanghai Maple JV shall be sold to the Shanghai LTI JV initially at a price based on cost plus 3%, subject to review as detailed below. The cost element shall include appropriate fixed cost incurred by the Shanghai Maple JV based on pro-rata production volume accounted by supply to the Shanghai LTI JV. It should be noted that determination of the cost element will be subject to both the annual audit of the Shanghai Maple JV and mutual agreement between the Shanghai LTI JV and the Shanghai Maple JV. The Directors confirmed that the aforementioned basis for pricing policy (including the 3% profit margin) was determined by the parties involved after arm's length negotiations.

As advised by the Company, the Group had not in the past conducted any similar transactions with independent third parties as the Components to be manufactured with LTI's licensed technology are of specific specifications, which are not otherwise available from independent third parties. As such, there are no independent relevant transactions available for direct comparison. Notwithstanding this, we have reviewed the pricing policy of similar transactions of component procurement undertaken by the Company's other joint ventures in the PRC, and noted that the aforementioned 3% profit margin is more favourable to the Shanghai LTI JV when compared to the respective term of the transactions under our review.

It should also be noted that the board of directors of the Shanghai LTI JV will formally evaluate once every three years whether it would be necessary or appropriate to initiate discussions with the Shanghai Maple JV in relation to the aforementioned pricing basis to ensure fairness to the Shanghai LTI JV by making reference to the fair market price prevailing at the time of such evaluation. If the board members of the Shanghai LTI JV decide unanimously that such a discussion with the Shanghai Maple JV is necessary or appropriate, the Shanghai Maple JV will conduct a good faith review of the aforementioned pricing basis with the Shanghai LTI JV upon its request. The said arrangement shall commence on the third anniversary of the commencement of production.

In light of the foregoing, we are of the view that the basis for pricing determination under the Contract Manufacturing Agreement is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(b) The Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly

(i) Nature of the transactions

Pursuant to the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly, the Shanghai LTI JV agreed to manufacture and supply and Shanghai Maple agreed to purchase the automobile parts, components and sub-assembly (the "**Semi-finished Products**") to be used in final assembly of the LTI TX Series Products and saloon cars (the "**Final Products**") in accordance with the product specification set out therein.

We have reviewed the said agreement and noted that the Shanghai LTI JV shall not sell or transfer the Semi-finished Products to any party other than Shanghai Maple except as provided for in the Supply and Purchase Agreement for Parts and Components, details of which are set out below. We also noted that all the Semi-finished Products to be manufactured by the Shanghai LTI JV on behalf of Shanghai Maple will be solely used for the final assembly of the Final Products by Shanghai Maple for its sale to the End Distributor and the End Customers.

We are advised by the Company that it is the regulatory requirement under the PRC laws that automobile manufacturers are required to be approved by and obtain the relevant automobile products catalogue from the National Development Reform Commission of the PRC (the "**Automobile Products Catalogue**") to carry out automobile manufacturing in the PRC. We are further advised by the Company that it would not be practical at present for the Shanghai LTI JV, a sino-foreign joint venture, to apply for such accreditation.

On the other hand, Shanghai Maple is principally engaged in the final assembly, sale and distribution of automobiles in the PRC. It is noted that Shanghai Maple has already been approved as an automobile manufacturer in the PRC with the relevant Automobile Products Catalogue for certain types of automobiles in the PRC, including the categories to which the Final Products belong.

In light of the above, we are of the opinion that the entering into of the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly is within the usual and ordinary course of business of both the Shanghai LTI JV and Shanghai Maple; and is in the interests of both the Company and the Shareholders as a whole as it helps facilitate the final assembly and sale of the Final Products.

(ii) Pricing basis

Pursuant to the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly, the Shanghai LTI JV and Shanghai Maple shall jointly determine the respective selling price of the Final Products (the "**Final Selling**

Price") to the End Customers and the End Distributor. It should be noted that if the Shanghai LTI JV and Shanghai Maple fail to come to an agreement, the Final Selling Price determined by the Shanghai LTI JV shall prevail.

Shanghai Maple shall retain (a) 8% (for sale to the End Customers) or 1.5% (for sale to the End Distributor) of the Final Selling Price or (b) a percentage made available to the Group in similar transactions in respect of sales of the Semi-finished Products to be entered into with independent third parties who assist in the final assembly and distribution of the Final Products, whichever is lower (excluding tax). The Directors confirmed that the aforesaid pricing basis has been determined after arm's length negotiations between the Group and Shanghai Maple with primary reference to the Shanghai LTI JV's earning and capacity utilisation objectives, after taking into account the distribution costs to be borne by and a reasonable spread of margin required by Shanghai Maple for the final assembly and sale and distribution of the Final Products.

In particular, we are advised that for sales to the End Customers, the margin retained by Shanghai Maple is to cover both the cost of final assembly and the distribution costs payable by Shanghai Maple (including any commission or payment it may need to pay its dealers, distributors or sales agents or advertising and after-sales service expenses). In regard of the sales to the End Distributor, i.e. LTI, for its onward distribution, the margin retained by Shanghai Maple is capped at a relatively low percentage, as it is to cover mainly the cost of final assembly.

As the Semi-finished Products to be manufactured with LTI's licensed technology are of specific specifications, which are not otherwise available from independent third parties, there are no relevant transactions in the same industry available for direct comparison. Notwithstanding this, in respect of the sales to the End Customers, we have reviewed similar arrangements undertaken by the Company's other joint venture in the PRC in relation to the sales of certain sedans. It is noted that (i) the Company's joint venture adopted similar pricing policy with the automobile distributors who are independent third parties; and (ii) the abovementioned maximum 8% retained margin is comparable to those retained by such independent third parties for their sales and distribution of the sedans, which ranged from around 8.5% to 10.6%. However, we are advised that there had been no comparable transactions for those involved sales to the End Distributor for onward distribution in the past for our analysis.

Given the above and in particular after taking into account the following:

- that the Final Selling Price is to be jointly determined between the Shanghai LTI JV and Shanghai Maple, and particularly, the price determined by the Shanghai LTI JV shall prevail in case of disagreement between the two parties; and

- the margin to be retained by Shanghai Maple is to be not more than that made available to independent third parties by the Group in similar transactions;

we consider that the pricing basis discussed above is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(c) The Supply and Purchase Agreement for Parts and Components

(i) Nature of the transactions

Pursuant to the Supply and Purchase Agreement for Parts and Components, the Shanghai LTI JV agreed to supply and LTI agreed to purchase automobile parts and components for the production of LTI's products in accordance with the product specification set out therein.

Given the cost advantage of the Shanghai LTI JV over the automobile components and parts manufacturers in the United Kingdom in view of the relatively low labour cost in the PRC, we concur with the Directors' view that there will be strong demand for the products of the Shanghai LTI JV from LTI.

As discussed above, one of the principal activities of Manganese Bronze are the production, sales and distribution of taxi mainly in the United Kingdom. Therefore, we are of the view that the entering into of the Supply and Purchase Agreement for Parts and Components is within the usual and ordinary course of business of both the Shanghai LTI JV and LTI; and is in the interests of both the Company and the Shareholders as a whole, as it will provide the Shanghai LTI JV a recurrent source of income.

(ii) Pricing basis

Pursuant to the Supply and Purchase Agreement for Parts and Components, the automobile parts and components to be manufactured by the Shanghai LTI JV shall be sold to LTI initially at a price set at cost plus 3%, subject to review as detailed below.

We are advised that the aforementioned pricing basis was determined by the parties through arm's length negotiations after taking into account (i) the granting of the royalty-free licence by LTI to use its trademarks under the Trademark Licence Agreement (Shanghai LTI JV) for the manufacture of the automobile parts, components and sub-assemblies by the Shanghai LTI JV; and (ii) the granting of the non-assignable and royalty-free licence to use the brand names, technology and other rights under the Technology and IPR Licence Agreement (Shanghai LTI JV) (together with the Trademark Licence Agreement (Shanghai LTI JV), the "**LTI Licence and Technology**

Agreements") for the manufacture of the automobile parts, components and sub-assemblies required for the production of various models of London taxi throughout the term of the Shanghai LTI JV. For details of the LTI Licence and Technology Agreements, please refer to the section headed "Letter from the Board" of the Circular.

It is confirmed by the Company that the LTI Licence and Technology Agreements are essential and imperative to the Shanghai LTI JV's successful manufacturing operations. As such, we are of the view that the said agreement forms an integral part of the business co-operation between the Group and Manganese Bronze in the form of the Shanghai LTI JV; and therefore an assessment of its terms and conditions should be undertaken with consideration of the benefits afforded to the Shanghai LTI JV and hence the Group by the LTI Licence and Technology Agreements.

It should also be noted that the board of directors of the Shanghai LTI JV will formally evaluate once every three years whether it would be necessary or appropriate to initiate discussions with LTI in relation to the aforementioned pricing basis to ensure fairness to the Shanghai LTI JV by making reference to the fair market price prevailing at the time of such evaluation. If the board members of the Shanghai LTI JV decide unanimously that such a discussion with LTI is necessary or appropriate, LTI will conduct a good faith review of the aforementioned pricing basis with the Shanghai LTI JV upon its request. The said arrangement shall commence on the third anniversary of the commencement of production.

For comparison purposes, we have reviewed the latest annual and interim financial reports of the Company and those Hong Kong listed companies engaged in the manufacture and sale of automobile components and parts, in relation to their respective gross profit margin (the "**Comparable Margins**").

Name of companies	Principal business/ Segment	Comparable Margins For the year ended 31 December 2005	Comparable Margins For the six months ended 30 June 2006
Brilliance China Automotive Holdings Limited (stock code: 1114)	Manufacture and sale of minibuses and automotive components	4.4%	6.9%
Dongfeng Motor Group Company Limited (stock code: 489)	Manufacture and sale of engines and other automotive parts	8.9%	N/A
New Focus Auto Tech Holdings Limited (stock code: 360)	Manufacture and sales of automobile accessories	15.9%	10.1%
Norstar Founders Group Limited (stock code: 2339) *(Note)*	Manufacture and sale of auto parts	N/A	18.2%
Qingling Motors Co. Limited (stock code: 1122)	Manufacture and sales of automobile parts and accessories	25.1%	1.5%
The Group	Sales of automobile parts and components	10.6%	13.5%
Average		**13.0%**	**10.0%**

Sources: The latest annual and interim financial reports of the respective Hong Kong listed companies published on the website of the Stock Exchange.

Note: The latest financial year and interim period end dates of Norstar Founders Group Limited are 31 March 2006 and 30 September 2006 respectively.

As illustrated in the above analysis, the initial 3% profit margin stipulated in the Supply and Purchase Agreement for Parts and Components is significantly lower than the Comparable Margins.

Notwithstanding the above, given the circumstances of the Company and in particular on the basis of the following:

- that the pricing basis is subject to periodic review once every three years (if appropriate);
- that the Supply and Purchase Agreement for Parts and Components is an integral part of the business co-operation between the Company and Manganese Bronze in the form of the Shanghai LTI JV;
- that the LTI Licence and Technology Agreements are essential and imperative to the successful manufacturing operations of the Shanghai LTI JV; and
- that the Shanghai LTI JV is not required to pay any royalty under the LTI Licence and Technology Agreements throughout the whole term thereof,

we are of the view that the pricing basis under the Supply and Purchase Agreement for Parts and Components is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(d) The Land and Facilities Contract

(i) Nature of the transactions

Pursuant to the Land and Facilities Contract, the Shanghai LTI JV agreed to lease the land and buildings and equipment located on the Site from the Shanghai Maple JV on a shared basis.

We are advised that the Shanghai Maple JV will invest around RMB500 million (equivalent to around HK$504.40 million) for building constructions on the Site (the "**Buildings**") and equipment purchases, including painting shop equipment (the "**Equipment**" and together with the Buildings, the "**Facilities**") in the amount of around RMB400 million and RMB100 million (equivalent to around HK$403.52 million and HK$100.88 million) respectively.

It is noted that the Shanghai Maple JV has obtained the land use rights for the Site on 15 March 2007. The Directors confirmed that (i) it would be much more time consuming for the Shanghai LTI JV, a sino-foreign joint venture, to obtain such land use rights; and (ii) there is no plan for the Shanghai LTI JV to have other production facilities other than the Facilities located on the Site.

Based on the above, we are of the view that the entering into of the Land and Facilities Contract by the Group is within its usual and ordinary course of business and in the interests of both the Company and the Shareholders as a whole, as it would help speed up the implementation of the business plan of the Shanghai LTI JV.

(ii) The Rental Rate for the Site

Pursuant to the Land and Facilities Contract, the rental for the Site (inclusive of all land use fees, if any) payable by the Shanghai LTI JV for each year shall be RMB3 per sq.m. (the "**Rental Rate**"), amounting to around RMB1.3 million per annum. The actual annual rental payable by the Shanghai LTI JV will be subject to proportional adjustment based on the actual area of the Site in use and shall be paid in twelve equal instalments on the first business day of each and every calendar month, in advance.

We are advised that the Rental Rate represents a nominal rental rate which has been determined by the parties involved after arm's length negotiations with reference to the expected usage of the Site by the Shanghai LTI JV.

Based on our review of publicly available information on the market rate for rental for industrial purposes in the same region in which the Site is located, we noted that the Rental Rate to be levied by the Shanghai Maple JV is significantly lower than the prevailing market rate.

Given the above, we consider that the Rental Rate is fair and reasonable, on better than normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(iii) The Leasing Fees for the Facilities

Pursuant to the Land and Facilities Contract, the annual leasing fees payable by the Shanghai LTI JV for the Facilities (the "**Leasing Fees**") shall be based on the annual linear depreciation of the value of the Shanghai Maple JV's total investment in the Facilities (with complete depreciation over twenty years and eight years for the Buildings and the Equipment respectively), adjusted by the proportional utilisation of the Facilities by the Shanghai LTI JV as compared to the Shanghai Maple JV (as measured by their respective production amount at the Site) on an annual basis. Assuming a total investment of RMB400 million and RMB100 million (equivalent to around HK$403.52 million and HK$100.88 million respectively) in the Buildings and the Equipment respectively by the Shanghai Maple JV and the sole deployment of the Facilities by the Shanghai LTI JV, the maximum annual Leasing Fees payable shall be around RMB32 million (equivalent to around HK$32.28 million).

It should be noted that the relative utilisation of the Facilities by the Shanghai LTI JV and the Shanghai Maple JV shall be subject to an independent audit. Furthermore, the precise amount of the Leasing Fees will be further ascertained by the two companies after taking into consideration the Shanghai Maple JV's actual investment in the Facilities. The Directors confirmed that the depreciation policies for the Facilities are in line with those adopted by both the Group and the Shanghai Maple JV.

Given the above, we are of the view that the Leasing Fees are fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

3. The tenures of the Non-Exempt Continuing Connected Transactions Agreements

(a) Background of and reasons for the long tenures of the Non-Exempt Continuing Connected Transactions Agreements

Save for the Land and Facilities Contract which is of a term of 20 years, all the other Non-Exempt Continuing Connected Transactions Agreements (the "**Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements**") have an initial term of 50 years each. This exceeds the three-year limit as set out in Rule 14A.35(1) of the Listing Rules.

It is noted that each of the Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements has the same tenure as that of the Amended and Restated JV Agreement. Furthermore, each of the Non-Exempt Continuing Connected Transactions Agreements is subject to the Amended and Restated JV Agreement being in force.

In this regard, we have discussed with the management of the Company and are advised that it is the belief of both the Company and Manganese Bronze that the long tenures of the Non-Exempt Continuing Connected Transactions Agreements are essential for the success of their business joint venture in the PRC, i.e. the Shanghai LTI JV as this will facilitate a long-term co-operation relationship between the two companies and at the same time, ensure production continuity throughout the 50-year term of the Shanghai LTI JV, which will be beneficial to both the Company and Manganese Bronze.

Given the substantial investment made by the Company in respect of its business co-operation with Manganese Bronze, i.e. the Capital Contribution of around HK$418.58 million in the registered capital of the Shanghai LTI JV, we are of the opinion that the long tenures of the Non-Exempt Continuing Connected Transactions Agreements are reasonable and in the interests of the Company and the Shareholders as a whole, as this will ensure a smooth long-term business co-operation between the Shanghai LTI JV and Manganese Bronze and production continuity of the Shanghai LTI JV, which in turn would allow the Company sufficient time to recoup its investment in the Shanghai LTI JV during the term of the joint venture.

(b) Comparison to similar business arrangements undertaken by other Hong Kong listed companies

(i) The Land and Facilities Contract

The table below summaries the relevant terms of the rental and leasing agreements for land and properties undertaken in the recent years by other listed companies in Hong Kong (the "**Licensing Comparables**") for a term in excess of three years, which we have reviewed for comparison purposes.

Name of the Licensing Comparables	Nature of agreement	Term
Aluminum Corporation of China Limited (stock code: 2600)	– Lease of land – Lease of properties	– Up to a maximum of 50 years – 20 years
AviChina Industry & Technology Company Limited (stock code: 2357)	– Lease of lands – Lease of properties	– 20 years – 10 years
Beijing Capital International Airport Company Limited (stock code: 694)	– Lease of land	– 20 years
China Shenhua Energy Company Limited (stock code: 1088)	– Lease of land – Lease of properties	– 20 years – 10 years
China Petroleum & Chemical Corporation (stock code: 386)	– Lease of land – Lease of properties	– 50 years for lands for industrial use; and 40 years for land for commercial use – 20 years
Guangnan (Holdings) Limited (stock code: 1203)	– Lease of land	– 28 years and 4 months
Petrochina Company Limited (stock code: 857)	– Lease of land – Lease of properties	– 50 years – 20 years
Shanghai Electric Group Company Limited (stock code: 2727)	– Lease of land – Lease of properties	– 20 years – 20 years
TravelSky Technology Limited (stock code: 696)	– Lease of land	– 10 years

Sources: The announcements, circulars and prospectus of the respective Licensing Comparables published on the website of the Stock Exchange.

As illustrated above, the terms of the rental and leasing agreements undertaken by other Hong Kong listed companies could range from ten to 50 years. As such, we are of the view that it is not unusual for the Shanghai LTI JV to enter into the Land and Facilities Contract with tenure of longer than three years, as this would mitigate its exposure to the risk of unnecessary business disruption in case of relocation of its production facilities.

(ii) The Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements

The tables below summarise the relevant terms of the business agreements undertaken in the recent years by other Hong Kong listed companies, involving the establishment of a long-term strategic relationship and contractual arrangements, which we have reviewed for comparison purposes.

Parties	**Type of transaction**	**Term of agreement**
Automobile industry		
Harbin Dongan Automotive Engine Manufacturing Co., Ltd. ("Harbin") and Mitsubishi Motor Corporation ("Mitsubishi") *(Note 1)*	– Grant of licences to use industrial properties rights, patent and technology documents relating to engines, gearboxes and the respective assemblies, parts and components	– 10 years
	– Provision of assistance to establish research and development centre	
	– Provision of technical assistance and services	
	– Purchase of spare parts and components for manufacturing of vehicles, vehicle engines and gearboxes	– Remain effective until the expiry of the joint venture contract *(Note 2)* – About 30 years
Jiangxi Changhe Suzuki Automobile Co., Ltd. ("Changhe Suzuki") and Suzuki Motor Corporation ("Suzuki") *(Note 3)*	– Grant of licence to (i) manufacture, assemble and market certain automobiles and their parts and components using Suzuki's technology; and (ii) use certain trademarks and patents relating thereto	– 8 years
	– Supply of parts and components	
	– Provision of manufacturing and assembling assistance	

Parties	Type of transaction	Term of agreement
Hafei Motor Co., Ltd. and Mitsubishi *(Note 4)*	– Provision of assistance to develop certain automobiles using Mitsubishi's technology – Grant of licences to use the technology, information and patents relating to above development	– 10 years *(Note 4)*
	– Purchase of spare parts and components for manufacturing certain automobiles using Mitsubishi's technology	– 10 years *(Note 4)*
Other industries		
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. ("Shanghai Kansai") and Kansai Paint Co., Ltd. *(Notes 5 and 6)*	– Provision of technology and know-how	– Remain in force during the subsistence of the joint venture agreement – Up to a maximum of 20 years
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. ("Tianjin Kansai") and Kansai Paint Co., Ltd. *(Notes 5 and 7)*	– Provision of technology and know-how	– Remain in force during the subsistence of the joint venture agreement – Up to a maximum of 15 years
Jiangxi Changhe Aviation Industry Company Limited ("Changhe Aviation") and Agusta S.p.A *(Note 8)*	– Purchase of the parts and components for manufacturing helicopters to a joint venture company *(Note 8)* – Provision of assistance for manufacturing, assembling and sales of helicopters	– 20 years

Parties	Type of transaction	Term of agreement
TTE Corporation ("TTE") and Thomson S.A. *(Note 9)*	– Grant of usage of patent license	– 5 years and automatically renew for further 5 years
	– Grant of usage of Thomson trademark license	– 20 years
	– Provision of sales and marketing services	– Up to a maximum of 20 years
	– Provision of subcontracting services	– Up to a maximum of 5 years
	– Appointment of preferred suppliers	– Up to a maximum of 15 years
	– Provision of sales and marketing agency services	– Up to a maximum of 20 years
Lenovo Group Limited (stock code: 992) and International Business Machines Corporation	– Provision of strategic financing and asset disposition services	– 5 years
	– Provision of maintenance and warranty services	– 5 years and automatically renew for further 1 year
	– Provision of marketing support services	– 5 years
	– Purchases of inventories for internal use	– 5 years
	– Grant of usage of trademark license	– 5 years
TPV Technology Limited (stock code: 903) and Koninklijke Philips Electronics N.V.	– Sale of monitors and television	– 10 years
Chinasoft International Limited (stock code: 8216) and Microsoft Corporation	– Provision of software outsourcing services	– 5 years

Sources: The announcements, circulars and prospectus of the respective Hong Kong listed companies published on the website of the Stock Exchange.

Notes:

1. Harbin is a sino-foreign joint venture established in the PRC with a term of 30 years from 4 September 1998, which is a non-wholly owned subsidiary of AviChina Industry & Technology Company Limited ("AviChina") (stock code: 2357). Mitsubishi is a substantial shareholder of Harbin.

   The principal business of Harbin is to manufacture and assemble vehicle engines and gearboxes and related parts and components.

2. No specific term of the relevant contract with effect from 22 October 1999, but such contract would remain effective until the expiry of the joint venture contract of Harbin.

3. Changhe Suzuki is a sino-foreign joint venture established in the PRC with a term of 30 years from 23 January 1995, which is a non-wholly owned subsidiary of AviChina. Its principal business is to manufacture and assemble different series automobiles and vehicle engines and gearboxes using Suzuki's technology.

   Suzuki is a substantial shareholder of Changhe Suzuki.

4. Hafei Motor Co., Ltd is a non-wholly owned subsidiary of AviChina and Mitsubishi is a substantial shareholder of it.

   The relevant agreements for such transactions are inter-related, and therefore the terms thereof coincide with each other.

5. Each of Shanghai Kansai and Tianjin Kansai is a sino-foreign joint venture established in the PRC, which is a non-wholly owned subsidiary of COSCO International Holdings Limited (stock code: 517).

   Kansai Paint Co., Ltd. is a substantial shareholder of each of Shanghai Kansai and Tianjin Kansai.

6. No specific term of the relevant technology transfer contract dated 19 January 1996, but such contract shall remain in force during the subsistence of the joint venture agreement of Shanghai Kansai which is due to expire in 2015.

7. No specific term of the relevant technology transfer contract dated 18 December 1991, but such contract shall remain in force during the subsistence of the joint venture agreement of Tianjin Kansai which is due to expire in 2007.

8. Changhe Aviation is a wholly-owned subsidiary of AviChina.

   The subject joint venture company is a non-wholly owned subsidiary of AviChina, and its principal business is to manufacture helicopters using parts and components supplied by Agusta S.p.A. Agusta S.p.A is a substantial shareholder of it.

9. TTE is a sino-foreign joint venture established in the PRC, which is a non-wholly owned subsidiary of TCL International Holdings Limited (stock code: 1070).

   Thomson S.A. is a substantial shareholder of TTE.

In view of the above analysis, we are of the opinion that it is a normal business practice for two contracting parties to have ongoing business arrangements as part of their long-term strategic co-operation with duration in excess of three years or in line with the term of their respective joint ventures. In this regard, we consider it justifiable for the Group to enter into the Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements with terms more than three years, as this will help facilitate and ensure production continuity and smooth operation of the Shanghai LTI JV throughout its 50-year term.

4. Requirements of the Listing Rules

For each financial year of the Company during the terms of the Non-Exempt Continuing Connected Transactions Agreements, the subject transactions will be subject to review by the independent non-executive Directors and the Company's auditors as required by the provisions of Rules 14A.37 and 14A.38 of the Listing Rules respectively. The independent non-executive Directors must confirm in the annual report and accounts that the Non-Exempt Continuing Connected Transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, no terms on less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Listing Rules require that the Company's auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company), confirming that the Non-Exempt Continuing Connected Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded the cap disclosed in its previous announcement.

Given the above, we are of the opinion that there will be sufficient procedures and arrangements in place to ensure that the Non-Exempt Continuing Connected Transactions will be conducted on terms that are fair and reasonable.

5. The Annual Caps

(a) Summary of the Annual Caps and their basis of determination

Set out below is a summary of the respective Annual Caps for each of the Non-Exempt Continuing Connected Transactions for each of the three financial years ending 31 December 2009 as well as their respective basis of determination:

Category of the Non-Exempt Continuing Connected Transactions	Annual Caps for the year ending 31 December 2007 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*	Basis of determination
Purchase of the Components by the Shanghai LTI JV from the Shanghai Maple JV	0	151,000 (equivalent to around HK$152.33 million)	521,000 (equivalent to around HK$525.58 million)	– the estimated labor, manufacturing and direct material costs for the production of the Components – the number of sedans to be sold by the Shanghai LTI JV – the scale of operation of the Shanghai LTI JV
Supply of the Semi-finished Products to Shanghai Maple by the Shanghai LTI JV	0	480,000 (equivalent to around HK$484.22 million)	2,676,000 (equivalent to around HK$2,699.55 million)	– the projected units of sedan to be sold – the estimated selling price per sedan – the scale of operation of the Shanghai LTI JV
Supply of parts and components to LTI by the Shanghai LTI JV	0	107,000 (equivalent to around HK$107.94 million)	180,000 (equivalent to around HK$181.58 million)	– the projected units of parts and components to be purchased by LTI – the unit direct material cost and labour cost for the parts and components – the scale of operation of the Shanghai LTI JV
Leasing of the Site and the Facilities by the Shanghai LTI JV from the Shanghai Maple JV	17,000 (equivalent to around HK$17.15 million)	33,000 (equivalent to around HK$33.29 million)	33,000 (equivalent to around HK$33.29 million)	– the rental charged by the Shanghai Maple JV for the Site and the Facilities – the estimated percentage portion of use of the Facilities by the Shanghai LTI JV

(b) Outlook of the PRC automobile industry

(i) Overview of the PRC automobile industry and the passenger car market

According to the China Automotive Industry Yearbook, China became the world's third largest auto manufacturer in 2006, with total auto production output of around 7.3 million vehicles, representing an increase of around 27.3% from 2005; while passenger car accounted for around 70% over the total vehicle production in 2006. As stated in a news report dated 8 March 2007, China Association of Automobile Manufacturers predicted that the total sales of cars in the PRC for 2007 would increase by 15% to surpass 8 million units.

According to the China Automotive Information Net, China's passenger car production and sales volume reached around 5.23 million units and 5.18 million units respectively, representing a year-on-year increase of around 32.8% and 30.0% respectively for 2005 to 2006. In addition, the passenger vehicle sales is expected to expand at around 18% in 2007 and 2008 in tandem with steady economic conditions according to a research report published by an independent advisory house.

(ii) Principal growth factors driving the PRC automobile industry

- Strong growth in China's gross domestic product

According to the statistics released by the National Bureau of Statistics of China, it is estimated that the gross domestic product (the "**GDP**") for 2006 was around RMB20,940.7 billion, representing a year-on-year increase of around 10.7% as compared to that of the previous year. Under the Eleventh Five-Year (2006-2010) Plan for National Economic and Social Development, the PRC Government expects to achieve an average annual GDP growth rate of 7.5% in the next five years. As the automobile industry is highly correlated to the national economic development, this will help to enhance the future development of the PRC automobile industry.

- Relatively low rate of vehicle ownership

As stated in a news report dated 9 May 2005, the rate of vehicle ownership was eight vehicles per 1,000 driving-age Chinese, as compared with the average of around 100 vehicles per 1,000 people in the United States during 2005. The relatively low rate of vehicle ownership in the PRC offers good potential for continuing growth in the PRC automobile industry.

- Urbanisation and increased mobility

Urbanisation opens further opportunities to the automobile industry because of the increased need to travel between the cities. The PRC has become increasingly urbanised from 2000 according to the statistics released by the National Bureau of Statistics of China. The urbanisation rate in the PRC was around 36.2% in 2000 and had increased to around 43.0% by the end of 2005, with an urban population of around 560 million. The potential increase in demand for automobiles as a result of increased urbanisation offers potential growth opportunities for the PRC automobile industry.

(c) The Annual Caps for the two financial years ending 31 December 2008

It is noted that no cap is adopted for each of the Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements for the year ending 31 December 2007; while the respective annual cap for the Rental Rates and the Leasing Fees for the relevant period represents about half of the maximum aggregate annual amount payable under the Land and Facilities Contract.

Based on our discussion with the management of the Company regarding the production schedule of the Shanghai LTI JV, it is our understanding that only part of the Facilities will be used by the Shanghai LTI JV to conduct the testing and calibration of its products during the second half of 2007 and the Shanghai LTI will be at its initial stage of operation in 2008. We are also advised that the completion and full establishment of the Facilities are expected to take place in the first quarter in 2008, and hence, the Facilities will only be available for use by the Shanghai LTI JV for its mass production in mid 2008 at the earliest.

Furthermore, we are advised that there is no plan for the Shanghai LTI JV to have production facilities other than those located on the Site, and the Facilities will be fully occupied and utilised by the Shanghai LTI JV by the end of 2008.

Based on the foregoing, we are of the view that the increases in the Annual Caps for the financial year 2008 are reasonable when compared to those of the financial year 2007 under the circumstances.

(d) Reasons for the significant growth in the annual caps for the Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements for the financial year 2009

It is noted that each of the annual caps for the transactions contemplated under the Sale and Purchase Related Non-Exempt Continuing Connected Transactions Agreements for the year ending 31 December 2009 (collectively, the "**2009 Annual Caps**") represents a substantial growth as compared to that for the preceding year. In this regard, we have discussed with the Company's management the underlying reasons, and we concur with their view that it will be in the interests of both the Company and the Shareholders as a whole to set the 2009 Annual Caps at the proposed levels, after taking into consideration the following:

- that LTI is developing a new model of limousine based on the London taxi and two models of saloon cars to be manufactured and sold by both of the Manganese Bronze Group and Shanghai Maple in various parts of the world; and the commercial production of such new models is expected to commence in 2009;

- the expected increase in demand for the products of the Shanghai LTI JV by the Manganese Bronze Group in view of (i) the expected launch of the aforementioned new models by LTI and the competitive advantages to be gained by the Manganese Bronze Group resulting from the reduction in its production cost by sourcing its component procurements from the Shanghai LTI JV; and (ii) the anticipation of the continuation of the market receptiveness of the newly launched upgraded London taxi model manufactured by the Manganese Bronze Group, which has been well received by the taxi trade press and customers alike in the United Kingdom;

- the overall future business strategy of Manganese Bronze whereby the Shanghai LTI JV and Shanghai Maple will become its only production facilities for the LTI TX Series Products outside the United Kingdom upon the full operation of the Shanghai LTI JV, given the significant cost advantages possessed by the Shanghai LTI JV and Shanghai Maple over manufacturers of automobiles and the related components and parts in the United Kingdom; and

- the expected growth in the PRC automobile industry as discussed above.

(e) Conclusion

In our assessment of the reasonableness and fairness of the Annual Caps, we have taken into consideration (i) the representation and projections of the Company's management in respect of the sale and cost budgets of the Shanghai LTI JV for the three financial years ending 31 December 2009 prepared by the Company; (ii) the production schedule of the Shanghai LTI JV for the three financial years ending 31 December 2009; (iii) the product range of the Shanghai LTI JV; and (iv) the present and prospective automobile industry in the PRC. We have also discussed with the management of the Company on the underlying principal assumptions and bases that have been taken into account by the Board in setting the Annual Caps. In this regard, we are of the view that the Annual Caps have been made with due care and diligence by the Directors and after due and careful enquiry.

Based on the factors and reasons discussed above, we are of the view that the Annual Caps for the three years ending 31 December 2009 are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the nature of the Non-Exempt Continuing Connected Transactions;
- that the Non-Exempt Continuing Connected Transactions Agreements form an integral part of the long-term business co-operation between the Company and Manganese Bronze and are essential and imperative to the successful manufacturing operations of the Shanghai LTI JV;
- that the respective pricing basis as provided under each of the Non-Exempt Continuing Connected Transactions Agreements is fair and reasonable;
- the long tenures of the Non-Exempt Continuing Connected Transactions Agreements are reasonable and justified to ensure the long-term business co-operation between the Company and Manganese Bronze and to facilitate the smooth production operations of the Shanghai LTI JV;
- the control and review procedures and arrangements in place to safeguard the interests of the Company and the Shareholders in relation to the Non-Exempt Continuing Connected Transactions;
- that the Annual Caps have been set by the Company after careful and due considerations; and
- that despite the significant increases when compared to those of the preceding year, the 2009 Annual Caps have been set at a level which will be in the interests of both the Company and the Shareholders, in view of the positive growth factors as discussed in details above,

we consider that the Non-Exempt Continuing Connected Transactions Agreements have been entered into within the usual and ordinary course of the Group's business based on normal commercial terms and their respective terms and conditions together with the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Non-Exempt Continuing Connected Transactions and the adoption of the Annual Caps.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Karen C. Wong
Director

SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2005

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 December 2005:

Consolidated Income Statement
for the year ended 31 December

	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Continuing operations			
Revenue	101,411	31,903	372
Cost of sales	(90,649)	(30,378)	(387)
Gross profit (loss)	10,762	1,525	(15)
Other income	681	91	183
Distribution and selling expenses	(379)	(183)	(191)
Administrative expenses	(18,378)	(16,465)	(10,543)
Finance costs	–	–	(4)
Share of results of associates	122,691	93,471	68,264
Profit before taxation	115,377	78,439	57,694
Income tax expense	–	–	(237)
Profit for the year from continuing operations	115,377	78,439	57,457
Discontinued operations			
Profit (loss) for the year from discontinued operations	–	2,395	(1,977)
Profit for the year	115,377	80,834	55,480
Attributable to:			
Equity holders of the Company	110,827	81,305	55,486
Minority interests	4,550	(471)	(2,006)
	115,377	80,834	55,480
Dividends			
– Paid during the year	41,203	–	–
– Proposed final dividend	41,203	41,203	–
Earnings per share			
Basic			
– From continuing and discontinued operations	HK 2.69 cents	HK 1.97 cents	HK 1.59 cents
– From continuing operations	HK 2.69 cents	HK 1.91 cents	HK 1.59 cents

Consolidated Balance Sheet
as at 31 December

	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	7,433	5,831	8,589
Interests in associates	786,996	651,750	558,836
	794,429	657,581	567,425
Current assets			
Inventories	5,703	8,815	7,358
Trade and other receivables	44,840	11,921	11,114
Dividend receivable from an associate	8,220	–	–
Amounts due from minority shareholders	–	–	1,130
Amount due from an associate	–	338	338
Amounts due from related companies	–	613	–
Bank balances and cash	8,449	1,499	15,823
	67,212	23,186	35,763
Current liabilities			
Trade and other payables	34,817	12,575	10,535
Amounts due to related companies	923	2,252	–
Amount due to a minority shareholder	4,588	5,027	8,010
Advance from immediate holding company	14,220	–	–
Bank borrowings	–	–	2,537
	54,548	19,854	21,082
Net current assets	12,664	3,332	14,681
	807,093	660,913	582,106
Capital and reserves			
Share capital	82,405	82,405	82,405
Reserves	715,675	571,042	486,641
Equity attributable to equity holders of the Company	798,080	653,447	569,046
Minority interests	9,013	4,466	2,389
	807,093	657,913	571,435
Non-current liability			
Advance from former ultimate holding company	–	3,000	–
Advances from minority shareholders	–	–	9,646
Bank borrowings	–	–	1,025
	807,093	660,913	582,106

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below are the financial statements as extracted from the Company's 2005 annual report. In this section, reference to the page number is referred to the page number of the Company's 2005 annual report.

Consolidated Income Statement
for the year ended 31 December 2005

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

Consolidated Balance Sheet
at 31 December 2005

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005

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

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

Consolidated Cash Flow Statement

for the year ended 31 December 2005

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

Notes to the Financial Statements

for the year ended 31 December 2005

1. GENERAL

The Company is a public listed limited company incorporated in the Cayman Islands as an exempted limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is Proper Glory 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 35.

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

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

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

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

Share-based Payments

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

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

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

(i) On results

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

(ii) On income statement line items

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

(iii) On balance sheet items

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

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

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

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

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Interests in associates

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

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

Property, plant and equipment

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

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

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

Inventories

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

Foreign currencies

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

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

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

Financial instruments

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity

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

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

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

Equity instruments

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

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

Derecognition

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

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

Impairment

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

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

Revenue recognition

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

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

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

Taxation

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

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

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

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

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

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

Retirement benefit costs

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

Leasing

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

The Group as lessee

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

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

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

6. REVENUE

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

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

Principal activities are as follows:

Automobile	–	manufacturing and trading of automobile parts and related automobile components
Information technology	–	information technology and related business

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

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

BALANCE SHEET

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

OTHER INFORMATION

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

Geographical segments

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

8. INCOME TAX EXPENSE

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

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

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

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

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

9. DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

10. PROFIT FOR THE YEAR

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

11. DIVIDENDS

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

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

12. EARNINGS PER SHARE

From continuing and discontinued operations

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

From continuing operations

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

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

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

From discontinued operations

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

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

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

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

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

2005

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

2004

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

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

(b) Employees' emoluments

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC under medium term lease HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture and fixtures, office equipment and motor vehicles HK$'000	Total HK$'000
COST					
At 1st January, 2004	2,698	3,596	597	4,820	11,711
Additions	–	2,089	–	539	2,628
Disposals	–	–	–	(8)	(8)
Disposal of subsidiaries	(2,698)	–	(521)	(4,631)	(7,850)
At 31st December, 2004	–	5,685	76	720	6,481
Exchange adjustments	–	120	–	11	131
Additions	–	1,702	366	224	2,292
At 31st December, 2005	–	7,507	442	955	8.904
DEPRECIATION					
At 1st January, 2004	279	34	61	2,748	3,122
Charge for the year	14	410	27	260	711
Eliminated on disposals	–	–	–	(1)	(1)
Eliminated on disposal of subsidiaries	(293)	–	(32)	(2,857)	(3,182)
At 31st December, 2004	–	444	56	150	650
Exchange adjustments	–	10	–	–	10
Charge for the year	–	624	27	160	811
At 31st December, 2005	–	1,078	83	310	1,471
NET BOOK VALUES					
At 31st December, 2005	–	6,429	359	645	7,433
At 31st December, 2004	–	5,241	20	570	5,831

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

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

15. INTERESTS IN ASSOCIATES

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

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

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited * ("Zhejiang Geely")	PRC	USD82,803,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited * ("Shanghai Maple")	PRC	USD51,697,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江美人豹汽車銷售有限公司 Zhejiang Mybo Automobile Sales Company Limited	PRC	RMB10,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited	PRC	RMB15,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited	PRC	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation	PRC	RMB20,000,000	39.3%	Export of sedans outside the PRC
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited	PRC	RMB30,000,000	42.1%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited	PRC	RMB10,000,000	42.1%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited	PRC	RMB6,000,000	42.1%	Marketing and sales of sedans in the PRC

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

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

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

16. INVENTORIES

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

17. TRADE AND OTHER RECEIVABLES

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

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

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

The trade receivables comprise:

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

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

18. DIVIDEND RECEIVABLE FROM AN ASSOCIATE

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

19. AMOUNT DUE FROM AN ASSOCIATE

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

20. AMOUNTS DUE FROM RELATED COMPANIES

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

21. BANK BALANCES AND CASH

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

22. TRADE AND OTHER PAYABLES

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

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

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

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

23. AMOUNTS DUE TO RELATED COMPANIES

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

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

24. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

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

25. ADVANCE FROM IMMEDIATE HOLDING COMPANY

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

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

26. SHARE CAPITAL

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

27. ADVANCE FROM FORMER ULTIMATE HOLDING COMPANY

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

28. DISPOSAL OF SUBSIDIARIES

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

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

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

29. OPERATING LEASE COMMITMENTS

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

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

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

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

30. RETIREMENT BENEFITS SCHEME

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

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

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

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

31. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

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

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

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

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

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

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

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

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

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

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

2005

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

2004

Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1st January	Granted during the year	Cancelled during the year	Outstanding at 31st December
Director						
Mr. Ang Siu Lun, Lawrence	23.2.2004 – 22.2.2009	0.95	–	35,000,000	–	35,000,000

One-third of options vested immediately upon grant and the remaining options granted will vest after one year.

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

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

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

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

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

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

32. CONNECTED AND RELATED PARTY TRANSACTIONS

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

(A) Transactions

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

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

(B) Balances

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

(c) Compensation of key management personnel

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

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

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

33. POST BALANCE SHEET EVENT

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

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

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

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

34. BALANCE SHEET OF THE COMPANY

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

35. SUBSIDIARIES

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

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/ registered capital	Percentage of equity interest held Directly	Indirectly	Principal activities
Centurion Industries Limited	British Virgin Islands	US$1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	US$1	100%	–	Investment holding
Geely International Limited 吉利國際貿易有限公司	Hong Kong	HK$2	100%	–	Inactive
浙江省福林國潤汽車零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD1,209,200	–	51%	Research, production, marketing and sales of automobile parts and related components

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

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

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below are the financial statements as extracted from the Company's 2006 interim report. In this section, reference to the page number is referred to the page number of the Company's 2006 interim report.

Condensed Consolidated Income Statement
for six months ended 30 June 2006

		Six months ended 30 June	
		2006	**2005**
	NOTES	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue		69,331	35,881
Cost of sales		(59,986)	(34,094)
Gross profit		9,345	1,787
Other income		7,840	201
Distribution and selling expenses		(1,949)	(167)
Administrative expenses		(10,714)	(7,953)
Fair value loss on embedded derivatives components of convertible bonds		(7,518)	–
Effective interest expense on convertible bonds	*9*	(10,142)	–
Share of profits of associates		137,680	47,446
Profit before taxation		124,542	41,314
Income tax expense	*4*	(842)	–
Profit for the period	*5*	123,700	41,314
Attributable to:			
Equity holders of the Company		120,699	40,779
Minority interests		3,001	535
		123,700	41,314
Dividend paid	*6*	41,203	41,203
Earnings per share	*7*		
Basic		HK2.93 cents	HK0.99 cents
Diluted		HK2.78 cents	N/A

Condensed Consolidated Balance Sheet
at 30 June 2006

	NOTES	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	11,185	7,433
Interests in associates	10	696,600	786,996
		707,785	794,429
Current assets			
Inventories	11	15,332	5,703
Trade and other receivables	12	38,256	44,840
Dividend receivable from associates		189,234	8,220
Convertible bonds – embedded derivatives	9	220,931	–
Time deposits, bank balances and cash	13	744,966	8,449
		1,208,719	67,212
Current liabilities			
Trade and other payables	14	39,621	34,817
Amounts due to related companies	15	1,077	923
Amount due to a minority shareholder	15	5,357	4,588
Amount due to immediate holding company	15	11,220	14,220
Convertible bonds – embedded derivatives	9	280,131	–
		337,406	54,548
Net current assets		871,313	12,664
Total assets less current liabilities		1,579,098	807,093
Capital and reserves			
Share capital	16	82,405	82,405
Reserves		798,252	715,675
Equity attributable to equity holders of the Company		880,657	798,080
Minority interests		12,014	9,013
Total Equity		892,671	807,093
Non-current liabilities			
Convertible bonds	9	686,427	–
		1,579,098	807,093

Condensed Consolidated Statement of Changes in Equity

for six months ended 30 June 2006

	Attributable to the equity holders of the Company								
	Share capital	Share premium	Capital reserve	Translation reserve	Share options reserve	Accumulated profits	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 difference on translation of overseas operations recognised directly in equity	–	–	–	(178)	–	–	(178)	–	(178)
Profit for the period	–	–	–	–	–	40,779	40,779	535	41,314
Total recognised income and expenses for the period	–	–	–	(178)	–	40,779	40,601	535	41,136
Recognition of share-based payments	–	–	–	–	523	–	523	–	523
Dividend paid	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
At 30 June 2005 and 1 July 2005	82,405	533,964	–	1,001	3,612	32,386	653,368	5,001	658,369
Exchange difference on translation of overseas operations recognised directly in equity	–	–	–	12,955	–	–	12,955	(3)	12,952
Profit for the period	–	–	–	–	–	70,048	70,048	4,015	74,063
Total recognised income and expenses for the period	–	–	–	12,955	–	70,048	83,003	4,012	87,015
Recognition of share-based payments	–	–	–	–	5,015	–	5,015	–	5,015
Deemed contribution from shareholders *(Note)*	–	–	56,694	–	–	–	56,694	–	56,694
At 31 December 2005 and 1 January 2006	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
Exchange difference on translation of overseas operations recognised directly in equity	–	–	–	96	–	–	96	–	96
Profit for the period	–	–	–	–	–	120,699	120,699	3,001	123,700
Total recognised income and expenses for the period	–	–	–	96	–	120,699	120,795	3,001	123,796
Recognition of share-based payments	–	–	–	–	2,985	–	2,985	–	2,985
Dividend paid	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
At 30 June 2006	82,405	533,964	56,694	14,052	11,612	181,930	880,657	12,014	892,671

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

Condensed Consolidated Cash Flow Statement
for six months ended 30 June 2006

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	2,030	(5,366)
NET CASH FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(4,374)	(867)
Dividend received from associates	47,157	48,503
Interest received	6,975	17
	49,758	47,653
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
Net proceeds from issuance of convertible bonds	727,872	–
Dividend paid	(41,161)	–
Other financing activities	(2,078)	(1,423)
	684,633	(1,423)
NET INCREASE IN CASH AND CASH EQUIVALENTS	736,421	40,864
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,449	1,499
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	96	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD, representing time deposits, bank balances and cash	744,966	42,363

Notes to the Financial Statements

for six months ended 30 June 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" which is one of the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRS") 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.

The Group has not early applied the new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and financial position of the Group.

A summary of the Group's new accounting policy adopted in the current period is as follow:

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 profit or loss and the remaining portion is deducted from the liability component.

The liability component is subsequently measured at amortised cost, using the effective interest rate 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.

3. SEGMENT INFORMATION

Business Segments

No business segment information has been presented for the six months period ended 30 June 2006 and 30 June 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 periods.

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.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PRC income tax	842	–

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

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

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	6,346	4,859
Retirement benefits scheme contributions	136	151
Total staff costs	6,482	5,010
Depreciation	622	377
Recognition of share-based payments (included in administrative expenses)	2,985	523
Share of tax of associates (included in share of profits of associates)	15,837	–
Cost of inventories recognised	59,986	34,094
Interest income from bank deposits	(6,975)	(17)

6. DIVIDEND

During the current period, dividend of HK1 cent per share, amounting to approximately HK$41,203,000, was paid to shareholders as final dividend for the year ended 31 December 2005.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the six months ended 30 June 2006 is based on the following data:

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to equity holders of the Company and earnings for the purpose of basic earnings per share	120,699	40,779
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	10,142	–
Fair value loss on embedded derivatives components of convertible bonds	7,518	–
Earnings for the purpose of diluted earnings per share	138,359	40,779

	Six months ended 30 June	
Number of shares	**2006**	**2005**
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,120,264,902	4,120,264,902
Effect of dilutive potential ordinary shares:		
Share options	16,652,899	–
Convertible bonds	833,258,427	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,970,176,228	4,120,264,902

No diluted earnings per share had been presented for the six months ended 30 June 2005 because the exercise price of the share options was higher than the average market price per share for that period. No convertible bond was in issue or outstanding for 2005.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$4,374,000 on acquisition of plant and equipment.

9. 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 does not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2011 will be redeemed by the Company at 126.456 per cent of their principal amount on 10 April 2011. All of these bonds may be redeemed and converted at the option of the Company, in whole or in part, from time to time, (i) on or after 10 April 2008 when the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") shall have been at least 130 per cent of the conversion price 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 and (iii) 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. The conversion price is subject to a "reset feature" which include (a) a reset on 10 April 2007 and 10 April 2008 by reference to the average market price of the Company's shares in the past 20 trading days prior to the respective reset dates and (b) reset price shall not be less than 80% of the conversion price at the reset dates and shall not be reduced below the par value of the shares.

On 10 April 2009, the bondholders may, at their options, require the Company to redeem all or some of the bonds at 115.123 per cent of the principal amount.

The convertible bonds recognised in the balance sheet are calculated as follows:

	2006
	HK$'000
	(Unaudited)
Fair value of convertible bonds at issue date	689,917
Less: Transaction costs	(13,632)
	676,285
Add: Accrued interest	10,142
Liability component at 30 June	686,427

Accrued interest on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 6.76% to the liability component.

The derivatives embedded in the CB 2011 comprises a put option, a call option and a conversion option. They are measured at fair value at both issuance date and 30 June 2006 by an independent professional valuer, BMI Appraisal Limited.

10. INTERESTS IN ASSOCIATES

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Share of net assets	696,600	786,996

The following details have been extracted from the unaudited financial statements of the Group's significant associates, Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") and Shanghai Maple Guorun Automobile Company Limited ("Maple Guorun").

	Zhejiang Geely	**Maple Guorun**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Results for the period ended 30 June 2006		
Revenue	2,600,166	687,997
Profit for the period	262,497	31,692
Group's share of result of associates for the period	122,848	14,832
Financial position at 30 June 2006		
Non-current assets	1,113,456	597,147
Current assets	2,835,658	383,398
Current liabilities	(2,897,305)	(537,049)
Non-current liabilities	(4,516)	(2,328)
Net assets	1,047,293	441,168
Net assets attributable to the Group	490,133	206,467

11. INVENTORIES

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At costs:		
Raw materials	8,596	2,366
Work in progress	2,327	1,288
Finished goods	4,409	2,049
	15,332	5,703

12. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade and bills receivables of approximately HK$35,261,000 (31 December 2005: HK$43,966,000).

The following is an aged analysis of trade and bills receivables at the balance sheet date:

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	35,261	43,489
61 – 90 days	–	67
Over 90 days	–	410
	35,261	43,966

The trade and bills receivables comprise:

Trade and bills receivables from associates	35,261	24,925
Trade and bills receivables from group companies of an associate	–	19,041
	35,261	43,966

13. TIME DEPOSITS, BANK BALANCES AND CASH

The time and bank deposits carry variable interest rates at HIBOR minus 0.10% per annum (2005: 0.16% per annum) and are called on demand.

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$34,331,000 (31 December 2005: HK$27,047,000).

The following is an aged analysis of trade payables at the balance sheet date.

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	24,263	24,576
61 – 90 days	6,007	1,989
Over 90 days	4,061	482
	34,331	27,047

15. AMOUNTS DUE TO RELATED COMPANIES/A MINORITY SHAREHOLDER/IMMEDIATE HOLDING COMPANY

The amounts are unsecured, interest free and repayable on demand.

16. SHARE CAPITAL

	Number of shares	Nominal value *HK$'000*
Ordinary shares of HK$0.02 each		
Authorised:		
At 31 December 2005 and 30 June 2006	8,000,000,000	160,000
Issued and fully paid:		
At 31 December 2005 and 30 June 2006	4,120,264,902	82,405

17. OPERATING LEASE COMMITMENTS

For the period ended 30 June 2006, the Group paid minimum lease payments under operating lease in respect of office premises of HK$810,000 (31 December 2005: HK$1,478,000).

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

	30 June 2006 *HK$'000* (Unaudited)	31 December 2005 *HK$'000* (Audited)
Within one year	1,361	1,706
In the second to fifth year inclusive	215	1,212
	1,576	2,918

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

18. RETIREMENT BENEFIT SCHEME

The Group participates in an 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 employees. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK$20,000 per employee.

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

19. SHARE OPTIONS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	254,500,000
Granted during the period	13,000,000
Outstanding at the end of the period	267,500,000

The closing price of the Company's shares immediately before 23 May 2006, the date of grant of the options during the period, was HK$0.79.

In the current period, share options were granted on 23 May 2006. The fair values of the options determined at the dates of grant using the Black-Scholes option pricing model were HK$1,235,000.

The vesting period of 4,230,000 share options are from 23 May 2006 to 10 July 2006 and 8,770,000 share options are from 23 May 2006 to 10 July 2007. The remaining share options will fully vest on 4 August 2006.

The variables and assumptions used in computing the fair values of the share options are based on valuations performed by an independent professional valuer, BMI Appraisal Limited.

20. RELATED PARTY TRANSACTIONS

Other than disclosed in note 12, the Group had the following material transactions and balances with related parties during the period.

(A) Transactions

		Six months ended 30 June	
Related parties	**Nature of transactions**	**2006**	**2005**
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Associates			
Zhejiang Geely Automobile Company Limited	Sales of automobile parts and components	69,271	1,355
	Purchase of automobile part and components	580	–
	Dividend income	174,489	48,045
Shanghai Maple Guorun Automobile Company Limited	Dividend income	53,683	457
Related companies *(note)*			
Zhejiang Haoqing Automobile Manufacturing Company Limited	Sales of automotive parts and components	–	34,467
Zhejiang Guo Mei Decoration Material Company Limited	Rental expense	217	226

(B) Balances

Related parties	Nature of transactions	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Minority shareholder of a subsidiary			
Zhejiang Fulin Automobile Parts & Components Company Limited	Advance	5,357	4,588
Immediate holding company			
Proper Glory Holding Inc.	Advance	11,220	14,220
Related companies *(note)*			
Zhejiang Guo Mei Decoration Materials Company Limited	Rental payable	1,077	923
Associates			
Zhejiang Geely Automobile Company Limited	Dividend receivables	147,018	8,220
Shanghai Maple Guorun Automobile Company Limited	Dividend receivables	42,216	–

Note: A controlling shareholder of the Company is also the controlling shareholder of the related companies.

(C) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June 2006 HK$'000 (Unaudited)	2005 HK$'000 (Unaudited)
Short-term benefits	1,826	1,872
Retirement benefits scheme contributions	17	30
	1,843	1,902

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

21. POST BALANCE SHEET EVENTS

(1) On 25 July 2006, the Group entered into a First Capital Increase Agreement (the "First Agreement") with Zhejiang Geely Merrie to increase its registered capital by way of prorate subscription in Zhejiang Geely (as defined in the Company's announcement dated 25 July 2006). Pursuant to the First Agreement, the registered capital of Zhejiang Geely will increase from approximately US$82.8 million to approximately US$176.27 million (equivalent to approximately RMB1,410.13 million or HK$1,371.35 million). The interest of the Group in Zhejiang Geely remains unchanged upon completion of the First Agreement.

On 23 August 2006, the Group entered into a Second Capital Increase Agreement (the "Second Agreement") with Zhejiang Geely Merrie (as defined in the Company's announcement dated 23 August 2006) to increase the registered capital of Zhejiang Geely from approximately US$176.27 million to US$231.01 million (equivalent to approximately RMB1,848.07 million or HK$1,797.24 million). The interest of the Group in Zhejiang Geely remains unchanged upon completion of the Second Agreement.

(2) On 25 July 2006, the Group entered into a Capital Increase Agreement (the "Agreement") with Shanghai Maple Automobile to increase their registered capital by way of prorate subscription in Shanghai Maple. Pursuant to the Agreement, the registered capital of Shanghai Maple will increase from approximately US$51.7 million to approximately US$99.76 million (equivalent to approximately RMB798.11 million or HK$776.16 million). The interest of the Group in Shanghai Maple remains unchanged upon completion of the Agreement.

INDEBTEDNESS

Borrowings

At the close of business on 31 January 2007, being the latest practicable date for this statement of indebtedness prior to the printing of the circular, the Group had outstanding borrowings (excluding the embedded derivatives of the Company's convertible bonds) of approximately HK$698,200,000 comprising the Company's convertible bonds of approximately HK$687,000,000 and advances from immediate holding company of approximately HK$11,200,000. All the outstanding borrowings were unguaranteed and unsecured.

Save as aforesaid, at the close of business on 31 January 2007, the Group did not have outstanding bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there is no material change in indebtedness and contingent liabilities since 31 January 2007 and up the Latest Practicable Date.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's internal resources, operating cash flows and the net proceeds of approximately HK$609 million from the subscription of 600,000,000 Shares in February 2007, the Group has sufficient working capital for its present requirements.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP

The following is the management and discussion analysis extracted from the annual reports for the Company for the year ended 31 December 2003, 2004 and 2005 and the interim report for the six months ended 30 June 2006.

(i) For the year ended 31 December 2003

Financial Review

The Group's turnover amounted to HK$39,872,000 for the year ended 31 December 2003, representing a decrease of approximately 44.5% as compared to the previous year. The earnings attributable to shareholders amounted to HK$57,486,000, compared to a net loss of HK$105,981,000 in previous year.

The Company successfully returned to profitability during the year, mainly due to the net profit after tax attributable of HK$68,027,000 to the Group from Zhejiang JV during the seven-month operating period and from Shanghai Maple JV during the one-month operating period.

Business Overview

After reorganization and transformation, the Group's automobile manufacturing business has returned to its track, and successfully penetrated into the robust sedan market in China, thus a turnaround for 2003 results was recorded.

On 30 March 2003, the Group successfully entered into an joint venture agreement with Geely Holding, a renowned automobile manufacturing enterprise, and its subsidiaries for the establishment of a sino-foreign joint venture company named as Zhejiang JV, The Group held approximately 46.8% of the registered capital of Zhejiang JV which was principally engaged in the manufacturing of economic class sedans in Beilun Economic and Technological Development Zone, Ningbo, Zhejiang Province. On 10 October 2003, both parties entered into an agreement to increase the total investment in Zhejiang JV and its registered capital, with their shareholdings remained unchanged.

On 10 October 2003, the Group entered into an joint venture agreement with Geely Holding and its subsidiary Shanghai Maple for the establishment of Shanghai Maple JV which is owned as to 46.8% and 53.2% by the Group and Shanghai Maple, respectively. Shanghai Maple JV was principally engaged in the manufacturing of economic class sedans in Shanghai Jinshan Fengjing Industrial Zone.

On 5 December 2003, the Group entered into an agreement with Zhejiang Fulin Automobile Parts & Components Company Limited for the establishment of a joint venture company named as Fulin Guorun which the Group held 51% of its equity interest, to manufacture automobile parts and components in Taizhou, Zhejiang Province.

The establishment of the above two associated companies and one subsidiary has not only consolidated the foundation of the Group's investments in the PRC automobile industry, but also enabled the business of the Group to be successfully transformed to and positioned in automobile manufacturing and its related businesses.

During the year, the business activities of the Group were mainly financed by the share capital, proceeds from placement of shares and cash generated from the operating activities. As at 31 December 2003, the Group's shareholders' fund amounted to HK$569 million. During the year, the Group entered into two top-up placing transactions in 2003. The first transaction took place on 18 March 2003, with 100,000,000 Share being placed at HK$0.55 per Share and raised net proceeds of about HK$53,421,000. In the second transaction dated 17 September 2003, 680,000,000 shares were placed at HK$0.7 per Share and raised net proceeds of about HK$462,371,000. The net proceeds had been used for further capital injection into Zhejiang JV and investment of Shanghai Maple JV.

As at 31 December 2003, the Group had net current assets of HK$14,681,000. As at 31 December 2003, the Group's current ratio (current assets/current liabilities) was 1.70 and the gearing ratio of the Group was 3.7% which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings as at 31 December 2003 amounted to HK$21 million were mainly bank borrowings, amounts due to and advances from minority shareholders. Certain bank borrowings were secured by some of the Group's buildings with net book value of about HK$2,419,000. The amounts due to and advances from minority shareholders were unsecured, interest-free and repayable on demand.

As at 31 December 2003 and save as disclosed above (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) the Group did not have any contingent liabilities.

As at 31 December 2003, the total number of employees of the Group including associates was about 2,864. Employees' remuneration packages are reviewed annually by the management who takes into account the experience, overall performance of the working staff as well as the prevailing market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

(ii) For the year ended 31 December 2004

Financial Review

The Group's turnover amounted to HK$32 million for the year ended 31 December 2004, representing an increase of 8,476% over previous year. Profit attributable to shareholders amounted to HK$81 million, a significant increase of 46% over 2003. The big increase in net profit was attributable to the large increase in profit contributions from the Group's two associates – Zhejiang JV and Shanghai Maple JV – a combined result of the new profit contribution from a series of acquisitions during 2003-2004 and the healthy natural growth achieved by the two associates during the period.

Business Overview

2004 was a difficult year for the automobile industry in China, featured by the sharp slow down in vehicle sales since the second quarter of 2004 and the continuous downward pressure on car prices throughout the year. Despite the challenges and difficulties in 2004, the Group still managed to achieve respectable results, helped by the Group's proven track record in cost control and the timely response by the management to adjust business strategies and implement new measures to alleviate the impact from a significantly slower car market in China.

Despite the implementation of new measures including the restructuring of production facilities to improve economies of scale, the postponement of capital expenditure programs and new product launches to ensure better utilization of resources, and various stringent measures to cut costs, the Group still managed to achieve better than average growth in sales volume and to offset most product price declines with cost cutting, thus help maintaining the Group's competitiveness in China's car market, resulting in further increase in its market share in China's sedan market in 2004.

During 2004, the Group's major partner Geely Holding sold 96,693 units of Geely and Maple sedans, up 27% over 2003, gaining 4.2% share in China's passenger car market in 2004. Sales volume attributable to the listed Company amounted to 66,057 units in 2004, up significantly by 139% from only 27,594 units in 2003, as a result of the acquisition of Haoqing series of automobile assets in July 2004, the full year contributions of the Group's two associates – Zhejiang JV and Shanghai Maple JV – and the healthy natural growth of the sales of Geely and Maple sedans in China. Zhejiang JV and Shanghai Maple JV, which produces and sells Geely and Maple sedans respectively, remained the key profit contributors of the Group in 2004.

The Group's 51%-owned parts subsidiary Fulin Guorun recorded small loss in 2004 due to the deterioration in market condition in China's sedan market and thus the continuous pressure on product prices throughout the year. This was however largely offset by the significant cut in the Group's administrative expenses after the Group's completed withdrawal from the information technology ("IT") businesses in March 2004. Despite this, Fulin Guorun successfully launched a strategically important new steering system, commonly known as Electric Power Steering ("EPS"), which has been widely considered as one of the most advanced steering systems available in the market, thus paving the way for the Group's entry into high value added auto parts market.

The Group managed to complete the acquisitions of most of the remaining auto-related assets from Geely Holding through its two associates in July 2004, thus helping broaden the Group's product line to cover all the existing and future car models to be produced by Geely Holding and to facilitate the subsequent restructuring of the Group's production facilities to further improve its production efficiency and cost competitiveness.

During the year, the business activities of the Group were mainly financed by the share capital and cash generated from the operating activities. As at 31 December 2004, the Group's shareholders' fund amounted to HK$653 million (As at 31 December 2003: HK$569 million). No additional share was issued during the year.

As at 31 December 2004, the Group had net current assets of HK$3,332,000. As at 31 December 2004, the Group's current ratio (current assets/current liabilities) was 1.17 (As at 31 December 2003: 1.70) and the gearing ratio of the Group was 1.6% (As at 31 December 2003: 3.7%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings as at 31 December 2004 amounted to HK$10 million (As at 31 December 2003: HK$21 million) were mainly advances due to ultimate holding company and minority shareholders and they were unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believed the Group was in a good position to obtain such financing.

On 30 March 2004, the entire 51% interest in Deep Treasure Investments Limited and its subsidiaries were disposed of with a gain of HK$3.2 million. The Group's operating division of information technology was discontinued following the disposal.

As at 31 December 2004 (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) the Group did not have any contingent liabilities.

As at 31 December 2004, the total number of employees of the Group including associates was about 6,941 (As at 31 December 2003: 2,864). The significant increase of number of employees was mainly due to the acquisition of Zhejiang Haoqing during the year by one of the associates, Zhejiang JV. Employees' remuneration packages are reviewed annually by the management who takes into account the experience, overall performance of the working staff as well as the prevailing market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

(iii) For the year ended 31 December 2005

Financial Review

The Group's turnover amounted to HK$101 million for the year ended 31 December 2005, representing an increase of 218% over previous year. Profit attributable to shareholders amounted to HK$111 million, a significant increase of 36% over 2004. The big increase in net profit was attributable to the large increase in profit contributions from the Group's two associates – Zhejiang JV and Shanghai Maple JV – mainly due to the strong sales and earnings recovery achieved by the two associates in the second half of 2005, more than offsetting the 23% decline in net profit in the first half of 2005.

Business Overview

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

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

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

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

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

As at 31 December 2005, the Group had net current assets of HK$12,664,000. As at 31 December 2005, the Group's current ratio (current assets/current liabilities) was 1.23 (As at 31 December 2004: 1.17) and the gearing ratio of the Group was 2.4% (As at 31 December 2004: 1.5% (restated)) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings as at 31 December 2005 amounted to HK$19 million (As at 31 December 2004: HK$10 million) were mainly advance from immediate holding company and amount due to a minority shareholder and they were unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believed the Group was in a good position to obtain such financing.

As at 31 December 2005 (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) the Group did not have any contingent liabilities.

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

(iv) For the six months ended 30 June 2006

Overall performance

The Group's turnover, which principally came from the Company's 51%-owned auto parts subsidiary Fulin Guorun, amounted to HK$69.3 million for the six months ended 30 June 2006, representing an increase of 93.2% over the same period last year. Profit attributable to shareholders amounted to HK$120.7 million, a significant increase of 196% over the same period in 2005. The big increase in net profit was mainly attributable to the large increase in profit contribution from the Company's two associates – Zhejiang JV and Shanghai Maple JV – mainly due to their strong sales volume growth as well as the improvement in their product mixes towards higher priced models during the period.

The earnings performance of the Company's 51%-owned auto parts subsidiary Fulin Guorun in the first half of 2006 continued to benefit from strong sales volume growth of Geely sedans, which utilize the company's braking and steering products. As a result, Fulin Guorun's net profit increased by almost 4.4 times to HK$6 million during the period.

As a result of the issue of the 5-year HK$741.6 million zero coupon convertible bonds ("CB") in April 2006, the Company's cash holding increased significantly towards the end of first half 2006, resulting in significant increase in interest income, which was included in the other operating income during the period. This, however, was more than offset by the additional costs incurred by the CB outstanding during the period, mainly being non-cash expenses like accrued interests for the debt portion of the CB and the revaluation deficit of the derivative portion of the CB. It is estimated that the net expenses related to the convertible bonds should have reduced the Company's pre-tax profit by around HK$11 million in the first half of 2006.

Issue of Convertible Bonds to Fund the Capital Expansion of the Two Associates

To cope with the rapid growth of the Group's businesses through the expansion and upgrading of the Group's production facilities and the development and launches of more new models, the Company's two associates Zhejiang JV and Shanghai Maple JV had decided to significantly expand their capitals from a combined HK$1,046 million to HK$2,573 million by way of pro rata subscription by their respective shareholders. With its 46.8% stakes in the two associates, the Company's total entitlements towards the capital expansion exercises amounted to HK$715 million. To fund the Company's capital commitments to the two associates, the Company issued a HK$741.6 million five-year zero coupon convertible bonds in April 2006.

Automobile Parts Manufacturing – Fulin Guorun

51%-owned Fulin Guorun is principally engaged in the manufacturing and sales of brake system and electric power steering ("EPS") for sedans. Demand for the Company's products continued to be strong helped by the strong sales volume growth enjoyed by Geely and Maple sedans, which utilize the Company's braking and steering products. As a result, Fulin Guorun's turnover grew significantly by over 93.2% to HK$69 million and net profit grew 440% to HK$6 million in the first half of 2006. We believe Fulin Guorun's earnings performance should continue to improve in the remainder of 2006, helped by the continued strong growth in sales volume projected by its major customers Zhejiang JV and Shanghai Maple JV during the period. Fulin Guorun had started the research and development for the next generation of Electric Power Steering ("EPS"). The new generation of EPS, if successfully developed, should help to maintain the company's leading position in EPS technology in China. This, coupled with the planned construction of new and larger production plant to replace the existing plant in the coming year, should help to sustain the company's longer-term earnings growth in the future.

Vehicle Manufacturing – Zhejiang JV and Shanghai Maple JV

46.8%-owned Zhejiang JV and Shanghai Maple JV remain the key earnings contributors to the Company, accounting for the bulk of the Company's earnings in the first half of 2006. The two associates sold a total of 91,953 vehicles in the first six months of 2006, up 60% over the same period last year and achieving 51% of their combined full year targets of 180,000 units. The combined market share of Geely and Maple sedans improved from 4.8% in 2005 to over 5% in the first half of 2006, making the Group the 9th largest sedan manufacturer in China in terms of sales volume during the period.

During the period, the business activities of the Group were mainly financed by the share capital, dividend received from the Group's two major associates, proceeds of the convertible bonds issued by the Company on 10 April 2006 and cash generated from the operating activities. As at 30 June 2006, the Group's shareholders' fund amounted to approximately HK$881 million (As at 31 December 2005: approximately HK$798 million). No additional share was issued during the period.

As at 30 June 2006, the Group had net current assets of HK$871,313,000. As at 30 June 2006, the Group's current ratio (current assets/current liabilities) was 3.58 (As at 31 December 2005: 1.23) and the gearing ratio of the Group was 79.8% (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) as at 30 June 2006 amounted to approximately HK$703 million (As at 31 December 2005: approximately HK$19 million) were mainly the Company's convertible bonds, advances from immediate holding company and amount due to a minority shareholder. Should other opportunities arise requiring additional funding, the Directors believed the Group was in a good position to obtain such financing.

As at 30 June 2006 (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) the Group did not have any contingent liabilities.

As at 30 June 2006, the total number of employees of the Group including associates was about 9,484 (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.

FINANCIAL AND TRADING PROSPECTS

As the Group is principally engaged in the manufacture and trading of automobile parts and related automobiles in the PRC, the Transfers and the establishment of the Shanghai LTI JV serve as the initial steps towards co-operation with Manganese Bronze. The Directors are of the view that the co-operation with Manganese Bronze would enable the Group to tap into Manganese Bronze's car manufacturing technology techniques and to participate in the manufacturing of London taxi. Furthermore, the co-operation with Manganese Bronze would also provide new sources of earnings to the Group from the share of profit from i) the Shanghai LTI JV upon the mass production of the Shanghai LTI JV and ii) Manganese Bronze upon the receipt of the MB Consideration Shares from Manganese Bronze.

In the medium to longer term, the Group will continue to upgrade and expand its production facilities to improve quality and reduce costs, to build new production facilities in less developed provinces to develop new markets and generate additional demand for Geely and Maple sedans, through i) expansion of export business to other overseas markets, ii) setting up assembly arrangements with local partners in overseas countries like Indonesia and Russia, iii) the implementation of a new procurement system to offer incentives to suppliers so as to improve quality of automobiles and eliminate any unqualified suppliers and iv) expanding the product ranges of Geely and Maple sedans, to invest in product and technology innovation in order to differentiate its products from the rest of the market, and to establish strategic alliances with major suppliers to reduce volatility of raw material and component costs, with an aim to developing the Group into an internationally competitive sedan manufacturer. With the long-term objective of a 10% market share in China and exporting two third of output to overseas market by 2015, the Group are aiming at expanding the production volume to over 2 million units in the coming decade.

In addition, the Group shall actively seek for ways and opportunities to further rationalize and restructure its structure, aiming at improving the Group's overall transparency and its effectiveness as the ultimate holding company 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.

In accordance with Rule 4.03 of the Listing Rules, an accountants' report is required to be prepared by professional accountants who are qualified under Professional Accountants Ordinance for appointment as auditors of a company. Rule 4.03 of the Listing Rules also provides that, in the case of a circular issued by a listed issuer in connection with acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of accountants who is not so qualified but acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

Manganese Bronze was incorporated on 10 March 1899 in England and Wales and the shares of which are listed on the London Stock Exchange. As the financial statements for Manganese Bronze for the year ended 31 July 2004 and 2005 were prepared in accordance with applicable UK law and accounting standards ("UK GAAP"), the Company appointed MRI Moores Rowland as the reporting accountants to prepare the accountants' report of Manganese Bronze in conformity with the International Financial Reporting Standards ("IFRS") for the purpose of incorporation in this circular. The Directors noted that as MRI Moores Rowland is a UK based firm and a member of the Institute of Chartered Accountants in England and Wales, MRI Moores Rowland will be more familiar with preparing the accountants' report of Manganese Bronze and it is more cost and time effective to engage MRI Moores Rowland to prepare the accountants' report of Manganese Bronze in conformity with IFRS. Given the aforesaid reasons, the Directors considered it is more appropriate to appoint MRI Moores Rowland instead of professional accountants who are qualified under the Professional Accountant Ordinance as reporting accountants for the purpose of preparing the accountants' report of Manganese Bronze.

As MRI Moores Rowland is not registered under the Professional Accountants Ordinance of the law of Hong Kong, the Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 4.03 of the Listing Rules. On 7 March 2007, the Stock Exchange granted such waiver to the Company. The following is a text of the accountants' report from MRI Moores Rowland LLP, London, the reporting accountants of Manganese Bronze prepared for the sole purpose of incorporation in this circular.

Moores Rowland LLP

2 April 2007

The Directors
Geely Automobile Holdings Limited
Room 2301, 23/F Great Eagle Centre
23 Harbour Road
Wan Chai
Hong Kong

Dear Sirs

We set out below our report on the financial information regarding Manganese Bronze Holdings plc ("Manganese Bronze"), a company incorporated in England and Wales, and its subsidiaries (hereinafter collectively referred to as the "Manganese Bronze Group") for each of the three years ended 31 July 2004, 2005 and 2006 and for the six months ended 31 January 2007 (the "Relevant Periods") for inclusion in a circular issued by Geely Automobile Holdings Limited ("Geely"), a company incorporated in the Cayman Islands, dated 2 April 2007 (the "Circular").

Manganese Bronze is a public limited company incorporated in England and Wales on 10 March 1899. The head office of Manganese Bronze is situated in Coventry, England. The principal business of Manganese Bronze is a UK-based speciality automotive and taxi services group.

As at the date of this report, Manganese Bronze has the following principal subsidiaries, which are all private companies with limited liability:

Company	Country of incorporation	Date of incorporation	Holding % (Direct)	Principal activities
LTI Limited England	England & Wales	4 September 1993	100%	Taxi manufacturing and retailing
Manganese Bronze Services Limited	England & Wales	24 August 1971	100%	Supplier of services to the taxi industry
Manganese Bronze Property Services Limited	England & Wales	23 September 1896	100%	Group property
London Taxis North America Holdings Incorporated	United States of America	1 February 2005	86%	Taxi retailing and leasing, and wrap advertising

We conducted our audit procedures in accordance with International Standards on Auditing issued by the International Auditing Standards Board ("IASB") on the consolidated financial statements of Manganese Bronze for each of the three years ended 31 July 2006 and six months ended 31 January 2007 which were prepared in accordance with International Financial Reporting Standards ("IFRS"). For the purposes of this report and Rule 4.11(b) of the Listing Rules, there are no differences between IFRS and Hong Kong Financial Reporting Standard ("HKFRS") that would have a material effect to the financial information of the Manganese Bronze Group.

We have examined the audited consolidated financial statements, or where appropriate, management accounts (the "Underlying Financial Statements") of Manganese Bronze for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The financial information of the Manganese Bronze Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements after making all such adjustments as we consider necessary. The Underlying Financial Statements are the responsibility of the directors of Manganese Bronze. The directors of Geely Automobile Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements (which are the responsibility of the directors of Manganese Bronze), to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Manganese Bronze Group as at 31 July 2004, 2005 and 2006 and 31 January 2007 and of the results and cash flows of the Manganese Bronze Group for the Relevant Periods.

We acted as auditors to Manganese Bronze in respect of the six months ended 31 January 2007. The consolidated financial statements for Manganese Bronze for each of the three years ended 31 July 2006 were audited by Deloitte & Touche LLP, Birmingham, England.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of Manganese Bronze for the six months ended 31 January 2006 together with the notes thereon (the "31 January 2006 financial information") have been extracted from Manganese Bronze's financial information for the same period.

We have reviewed the financial information for the six months ended 31 January 2006 in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquires of the management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 31 January 2006 financial information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 31 January 2006 financial information.

(A) FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	Year ended 31 July 2004 £'000	Year ended 31 July 2005 £'000	Year ended 31 July 2006 £'000	Six months ended 31 January 2006 £'000 (Unaudited)	Six months ended 31 January 2007 £'000
Continuing operations						
Revenue	*4*	86,062	87,323	83,824	39,119	45,474
Cost of sales		(72,791)	(75,070)	(71,711)	(33,060)	(39,714)
Gross profit		13,271	12,253	12,113	6,059	5,760
Distribution costs		(3,538)	(2,972)	(2,974)	(1,427)	(1,510)
Administrative expenses	*6*	(454)	(6,305)	(5,027)	(3,421)	(3,249)
Operating profit		9,279	2,976	4,112	1,211	1,001
Investment revenues	*9*	83	251	304	105	75
Finance costs	*10*	(1,089)	(724)	(660)	(302)	(418)
Profit before tax from continuing operations		8,273	2,503	3,756	1,014	658
Tax	*11*	(233)	94	(920)	14	(1)
Profit for the period from continuing operations		8,040	2,597	2,836	1,028	657
Loss for the period from discontinued operations	*12*	(6,672)	(549)	(86)	(51)	–
Profit for the period	*7*	1,368	2,048	2,750	977	657
Attributable to:						
Equity holders of the parent		1,368	2,070	2,836	1,003	665
Minority interest		–	(22)	(86)	(26)	(8)
		1,368	2,048	2,750	977	657
Earnings per share		**Pence**	**Pence**	**Pence**	**Pence**	**Pence**
From continuing operations						
Basic	*14*	43.59	13.88	15.48	5.56	3.49
Diluted	*14*	43.11	13.75	15.39	5.53	3.48
From continuing and discontinued operations						
Basic	*14*	7.42	10.97	15.02	5.29	3.49
Diluted	*14*	7.34	10.87	14.94	5.26	3.48

Consolidated Statements of Recognised Income and Expense

	Year ended 31 July			Six months ended 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£000*	*£'000*	*£'000*
				(Unaudited)	
Net profit for the period	1,368	2,048	2,750	977	657
Losses on cash flow hedges	–	–	(44)	–	(326)
Exchange differences on translation of foreign operations	–	101	(72)	–	(195)
Actuarial gain/(loss) on defined benefit pension scheme	672	(746)	526	–	779
Tax on items taken direct to equity	–	–	(159)	–	(234)
Recognised income and expense for the period	2,040	1,403	3,001	977	681
Attributable to:					
Equity holders of the parent	2,040	1,425	3,087	1,003	689
Minority interest	–	(22)	(86)	(26)	(8)
	2,040	1,403	3,001	977	681

Consolidated Balance Sheets

			At 31 July		At 31 January
		2004	**2005**	**2006**	**2007**
	Notes	*£'000*	*£'000*	*£'000*	*£'000*
Non-current assets					
Goodwill	*15*	–	1,478	1,396	1,325
Other intangible assets	*16*	322	600	448	2,299
Property, plant and equipment	*17*	15,756	16,707	19,608	19,233
Investment property	*18*	4,073	3,700	–	–
Deferred tax asset	*20*	2,211	2,311	1,745	1,515
Total non-current assets		22,362	24,796	23,197	24,372
Current assets					
Inventories	*21*	15,987	15,277	17,578	17,023
Trade and other receivables	*22*	5,696	6,581	7,921	8,221
Cash and cash equivalents	*23*	6,399	9,642	12,927	8,833
Total current assets		28,082	31,500	38,426	34,077
Assets held for sale		1,137	–	–	–
Total assets		51,581	56,296	61,623	58,449
Current liabilities					
Trade and other payables	*27*	14,149	18,960	19,868	19,426
Current tax liabilities		–	–	458	503
Obligations under finance leases	*26*	502	199	244	153
Bank overdrafts and loans	*24*	7,432	5,632	9,671	8,036
Derivative financial instruments	*25*	30	12	44	369
Total current liabilities		22,113	24,803	30,285	28,487
Non-current liabilities					
Other payables	*27*	–	222	49	46
Retirement benefit obligation	*35*	6,370	6,175	4,674	3,499
Obligations under finance leases	*26*	199	504	431	37
Provisions	*28*	3,399	4,273	4,065	4,053
Preference shares	*29*	642	642	642	642
Total non-current liabilities		10,610	11,816	9,861	8,277

		At 31 July			At 31 January
		2004	2005	2006	2007
	Notes	*£'000*	*£'000*	*£'000*	*£'000*
Liabilities directly associated with assets held for sale		506	–	–	–
Total liabilities		33,229	36,619	40,146	36,764
Net assets		18,352	19,677	21,477	21,685
Equity					
Share capital	*30*	4,729	4,759	4,759	4,816
Share premium account	*31*	4,700	4,919	4,919	5,103
Capital redemption reserve	*31*	916	916	916	916
Employee Share Ownership Plan (ESOP) reserve	*31*	(500)	(210)	(332)	(203)
Translation reserves	*31*	–	110	39	(157)
Retained earnings	*31*	8,507	9,088	11,168	11,210
Equity attributable to equity holders of the parent		18,352	19,582	21,469	21,685
Minority interests	*31*	–	95	8	–
Total equity		18,352	19,677	21,477	21,685

Consolidated Cash Flow Statements

		Year ended 31 July			Six months ended 31 January	
		2004	2005	2006	2006	2007
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
					(Unaudited)	
Operating activities						
Operating profit from continuing operations		9,279	2,976	4,112	1,211	1,001
Operating loss from discontinued operations		(6,672)	(549)	(86)	(51)	–
Adjustments for:						
Gain on derivatives		14	(18)	(12)	(6)	–
Depreciation of property, plant and equipment		4,617	3,516	2,664	1,490	1,474
Amortisation of intangible assets		134	142	176	88	182
Asset impairment – Zingo		2,585	–	–	–	–
Decrease in fair value of investment property		–	341	–	–	–
Gain on disposal of property, plant and equipment		(4,091)	(19)	(1,170)	–	(32)
Charge for share based payments		12	32	70	33	41
Contribution to defined benefit pension scheme	*35*	(1,325)	(1,222)	(1,200)	(600)	(600)
Pension deficit reduction – SERPS buy-back		(2,367)	–	–	–	–
(Decrease)/increase in provisions		–	537	(204)	(411)	(11)
Operating cash flows before movement in working capital		2,186	5,736	4,350	1,754	2,055
(Increase)/decrease in inventories		(568)	711	(2,313)	(4,382)	544
Decrease/(increase) in receivables		135	(714)	(1,378)	1,616	(264)
(Decrease)/increase in payables		(334)	4,212	861	(3,770)	(328)
Cash (used in)/generated by operations		1,419	9,945	1,520	(4,782)	2,007
Income taxes paid		–	(6)	(17)	–	41
Interest paid		(385)	(443)	(435)	(162)	(259)
Net cash from/(used in) operating activities		1,034	9,496	1,068	(4,944)	1,789

		Year ended 31 July			Six months ended 31 January	
		2004	2005	2006	2006	2007
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
					(Unaudited)	
Investing activities						
Interest received		83	251	304	105	75
Proceeds on disposal of property, plant and equipment		8,104	533	707	261	180
Proceeds on disposal of intangible assets		–	700	–	–	–
Proceeds on disposal of assets held for sale		–	–	4,849	800	–
Purchases of intangible assets		(1,137)	(145)	(47)	–	(1,006)
Purchases of property, plant and equipment		(6,637)	(2,929)	(6,154)	(1,114)	(2,320)
Acquisitions of subsidiary		–	(1,039)	(99)	–	(80)
Net cash from/(used in) investing activities		413	(2,629)	(440)	52	(3,151)
Financing activities						
Dividends paid		(4,996)	(567)	(947)	(571)	(755)
Repayments of obligations under finance leases		(838)	(617)	(231)	(115)	(560)
Purchase of own shares		–	–	(431)	(151)	(350)
Proceeds on issue of shares		1,299	91	107	48	591
Increase in bank overdrafts		–	–	521	–	–
Increase/(decrease) in stocking loan		761	(2,464)	3,518	2,798	(1,635)
Net overdrafts acquired with subsidiary undertaking		–	(67)	–	–	–
Net cash from/(used in) financing activities		(3,774)	(3,624)	2,537	2,009	(2,709)
Net increase/(decrease) in cash and cash equivalents		(2,327)	3,243	3,165	(2,883)	(4,071)
Cash and cash equivalents at beginning of period		8,726	6,399	9,642	9,642	12,927
Effect of foreign exchange rates		–	–	120	–	(23)
Cash and cash equivalents at end of period		6,399	9,642	12,927	6,759	8,833

(B) NOTES TO THE FINANCIAL INFORMATION

1. General Information

Manganese Bronze is a company incorporated in England and Wales. The address of the registered office is Holyhead Road, Coventry, CV5 8JJ. The nature of the Group's operations and its principal activities are provision of speciality automotive and taxi services.

This financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of the preparation of this financial information, the following Standards and Interpretations which have not been applied in this financial information were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures; and the related amendments to IAS 1 on capital disclosure
IFRIC 4	Determining whether an Arrangement contains a lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation funds
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Manganese Bronze Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

2. Significant accounting policies

Basis of accounting

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS").

There is convergence between IFRS and Hong Kong Financial Reporting Standards ("HKFRS"). Accordingly, there are no material differences or financial effect between IFRS and HKFRS for the purpose of the preparation of this financial information.

The financial information has been prepared on the historic cost basis, except for the revaluation of certain properties and financial instruments.

Basis of consolidation

The consolidated financial information incorporates the statuary financial statements of Manganese Bronze and entities controlled by it (its subsidiaries) made up to 31 July each year and interim financial information made up to 31 January 2006 and 31 January 2007. Control is achieved where Manganese Bronze has the power to govern the strategic direction, the assets, and the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Manganese Bronze's Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) 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 Manganese Bronze Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the period 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 information of subsidiaries to bring the accounting policies used into line with those used by the Manganese Bronze Group.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Manganese Bronze Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 "Non Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the interest of the Manganese Bronze Group in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Manganese Bronze Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the interest of the Manganese Bronze Group in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 Manganese Bronze Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Manganese Bronze Group as Lessee

Assets held under finance leases are recognised as assets of the Manganese Bronze Group in accordance with the accounting policy for the appropriate asset category, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of Manganese Bronze, and the presentation currency for the consolidated financial statements.

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

In order to hedge its exposure to certain foreign exchange risks, the Manganese Bronze Group enters into forward contracts and options (see below for details of the Manganese Bronze Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisitions of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Government grants towards staff re-training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Retirement benefit costs

For defined contribution retirement benefit schemes the amount charged as an expense in respect of pension costs and other post-retirement benefits is the contributions payable in the period. They are included as part of staff costs. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Manganese Bronze Group, in trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the Projected Unit Credit Method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the 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 Manganese Bronze 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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Manganese Bronze Group 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 profits 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 in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Manganese Bronze Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For land and buildings acquired prior to 31 July 2003, the Manganese Bronze Group has elected to use the revaluation at that date as deemed cost on transition to IFRSs.

Plant and equipment are stated at cost less accumulated depreciation and any subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. The estimated useful lives, which are periodically reviewed by the Directors, are:

Freehold buildings – 20 to 50 years as advised by members of the Royal Institution of Chartered Surveyors;

Long leasehold buildings – the lower of 50 years as advised by members of the Royal Institution of Chartered Surveyors or the period of the lease;

Short leasehold buildings – the lower of the period of the lease, or five to ten years;

Plant and equipment, including motor vehicles – three to fifteen years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date, or at cost if purchased during the period. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Manganese Bronze Group's product development is recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is the fair value at acquisition date. The cost of separately acquired intangible assets, including the cost of licensing vehicles for use as taxis and computer software costs, comprises the purchase price and any directly attributable costs of preparing the asset for use. Amortisation begins when as asset is available for use and is calculated on a straight line basis to allocate the cost over the estimated useful life, normally five to ten years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Manganese Bronze Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in-first-out basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Included within inventories, are finished vehicles held by the Manganese Bronze Group and also non-Group dealers, which are financed through a stocking loan facility. The related stocking loan liability is included within bank borrowings.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Manganese Bronze Group's balance sheet when the Manganese Bronze Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are measured at cost, including transaction costs, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest bearing bank loans, stocking loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derivative financial instruments and hedge accounting

The Manganese Bronze Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Manganese Bronze Group uses foreign exchange forward contracts to hedge its foreign currency exposure. The Manganese Bronze Group does not use derivative financial instruments for speculative purposes. For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign exchange movements on operations.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

Provisions

Provisions are recognised when the Manganese Bronze Group has a present obligation as a result of a past event, and it is probable that the Manganese Bronze Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Manganese Bronze Group has applied the requirements of IFRS 2 "Share-based Payment". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Manganese Bronze Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of the non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by the use of stochastic modelling techniques. 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 behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share-based payments.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Manganese Bronze Group's accounting policies

In the process of applying the Manganese Bronze Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial information (apart from those involving estimations, which are dealt with below).

Warranty provision

In quantifying the outstanding liability as at the balance sheet date for future vehicle warranty costs, and amounts that may be recoverable from suppliers under supplier warranty agreements, management has made a judgement that historical trends in warranty costs over the three-year warranty life cycle will continue, and that amounts recoverable from suppliers as a percentage of total warranty costs will remain in line with that experienced during the periods ended 31 January 2006 and 2007 and the years ended 31 July 2006, 2005 and 2004.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill has been allocated. The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present values. The carrying amount of goodwill at 31 January 2007 was £1,325,000 (31 July 2006: 1,396,000; 2005: £1,478,000; 2004: £nil). No impairment arose in each of the periods. Details of the impairment calculation are provided in note 15.

4. Revenue

An analysis of the Manganese Bronze Group's revenue is as follows:

		Year ended 31 July			Six months ended 31 January	
		2004	2005	2006	2006	2007
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
					(Unaudited)	
Continuing operations						
Sale of goods		82,723	83,816	79,964	36,973	44,119
Rendering of services		2,954	2,858	3,463	1,851	1,355
Property rental income		385	649	397	295	–
		86,062	87,323	83,824	39,119	45,474
Investment income	*9*	83	251	304	105	75
Total income		86,145	87,574	84,128	39,224	45,549
Discontinued operations						
Rendering of services – Zingo		650	275	–	–	–
Total revenue from discontinued operations		650	275	–	–	–
Total revenue		86,795	87,849	84,128	39,224	45,549

5. Business and geographical segments

Business segments

For management purposes, the Manganese Bronze Group is currently organised into three operating divisions – vehicle sales, vehicle services, and property. These divisions are the basis on which primary segment information is reported.

Principal activities are as follows:

The vehicle sales segment includes the design, development, manufacture, and retailing of new purpose built taxis, together with the sale of used vehicles taken in part exchange, parts, and vehicle maintenance.

The vehicle services segment comprises taxi finance, the US based advertising business, and the Zingo mobile phone taxi hailing service. The latter is now a discontinued operation following the transfer, on 13 December 2004, of the London Zingo operation and assets to Computer Cab Plc (ComCab) as part of a license agreement.

The property segment comprises rental income received and costs associated with the Manganese Bronze Group's property portfolio, which includes a freehold property in Manchester, leased properties in London, Coventry, Birmingham and Leeds, and investment properties in Ipswich and Birmingham. The two investment properties were disposed of during the year ended 31 July 2006.

Segmental information about these businesses is presented below:

	Year ended 31 July			Six months ended 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Revenue					
Vehicle sales	83,821	84,971	81,127	37,404	44,713
Vehicle services	1,929	2,042	2,300	1,420	761
Property	312	310	397	295	–
Continuing operations	86,062	87,323	83,824	39,119	45,474
Vehicle services – Zingo	650	275	–	–	–
Discontinued operations	650	275	–	–	–
Total	86,712	87,598	83,824	39,119	45,474

	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Result					
Vehicle sales	2,991	2,217	2,788	875	860
Vehicle services	1,259	838	386	237	141
Property	5,029	(79)	938	99	–
Total operating profit from continuing operations	9,279	2,976	4,112	1,211	1,001
Investment revenues	83	251	304	105	75
Finance costs	(1,089)	(724)	(660)	(302)	(418)
Profit before tax from continuing operations	8,273	2,503	3,756	1,014	658
Tax	(233)	94	(920)	14	(1)
Loss from discontinued operations	(6,672)	(549)	(86)	(51)	–
Profit after tax and discontinued operations	1,368	2,048	2,750	977	657

Head office costs have been allocated to segments based on operating profit.

Other information

	Capital additions – property, plant & equipment				Capital additions – other intangibles				Depreciation and amortisation			
		Year ended 31 July		Six months ended 31 January		Year ended 31 July		Six months ended 31 January		Year ended 31 July		Six months ended 31 January
	2004	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Continued operations												
Vehicle sales	2,493	2,195	5,990	2,360	1,137	145	–	1,006	3,458	3,291	2,263	1,496
Vehicle services	1	819	51	37	–	–	47	–	7	23	210	138
Property	5,213	–	344	–	–	–	–	–	179	146	139	–
Corporate	34	–	–	–	–	–	–	–	61	55	52	22
	7,741	3,014	6,385	2,397	1,137	145	47	1,006	3,705	3,515	2,664	1,656
Discontinued operations												
Vehicle services – Zingo	–	9	–	–	–	–	–	–	1,046	9	–	–
Discontinued operations	–	9	–	–	–	–	–	–	1,046	9	–	–
Total	–	3,023	6,385	2,397	1,137	145	47	1,006	4,751	3,524	2,664	1,656

	Total assets				Total liabilities				Net assets/(liabilities)			
		At31 July		At 31 January		At 31 July		At 31 January		At 31 July		At 31 January
	2004	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Continued operations												
Vehicle sales	38,339	35,607	42,307	43,253	16,439	21,325	22,671	22,831	21,900	14,282	19,636	20,422
Vehicle services	317	5,190	4,660	4,151	185	637	441	382	132	4,553	4,219	3,769
Property	4,245	3,774	72	273	136	67	441	189	4,109	3,707	(369)	84
	42,901	44,571	47,039	47,677	16,760	22,029	23,553	23,402	26,141	22,542	23,486	24,275
Discontinued operations												
Vehicle services – Zingo	60	53	–	–	359	398	–	–	(299)	(345)	–	–
	60	53	–	–	359	398	–	–	(299)	(345)	–	–
Total segment	42,961	44,624	47,039	47,677	17,119	22,427	23,553	23,402	25,842	22,197	23,486	24,275
Unallocated corporate	2,221	2,030	1,657	1,939	7,977	7,857	6,247	5,136	(5,756)	(5,827)	(4,590)	(3,197)
Net funds	6,399	9,642	12,927	8,833	8,133	6,335	10,346	8,226	(1,734)	3,307	2,581	607
Total	51,581	52,296	61,623	58,449	33,229	36,619	40,146	36,764	18,352	19,677	21,477	21,685

Geographical segments

The Manganese Bronze Group's operations are located in England and the United States of America.

The following table provides an analysis of the Manganese Bronze Group's sales by geographical market, irrespective of the origin of the goods/services:

	Year ended 31 July			Six months ended 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Continuing operations					
United Kingdom	81,347	84,947	81,531	38,483	45,278
Rest of Europe	1,031	25	186	136	41
North America	3,659	505	562	450	82
Asia	25	109	–	–	–
Rest of World	–	1,737	1,545	50	73
	86,062	87,323	83,824	39,119	45,474
Discontinued operations					
United Kingdom	650	275	–	–	–
	86,712	87,598	83,824	39,119	45,474

The following is an analysis of the carrying amount of segment assets (before unallocated corporate net assets and net funds/debt), and additions to property, plant and equipment and intangible assets, analysed by the geographic area in which the assets are located:

	Carrying amount of segment net assets				
	At 31 July			At 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
United Kingdom	25,842	17,984	19,574	23,367	20,764
North America	–	4,213	3,912	4,153	3,511
	25,842	22,197	23,486	27,520	24,275

	Additions to property, plant & equipment and other intangible assets				
	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
United Kingdom	8,952	2,349	6,334	1,165	3,305
North America	–	819	98	17	98
	8,952	3,168	6,432	1,182	3,403

6. Exceptional items

Administrative expenses include the following credits/(charges):

		Year ended 31 July			Six months ended 31 January	
		2004	2005	2006	2006	2007
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
					(Unaudited)	
Profit on disposal of investment properties	*a)*	–	–	1,149	–	–
Profit/(loss) on sale of fixed assets	*b)/c)*	4,659	(45)	–	–	–
Redundancy and severance pay		–	–	(353)	–	–
Pension deficit reduction – SERPS buy-back		2,367	–	–	–	–
Continuing operations		7,026	(45)	796	–	–
Loss/(profit) on disposal of discontinued operations	*d)*	(559)	153	–	–	–
Cost of a fundamental restructuring	*e)*	–	(213)	–	–	–
Redundancy and severance pay		–	–	(6)	(6)	–
Impairment of plant and equipment – Zingo		(2,585)	–	–	–	–
Discontinued operations		(3,144)	(60)	(6)	(6)	–
		3,882	(105)	790	(6)	–

a) The profit on disposal of investment properties relates to the sale of properties in Ipswich, on 31 March 2006, and Birmingham, on 5 August 2005, for net receipts of £4,049,000 and £800,000 respectively. The properties had combined net book values of £3,700,000.

b) The net profit on sale on fixed assets during the year ended 31 July 2004 relates to the sales of property at Holloway Road, London, for a profit of £4,751,000, and at Fishponds, Bristol, for a loss of £92,000.

c) The loss on sale of fixed assets during the year ended 31 July 2005 relates to warranty claims associated with the sale of the Coventry property on 29 July 2003.

d) The profit on disposal of discontinued operations during the year ended 31 July 2005 is an adjustment in respect of the disposal of the Components Division which occurred on 29 July 2003.

e) The costs of fundamental restructuring in the prior year relates to the license agreement entered into with ComCab for the Zingo mobile phone taxi hailing system. Under the terms of the license agreement the existing London Zingo operation and assets were transferred to ComCab on 13 December 2004. The Zingo operation is now classified as discontinued.

7. Profit for the period

Profit for each of the three years ended 31 July 2006, the six months ended 31 January 2006 and the six months ended 31 January 2007 has been arrived at after charging/(crediting):

	Continuing operations					Discontinued operations					Total				
	Year ended 31 July			Six months ended 31 January		Year ended 31 July			Six months ended 31 January		Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)					(Unaudited)					(Unaudited)	
Net foreign exchange losses	–	126	96	–	34	–	–	–	–	–	–	126	96	–	34
Research and development costs	607	322	897	485	533	–	–	–	–	–	607	322	897	485	533
Government grants	(116)	(677)	–	–	–	–	–	–	–	–	(116)	(677)	–	–	–
Depreciation of property, plant and equipment	3,571	3,516	2,664	1,490	1,474	1,046	–	–	–	–	4,617	3,516	2,664	1,490	1,474
Amortisation of intangible assets	134	142	176	88	182	–	–	–	–	–	134	142	176	88	182
Impairment of investment property	–	341	–	–	–	–	–	–	–	–	–	341	–	–	–
Cost of inventories recognised as expense – items sold	51,684	53,090	51,350	22,963	27,577	635	257	–	–	–	52,319	53,347	51,350	22,963	27,577
Cost of inventories recognised as (income)/expense – other	10	(1)	(69)	(6)	(4)	–	–	–	–	–	10	(1)	(69)	(6)	(4)
Staff costs *(note 8)*	15,227	15,163	16,146	7,842	8,075	1,335	290	38	38	–	16,562	15,453	16,146	7,842	8,075
Auditors' remuneration – audit	83	76	82	41	40	10	–	–	–	–	93	76	82	41	40
Auditors' remuneration – other (i)	140	117	81	40	23	–	–	–	–	–	140	117	81	40	23

(i) During the six months ended 31 January 2007, these fees are payable to Deloitte & Touche LLP and includes £23,000 (2006: £75,000; 2005: £104,000; 2004: £130,000) for taxation services.

8. Staff costs

The average number of employees (including executive directors) was:

	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	Number	*Number*	*Number*	*Number*	*Number*
				(Unaudited)	
Administration and staff	261	199	209	209	196
Production	260	278	270	268	274
	521	477	479	477	470

Their aggregate remuneration comprised:

	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Wages and salaries	13,279	13,516	14,221	6,904	7,106
Social security costs	1,423	1,476	1,502	725	775
Other pension costs *(note 35)*	1,860	461	423	213	194
	16,562	15,453	16,146	7,842	8,075

9. Investment revenues

Investment revenues comprise entirely of interest on bank deposits of continuing operations.

10. Finance costs

	Continuing Operations				
	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Interest payable on:					
Bank overdrafts and loans	63	9	7	2	4
Finance contracts	46	38	12	6	9
Stocking loan	223	343	363	128	220
Preference share dividends	53	53	53	26	26
Net interest on pension liability *(note 35)*	704	281	225	140	159
	1,089	724	660	302	418

11. Tax

	Continuing Operations				
	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Current tax:					
UK corporation tax	–	–	229	–	–
Adjustments relating to prior years	(129)	6	266	–	4
US tax	–	–	17	–	–
Deferred tax *(note 20)*:					
Origination and reversal of timing differences	(346)	(2)	455	(14)	(24)
Adjustments relating to prior years	708	(98)	(47)	–	21
	233	(94)	920	(14)	1

UK corporation tax is calculated at 30 per cent (2006: 30 per cent; 2005: 30 per cent; 2004: 30 per cent) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

The charge/(credit) for the period can be reconciled to the profit per the income statement as follows:

	Year ended 31 July			Six months ended 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Profit before tax:					
Continuing operations	8,273	2,503	3,756	1,014	658
Discontinued operations	(6,672)	(549)	(86)	(51)	–
	1,601	1,954	3,670	963	658
Corporation tax thereon at 30% (2006: 30%; 2005: 30%; 2004: 30%)	480	586	1,101	289	197
Adjustment in respect of prior years	(253)	(314)	245	–	–
Tax effect of timing differences in relation to fixed assets	1,241	(575)	–	–	21
Tax effect on expenses that are not deductible in determining taxable profits	154	209	52	12	99
Tax effect on non-taxable gains on disposal of property	(1,389)	–	(359)	–	–
Tax effect of utilisation of tax losses not previously recognised	–	–	(118)	(118)	–
Tax effect of deferred asset previously not recognised	–	–	(197)	(197)	–
Tax effect on non taxable income and permanent deductions	–	–	–	–	(439)
Tax effect of losses on overseas subsidiary not recognised as deferred asset	–	–	196	–	123
Tax change/(credit) for current period	233	(94)	920	(14)	1

12. Discontinued operations

Discontinued operations comprise the Zingo mobile phone taxi hailing service, whose assets and London operation were transferred to Comcab on 13 December 2004 as part of a license agreement. In addition, the prior year includes an adjustment in respect of the disposal of the Components Division which occurred on 29 July 2003.

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	Year ended 31 July			Six months ended 31 July	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Revenue	650	275	–	–	–
Expenses	(7,322)	(824)	(86)	(51)	–
Loss before tax	(6,672)	(549)	(86)	(51)	–

13. Dividends

	Year ended 31 July			Six months ended 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Amounts recognised as distributions to equity holders in the period:					
Final dividend for the year ended 31 July 2006 of 3p (2005: 3p; 2004: 2p) per share	354	378	571	571	566
Interim dividend for the year ended 31 July 2006 of 2p (2005: 1p; 2004: 1p) per share	189	189	376	–	–
Special dividend for the year ended 31 July 2006 of 1p (2005: nil; 2004: 25p) per share	4,453	–	–	–	189
	4,996	567	947	571	755
Proposed final dividend for the six months ended 31 January 2007 (year ended 31 July 2006 of 2.25p (2006: 3p; 2005: 3p; 2004: 2p))	378	571	571	378	433
Proposed special dividend for the year ended 31 July 2006 of 1p	–	–	190	–	–

The 25p special dividend paid in 2004 relates to the sale of the Components Division and the sale and leaseback of the Coventry site which occurred in July 2003.

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial information.

14. Earnings/(loss) per ordinary share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
Earnings					
Earnings for the purposes of basic diluted earnings per share being net profit attributed to equity holders of the parent	1,368	2,070	2,836	1,003	665

	Year ended 31 July			Six months ended 31 January	
	2004	2005	2006	2006	2007
	Number	*Number*	*Number*	*Number*	*Number*
				(Unaudited)	
Number of shares					
Weighted average number of shares for the purposes of basic earnings per share	18,444,226	18,863,312	18,880,453	18,957,718	19,066,790
Effect of dilutive potential ordinary shares:					
Share options	205,203	177,505	106,728	108,633	57,439
Weighted average number of ordinary shares for the purposes of diluted earnings per share	18,649,429	19,040,817	18,987,181	19,066,351	19,124,229

The denominators used in the calculation of earnings/(loss) per share are the same as above for both basic and diluted earnings per share from continuing and discontinued operations.

	Year ended 31 July			Six months ended 31 January	
	2004	**2005**	**2006**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
				(Unaudited)	
From continuing operations					
Net profit attributable to equity holders of the parent	1,368	2,070	2,836	1,003	665
Adjustments to exclude loss for the year from discontinued operations	6,672	549	86	51	–
Earnings from continuing operations for the purpose of basic and diluted earnings per share excluding discontinued operations	8,040	2,619	2,922	1,054	665
	Pence	**Pence**	**Pence**	**Pence**	**Pence**
Basic	43.59	13.88	15.48	5.56	3.49
Diluted	43.11	13.75	15.39	5.53	3.48
From discontinued operations					
Basic and diluted	(36.17)	(2.91)	(0.46)	(0.27)	–

As discontinued operations were loss-making, diluted loss per share equals basic loss per share.

	Pence	**Pence**	**Pence**	**Pence**	**Pence**
Total					
Basic	7.42	10.97	15.02	5.29	3.49
Diluted	7.34	10.87	14.94	5.26	3.48

15. Goodwill

	Cost	Impairment	Carrying amount
	£'000	*£'000*	*£'000*
At 1 August 2003 and 31 July 2004	–	–	–
Recognised on acquisition of subsidiary	2,258	–	2,258
Exchange differences	59	–	59
At 31 July 2005	2,317	–	2,317
Adjustments to fair value adjustments regarding the acquisition of London Taxis North America Holdings Inc (LTNAH) on 9 June 2005 (see note 19)	(839)	–	(839)
At 31 July 2005	1,478	–	1,478
Exchange differences	(82)	–	(82)
At 31 July 2006	1,396	–	1,396
Exchange differences	(71)	–	(71)
At 31 January 2007	1,325	–	1,325

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to the cash generating unit of LTNAH, within the vehicle services segment.

The Manganese Bronze Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU are determined from value in use calculations, based on a discounted cash flow forecast incorporating the most recent financial budgets, approved by management for the next two years, extrapolated for the following seven years at a flat rate. The rate used to discount the forecast cash flow is the Group's weighted average cost of capital of 5.97 per cent.

As the value in use of the CGU is in excess of the goodwill carrying value, no impairment arose in each of the above periods.

16. Other intangible assets

	Development costs *(notes (i), (ii) & (iii))* £'000	**Licences** *(note (iv))* £'000	**Total** £'000
Cost:			
At 1 August 2003 and 31 July 2004	668	–	668
Acquired on acquisition of a subsidiary	406	–	406
Exchange differences	14	–	14
At 31 July 2005	1,088	–	1,088
Additions	–	47	47
Exchange differences	(24)	(1)	(25)
At 31 July 2006	1,064	46	1,110
Additions	1,006	–	1,006
Transfers in from tangible assets	1,044	–	1,044
Exchange differences	(20)	–	(20)
At 31 January 2007	3,094	46	3,140
Amortisation:			
At 1 August 2003	212	–	212
Charge for the year	134	–	134
At 31 July 2004	346	–	346
Charge for the year	142	–	142
At 31 July 2005	488	–	488
Charge for the year	174	2	176
Exchange differences	(2)	–	(2)
At 31 July 2006	660	2	662
Charge for the period	179	3	182
Exchange differences	(3)	–	(3)
At 31 January 2007	836	5	841

	Development costs *(notes (i), (ii) & (iii))* *£'000*	**Licences** *(note (iv))* *£'000*	**Total** *£'000*
Carrying amount:			
At 31 July 2004	322	–	322
At 31 July 2005	600	–	600
At 31July 2006	404	44	448
At 31 January 2007	2,258	41	2,299

(i) Development costs are amortised over the expected life of the product to which they relate, normally between five and ten years.

(ii) The transfers in from tangible assets of £1,044,000 relate to TX4 test and development vehicles, which were held within plant and equipment at 31 July 2006 when they were tangible assets.

(iii) The net book value of development costs comprises of TX4 £1,945,000 (2006: £nil; 2005: £nil; 2004: £nil), TXII £nil (2006: £54,000; 2005: £188,000; 2004: 322,000) and the vehicle for the US market £313,000 (2006: £350,000; 2005: £412,000; 2004: £nil).

(iv) Licences are amortised over the remaining life of the asset to which they relate, normally between five and ten years.

17. Property, plant and equipment

	Freehold land and buildings	Long-leasehold buildings	Short-leasehold buildings	Plant and equipment *(notes (i) & (ii))*	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Cost:					
At 1 August 2003	4,428	–	–	37,509	41,937
Additions	–	4,850	–	2,602	7,452
Disposals	(3,580)	–	–	(1,333)	(4,913)
Reclassification	(298)	–	298	–	–
At 31 July 2004	550	4,850	298	38,778	44,476
Additions	–	–	–	3,023	3,023
Acquired on acquisition of a subsidiary	–	–	–	1,906	1,906
Disposals	–	–	–	(4,745)	(4,745)
Exchange differences	–	–	–	66	66
At 31 July 2005	550	4,850	298	39,028	44,726
Additions	–	–	–	6,385	6,385
Disposals	–	–	–	(991)	(991)
Exchange differences	–	–	–	(142)	(142)
At 31 July 2006	550	4,850	298	44,280	49,978
Additions	–	–	–	2,397	2,397
Disposals	–	–	–	(555)	(555)
Transfers out to intangible assets	–	–	–	(1,044)	(1,044)
Exchange differences	–	–	–	(126)	(126)
At 31 January 2007	550	4,850	298	44,952	50,650
Depreciation:					
At 1 August 2003	52	–	–	22,366	22,418
Charge for the year	89	41	36	4,451	4,617
Impairment charge	–	–	–	2,585	2,585
Disposals	(71)	–	–	(829)	(900)
Reclassification	(52)	–	52	–	–
At 31 July 2004	18	41	88	28,573	28,720
Charge for the year	18	97	31	3,370	3,516
Disposals	–	–	–	(4,217)	(4,217)

	Freehold land and buildings £'000	Long-leasehold buildings £'000	Short-leasehold buildings £'000	Plant and equipment *(notes (i) & (ii))* £'000	Total £'000
At 31 July 2005	36	138	119	27,726	28,019
Charge for the year	18	97	24	2,525	2,664
Disposals	–	–	–	(305)	(305)
Exchange differences	–	–	–	(8)	(8)
At 31 July 2006	54	235	143	29,938	30,370
Charge for the period	9	48	12	1,405	1,474
Disposals	–	–	–	(407)	(407)
Exchange differences	–	–	–	(20)	(20)
At 31 January 2007	63	283	155	30,916	31,417
Carrying amount:					
At 31 July 2004	532	4,809	210	10,205	15,756
At 31 July 2005	514	4,712	179	11,302	16,707
At 31 July 2006	496	4,615	155	14,342	19,608
At 31 January 2007	487	4,567	143	14,036	19,233

(i) At 31 January 2007 the carrying amount of the Manganese Bronze Group's plant and equipment includes an amount of £226,000 (2006: £901,000; 2005: £1,125,000; 2004: £707,000) in respect of assets held under finance leases.

(ii) The transfers out to intangible assets of £1,044,000 in the six months ended 31 January 2006 relate to TX4 test and development vehicles, which have been classified as intangible assets on completion of the test and development programme.

(iii) At 31 January 2007, the Manganese Bronze Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2006: £1,771,000; 2005: £228,000; 2004: £525,000).

18. Investment property

	Notes	Fair value £'000
At 1 August 2003		3,820
Additions		363
Decrease in fair value		(110)
At 31 July 2004		4,073
Decrease in fair value		(373)
At 31 July 2005		3,700
Disposals	6a)	(3,700)
At 31 July 2006 and at 31 January 2007		–

19. Acquisition

On 9 June 2005 86 per cent of the issued share capital of London Taxis North America Holdings Inc. (LTNAH) was acquired. In accordance with IFRS 3, "Business Combinations", the provisional fair value adjustments of assets and liabilities acquired have been revised as follows:

	Book value at 9 June 2005 £'000	Provisional fair value adjustments £'000	Provisional fair value at acquisition date £'000	Adjustments to provisional fair value adjustments £'000	Revised fair value at acquisition £'000
Fixed assets					
Intangible	1,679	(1,273)	406	–	406
Tangible	1,817	89	1,906	–	1,906
Current assets					
Inventory	223	(214)	9	(9)	–
Debtors	882	(686)	196	32	228
Total assets	4,601	(2,084)	2,517	23	2,540

	Book value at 9 June 2005	Provisional fair value adjustments	Provisional fair value at acquisition date	Adjustments to provisional fair value adjustments	Revised fair value at acquisition
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Liabilities					
Bank overdraft	(42)	(23)	(65)	–	(65)
Loans	(128)	128	–	–	–
Stocking loan	(642)	–	(642)	–	(642)
Trade creditors	(389)	–	(389)	144	(245)
Accruals	(19)	–	(19)	–	(19)
Other creditors	–	(399)	(399)	3	(396)
Warranty provision	–	(659)	(659)	319	(340)
Total liabilities	(1,220)	(953)	(2,173)	466	(1,707)
Net assets	3,381	(3,037)	344	489	833
Minority interest			(48)	(68)	(116)
Goodwill			2,258	(839)	1,419
Consideration			2,554	(418)	2,136
Satisfied by:					
Shares issued			249	–	249
Cash			989	–	989
Related costs of acquisition			50	–	50
Deferred consideration			1,266	(418)	848
			2,554	(418)	2,136

The main adjustments to the provisional fair value adjustments are a reduction to the warranty provision and a reduction in trade creditors. The deferred consideration has also been reduced following a revision of the estimated amounts that are reasonable payable upon the achievement of certain targets. At 31 January 2007, the deferred consideration has been settled in full in line with this revised estimate.

20. Deferred tax

The elements of deferred tax assets included in non-current assets are as follows:

	At 31 July			At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Accelerated tax depreciation	252	410	215	159
Other short term timing differences	48	48	16	16
Retirement benefit obligations	1911	1,853	1,402	1,050
Share based payments	–	–	21	–
Tax losses	–	–	91	290
	2,211	2,311	1,745	1,515

At 31 January 2007 the Manganese Bronze Group has unused tax losses of £1,179,000 (2006: £303,000; 2005: £959,000; 2004: £984,000) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses as sufficient suitable taxable profits are forecast for the year ending 31 July 2007.

No deferred tax asset has been recognised in respect of the Manganese Bronze Group's US subsidiary losses due to the unpredictability of future profit streams.

21. Inventories

	At 31 July			At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Raw materials	2,331	2,090	2,167	2,075
Work in progress	1,284	2,667	1,248	1,535
Finished goods	12,372	10,520	14,163	13,413
	15,987	15,277	17,578	17,023

Finished goods with a carrying amount of £6,793,000 at 31 January 2007 (2006: £7,679,000; 2005: £4,458,000; 2004: £6,190,000) are pledged as security for the Manganese Bronze Group's stocking loan facility.

22. Trade and other receivables

		At 31 July		At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Trade receivables	3,742	5,059	6,321	5,217
Corporation tax recoverable	129	37	–	–
Other debtors	1,060	1,000	924	1,513
Prepayments	765	485	676	1,491
	5,696	6,581	7,921	8,221

The average credit period taken on sale of goods is 18 days. Trade and other receivables are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £97,000 (2006: £177,000; 2005: £85,000; 2004: £61,000). This allowance has been determined by reference to past default experience and knowledge of specific customers' financial circumstances.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

23. Cash and cash equivalents

		At 31 July		At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Cash at banks and in hand	6,399	1,642	7	1,833
Short term deposits	–	8,000	12,920	7,000
	6,399	9,642	12,927	8,833

Cash at banks and in hand do not attract interest.

Short-term deposits are money market deposits with an average maturity of 1.5 days (2006: three days; 2005: one day; 2004: four days). Interest is received at the prevailing market rate.

The fair value of cash and cash equivalents is not materially different from their book value.

Credit risk

The Manganese Bronze Group's principal financial assets are bank deposits and trade receivables. The credit risk on trade receivables is limited as the majority of revenue transactions are settled immediately and are, therefore, not on a credit basis.

24. Bank overdrafts and loans

		At 31 July		At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Bank overdrafts – Sterling	–	–	521	–
Stocking loan – Sterling	7,432	5,136	9,150	8,036
Stocking loan – US Dollars	–	496	–	–
	7,432	5,632	9,671	8,036

All borrowings are repayable on demand or within one year. The stocking loan is secured on the vehicles within finished goods.

The weighted average interest rates paid were as follows:

	2004	**2005**	**2006**	**2007**
	%	*%*	*%*	*%*
Bank overdrafts	–	–	5.50	5.91
Stocking loans	4.83	5.73	5.50	5.91

The directors consider that the carrying amount of borrowings approximate to their fair value.

Other principle features of the Manganese Bronze Group's borrowings are as follows:

i) The Manganese Bronze Group's overdraft facility of £2.5m (2006: £2.5m; 2005: £3.0m; 2004: £3.0m) is provided by HSBC Bank plc and attracts interest at a rate of 1 per cent above the bank's base rate.

ii) The Manganese Bronze Group's sterling denominated stocking loan facility of £13.4m (2006: £13.4m; 2005: £13.4m; 2004: £13.4m) is provided by Lloyds TSB Group PLC and attracts interest linked to the Finance House Base Rate.

iii) The Manganese Bronze Group's US dollar denominated stocking loan facility was repaid during the year, and attracted interest linked to the US federal Funds Rate.

At 31 January 2007 the Manganese Bronze Group had available £7.8m (2006: £6.1m; 2005: £11.3m; 2004: £9.0m) of undrawn committed borrowing facilities.

25. Financial Risk Management And Derivative Financial Instruments

Policy

Treasury policy seeks to reduce the risks arising from the currency and maturity of the Manganese Bronze Group's financial instruments. The main risks arising from the Manganese Bronze Group's financial instruments are interest rate risk, currency risk and liquidity risk. Speculation, including the use of complex financial derivative products, is not part of the Manganese Bronze Group's treasury activities. Financial instruments are sterling denominated where possible. Material foreign currency commitments are hedged for up to 12 months ahead using forward contracts. Borrowings and, where they arise, deposits are fixed for periods of up to one year. The functional currency is sterling.

Interest rate risk

The Manganese Bronze Group seeks to minimise interest rate risk by maximising interest received on cash at bank by placing deposits on the money market at the prevailing market rate, for periods up to one month.

Currency risk

The Manganese Bronze Group utilises currency derivatives to hedge significant future transactions and cash flows. The Manganese Bronze Group's main currency exposure is to Euro (2006: Euro; 2005 & 2004: Japanese Yen), a consequence of the purchase of taxi components. Forward contracts are used to hedge this exposure. At 31 January 2007, the total notional amount of outstanding forward foreign exchange contracts that the Manganese Bronze Group has committed are as follows:

	At 31 July			At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Forward foreign exchange contracts:				
Euro	–	–	11,870	6,621
Yen	578	545	–	–
	578	545	11,870	6,621

At 31 January 2007, the fair value of the Manganese Bronze Group's currency derivatives is estimated to be approximately £369,000 (2006: £44,000; 2005: £12,000; 2004: £30,000). The fair value at 31 January 2007 of currency derivatives that are designated and effective as cash flow hedges amounting to £369,000 (2006: £44,000; 2005: £nil; 2004: £nil) has been deferred in equity.

Changes in the fair value of non-hedging currency derivatives amounting to £nil have been credited to income in the six months ended 31 January 2007 (2006: £12,000; 2005: £18,000; 2004: £14,000 charge).

Liquidity risk

The Manganese Bronze Group's policy regarding liquidity is to maximise the return on funds placed on deposit but to minimise the associated risk by placing funds in low-risk cash deposits.

26. Obligations under finance leases

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 July			As at 31 January	As at 31 July			As at 31 January
	2004	2005	2006	2007	2004	2005	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Sterling denominated leases								
Amounts payable under finance leases								
Within one year	550	172	95	168	502	155	79	153
In the second to fifth years inclusive	206	26	144	38	199	23	142	37
	756	198	239	206	701	178	221	190
Less future finance charges	(55)	(20)	(18)	(16)				
Present value of lease obligations	701	178	221	190				
Less amount due for settlement within 12 months (shown under current liabilities)					(502)	(155)	(79)	(153)
Amount due for settlement after 12 months					199	23	142	37
US Dollar denominated leases								
Amounts payable under finance leases								
Within one year	–	49	184	–	–	44	165	–
In the second to fifth years inclusive	–	537	323	–	–	481	289	–
	–	586	507	–	–	525	454	–
Less future finance charges	–	(61)	(53)	–				
Present value of lease obligations	–	525	454	–				

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 July			As at 31 January	As at 31 July			As at 31 January
	2004	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Less amount due for settlement within 12 months (shown under current liabilities)					–	(44)	(165)	–
Amount due for settlement after 12 months					–	481	289	–
Total finance leases								
Amounts payable under finance leases								
Within one year	550	221	279	168	502	199	244	153
In the second to fifth years inclusive	206	563	467	38	199	504	431	37
	756	784	746	206	701	703	675	190
Less future finance charges	(55)	(81)	(71)	(16)				
Present value of lease obligations	701	703	675	190				
Less amount due for settlement within 12 months (shown under current liabilities)					(502)	(199)	(244)	(153)
Amount due for settlement after 12 months					199	504	431	37

It is the Manganese Bronze Group's policy to lease certain of its vehicles under finance leases. The sterling denominated finance contracts are fixed at an average rate of 9.2 per cent at 31 January 2007 (2006: 9.0 per cent; 2005: 9.9 per cent; 2004: 9.9 per cent), with the average calculated over the life of the contract, normally 18 months. The US dollar denominated finance contracts are fixed at an average rate of N/A per cent at 31 January 2007 (2006: 3.4 per cent; 2005: 3.4 per cent; 2004: N/A), with the average calculated over the four-year life of the contract. The directors consider that the carrying amount of finance lease obligations approximates to their fair value. The Manganese Bronze Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

27. Trade and other payables

				At
		At 31 July		31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Trade creditors	9,838	14,304	15,099	15,168
Deferred income	–	241	–	–
Social security, payroll and other taxes	550	519	724	1,667
Deferred/contingent consideration	–	323	214	127
Other creditors	808	1,288	1,474	882
Accruals	2,953	2,507	2,406	1,628
	14,149	19,182	19,917	19,472
Less amounts due for settlement after 12 months (shown within non-current liabilities):				
Deferred/contingent consideration	–	222	49	46
Amounts due for settlement within 12 months (shown within current liabilities)	14,149	18,960	19,868	19,426

Trade creditors principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

28. Provisions

	Warranty
	£'000
At 1 August 2003	2,512
Charge to profit and loss account	4,193
Utilised in year	(3,306)
At 31 July 2004	3,399
Charge to profit and loss account	4,292
Acquisition of subsidiary undertaking	659
Exchange adjustment	23
Utilised in year	(3,781)
At 31 July 2005	4,592
Adjustments to fair value adjustments regarding the acquisition of London Taxis North America Holdings Inc. (LTNAH) on 9 June 2005	(319)
At 31 July 2005	4,273
Charge to profit and loss account	3,390
Exchange adjustment	(4)
Utilised in year	(3,594)
At 31 July 2006	4,065
Charge to profit and loss account	1,619
Exchange adjustment	(1)
Utilised in period	(1,630)
At 31 January 2007	4,053

The warranty provision represents management's best estimate of the Manganese Bronze Group's liability under three year or 100,000 mile (whichever occurs sooner) warranties granted on new vehicles sold, based on past experience and known product improvements.

It is expected that the majority of this expenditure will be incurred in the next two years and that all will be incurred within three years of 31 January 2007.

29. Preference shares

	Number	*£'000*
Authorised:		
8.25 per cent cumulative preference shares of £1 each	684,165	684
Issued and fully paid:		
At 31 January 2007 and 31 July 2006, 2005 and 2004	641,459	642

30. Share capital

	Number	*£'000*
Authorised:		
Ordinary shares of 25p each	26,256,692	6,564
Allotted, called up and fully paid:		
At 31 July 2006, 2005 and 2004	19,035,649	4,759
Issued during the period ended 31 January 2007	226,272	57
At 31 January 2007	19,261,921	4,816

226,272 ordinary shares with a nominal value of 25p were allotted during the period, with an average implied value of £1.0625 per share, to satisfy executive share options.

31. Movement in equity

Attributable to equity holders of the parent

	Issued share capital £'000	Retained earnings £'000	Other reserves (see below) £'000	Minority interest £'000	Total £'000
At 1 August 2003	4,495	11,451	4,009	–	19,955
Recognised income and expense for the year	–	2,040	–	–	2,040
Dividends paid	–	(4,996)	–	–	(4,996)
Shares issued	234	–	1,107	–	1,341
Credit to equity for share based payments	–	12	–	–	12
At 31 July 2004	4,729	8,507	5,116	–	18,352
Recognised income and expense for the year	–	1,425	–	(22)	1,403
Acquired on acquisition of a subsidiary	–	–	–	48	48
Dividends paid	–	(567)	–	–	(567)
Shares issued	30	–	219	–	249
Share options exercised	–	–	91	–	91
Credit to equity for share based payments	–	32	–	–	32
Transfer to retained earnings	–	(309)	309	–	–
Adjustments to fair value adjustments regarding the acquisition of LTNAH on 9 June 2005 *(see note 19)*	–	–	–	69	69
At 31 July 2005	4,759	9,088	5,735	95	19,677
Recognised income and expense for the year	–	3,159	(72)	(86)	3,001
Dividends paid	–	(947)	–	–	(947)
Purchase of own shares	–	–	(431)	–	(431)
Share options exercised	–	–	107	–	107
Credit to equity for share based payments	–	70	–	–	70
Transfer to retained earnings	–	(202)	203	(1)	–
At 31 July 2006	4,759	11,168	5,542	8	21,477
Recognised income and expense for the period	–	884	(195)	(8)	681
Dividends paid	–	(755)	–	–	(755)
Purchase of own shares	–	–	(350)	–	(350)
Shares issued	57	–	184	–	241
Share options exercised	–	–	350	–	350
Credit to equity for share based payments	–	41	–	–	41
Transfer to retained earnings	–	(128)	128	–	–
At 31 January 2007	4,816	11,210	5,659	–	21,685

Other reserves

	Share premium account reserves	Capital redemption reserve	ESOP reserve	Translation reserves	Total Other
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
At 1 August 2003	3,593	916	(500)	–	4,009
Shares issued	1,107	–	–	–	1,107
At 31 July 2004	4,700	916	(500)	–	5,116
Shares issued	219	–	–	–	219
Share options exercised	–	–	91	–	91
Transfer to retained earnings	–	–	199	110	309
At 31 July 2005	4,919	916	(210)	110	5,735
Currency translation differences	–	–	–	(72)	(72)
Purchase of own shares	–	–	(431)	–	(431)
Share options exercised	–	–	107	–	107
Transfer to retained earnings	–	–	202	1	203
At 31 July 2006	4,919	916	(332)	39	5,542
Currency translation differences	–	–	–	(195)	(195)
Purchase of own shares	–	–	(350)	–	(350)
Shares issued	184	–	–	–	184
Share options exercised	–	–	350	–	350
Transfer to retained earnings	–	–	129	(1)	128
At 31 January 2007	5,103	916	(203)	(157)	5,659

Nature and purpose of other reserves

Share premium account

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital redemption reserve

This reserve represents the nominal value of Manganese Bronze 's own shares repurchased for cancellation.

ESOP reserve

This reserve represents the cost of shares in Manganese Bronze purchased in the market and held by the Manganese Bronze Holdings plc Employee Benefit Trust to satisfy options under the Manganese Bronze Group's share options schemes (see note 34).

32. Contingent liabilities

a) Manganese Bronze has given a guarantee to HSBC in respect of any amounts outstanding on the Manganese Bronze Group's borrowing facilities. At 31 January 2007 the relevant Manganese Bronze Group net borrowings amounted to £nil (2006: £521,000; 2005: £nil; 2004: £nil).

b) Certain subsidiaries provide warranties and sometimes extended warranties in respect of their products. The directors review the position regularly and consider that appropriate provisions have been made to cover known and expected costs likely to arise under these warranties.

c) Contingent consideration of £nil (2006: £80,000; 2005: £510,000; 2004: £nil) associated with the acquisition of LTNAH on 9 June 2005, representing the amount that is reasonably expected to be payable upon the achievement of advertising revenue targets, is included within deferred/contingent liabilities.

33. Operating lease arrangements

The Group as lessee

	At 31 July			At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Minimum lease payments under operating leases recognised in income for the period	1,064	1,161	1,233	517

At the balance sheet dates, the Manganese Bronze Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 July			At 31 January
	2004	2005	2006	2007
	£'000	*£'000*	*£'000*	*£'000*
Within one year	1,133	1,216	977	941
In the second to fifth years inclusive	2,585	2,059	1,409	1,318
After five years	5,619	5,455	5,299	5,222
	9,337	8,730	7,685	7,481

The Manganese Bronze Group has entered into commercial leases on certain land and buildings, motor vehicles and items of plant and equipment. Land and building leases are generally subject to periodic rent reviews. Some leases have renewal options. These are at the option of the Manganese Bronze Group, sometimes subject to a minimum notice period. In some cases rent escalations are set out in the lease contract. There are no material contingent rents payable. No significant restrictions are placed on the Manganese Bronze Group by entering into these leases.

The Group as lessor

Property rental income earned during the period ended 31 January 2007 was £nil (2006: £397,000; 2005: £310,000; 2004: £320,000). During the year ended 31 July 2006, the Manganese Bronze Group disposed of all of its properties held for rental purposes.

34. Share-based payments

Share option scheme

Manganese Bronze has a share option scheme for executive directors and senior managers. Options are exercisable at a price equal to the market price of Manganese Bronze's shares on the date of the grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of the grant, the options expire. Options are forfeited if the employee leaves the Manganese Bronze Group before the options vest, although options may be exercisable for a certain period of time in defined good leaver cases or with the consent of the Remuneration Committee.

Details of the share options outstanding during the period are as follows:

	At 31 July 2004		At 31 July 2005		At 31 July 2006		At 31 January 2007	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average Exercise price (pence)	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average Exercise price (pence)
Outstanding at the beginning of the period	772,684	198.6	790,175	198.6	652,499	187.3	480,700	166.2
Granted during the period	126,579	134.5	75,592	168.0	56,501	197.3	–	–
Exercised during the period	–	–	(96,188)	95.4	(128,300)	83.2	(379,272)	155.8
Lapsed during the period	(109,088)	302.9	(117,080)	326.8	(100,000)	428.0	(11,000)	360.5
Outstanding at the end of the period	790,175	198.6	652,499	187.3	480,700	166.2	90,428	186.3

The weighted average share price at the date of exercise for share options exercised during the six months ended 31 January 2007 was 648.0p (2006: 185.5p; 2005: 190.5p; 2004: nil). The options outstanding at the end of the six months ended 31 January 2007 had a weighted average remaining contractual life of 8.6 years (2006: 6.1 years; 2005: 6.2 years; 2004: 5.9 years).

The following options were granted during the years ended 31 July 2006, 2005 and 2004:

	Grant date	Aggregate estimated fair value £
Year ended 31 July 2004	5 November 2003	49,000
Year ended 31 July 2005	11 October 2004	49,000
Year ended 31 July 2006	5 April 2006	42,000
Six moths ended 31 January 2007	N/A	N/A

The inputs into the Black-Scholes model are as follows:

	At 31 July			At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Weighted average share price	134.5p	168.0	197.3	–
Weighted average exercise price	134.5p	168.0	197.3	–
Expected volatility	69.5%	48.9%	50.0%	–
Expected life	5 years	5 years	5 years	–
Risk free rate	4.91%	4.70%	4.50%	–
Expected dividends	2.23%	1.78%	2.50%	–

Expected volatility was determined by calculating the historic volatility of the Manganese Bronze Group's share price over the last five years. As there is a three year period before share options vest and the options have a maximum life of ten years the expected life used in the model is five years, being managements best estimate taking into account the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Manganese Bronze Group recognised total expenses of £18,000 (2006: 37,000; 2005: £32,000; 2004: £12,000) related to share option equity-settled share based payment transactions during the period.

Long-term incentive plan

Grants made during the period are detailed below:

	Number of share Options	**Weighted average exercise price (pence)**
Outstanding at 1 August 2003, 2004 and 2005	–	–
Granted during the year ended 31 July 2006	294,722	163.0
Outstanding at 1 August 2006 and at 31 January 2007	294,722	163.0

During the period ended 31 January 2007, the Manganese Bronze Group recognised total expenses of £24,000 (year ended 31 July 2006: £33,000; 2005: £nil; 2004: £nil) in relation to LTIP equity-settled share based payment transactions.

35. Retirement Benefit Obligations

The Manganese Bronze Group operates a defined contribution pension plan (Account Plus) which is open to employees of Manganese Bronze Group companies, and a defined benefit scheme (Manganese Bronze Group Pension Scheme) in which members have ceased to accrue additional pensionable service but benefits continue to be linked to salary or Limited Price Indexation (LPI). Under the projected unit method the current service cost will increase as members approach retirement.

Defined contribution scheme (Account Plus)

The total charged to income for Account Plus for the period ended 31 January 2007 was £194,000 (year ended 31 July 2006: £423,000; 2005: £461,000; 2004 £535,000).

Defined benefit scheme (Manganese Bronze Group Pension Scheme)

The valuation position of the scheme, which was closed in 1995, was assessed at 31 January 2007 by a qualified independent actuary using a set of assumptions which are commensurate with the guidance given under IAS19. Although the scheme primarily provides defined benefits, it also has a small defined contribution section.

During the period ended 31 January 2007, contributions of £0.6m were paid into the scheme (year ended 31 July 2006: £1.2m; 2005 £1.2m; 2004: £1.3m). No contributions were paid into the defined contribution section of the scheme. Contributions to the scheme for the year to 31 July 2007 are likely to be in the region of £1.2m.

		Valuation at			
			At 31 July		At 31 January
		2004	**2005**	**2006**	**2007**
		£'000	*£'000*	*£'000*	*£'000*
Key assumptions used:					
Discount rate		5.8%	5.0%	5.0%	5.3%
Expected return on scheme assets		6.0%	5.5%	5.6%	5.9%
Salary increases		3.5%	3.3%	3.0%	3.9%
Inflation		3.0%	2.8%	3.0%	3.4%
Mortality rates:					
Pre-retirement		PA (90) – 4	PA92 C2005	PA92 C2005	PA92 C2006
Post retirement:	Deferreds	PA (90) – 4	PA92 C2020	PA92 C2020	PA92 C2015
	Pensioners	PA (90) – 4	PA92 C2005	PA92 C2005	PA92 C2006

Rate of increase of pensions in payment were allowed for at the rates set out in the scheme rules, which range between nil and 5 per cent.

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	Year ended 31 July			Six months ended 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Current service cost	–	–	–	–
Interest cost	(1,979)	(1,694)	(1,620)	(827)
Expected return on scheme assets	1,275	1,413	1,395	623
Past service costs	–	–	–	–
Scheme administration costs prepaid				45
Net charge to income	(704)	(281)	(225)	(159)

The total net charge for the period has been included within finance costs in the consolidated income statement. Actuarial gains and losses have been reported in the statement of recognised income and expense.

The amount included in the balance sheets arising from the Manganese Bronze Group's obligations in respect of the defined benefit scheme is as follows:

	At 31 July			At 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Present value of defined benefit obligations	(29,831)	(33,073)	(33,474)	(32,800)
Fair value of scheme assets	23,461	26,898	28,800	29,301
Deficit in scheme recognised as a liability in the balance sheet	(6,370)	(6,175)	(4,674)	(3,499)

Movements in the present value of defined benefit obligations were as follows:

	At 31 July			At 31 January
	2004	2005	2006	2007
	£'000	*£'000*	*£'000*	*£'000*
Opening balance	34,887	29,831	33,073	33,474
Interest cost	1,979	1,694	1,620	827
Actuarial losses	(561)	2,961	153	(696)
SERPS buy-back	(5,199)	–	–	–
Benefits paid	(1,275)	(1,413)	(1,372)	(805)
Closing balance	29,831	33,073	33,474	32,800

Movements in the fair value of the scheme assets were as follows:

	At 31 July			At 31 January
	2004	2005	2006	2007
	£'000	*£'000*	*£'000*	*£'000*
Opening balance	24,857	23,461	26,898	28,800
Expected return on assets	1,275	1,413	1,395	623
Actuarial gains	111	2,215	679	83
Employer contributions	1,325	1,222	1,200	600
Benefits paid	(1,275)	(1,413)	(1,372)	(805)
SERPS buy-back	(2,832)	–	–	–
Closing balance	23,461	26,898	28,800	29,301

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return				Fair value of assets			
	At 31 July			At 31 January	At31 July			At 31 January
	2004	2005	2006	2007	2004	2005	2006	2007
	%	%	%	%	*£'000*	*£'000*	*£'000*	*£'000*
Equities	8.0	7.4	7.5	7.9	8,213	9,898	10,093	10,057
Gilts	5.0	4.4	4.5	4.9	15,147	16,865	18,392	19,081
Cash	4.5	4.4	4.5	4.9	101	135	315	163
					23,461	26,898	28,800	29,301

The expected rate of return on each asset class has been determined on the basis of market expectations for the rate of return on each asset class over the life of the related obligation, at the balance sheet date.

The five year history of experience adjustments is as follows:

			At 31 July			At 31 January
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Present value of defined benefit obligations	(32,719)	(34,887)	(29,831)	(33,073)	(33,474)	(32,800)
Fair value of scheme assets	23,471	24,857	23,461	26,898	28,800	29,301
Deficit in the scheme	(9,248)	(10,030)	(6,370)	(6,175)	(4,674)	(3,499)
Experience adjustments on scheme liabilities						
Amount (£000)						
Percentage of scheme liabilities (per cent)	(845)	(413)	972	790	(34)	129
	(2.6)	(1.2)	3.3	2.4	(0.1)	0.4
Experience adjustments on scheme assets						
Amount (£000)	(4,571)	(1,198)	111	2,215	745	83
Percentage of scheme liabilities (per cent)	(19.5)	(4.8)	0.5	8.2	2.6	0.3

The directors are of the opinion that the deficit cannot be split between the Manganese Bronze Group companies due to the deficit associated with former employees of other entities. As such, the full deficit has been recorded in the parent company, Manganese Bronze.

36. Events after the balance sheet date

There are no significant events occurring after the balance sheet date.

37. Related party transactions

Trading transactions

Transactions between Manganese Bronze and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Manganese Bronze Group and related parties who are not members of the Manganese Bronze Group are as follows:

	Income from profit share and management fees				Amounts owed by related parties			
	Year ended 31 July			Six months ended 31 January	Year ended 31 July			Six months ended 31 January
	2004	2005	2006	2007	2004	2005	2006	2007
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
London Taxi Finance Limited	1,900	1,988	1,738	–	192	374	115	–

London Taxi Finance Ltd (LTF), a wholly owned subsidiary of Lloyds TSB Group plc, is no longer a related party of the Group as Group employees resigned as directors of this company. As these resignations took place during the year ended 31 July 2006, the income for the full year has been disclosed.

During the year ended 31 July 2006 the Manganese Bronze Group passed all day to day administration of LTF over to Lloyds TSB Group plc, which now trades as Black Horse Taxi Finance Ltd.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Manganese Bronze Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	Year ended 31 July			6 months ended 31 January
	2004	**2005**	**2006**	**2007**
	£'000	*£'000*	*£'000*	*£'000*
Short term employee benefits	451	714	832	232
Post employment benefits	43	52	66	19
	494	766	898	251

(C) DIRECTORS' REMUNERATION

The directors' remuneration after Completion has not been determined at this moment as it is dependent on the decision of the new Board after the Subscription.

(D) SUBSEQUENT EVENTS

There are no significant events occurring after the balance sheet date.

(E) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Manganese Bronze Group have been prepared in respect of any period subsequent to 31 January 2007.

Yours faithfully

MRI Moores Rowland LLP, London
Chartered Accountants, England and Wales

A. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Introduction to the unaudited Pro Forma Financial Information of the Enlarged Group

The expressions and terms used in this Appendix have the same meanings set out in the "Definitions" section of the circular.

On 9 November 2006, the Company and Shanghai Maple entered into the JV Agreement to jointly establish the JV of which is owned as to 99% by the Company. The Company has made capital contribution of approximately US$53.8 million (equivalent to approximately HK$419 million) in cash for its 99% interest in the JV. Pursuant to the Equity Transfer Agreement, the Company will transfer a 48% interest in the equity of the JV to Manganese Bronze. Manganese Bronze will satisfy the consideration by the issue of 5.7 million new MB shares to Linkstate, an indirect wholly-owned subsidiary of the Company, representing an approximately 23% of Manganese Bronze's enlarged issued ordinary share capital. The Company will at the same time transfer a 51% interest in the equity of the JV to Luck Empire, an indirect wholly-owned subsidiary of the Company.

The accompanying unaudited pro forma financial information of the Enlarged Group (the "Pro Forma Financial Information") has been prepared to illustrate the effect of the proposed acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze by the Company (the "Acquisition") and the proposed disposal of a 48% interest in the equity of the JV (the "Disposal"). The background information of the Acquisition and the Disposal has been set out in the "Letter from the Board" of the circular.

The Pro Forma Financial Information is for illustrative purposes only, based on the Directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or result of:

- the financial position of the Enlarged Group as at date covered by the unaudited Pro Forma Financial Information or any future date; or
- the results of the Enlarged Group for periods covered by the unaudited Pro Forma Financial Information or for any future periods.

The accompanying unaudited pro forma income statement and unaudited pro forma condensed statement of cash flows of the Group and Manganese Bronze for the years ended 31 December 2005 and 31 July 2006 respectively illustrate the effect of the Disposal and the Acquisition as if the Disposal and the Acquisition have been completed on 1 January 2005. The accompanying unaudited pro forma balance sheet of the Group, which is prepared based on the balance sheet of the Group as at 30 June 2006 and the balance sheet of Manganese Bronze as at 31 January 2007, illustrates the effect of the Disposal and the Acquisition as if the Disposal and the Acquisition have been completed on 30 June 2006.

The accompanying unaudited Pro Forma Financial Information of the Enlarged Group is prepared based upon the audited and unaudited historical financial information of the Group as set out in Appendix I and the audited historical financial information of Manganese Bronze as set out in Appendix II after incorporating the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Disposal and the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes. Continuing operating transactions among the Group, Shanghai Maple and Manganese Bronze upon the completion of the Acquisition as set out in the section of the Other Project Documents in the Circular are not illustrated in the unaudited Pro Forma Financial Information.

The unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of Manganese Bronze as set out in Appendix II and other financial information included elsewhere in this circular.

1. Unaudited Pro Forma Income Statement of the Enlarged Group

The unaudited pro forma income statement was prepared based on the audited consolidated income statement of the Group for the year ended 31 December 2005 extracted from the annual report of the Group for the year ended 31 December 2005 (set out in Appendix I to this circular) and the audited consolidated income statement of Manganese Bronze for the year ended 31 July 2006 extracted from the financial information on Manganese Bronze (set out in Appendix II to this circular) and with adjustments to reflect the effect of the Disposal and the Acquisition.

This unaudited pro forma income statement was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the result of the Enlarged Group for any financial periods.

	The Group for the year ended 31 December 2005 *HK$'000* *(Note 1)*	Pro forma adjustments *HK$'000*	*Notes*	Pro Forma Enlarged Group *HK$'000*
Revenue	101,411			101,411
Cost of sales	(90,649)			(90,649)
Gross profit	10,762			10,762
Other income	681			681
Gain on disposal of partial interest in the JV	–	6,670	*2*	6,670
Distribution and selling expenses	(379)			(379)
Administrative expenses	(18,378)			(18,378)
Share of results of associates	122,691	9,037	*3*	131,728
Profit before taxation	115,377			131,084
Income tax expense	–			–
Profit for the year	115,377			131,084
Attributable to:				
Equity holders of the Company	110,827			126,534
Minority interests	4,550			4,550
	115,377			131,084

Notes:

(1) Being the audited consolidated income statement of the Group for the year ended 31 December 2005 extracted from Appendix I.

(2) Being gain on disposal of 48% interest in the equity of the JV to Manganese Bronze in pursuant to the Equity Transfer Agreement.

(3) The amount represents the share of 23% of profit attributable to equity holders amounting to approximately £2,836,000 of Manganese Bronze for the year ended 31 July 2006 which is translated at the average exchange rate during the year of £1 to HK$13.86.

2. Unaudited Pro Forma Balance Sheet of the Enlarged Group

The unaudited pro forma balance sheet was prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2006 extracted from the interim report of the Group for the period ended 30 June 2006 (set out in Appendix I to this circular) and the audited consolidated balance sheet of Manganese Bronze as at 31 January 2007 extracted from the financial information on Manganese Bronze (set out in Appendix II to this circular) and with adjustments to reflect the effect of the Disposal and the Acquisition.

This unaudited pro forma balance sheet was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any dates.

	The Group As at 30 June 2006	**Pro forma adjustments**	*Note*	**Pro Forma Enlarged Group**
	HK$'000	*HK$'000*		*HK$'000*
	(Note 1)			
Non-current assets				
Property, plant and equipment	11,185			11,185
Interest in associates	696,600	209,618	*2*	906,218
	707,785			917,403
Current assets				
Inventories	15,332			15,332
Trade and other receivables	38,256			38,256
Dividend receivable from an associate	189,234			189,234
Convertible bonds – embedded derivatives	220,931			220,931
Time deposits, bank balances and cash	744,966			744,966
	1,208,719			1,208,719
Current liabilities				
Trade and other payables	39,621			39,621
Amounts due to related companies	1,077			1,077
Amount due to a minority shareholder	5,357			5,357
Amount due to immediate holding company	11,220			11,220
Convertible bonds – embedded derivatives	280,131			280,131
	337,406			337,406
Net current assets	871,313			871,313
Total assets less current liabilities	1,579,098			1,788,716

	The Group As at 30 June 2006 HK$'000 (Note 1)	Pro forma adjustments HK$'000	Note	Pro Forma Enlarged Group HK$'000
Capital and reserves				
Share capital	82,405			82,405
Reserves	798,252	6,670	2	804,922
Equity attributable to equity holders of the Company	880,657			887,327
Minority interests	12,014	202,948	2	214,962
Total Equity	892,671			1,102,289
Non-current liability				
Convertible bonds	686,427			686,427
	1,579,098			1,788,716

Notes:

(1) Being the unaudited consolidated balance sheet of the Group as at 30 June 2006 extracted from Appendix I.

(2) HK$6,670,000 represented the gain on disposal of 48% interest in the equity of the JV being included in accumulated profits of the Group. HK$202,948,000 represented Manganese Bronze's minority interest in the JV, as if Manganese Bronze had owned 48% interest in the equity of the JV, in the pro forma consolidated balance sheet of the Group.

3. Unaudited Pro Forma Condensed Cash Flow Statement of the Enlarged Group

The unaudited pro forma cash flow statement was prepared based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2005 extracted from the annual report of the Group for the year ended 31 December 2005 (set out in Appendix I to this circular) and the audited consolidated cash flow statement of Manganese Bronze for the year ended 31 July 2006 extracted from the financial information on Manganese Bronze (set out in Appendix II to this circular) and with adjustments to reflect the effect of the Disposal and the Acquisition.

This unaudited pro forma cash flow statement was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flow of the Enlarged Group for any financial periods.

	The Group for the year ended 31 December 2005 *HK$'000* *(Note 1)*	**Pro forma adjustment** *HK$'000* *(Note 2)*	**Pro Forma Enlarged Group** *HK$'000*
Net cash flows used in operating activities	(7,636)		(7,636)
Net cash flows from investing activities	5,064		5,064
Net cash flows from financing activities	9,452		9,452
Increase in cash and cash equivalents	6,880		6,880
Cash and cash equivalents at 1 January 2005	1,499		1,499
Effect of foreign exchange rate changes	70		70
Cash and cash equivalents at 31 December 2005	8,449		8,449

Notes:

(1) Being the audited consolidated cash flow statement of the Group for the year ended 31 December 2005 extracted from Appendix I.

(2) No adjustment is necessary to be made as a result of the Disposal and the Acquisition.

B. LETTER ON UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following is the text of the report, prepared for the purpose of incorporation in this circular, from Moores Rowland Mazars in respect of the pro forma financial information of the Group as set out in this appendix:

The Directors
Geely Automobile Holdings Limited
Room 2301, 23th Floor, Great Eagle Centre
23 Harbour Road
Wan Chai
Hong Kong
2 April 2007

Dear Sirs,

Geely Automobile Holdings Limited ("the Company")

We report on the unaudited pro forma financial information of Geely Automobile Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Manganese Bronze Holdings Plc (the "Manganese Bronze", together with the Group hereinafter collectively referred to as the "Enlarged Group") set out in Appendix III ("the Unaudited Pro Forma Financial Information") to the circular dated 2 April 2007 (the "Circular") in connection with the very substantial acquisition relating to the proposed acquisition of new shares in Manganese Bronze by the Group (the "Acquisition") and the discloseable transaction relating to the proposed disposal of equity interest of the JV to Manganese Bronze (the "Disposal"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purposes solely to provide information about how the Acquisition and the Disposal might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the historical amounts in the Unaudited Pro Forma Financial Information with the financial information of the Group and Manganese Bronze as set out in Appendix I and Appendix II respectively, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work does not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and accordingly, we do not express any such assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at date covered by the Unaudited Pro Forma Financial Information or any future date; or
- the results of the Enlarged Group for periods covered by the Unaudited Pro Forma Financial Information or for any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
Moores Rowland Mazars
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, 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 SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

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

Name of Director	Capacity	Number of shares in the Company Long Position	Number of shares in the Company Short Position	Shareholding percentage (%)
Shares				
Mr. Li Shu Fu *(Note 1)*	Corporate	2,500,087,000	–	52.33%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.05%
Share options				
Mr. Ang Siu Lun, Lawrence	Personal	35,000,000 *(Note 2)*	–	0.73%
Mr. Ang Siu Lun, Lawrence	Personal	10,000,000 *(Note 3)*	–	0.21%
Mr. Gui Sheng Yue	Personal	23,000,000 *(Note 3)*	–	0.48%
Mr. Xu Gang	Personal	23,000,000 *(Note 3)*	–	0.48%
Mr. Yang Jian	Personal	23,000,000 *(Note 3)*	–	0.48%
Mr. Liu Jin Liang	Personal	18,000,000 *(Note 3)*	–	0.38%
Mr. Zhao Jie	Personal	18,000,000 *(Note 3)*	–	0.38%
Mr. Yin Da Qing, Richard	Personal	16,000,000 *(Note 3)*	–	0.33%
Mr. Song Lin	Personal	1,000,000 *(Note 4)*	–	0.02%
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 *(Note 4)*	–	0.02%
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 *(Note 4)*	–	0.02%
Dr. Zhao Fuquan	Personal	12,000,000 (Note 5)	–	0.25%

Notes:

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

(2) This interest relates to share options granted on 23 February 2004 by the Company to Mr. Ang Siu Lun, Lawrence. The share options are exercisable at a subscription price of HK$0.95 for each share during the period from 23 February 2004 to 22 February 2009. 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 the Latest Practicable Date.

(3) This interest relates to share options granted on 5 August 2005 by the Company to the executive Directors. The share options are exercisable at a subscription price of HK$0.70 for each share during the period from 5 August 2005 to 4 August 2010. 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 the Latest Practicable Date.

(4) This interest relates to share options granted on 23 May 2006 by the Company to the independent non-executive Directors. The share options are exercisable at a subscription price of HK$0.93 for each share during the period from 10 July 2006 to 16 May 2011. 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 the Latest Practicable Date.

(5) This interest relates to share options granted on 28 November 2006 by the Company to Dr. Zhao Fuquan. The share options are exercisable at a subscription price of HK$0.89 for each share during the period from 28 November 2006 to 27 November 2011. 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 the Latest Practicable Date.

Save as disclosed above, none of the Directors, chief executives nor their associates had any interest on the short position in any shares or underlying shares of the Company as at the Latest Practicable Date.

(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	50,000	–	100%
Mr. Li Shu Fu	Zhejiang JV	*(Note 1)*	–	*(Note 1)*
Mr. Li Shu Fu	Shanghai Maple JV	*(Note 2)*	–	*(Note 2)*
Mr. Li Shu Fu	Zhejiang Kingkong JV	*(Note 3)*	–	*(Note 3)*
Mr. Li Shu Fu	Zhejiang Ruhoo JV	*(Note 4)*	–	*(Note 4)*

Notes:

(1) Zhejiang JV is incorporated in the PRC and is 53.19%-owned by Zhejiang Geely Merrie. Zhejiang Geely Merrie is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 72.7%-owned by Mr. Li.

(2) Shanghai Maple JV is incorporated in the PRC and is 53.19%-owned by Shanghai Maple. Shanghai Maple is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 72.7%-owned by Mr. Li.

(3) Zhejiang Kingkong JV 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 JV is incorporated in the PRC and is 53.19%-owned by Zhejiang Haoqing. Zhejiang Haoqing is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 72.7%-owned by Mr. Li.

Save as disclosed above, none of the Directors, chief executives nor their associates had any interest on the short position in any shares or underlying shares of the associated corporations of the Company as at the Latest Practicable Date.

(b) Substantial Shareholders

So far as is known to each Director or the chief executive of the Company, as at the Latest Practicable Date, the following persons or corporations (other than the Directors) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's/corporate's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

Name of Shareholder	Capacity	Number of shares held		Shareholding percentage (%)
		Long Position	Short Position	
Proper Glory *(Note)*	Beneficial owner	2,500,000,000	–	52.33%
Geely Group *(Note)*	Beneficial owner	87,000	–	0.002%
	Corporate	2,500,000,000	–	52.33%
TOSCA	Corporate	335,000,000	–	7.01%

Note: Proper Glory is a private company incorporated in the British Virgin Islands and is wholly-owned by Geely Group. Geely Group is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

3. SERVICE CONTRACTS

At the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

4. COMPETING INTEREST

Geely Holding, which is ultimately owned by Mr. Li and his associates, has signed agreements or been in negotiations with local governments in the PRC to set up production plants for the manufacture and distribution of sedans in four locations, namely Lanzhou, Xiangtan, Ningbo and Jinan ("Potential Business"). To demonstrate Mr. Li's continued commitment to the Group, Geely Holding has provided a written undertaking in favor of the Group (the "Undertaking") that:

(1) Geely Holding will undertake and warrant and cause its subsidiaries to undertake and warrant to refrain from research and development, production and sales of any products which are in competition with the products produced by the Group and/or its associated companies ("Geely Products"). The Geely Products include (i) new models produced by the Group and/or its associated companies in the future and (ii) improved versions of the existing models currently produced by the Group and/or its associated companies; and

(2) upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive Directors, Mr. Li will, and will procure his associates (other than the Group) to sell to the Group (a) all of the Potential Businesses and related assets, and (b) new projects that might constitute competing businesses to those currently engaged by the Group or the Company's associates undertaken by Geely Holding subject to compliance with applicable requirements of the Listing Rules and other applicable laws and regulations upon terms to be mutually agreed as fair and reasonable.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their associates had any interests which competed or was likely to compete, either directly or indirectly, with the Company's business.

5. MATERIAL CONTRACTS

Save as disclosed below, the Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular which are or may be material:

1. The JV Agreement.

2. The Supplemental Agreement.

3. The Additional Supplemental Agreement.

4. The Agreements.

5. The Group entered into two joint venture agreements on 26 March 2007 to jointly establish two joint venture companies, namely the Hunan Geely JV and the Lanzhou Geely JV, with Zhejiang Haoqing in Hunan Province and Zhejiang Geely Merrie in Gansu Province, respectively, to engage in the research and development, production and marketing and sales of sedan related components in the PRC.

6. The Company entered into the Placing and Subscription Agreement on 15 February 2007 with Proper Glory and Deutsche Bank AG, Hong Kong Branch ("the Placing Agent") pursuant to which the Placing Agent will, on a fully underwritten basis, procure purchasers to acquire, and Proper Glory will sell, 600,000,000 existing Shares at the Placing Price of HK$1.06 per Share.

7. The Group entered into two joint venture agreements on 25 October 2006 (as supplemented by two supplemental joint venture agreements dated 27 November 2006) to jointly establish two joint venture companies, namely Zhejiang Kingkong JV and Zhejiang Ruhoo JV, in Zhejiang Province with Geely Holding Limited and Zhejiang Haoqing respectively, to engage in the research and development, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC. On 27 November 2006, the Group entered into two supplemental joint venture agreements with Geely Holding Limited and Zhejiang Haoqing respectively to amend and/or supplement the terms of the Zhejiang Kingkong JV Agreement and the Zhejiang Ruhoo JV Agreement.

8. The Group entered into two capital increase agreements to effect the capital increase of Zhejiang JV and Shanghai Maple JV on 25 July 2006. Also, the Group entered into the second Zhejiang JV capital increase agreement on 23 August 2006 to effect the increase of registered capital of Zhejiang JV from approximately US$176.27 million (equivalent to approximately RMB1,410.13 million or HK$1,371.35 million), after the capital increase pursuant to the first Zhejiang JV capital increase agreement, to approximately US$231.01 million (equivalent to approximately RMB1,848.07 million or HK$1,797.24 million).

9. The Company entered into the Subscription Agreement with Citigroup and Barclays Capital ("the Co-Lead Managers") on 9 March 2006, whereby the Co-Lead Managers have agreed to subscribe or procure subscribers for the Bonds to be issued at par by the Company in an aggregate principal amount of HK$741,600,000.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. NO MATERIAL ADVERSE CHANGE

The Directors confirmed there is no material adverse change in the financial or trading prospect of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date.

8. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Company.

9. QUALIFICATION AND CONSENT

Name	Qualification
Quam Capital Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Moores Rowland Mazars	Certified Public Accountants
MRI Moores Rowland LLP, London	member of the Institute of Chartered of Chartered Accountants in England and Wales

Each of Quam Capital, Moores Rowland and MRI Moores Rowland has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Each of Quam Capital, Moores Rowland and MRI Moores Rowland was not interested in any Share or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, Each of Quam Capital, Moores Rowland and MRI Moores Rowland did not have any direct or indirect interest in any asset which had been, since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(a) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case by case basis.

(b) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

(c) The registered office of the Company is situated at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company in Hong Kong is situated at Room 2301, 23rd Floor, Great Eagle Centre, 23 Habour Road, Wanchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Mr. Cheung Chung Yan, David, a fellow member of the Association of Chartered Certified Accountants.

(e) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(f) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road Wanchai, Hong Kong during normal business hours between the period from 2 April 2007 to 18 April 2007 (both days inclusive):

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the written consents referred to under the section headed "Qualification and Consent" in this appendix;

(d) the annual reports of the Company for years ended 31 December 2004 and 31 December 2005, respectively, and the interim report of the Company for the six months ended 30 June 2006;

(e) the letter of recommendation from the Independent Board Committee of the Company to the Independent Shareholders as set out in this circular;

(f) the letter from Quam Capital, the text of which is set out in this circular;

(g) the accountants' report from MRI Moores Rowland on the financial position of Manganese Bronze, the text of which is set out in Appendix II to this circular;

(h) the statement of adjustments from MRI Moores Rowland on the reconciliation between the figures in the accountants' report of Manganese Bronze and the Underlying Financial Statements for the year ended 31 July 2004;

(i) the letter on unaudited pro forma consolidated financial information from Moores Rowland Mazars, the text of which is set out in Appendix III to this circular;

(j) the circular of the Company dated 10 April 2006 in relation to the continuing connected transactions between Fulin Guorun and Zhejiang JV;

(k) the circular of the Company dated 15 August 2006 in relation to increase in the registered capital of each of the Zhejaing JV and the Shanghai Maple JV;

(l) the circular of the Company dated 28 November 2006 in relation to the establishment of the Zhejiang Kingkong JV and the Zhejiang Ruhoo JV; and

(m) the circular of the Company dated 1 December 2006 in relation to the formation of the JV and entering into of the Master Agreement.

吉 利 汽 車 控 股 有 限 公 司
GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 175)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of Geely Automobile Holdings Limited (the "**Company**") will be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, on Wednesday, 18 April 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT**

(a) the conditional agreement (the "**Equity Transfer Agreement**") dated 22 March 2007 entered into between the Company and Manganese Bronze Holdings Plc ("**Manganese Bronze**"), a copy of which is tabled at the meeting and marked "**A**" and initialed by the chairman of the meeting for identification purposes, pursuant to which the Company will transfer a 48% interest in the registered capital of Shanghai Geely Maple Automobile Components Company Limited, a 99%-owned subsidiary, to Manganese Bronze in consideration of Manganese Bronze issuing to Linkstate 5.7 million new shares in Manganese Bronze, be and is hereby approved, confirmed and ratified; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Equity Transfer Agreement."

(2) "**THAT**

(a) the amended and restated joint venture contract (the "**Amended and Restated JV Agreement**") dated 22 March 2007 entered into between Luck Empire Investment Limited, a indirect wholly-owned subsidiary of the Company, Manganese Bronze Holdings Plc and Shanghai Maple Automobile Company Limited, a copy of which is tabled at the meeting and marked "**B**" and initialed by the chairman of the meeting for identification purposes, pursuant to which the parties have agreed to operate Shanghai LTI Automobile Components Company Limited to produce automobile components and products, be and is hereby approved, confirmed and ratified; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Amended and Restated JV Agreement."

(3) "**THAT**

(a) the conditional agreement (the "**Land and Facilities Contract**") dated 22 March 2007 entered into between Shanghai Maple Guorun Automobile Company Limited ("**Shanghai Maple JV**") and Shanghai LTI Automobile Components Company Limited ("**Shanghai LTI JV**"), a copy of which is tabled at the meeting and marked "**C**" and initialed by the chairman of the meeting for identification purposes, pursuant to which Shanghai Maple JV agreed to lease the land and buildings and equipment located at Fengjing Industry Park, Jinshan District, Shanghai, the PRC to Shanghai LTI JV for a term of 20 years (the "**Lease**"), be and is hereby approved, confirmed and ratified;

(b) the rent payable in relation to the Lease for the three financial years ending 31 December 2009 in the amount of RMB17,000,000, RMB33,000,000 and RMB33,000,000, respectively, be and are hereby confirmed and approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Land and Facilities Contract."

(4) "**THAT**

(a) the conditional agreement (the "**Contract Manufacturing Agreement**") dated 22 March 2007 entered into between Shanghai Maple Guorun Automobile Company Limited ("**Shanghai Maple JV**") and Shanghai LTI Automobile Components Company Limited ("**Shanghai LTI JV**"), a copy of which is tabled at the meeting and marked "**D**" and initialed by the chairman of the meeting for identification purposes, pursuant to which Shanghai Maple JV agreed to license the use of its press machines and related facilities required for the production of automobile components to Shanghai LTI JV and will manufacture the components for Shanghai LTI JV in accordance with the product specifications set out in the Contract Manufacturing Agreement for a term of 50 years (the "**Contract Manufacturing Arrangement**"), be and is hereby approved, confirmed and ratified;

(b) the cap amounts in relation to the components to be manufactured by Shanghai Maple JV for Shanghai LTI JV under the Contract Manufacturing Agreement for the three financial years ending 31 December 2009 in the amount of RMB0, RMB151,000,000 and RMB521,000,000, respectively, be and are hereby confirmed and approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Contract Manufacturing Agreement."

(5) "**THAT**

(a) the conditional agreement (the "**Supply and Purchase Agreement for Parts and Components**") dated 22 March 2007 entered into between Shanghai LTI Automobile Components Company Limited ("**Shanghai LTI JV**") and LTI Limited ("**LTI**"), a copy of which is tabled at the meeting and marked "**E**" and initialed by the chairman of the meeting for identification purposes, pursuant to which Shanghai LTI JV agreed to supply to LTI automobile parts and components in accordance with the product specifications set out in the Supply and Purchase Agreement for Parts and Components for a term of 50 years, be and is hereby approved, confirmed and ratified;

(b) the cap amounts in relation to the automobile parts and components to be supplied by Shanghai LTI JV to LTI under the Supply and Purchase Agreement for Parts and Components for the three financial years ending 31 December 2009 in the amount of RMB0, RMB107,000,000 and RMB180,000,000, respectively, be and are hereby confirmed and approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Supply and Purchase Agreement for Parts and Components."

(6) "**THAT**

(a) the conditional agreement (the "**Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly**") dated 22 March 2007 entered into between Shanghai LTI Automobile Components Company Limited ("**Shanghai LTI JV**") and Shanghai Maple Automobile Company Limited ("**Shanghai Maple**"), a copy of which is tabled at the meeting and marked "**F**" and initialed by the chairman of the meeting for identification purposes, pursuant to which Shanghai LTI JV agreed to supply to Shanghai Maple automobile parts, components and sub-assembly in accordance with the product specifications set out in the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly for a term of 50 years, be and is hereby approved, confirmed and ratified;

(b) the cap amounts in relation to the automobile parts, components and sub-assembly to be supplied by Shanghai LTI JV to Shanghai Maple under the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly for the three financial years ending 31 December 2009 in the amount of RMB0, RMB480,000,000 and RMB2,676,000,000, respectively, be and are hereby confirmed and approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly."

By order of the Board of
Geely Automobile Holdings Limited
David C.Y. Cheung
Company Secretary

Hong Kong, 2 April 2007

Head office and principal place of business in Hong Kong:
Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road, Wanchai
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed with the circular of the Company dated 2 April 2007.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either executed under its common seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any member entitled to attend and vote at the meeting shall be entitled to appoint another person (who must be an individual) as his/her proxy to attend and vote, in the event of a poll, instead of him/her. A proxy need not be a member of the Company but must attend the meeting in person to represent him/her.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).

5. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or any adjourned meeting thereof (as the case may be) should they so wish and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint holders of any share(s), any one of such joint holders may vote at the meeting, either in person or by proxy (in the case of a poll), in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy (in the case of a poll). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.