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 licensed securities dealer or registered institution 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 licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Geely Automobile Holdings Limited.

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) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF INTERESTS IN THE REGISTERED CAPITAL OF THE ASSOCIATED COMPANIES AND ZHEJIANG FULIN GUORUN; (II) MAJOR AND CONNECTED TRANSACTION; (III) CONTINUING CONNECTED TRANSACTIONS; (IV) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL AND (V) APPLICATION FOR WHITEWASH WAIVER

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 47 of this circular. A letter from the Independent Board Committee is set out on page 48 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 49 to 103 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 Thursday, 22 November 2007 at 10:00 a.m. is set out on pages 525 to 532 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.

31 October 2007

CONTENTS

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

"Aggregate Consideration Shares"	collectively, (i) the Zhejiang JV Consideration Shares; (ii) the Shanghai Maple JV Consideration Shares; (iii) the Zhejiang Kingkong JV Consideration Shares; (iv) the Zhejiang Ruhoo JV Consideration Shares; and (v) the Hunan Geely JV Consideration Shares
"Agreements"	collectively, (i) Associated Companies' Agreements; and (ii) Zhejiang Fulin Guorun Equity Transfer Agreement
"Associated Companies"	collectively, (i) the Zhejiang JV; (ii) the Shanghai Maple JV; (iii) the Zhejiang Kingkong JV; (iv) the Zhejiang Ruhoo JV; and (v) the Hunan Geely JV
"Associated Companies' Agreements"	collectively, (i) the Zhejiang JV Equity Transfer Agreement; (ii) the Shanghai Maple JV Equity Transfer Agreement; (iii) the Zhejiang Kingkong JV Equity Transfer Agreement; (iv) the Zhejiang Ruhoo JV Equity Transfer Agreement; and (v) the Hunan Geely JV Equity Transfer Agreement
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Geely University"	北京吉利大學, a private university established in the PRC, located at Chang Ping Sector of Zhong Guan Cun Science and Technology Park, Beijing, the PRC (中國北京市中關村昌平科技園) and beneficially owned as to 85% by Mr. Li and his associates and 15% by Mr. Luo Xiao Ming who is an independent third party of Proper Glory and parties acting in concert with it
"Board"	the board of Directors
"CBU"	Complete Buildup Unit (整車), a complete vehicle after the final assembly
"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
"CKD(s)"	Complete Knock Down Kit(s) or CKD(s) (整車成套件), a complete kit needed to assemble a vehicle
"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

"Completion"	completion of the Associated Companies' Agreements and the Zhejiang Fulin Guorun Equity Transfer Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Co-operation Agreement (Beijing)"	the agreement dated 17 September 2007, being one of the Other Project Documents entered into between the Company and Beijing Geely University as referred to under the sub-section headed "Co-operation Agreement (Beijing)" of the section headed "Other Project Documents" of this circular
"Co-operation Agreement (Zhejiang)"	the agreement dated 17 September 2007, being one of the Other Project Documents entered into between the Company and Zhejiang Economic Management College as referred to under the sub-section headed "Co-operation Agreement (Zhejiang)" of the section headed "Other Project Documents" of this circular
"Director(s)"	the director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be convened to approve the Agreements, the Guarantees, the Other Project Document, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents, the increase in authorized share capital of the Company and the Whitewash Waiver
"Enlarged Group"	the Group as enlarged after the acquisition of the 44.19% interest in each of the registered capital of the Associated Companies and the remaining 49% interest in the registered capital of Zhejiang Fulin Guorun
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of his/her delegate
"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 (Zhejiang Geely Holding Group Company Limited), a private limited liability company incorporated in Zhejiang Province, the PRC, and is owned as to 90% by Mr. Li and as to 10% by Mr. Li Xing Xing, the son of Mr. Li, respectively
"Geely Holding Group"	Geely Holding and its subsidiaries

"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 90% by Mr. Li and as to 10% by Mr. Li Xing Xing, the son of Mr. Li, respectively. It is principally engaged in investment holding
"Group"	the Company and its subsidiaries
"Guarantees"	guarantees to be provided by the Enlarged Group on loans obtained or to be obtained by the Geely Holding Group pursuant to the Loan Guarantee Agreement
"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 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
"Hunan Geely JV Consideration Shares"	14,272,000 new Shares to be issued by the Company to Zhejiang Haoqing as consideration under the Hunan Geely JV Equity Transfer Agreement
"Hunan Geely JV Equity Transfer Agreement"	the agreement dated 13 July 2007 entered into between Centurion and Zhejiang Haoqing which sets out the principal terms of the transfer of a 44.19% interest in the registered capital of Hunan Geely JV to Centurion
"Hunan Geely JV Transfer"	the transfer by Zhejiang Haoqing of a 44.19% interest in the registered capital of the Hunan Geely JV to Centurion pursuant to the Hunan Geely JV Equity Transfer Agreement
"Independent Board Committee"	the independent committee of the Board comprising only the independent non-executive Directors to be established for the purpose of advising the Independent Shareholders on the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than those who are involved in or interested in the Agreements, the Guarantees, the Other Project Documents and their respective annual caps, and the Whitewash Waiver, being Proper Glory and Geely Group, Mr. Li and their respective associates and parties acting in concert with any of them

"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
"Lanzhou Geely JV Agreement"	the joint venture agreement dated 26 March 2007 entered into between Zhejiang Geely Merrie and Centurion which sets out the principal terms for the establishment of the Lanzhou Geely JV
"Last Trading Day"	10 July 2007, being the last full trading day immediately prior to the suspension of trading in the Shares pending the release of the Restructuring Announcement
"Latest Practicable Date"	26 October 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Lease Agreement"	the agreement, being one of the Other Project Documents, dated 17 September 2007 entered into between the Company and Geely Holding and Zhejiang Economic Management College as referred to under the sub-section headed "Lease Agreement" of the section headed "Other Project Documents" of this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Loan Guarantee Agreement"	the agreement dated 17 September 2007, being one of the Other Project Documents, entered into between the Company and Geely Holding as referred to under the sub-section headed "Loan Guarantee Agreement" of the section headed "Other Project Documents" of this circular
"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 plc
"Manganese Bronze Group"	Manganese Bronze and its subsidiaries
"Mr. Li"	Mr. Li Shu Fu, an Executive Director, is the sole director of Proper Glory and Geely Group. Proper Glory, a substantial Shareholder interested in approximately 48.07% issued share capital of the Company, is wholly-owned by Geely Group. Geely Group is wholly-owned by Mr. Li
"Other Project Documents"	a series of agreements entered into between the Associated Companies and connected companies under the control of Mr. Li and his associates which relates to the sales and purchases of sedan related components and products; provision of process manufacturing services; provision of education programs; provision of the Guarantees and lease of the Properties

"PRC"	The People's Republic of China
"Proper Glory"	Proper Glory Holding Inc., a company incorporated in the British Virgin Islands and is wholly-owned by the Geely Group, is a substantial shareholder of the Company
"Properties"	collectively, (i) one parcel of land with a total site area of approximately 117,652.41 sq.m. on which are constructed one building and various ancillary structures located at Linhai City, Zhejiang Province, the PRC; (ii) one parcel of land with a total site area of approximately 5,481.73 sq.m. on which are constructed one building and various ancillary structures located at Linhai City, Zhejiang Province, the PRC; and (iii) four parcels of conjoining land with a total site area of approximately 94,672.47 sq.m. on which are constructed five buildings and various ancillary structures located at Taizhou City, Zhejiang Province, the PRC
"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 (i) the terms of the Agreements; (ii) the Whitewash Waiver; (iii) the terms of the Other Project Documents (including the provision of the Guarantees); and (iv) the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents
"Restructuring"	the transactions contemplated under the Associated Companies' Agreements and the Zhejiang Fulin Guorun Equity Transfer Agreement
"Restructuring Announcement"	an announcement of the Company dated 13 July 2007 in relation to the Restructuring
"Sedan Tool Kit(s)"	a tool kit(s) for subsequent basic repairs and maintenance of the sedan (隨車工具包)
"Services Agreement"	the agreement dated 17 September 2007, being one of the Other Project Documents entered into between the Company and the Geely Holding as referred to under the sub-section headed "Services Agreement" of the section headed "Other Project Documents" of this circular
"SFC"	The Securities and Futures Commission of Hong Kong

"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Shanghai Maple Automobile"	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 Automobile and as to 46.81% by Value Century, respectively
"Shanghai Maple JV Consideration Shares"	293,976,000 new Shares to be issued by the Company to Shanghai Maple Automobile as consideration under the Shanghai Maple JV Equity Transfer Agreement
"Shanghai Maple JV Equity Transfer Agreement"	the agreement dated 13 July 2007 entered into between Value Century and Shanghai Maple Automobile which sets out the principal terms of the transfer of a 44.19% interest in the registered capital of Shanghai Maple JV to Value Century
"Shanghai Maple JV Group"	Shanghai Maple JV and its subsidiaries
"Shanghai Maple JV Transfer"	the transfer by Shanghai Maple Automobile of a 44.19% interest in the registered capital of the Shanghai Maple JV to Value Century pursuant to the Shanghai Maple JV Equity Transfer Agreement
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Transfers"	collectively, (i) the Zhejiang JV Transfer; (ii) the Shanghai Maple JV Transfer; (iii) the Zhejiang Kingkong JV Transfer; (iv) the Zhejiang Ruhoo JV Transfer; and (v) the Hunan Geely JV Transfer

"Value Century"	Value Century Group 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
"Whitewash Waiver"	the waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code
"Zhejiang Economic Management College"	浙江經濟管理專修學院, a private higher education institution established in the PRC, located at Cheng Dong Geely Education Centre, Linhai City, Zhejiang Province, the PRC (中國浙江省臨海市城東吉利教育中心) and beneficially owned as to 100% by Mr. Li and his associates
"Zhejiang Fulin Automobile"	浙江福林汽車零部件有限公司 (Zhejiang Fulin Automobile Parts and Components Company Limited), a company incorporated in the PRC and is owned as to 25% by Mr. Pan Ju Lin and 75% by Mr. Chen Xiao Jie, who are independent third parties of Proper Glory and parties acting in concert with it. It is principally engaged in investment holding. As at the Latest Practicable Date, Zhejiang Fulin Automobile and its shareholders do not have any shareholding interest in the Company
"Zhejiang Fulin Guorun"	浙江福林國潤汽車零部件有限公司 (Zhejiang Fulin Guorun Automobile Parts and Components Company Limited), a company incorporated in the PRC and owned as to 51% by Centurion and 49% by Zhejiang Fulin Automobile, respectively
"Zhejiang Fulin Guorun Equity Transfer Agreement"	the agreement dated 13 July 2007 entered into between Centurion and Zhejiang Fulin Automobile which sets out the principal terms of the transfer of a 49% interest in the registered capital of Zhejiang Fulin Guorun to Centurion
"Zhejiang Fulin Guorun Transfer"	the transfer by Zhejiang Fulin Automobile of a 49% interest in the registered capital of the Zhejiang Fulin Guorun to Centurion pursuant to the Zhejiang Fulin Guorun Equity Transfer Agreement
"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 JV Consideration Shares"	776,408,000 new Shares to be issued by the Company to Zhejiang Geely Merrie as consideration under the Zhejiang JV Equity Transfer Agreement
"Zhejiang JV Equity Transfer Agreement"	the agreement dated 13 July 2007 entered into between Centurion and Zhejiang Geely Merrie which sets out the principal terms of the transfer of a 44.19% interest in the registered capital of Zhejiang JV to Centurion
"Zhejiang JV Group"	Zhejiang JV and its subsidiaries
"Zhejiang JV Transfer"	the transfer by Zhejiang Geely Merrie of a 44.19% interest in the registered capital of the Zhejiang JV to Centurion pursuant to the Zhejiang JV Equity Transfer Agreement
"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 Zhejiang Haoqing and as to 46.81% by Centurion, respectively
"Zhejiang Kingkong JV Consideration Shares"	129,216,000 new Shares to be issued by the Company to Zhejiang Haoqing as consideration under the Zhejiang Kingkong JV Equity Transfer Agreement
"Zhejiang Kingkong JV Equity Transfer Agreement"	the agreement dated 13 July 2007 entered into between Centurion and Zhejiang Haoqing which sets out the principal terms of the transfer of a 44.19% interest in the registered capital of Zhejiang Kingkong JV to Centurion

"Zhejiang Kingking JV Transfer"	the transfer by Zhejiang Haoqing of a 44.19% interest in the registered capital of the Zhejiang Kingkong JV to Centurion pursuant to the Zhejiang Kingkong JV Equity Transfer Agreement
"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
"Zhejiang Ruhoo JV Consideration Shares"	74,800,000 new Shares to be issued by the Company to Zhejiang Haoqing as consideration under the Zhejiang Ruhoo JV Equity Transfer Agreement
"Zhejiang Ruhoo JV Equity Transfer Agreement"	the agreement dated 13 July 2007 entered into between Centurion and Zhejiang Haoqing which sets out the principal terms of the transfer of a 44.19% interest in the registered capital of Zhejiang Ruhoo JV to Centurion
"Zhejiang Ruhoo JV Transfer"	the transfer by Zhejiang Haoqing of a 44.19% interest in the registered capital of the Zhejiang Ruhoo JV to Centurion pursuant to the Zhejiang Ruhoo JV Equity Transfer Agreement
"GBP" or "£"	British pound sterling, the lawful currency of the United Kingdom of Great Britain and Northern Ireland
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"sq.m."	square meter
"%"	per cent.

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

RMB1 = HK$1.0365
US$1 = HK$7.76

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. Yang Jian
Mr. Ang Siu Lun, Lawrence
Mr. Liu Jin Liang
Mr. Yin Da Qing, Richard
Mr. Zhao Jie
Dr. Zhao Fuquan

Non-Executive Director:
Mr. Xu Gang

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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Principal place of business in Hong Kong:
Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

31 October 2007

To the Shareholders

Dear Sir or Madam,

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF INTERESTS IN THE REGISTERED CAPITAL OF THE ASSOCIATED COMPANIES AND ZHEJIANG FULIN GUORUN; (II) MAJOR AND CONNECTED TRANSACTION; (III) CONTINUING CONNECTED TRANSACTIONS; (IV) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL; AND (V) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

The Board is pleased to announce that on 13 July 2007, the Group entered into the Associated Companies' Agreements with various connected persons in relation to the proposed restructuring of the Company to acquire 44.19% interests in each of the Associated Companies from its respective controlling shareholder and its associates at the total consideration of RMB1,554.12 million (equivalent to approximately HK$1,610.84 million) to be satisfied fully by the issue of 1,288,672,000 Aggregate Consideration Shares at HK$1.25 per Share.

As at the Latest Practicable Date, Proper Glory and its concert parties own approximately 48.07% of the existing issued ordinary share capital of the Company. Upon Completion, the interests of Proper Glory and its concert parties will increase to approximately 58.38% of the issued ordinary share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares. Accordingly, upon Completion, Proper Glory and its concert parties will be obliged to make an unconditional mandatory general offer for all the issued shares of the Company not already owned or agreed to be acquired by Proper Glory and parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive and approved by the Independent Shareholders at the EGM.

Proper Glory, which is wholly-owned by Geely Group, has made an application to the Executive for the Whitewash Waiver. The Executive has indicated he/she will grant the Whitewash Waiver subject to the approval of the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is granted by the Executive, Proper Glory and parties acting in concert with it would not be required to make a mandatory general offer which would otherwise be required as a result of the allotment and issue of the Aggregate Consideration Shares pursuant to the Associated Companies' Agreements. Proper Glory, its associates and its concert parties who are involved in, or interested in, the Agreements, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver are required to abstain from voting under the Takeovers Code. **If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders at the EGM, the Agreements will lapse and the Restructuring will not proceed.**

On 13 July 2007, Centurion, a wholly-owned subsidiary of the Company, and Zhejiang Fulin Automobile entered into the Zhejiang Fulin Guorun Equity Transfer Agreement pursuant to which Centurion agreed to acquire the remaining 49% interest in the registered capital of Zhejiang Fulin Guorun from Zhejiang Fulin Automobile for a total consideration of RMB22.48 million (equivalent to approximately HK$23.30 million), which is payable in cash by primarily applying the dividends to be distributed from Zhejiang Fulin Guorun.

On 17 September 2007, the Company entered into the Other Project Documents with Geely Holding, Beijing Geely University and Zhejiang Economic Management College respectively in relation to the sales of CKDs and Sedan Tool Kits; purchases of CBUs, automobile parts and components and provision of process manufacturing services; provision of education programs; provision of the Guarantees and lease of the Properties.

Each of Zhejiang Geely Merrie, Shanghai Maple Automobile, Zhejiang Haoqing and Zhejiang Fulin Automobile is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that each of Zhejiang Geely Merrie, Shanghai Maple Automobile and Zhejiang Haoqing is beneficially owned by Mr. Li and his associates and Zhejiang Fulin Automobile is a substantial shareholder of Zhejiang Fulin Guorun holding 49% interest in the registered capital of Zhejiang Fulin Guorun. The entering into of the Agreements constitutes very substantial acquisitions and connected transactions of 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.

Each of Geely Holding, Beijing Geely University and Zhejiang Economic Management College is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that (i) Geely Holding is wholly-owned by Mr. Li and his associates; (ii) Beijing Geely University is beneficially owned as to 85% by Mr. Li and his associates; and (iii) Zhejiang Economic Management College is beneficially wholly-owned by Mr. Li and his associates. The transactions contemplated under the Other Project Documents will, upon Completion, constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules. In addition, the provision of the Guarantees contemplated under the Loan Guarantee Agreement constitutes a major and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements (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, 48.07% in the issued share capital of the Company), their respective associates and parties acting in concert with any of them will abstain from voting for the resolutions to approve the Agreements, the Guarantees, the continuing connected transactions contemplated under the Other Project Documents and their respective annual caps and the Whitewash Waiver to be put forward at the EGM.

The Company also proposes to increase its authorized share capital from HK$160,000,000 to HK$240,000,000 by the creation of an additional 4,000,000,000 Shares of HK$0.02 each. The Directors have no present intention of issuing any part of the increased authorized share capital pursuant to Rule 13.57 of the Listing Rules.

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the terms of the Agreements, the Guarantees, the Whitewash Waiver, the terms of the Other Project Documents and the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents. As Mr. Xu Gang was re-designated from an executive Director to a non-executive Director with effect from 1 September 2007, the Board considered it is not appropriate to appoint Mr. Xu Gang as a member of the Independent Board Committee to advise the Independent Shareholders in respect of the Restructuring and the Whitewash Waiver. Quam Capital is independent of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connecting transactions contemplated under the Other Project Documents and the Whitewash Waiver. With the approval of the Independent Board Committee, Quam Capital has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connecting transactions contemplated under the Other Project Documents and the Whitewash Waiver.

The purpose of this circular is to provide you with further information on, among other things, (i) further details of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents, the proposed increase in authorized share capital of the Company and the Whitewash Waiver; (ii) accountants' reports of the Associated Companies and Zhejiang Fulin Guorun; (iii) a letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders; (iv) the recommendation from the Independent Board Committee to the Independent Shareholders, together with (v) the notice of the EGM to the Shareholders.

THE ASSOCIATED COMPANIES' AGREEMENTS DATED 13 JULY 2007

Associated Companies' Agreements		Parties		Assets to be transferred	Consideration
i)	Zhejiang JV Equity Transfer Agreement	1) 2)	Centurion Zhejiang Geely Merrie	Zhejiang Geely Merrie will transfer a 44.19% interest in the registered capital of the Zhejiang JV to Centurion.	The consideration of RMB936.33 million (equivalent to approximately HK$970.51 million) for the Zhejiang JV Transfer was determined after arm's length negotiation between Centurion and Zhejiang Geely Merrie with reference to the 44.19% attributable interest in the unaudited net asset value of Zhejiang JV as at 30 June 2007. The consideration for the Zhejiang JV Transfer will be fully satisfied by the issue of the Zhejiang JV Consideration Shares, representing approximately 14.93% of the existing issued share capital of the Company and approximately 11.96% of the issued share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares.
ii)	Shanghai Maple JV Equity Transfer Agreement	1) 2)	Value Century Shanghai Maple Automobile	Shanghai Maple Automobile will transfer a 44.19% interest in the registered capital of the Shanghai Maple JV to Value Century.	The consideration of RMB354.53 million (equivalent to approximately HK$367.47 million) for the Shanghai Maple JV Transfer was determined after arm's length negotiation between Value Century and Shanghai Maple Automobile with reference to the 44.19% attributable interest in the unaudited net asset value of Shanghai Maple JV as at 30 June 2007. The consideration for the Shanghai Maple JV Transfer will be fully satisfied by the issue of the Shanghai Maple JV Consideration Shares, representing approximately 5.65% of the existing issued share capital of the Company and approximately 4.53% of the issued share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares.

Associated Companies' Agreements	Parties	Assets to be transferred	Consideration
iii) Zhejiang Kingkong JV Equity Transfer Agreement	1) Centurion 2) Zhejiang Haoqing	Zhejiang Haoqing will transfer a 44.19% interest in the registered capital of the Zhejiang Kingkong JV to Centurion.	The consideration of RMB155.84 million (equivalent to approximately HK$161.52 million) for the Zhejiang Kingkong JV Transfer was determined after arm's length negotiation between Centurion and Zhejiang Haoqing with reference to the 44.19% attributable interest in the unaudited net asset value of Zhejiang Kingkong JV as at 30 June 2007. The consideration for the Zhejiang Kingkong JV Transfer will be fully satisfied by the issue of the Zhejiang Kingkong JV Consideration Shares, representing approximately 2.48% of the existing issued share capital of the Company and approximately 1.99% of the issued share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares.
iv) Zhejiang Ruhoo JV Equity Transfer Agreement	1) Centurion 2) Zhejiang Haoqing	Zhejiang Haoqing will transfer a 44.19% interest in the registered capital of the Zhejiang Ruhoo JV to Centurion.	The consideration of RMB90.21 million (equivalent to approximately HK$93.50 million) for the Zhejiang Ruhoo JV Transfer was determined after arm's length negotiation between Centurion and Zhejiang Haoqing with reference to the 44.19% attributable interest in the unaudited net asset value of Zhejiang Ruhoo JV as at 30 June 2007. The consideration for the Zhejiang Ruhoo JV Transfer will be fully satisfied by the issue of the Zhejiang Ruhoo JV Consideration Shares, representing approximately 1.44% of the existing issued share capital of the Company and approximately 1.15% of the issued share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares.

Associated Companies' Agreements		Parties		Assets to be transferred	Consideration
v)	Hunan Geely JV Equity Transfer Agreement	1) 2)	Centurion Zhejiang Haoqing	Zhejiang Haoqing will transfer a 44.19% interest in the registered capital of the Hunan Geely JV to Centurion.	The consideration of RMB17.21 million (equivalent to approximately HK$17.84 million) for the Hunan Geely JV Transfer was determined after arm's length negotiation between Centurion and Zhejiang Haoqing with reference to the 44.19% attributable interest in the unaudited net asset value of Hunan Geely JV as at 30 June 2007. The consideration for the Hunan Geely JV Transfer will be fully satisfied by the issue of the Hunan Geely JV Consideration Shares, representing approximately 0.27% of the existing issued share capital of the Company and approximately 0.22% of the issued share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares.

Aggregate Consideration Shares

The issue price of the Aggregate Consideration Shares of HK$1.25 per Share, was determined after arm's length negotiations between the parties to the Associated Companies' Agreements with reference to the average closing price of the Shares as quoted on the Stock Exchange for the last 20 trading days ended on 11 July 2007, the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement.

(i) a discount of approximately 6.72% to the closing price of the Shares of HK$1.34 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 14.38% to the closing price of the Shares of HK$1.46 per Share as quoted on the Stock Exchange on 11 July 2007, being the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement;

(iii) a discount of approximately 5.30% to the average closing price of the Shares of approximately HK$1.32 per Share as quoted on the Stock Exchange for the last five trading days ended on 11 July 2007, being the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement;

(iv) a discount of approximately 1.57% to the average closing price of the Shares of approximately HK$1.27 per Share as quoted on the Stock Exchange for the last 10 trading days ended on 11 July 2007, being the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement;

(v) equal to the average closing price of the Shares of approximately HK$1.25 per Share as quoted on the Stock Exchange for the last 20 trading days ended on 11 July 2007, being the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement; and

(vi) a premium of approximately 35.87% to the closing price of HK$0.92 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

(vii) a premium of approximately 400.00% over the audited consolidated net asset value per share of HK$0.25 as at 31 December 2006.

(viii) a premium of approximately 212.50% over the unaudited consolidated net asset value per share of approximately HK$0.40 as at 30 June 2007.

The Aggregate Consideration Shares represent approximately 24.78% of the existing issued share capital of the Company and approximately 19.86% of the issued share capital of the Company as enlarged by the issue of Aggregate Consideration Shares. The Aggregate Consideration Shares will be issued under the specific mandate proposed to be obtained at the EGM. An application will be made to the Stock Exchange for the listing of and permission to deal in the Aggregate Consideration Shares.

The Aggregate Consideration Shares will rank pari passu in all respects with the Shares in issue upon allotment and issue of the Aggregate Consideration Shares on the date of Completion. Mr. Li, the sole director of Proper Glory, confirmed that no Aggregate Consideration Shares will be transferred, charged or pledged to any other persons immediately upon Completion.

Conditions precedent in general

Completion of each of the Associated Companies' Agreements is conditional upon satisfaction of the following conditions precedent:

(a) irrevocable and unconditional approvals from the relevant PRC government authority responsible for the examination and approval in relation to (i) the Transfers, and (ii) the new articles of association of each of the Associated Companies;

(b) approval to the change in the shareholding structure of the Associated Companies from the Administration of Industry and Commerce governing the Associated Companies;

(c) each of the Associated Companies has obtained the Certificate of Approval for Establishment of Enterprises with Foreign Investment in relation to the Group's 91% interest in the registered capital of each of the Associated Companies;

(d) new business license for each of the Associated Companies has been obtained;

(e) approval from the relevant PRC government authority in relation to the issue of Aggregate Consideration Shares for the Transfers, if necessary;

(f) consents and approvals from any relevant governments authority and other relevant third parties (e.g. bank) in connection with the transactions contemplated by the Transfers, if necessary;

(g) the entering into of each of the Associated Companies' Agreements and the Whitewash Waiver have been approved by the Independent Shareholders in the EGM;

(h) the Listing Committee of the Stock Exchange having agreed to grant the listing of, and permission to deal in, the Aggregate Consideration Shares;

(i) the Executive granting to Proper Glory and parties acting in concert with it the Whitewash Waiver; and

(j) warranties by parties to the Associated Companies' Agreements as set forth in the Associated Companies' Agreements remaining true and accurate in all material respects have been provided.

Conditions (g) to (i) cannot be waived by parties to the Associated Companies' Agreements. The Group reserves the right to waive condition (j). If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Associated Companies' Agreements will lapse and all the obligations and liabilities of the parties to the Associated Companies' Agreements will cease and terminate.

ZHEJIANG FULIN GUORUN EQUITY TRANSFER AGREEMENT DATED 13 JULY 2007

Parties	:	(1) Centurion (2) Zhejiang Fulin Automobile
Assets to be transferred	:	Zhejiang Fulin Automobile will transfer a 49% interest in the registered capital of Zhejiang Fulin Guorun to Centurion.
Consideration	:	The consideration of RMB22.48 million (equivalent to approximately HK$23.30 million) for the Zhejiang Fulin Guorun Transfer was determined after arm's length negotiation between Centurion and Zhejiang Fulin Automobile taking into consideration 49% of the attributable interest in the unaudited net asset value of Zhejiang Fulin Guorun as at 30 June 2007. The consideration for the Zhejiang Fulin Guorun Transfer will be fully satisfied in cash at Completion by primarily applying the dividends to be distributed from Zhejiang Fulin Guorun.

Conditions precedent

Completion of the Zhejiang Fulin Guorun Equity Transfer Agreement is conditional upon satisfaction of the following conditions precedent:

(a) irrevocable and unconditional approvals from the relevant PRC government authority responsible for the examination and approval in relation to (i) the Zhejiang Fulin Guorun Transfer, and (ii) the new articles of association of Zhejiang Fulin Guorun;

(b) approval to the change in the shareholding structure of Zhejiang Fulin Guorun from the Administration of Industry and Commerce governing the Zhejiang Fulin Guorun;

(c) Zhejiang Fulin Guorun has obtained the Certificate of Approval for Establishment of Enterprises with Foreign Investment in relation to the Group's wholly-owned interest in the registered capital of Zhejiang Fulin Guorun;

(d) new business license for the Zhejiang Fulin Guorun has been granted;

(e) consents and approvals from any relevant governments authority and other relevant third parties (e.g. bank) in connection with the transactions contemplated by the Zhejiang Fulin Guorun Transfer, if necessary;

(f) the entering into of Zhejiang Fulin Guorun Equity Transfer Agreement and the Whitewash Waiver have been approved by the Independent Shareholders in the EGM;

(g) the Executive granting to Proper Glory and parties acting in concert with it the Whitewash Waiver; and

(h) warranties by parties to the Zhejiang Fulin Guorun Equity Transfer Agreement as set forth in the Zhejiang Fulin Guorun Equity Transfer Agreement remaining true and accurate in all material respects have been provided.

Conditions (f) and (g) cannot be waived by parties to the Zhejiang Fulin Guorun Equity Transfer Agreement. The Group reserves the right to waive condition (h). If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Zhejiang Fulin Guorun Equity Transfer Agreement will lapse and all the obligations and liabilities of the parties to the Zhejiang Fulin Guorun Equity Transfer Agreement will cease and terminate.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after the issue of the Aggregate Consideration Shares (assuming there will be no other changes in the issued share capital of the Company from the Latest Practicable Date to the date of Completion):

Holder of Shares	**As at the Latest Practicable Date**		**Immediately after the issue of the Aggregate Consideration Shares but before conversion of the Convertible Bonds and exercise of the Share Options**		**Immediately after the issue of the Aggregate Consideration Shares and assuming full conversion of the Convertible Bonds and exercise of the Share Options**	
	Number of Shares	*(%)*	*Number of Shares*	*(%)*	*Number of Shares*	*(%)*
Proper Glory and parties acting in concert with it *(notes 3 & 4)*	2,500,087,000	48.07	3,788,759,000	58.38	3,788,759,000	52.92
Ang Siu Lun, Lawrence, executive Director *(note 2)*	2,270,000	0.04	2,270,000	0.03	47,270,000	0.66
Other Directors excluding Ang Siu Lun, Lawrence and Mr. Li *(note 2)*	–	–	–	–	136,000,000 *(note 2)*	1.90
Public Shareholders:						
Holders of the Convertible Bonds *(note 1)*	–	–	–	–	361,261,364	5.04
Other public Shareholders	2,698,726,450	51.89	2,698,726,450	41.59	2,826,246,450 *(note 2)*	39.48
Total public Shareholders	2,698,726,450	51.89	2,698,726,450	41.59	3,187,507,814 *(note 2)*	44.52
Total	5,201,083,450	100.00	6,489,755,450	100.00	7,159,536,814	100.00

Notes:

1. As at the Latest Practicable Date, there are outstanding convertible bonds (the "Convertible Bonds") with a principal amount of HK$317.91 million convertible into approximately 361,261,364 new Shares upon exercise in full at the adjusted conversion price of HK$0.88 per Share at any time from the Latest Practicable Date up to the close of business on 10 March 2011.

2. As at the Latest Practicable Date, the Company has outstanding share options (the "Share Options") granted under its share option scheme entitling the holders thereof to subscribe for an aggregate of 308,520,000 Shares at a subscription price ranging from HK$0.70 to HK$1.06 per Share with the expiry of the exercise period ranging from 22 February 2009 to 17 September 2012. Of these Share Options, 181,000,000 Share Options are held by the Directors and the remaining number of Share Options are held by public Shareholders.

3. Proper Glory is a limited liability 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.

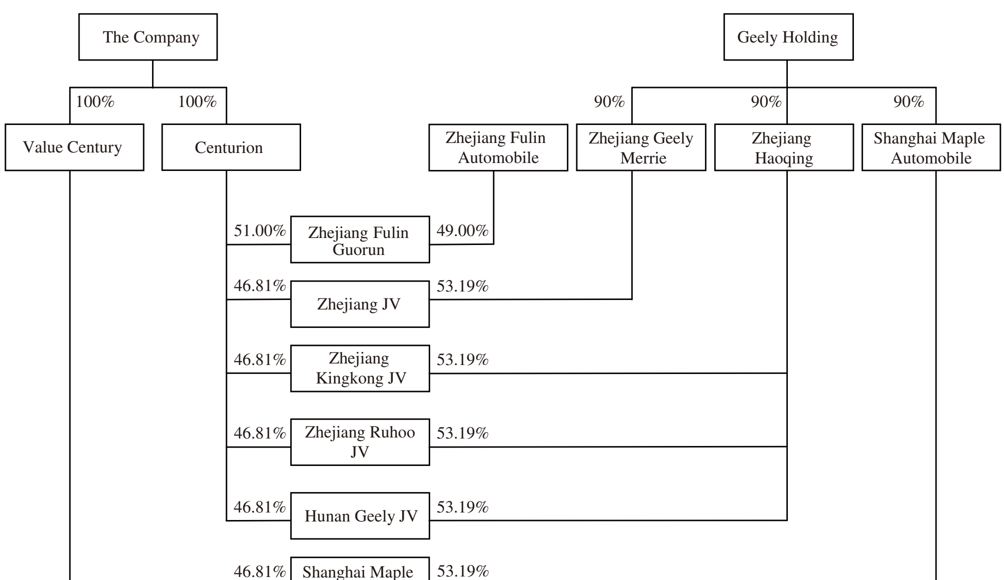
4. To the best knowledge of the Directors having made all reasonable enquiries, Proper Glory and its concert parties do not have any interests in the Convertible Bonds and Share Options as at the Latest Practicable Date.

Save for the Convertible Bonds and the Share Options, the Company does not have any warrants, options, derivatives, convertible securities or other securities in issue as at the Latest Practicable Date.

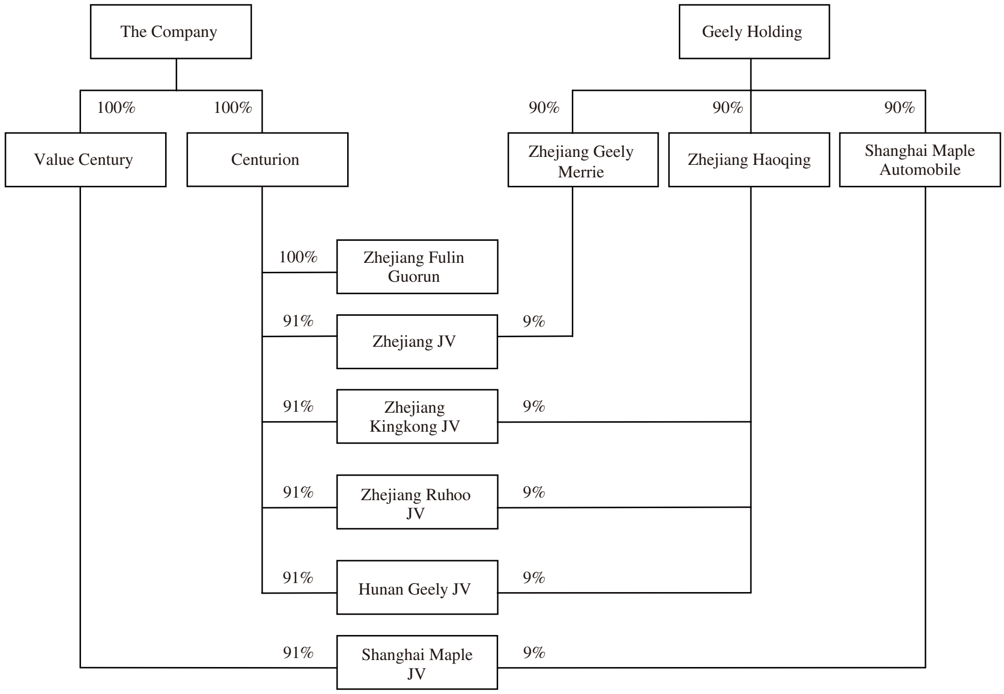
SHAREHOLDING STRUCTURES OF THE ASSOCIATED COMPANIES AND ZHEJIANG FULIN GUORUN BEFORE AND AFTER COMPLETION

The shareholding structures of the Associated Companies and Zhejiang Fulin Guorun as at the Latest Practicable Date and immediately after Completion are set out below:

As at the Latest Practicable Date



Immediately after Completion



Upon Completion, each of the Associated Companies will be owned as to 91% by the Enlarged Group and will be accounted for as an indirect non wholly-owned subsidiary of the Company. Zhejiang Fulin Guorun will be accounted for as an indirect wholly-owned subsidiary of the Company.

OTHER PROJECT DOCUMENTS

On 17 September 2007, the relevant parties, namely the Company, Geely Holding, Beijing Geely University and Zhejiang Economic Management College entered into the following Other Project Documents to facilitate the operation of the Associated Companies:

1. Services Agreement to govern (i) the sales of CKDs and Sedan Tool Kits from the Enlarged Group to the Geely Holding Group; (ii) the sales of CBUs, automobile parts and components; and provision of process manufacturing services from the Geely Holding Group to the Enlarged Group;

2. Co-operation Agreement (Beijing) to govern the co-operation between the Enlarged Group and Beijing Geely University pursuant to which the Enlarged Group will arrange certain senior management staff and engineers of the research and development department to lecture at Beijing Geely University and also provide facilities at the Enlarged Group's production plants for on-the-job training to certain students of the university;

3. Co-operation Agreement (Zhejiang) to govern the co-operation between the Enlarged Group and Zhejiang Economic Management College pursuant to which the Enlarged Group will arrange certain senior management staff and engineers of the research and development department to lecture at Zhejiang Economic Management College and also provide facilities at the Enlarged Group's production plants for on-the-job training to certain students of the management college;

4. Loan Guarantee Agreement to govern the provision of guarantees by the Enlarged Group on loans obtained or to be obtained by the Geely Holding Group on behalf of the Associated Companies in relation to the manufacture and research and development of sedans; and

5. Lease Agreement to govern the lease of the Properties from the Enlarged Group to the Geely Holding Group and Zhejiang Economic Management College.

(1) Services Agreement

Parties: (1) The Company
(2) Geely Holding

Term: From the effective date of the Services Agreement to 31 December 2009

Conditions precedent:

The Services Agreement will be effective upon satisfaction of the following conditions precedent:

(a) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Services Agreement; and

(b) completion of the Agreements.

If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Services Agreement will lapse and all the obligations and liabilities of the parties to the Services Agreement will cease and terminate.

(i) Sales of CKDs and Sedan Tool Kits from the Enlarged Group to the Geely Holding Group

Subject matter:

Pursuant to the Services Agreement, the Enlarged Group agrees to supply to the Geely Holding Group, CKDs and Sedan Tool Kits in accordance with the product specifications set out in the Services Agreement. During the course of the Services Agreement, the Geely Holding Group may request additional services other than the aforesaid services from the Enlarged Group. The additional services, subject to the Enlarged Group's ability in providing the requested services based on normal commercial terms to be determined by the parties to the Services Agreement on an arm's length basis and compliance with the Listing Rules, shall be related to services that might occur in the process of manufacturing of CKDs and Sedan Tool Kits for new models in the future.

Pricing basis:

Pursuant to the Services Agreement, the CKDs, depending on the specifications and models, shall be sold to the Geely Holding Group based on the selling price of the sedans to end customers less distribution costs, costs of the Sedan Tool Kits and the PRC taxes, mainly the consumption tax. The Sedan Tool Kits to be supplied by the Enlarged Group to the Geely Holding Group shall be based on the cost of the Sedan Tool Kits to the Enlarged Group. Such pricing basis pursuant to the Services Agreement was determined by the parties on normal commercial terms as the Sedan Tool Kits will be sold back to the Enlarged Group for distribution to the end customers.

Historical transaction amounts and annual caps:

Currently, the Associated Companies have been supplying to the Geely Holding Group the CKDs and Sedan Tool Kits. As the Company is currently only interested in 46.81% of each of the Associated Companies, the aforesaid existing arrangements between the Associated Companies and the Geely Holding Group do not constitute continuing connected transactions of the Company for the purpose of the Listing Rules. Upon Completion, the Company's interest in each of the Associated Companies will increase to 91%. Accordingly, the sales of CKDs and Sedan Tool Kits from the Enlarged Group to the Geely Holding Group contemplated under the Services Agreement will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules.

The table below sets out the historical transactions and the proposed annual caps for the sales of CKDs and Sedan Tool Kits pursuant to the Services Agreement:

	Historical amount for the year ended 31 December 2006 (unaudited) *RMB'000*	Historical amount for the six months ended 30 June 2007 (unaudited) *RMB'000*	Estimated annual cap from the effective date of the Services Agreement to the year ending 31 December 2007 *RMB'000*	Estimated annual caps for the year ending 31 December 2008 *RMB'000*	Estimated annual caps for the year ending 31 December 2009 *RMB'000*
Sales of CKDs	5,566,683 (equivalent to approximately HK$5,769.87 million)	2,955,078 (equivalent to approximately HK$3,062.94 million)	1,683,590 (equivalent to approximately HK$1,745.04 million)	10,275,245 (equivalent to approximately HK$10,650.29 million)	12,707,335 (equivalent to approximately HK$13,171.15 million)
Sales of Sedan Tool Kits	6,543 (equivalent to approximately HK$6.78 million)	4,569 (equivalent to approximately HK$4.74 million)	2,279 (equivalent to approximately HK$2.36 million)	13,125 (equivalent to approximately HK$13.60 million)	16,500 (equivalent to approximately HK$17.10 million)
Total:	5,573,226 (equivalent to approximately HK$5,776.65 million)	2,959,647 (equivalent to approximately HK$3,067.67 million)	1,685,869 (equivalent to approximately HK$1,747.40 million)	10,288,370 (equivalent to approximately HK$10,663.90 million)	12,723,835 (equivalent to approximately HK$13,188.26 million)

The above proposed annual caps for the purchases of CKDs by the Geely Holding Group from the Enlarged Group have been determined by the Directors with reference to the historical transaction amounts; the projected units of sedan to be sold based on the sales budget of the Associated Companies; and the estimated selling price per sedan less the distribution costs, the estimated unit cost of Sedan Tool Kit and the PRC taxes, mainly the consumption tax per sedan.

The above proposed annual caps for the purchases of Sedan Tool Kits by the Geely Holding Group from the Enlarged Group have been determined by the Directors with reference to the historical transaction amounts; the projected units of sedan to be sold based on the sales budget of the Associated Companies; and the estimated unit cost of Sedan Tool Kit to the Enlarged Group.

(ii) Sales of CBUs, automobile parts and components; and provision of process manufacturing services from the Geely Holding Group to the Enlarged Group

Subject matter:

Pursuant to the Services Agreement, the Geely Holding Group agrees to sell to the Enlarged Group the CBUs, automobile parts and components; and provide process manufacturing services to the Enlarged Group in accordance with the product and service specifications set out in the Services Agreement.

Pricing basis:

Pursuant to the Services Agreement, the CBUs, depending on the models, shall be sold to the Enlarged Group based on the selling price of the sedans to end customers less distribution costs. The automobile parts and components to be supplied by the Geely Holding Group shall be based on the sourcing cost plus the relevant service cost(s), being the actual cost(s) incurred in the procurement process by the Geely Holding Group. With regard to the process manufacturing services, the fee to be charged by the Geely Holding Group shall be based on the annual linear depreciation of the value of the imported molding equipment. Such pricing basis pursuant to the Services Agreement was determined by the parties on an arm's length basis.

Historical transaction amounts and annual caps:

Currently, the Geely Holding Group has been supplying to the Associated Companies the CBUs, automobile parts and components; and process manufacturing services. As the Group is currently only interested in 46.81% of each of the Associated Companies, the aforesaid existing arrangements between the Associated Companies and the Geely Holding Group do not constitute continuing connected transactions of the Company for the purpose of the Listing Rules. Upon Completion, the Company's interest in each of the Associated Companies will increase to 91%. Accordingly, the sales of CBUs, automobile parts and components; and provision of process manufacturing services from the Geely Holding Group to the Enlarged Group contemplated under the Services Agreement will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules.

The table below sets out the historical amounts and the proposed annual caps for the purchases of CBUs, automobile parts and components and the process manufacturing services fees pursuant to the Services Agreement:

	Historical amount for the year ended 31 December 2006 (unaudited) *RMB'000*	Historical amount for the six months ended 30 June 2007 (unaudited) *RMB'000*	Estimated annual cap from the effective date of the Services Agreement to the year ending 31 December 2007 *RMB'000*	Estimated annual caps for the year ending 31 December 2008 *RMB'000*	Estimated annual caps for the year ending 31 December 2009 *RMB'000*
Purchases of CBUs	5,776,639 (equivalent to approximately HK$5,987.49 million)	3,036,700 (equivalent to approximately HK$3,147.54 million)	1,753,740 (equivalent to approximately HK$1,817.75 million)	10,703,380 (equivalent to approximately HK$11,094.05 million)	13,236,807 (equivalent to approximately HK$13,719.95 million)
Purchases of automobile parts and components	3,633,280 (equivalent to approximately HK$3,765.89 million)	2,382,008 (equivalent to approximately HK$2,468.95 million)	1,631,717 (equivalent to approximately HK$1,691.27 million)	2,985,619 (equivalent to approximately HK$3,094.59 million)	3,673,960 (equivalent to approximately HK$3,808.06 million)
Process manufacturing services fees	45,765 (equivalent to approximately HK$47.44 million)	25,525 (equivalent to approximately HK$26.46 million)	13,165 (equivalent to approximately HK$13.65 million)	121,580 (equivalent to approximately HK$126.02 million)	194,546 (equivalent to approximately HK$201.65 million)
Total	9,455,684 (equivalent to approximately HK$9,800.82 million)	5,444,233 (equivalent to approximately HK$5,642.95 million)	3,398,622 (equivalent to approximately HK$3,522.67 million)	13,810,579 (equivalent to approximately HK$14,314.67 million)	17,105,313 (equivalent to approximately HK$17,729.66 million)

The above proposed annual caps for the purchases of CBUs by the Enlarged Group from the Geely Holding Group have been determined by the Directors with reference to the historical transaction amounts; the projected units of sedan to be sold based on the sales budget of the Associated Companies; and the estimated selling price per sedan less distribution costs per sedan.

The proposed annual caps for the purchases of automobile parts and components by the Enlarged Group from the Geely Holding Group have been determined by the Directors with reference to the historical transaction amounts, the projected units of sedan to be sold based on the sales budget of the Associated Companies and the estimated percentage of total procurement on automobile parts and components sourcing from Geely Holding Group.

The proposed annual caps for the process manufacturing services fees charged by the Geely Holding Group have been determined by the Directors with reference to the estimated cost of imported molding equipment required for process manufacturing service and the annual depreciation rate for the molding equipment which is consistent with the accounting policy of the Associated Companies.

The Group is principally engaged in the manufacturing and trading of automobile parts and related automobiles in the PRC. As noted in the Company's 2006 annual report, the Directors believe that there will be substantial growth in car demand in China in the coming decade, due to China's consistent economy growth, its rising household incomes and its low car ownership with only 1% of the population owning a sedan at present. Also, according to the figures released by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China increased by 37% to 3.8 million units in 2006, surpassing most market expectations. Although fierce competition in China's sedan market remains, the Directors expect growth of China's sedan sales volume to be maintained at around 20% in the coming few years. In order to tap into the increasing demand for Geely's and Maple's sedans, the Group has proactively set up new joint ventures, like the Zhejiang Kingkong JV, the Zhejiang Ruhoo JV and the Hunan Geely JV in the past year. These new joint ventures, upon their gradual commencement of production, the upgrading and expansion of the existing production facilities of the Zhejiang JV and the Shanghai Maple JV and the presentation of the large growth potential in the export market, would enable the Group to enter into a rapid growth period in the coming few years. Accordingly, the Directors estimate the proposed annual caps amounts involved in the continuing connected transactions set out in the Services Agreement will increase significantly. In the first half of 2007, the Associated Companies continued to improve their product mix towards high-priced models through the introduction of more higher-priced models like "Vision" and the 1.8L "Power Version" of "Geely Kingkong". These two new models, coupled with other new higher-priced models to be launched in the second half of 2007, together with the gradual product penetration to the inner cities of the PRC and expansion in the export market are strategies implemented by the Group that are expected to bring significant contributions to the Enlarged Group's operation for the year ending 31 December 2008. Accordingly, the Directors expect that the increase in the proposed annual caps amounts for the year ending 31 December 2008 would be relatively significant. Furthermore, the fourth quarter is a traditional high season for the automobile industry and thus justifies a relatively higher annual cap amount from the effective date of the Services Agreement to the year ending 31 December 2007.

The Directors are of the view that terms of the Services Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Product warranties:

Pursuant to the Services Agreement, the Enlarged Group and the Geely Holding Group respectively represents, warrants and agrees that their products will be free from defects and any defective products shall be unconditionally replaced or repaired for the other party. Any claims associated with the defective products shall be payable by the party supplying the defective products.

(2) Co-operation Agreement (Beijing)

Parties: (1) The Company
(2) Beijing Geely University

Term: From the effective date of the Co-operation Agreement (Beijing) to 31 December 2009

Conditions precedent:

The Co-operation Agreement (Beijing) will be effective upon satisfaction of the following conditions precedent:

(a) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Co-operation Agreement (Beijing); and

(b) completion of the Agreements.

If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Co-operation Agreement (Beijing) will lapse and all the obligations and liabilities of the parties to the Co-operation Agreement (Beijing) will cease and terminate.

Subject matter:

Pursuant to the Co-operation Agreement (Beijing), the Enlarged Group agrees to (i) arrange senior management staff and engineers of the research and development department to lecture at the Beijing Geely University; and (ii) provide facilities at the Enlarged Group's production plants for on-the-job training to not more than 2,000 students of the Beijing Geely University per month, subject to duration of no more than four months per year.

Pricing basis:

Pursuant to the Co-operation Agreement (Beijing), the Company will arrange 50 representatives (subject to change) to conduct lectures at the Beijing Geely University. The remuneration to be received from Beijing Geely University for each senior management staff and engineer of the research and development department will be RMB720,000 per year. Such amount is determined based on a remuneration of RMB10,000 per lecture and 72 lectures per year for each senior management staff and engineer of the research and development department to be conducted at the Beijing Geely University.

In respect of the facilities for conducting on-the-job training, Beijing Geely University shall pay the Company a monthly fee of RMB950 per student. The lecture fees and on-the-job training fees received should be sufficient to cover the relevant costs to be incurred by the Enlarged Group upon Completion.

Historical transaction amounts and annual caps:

Currently, the Associated Companies have been arranging certain senior management staffs and engineers of the research and development department to lecture at the Beijing Geely University and have been providing facilities at the production plants for the on-the-job training. As the Company is currently only interested in 46.81% of each of the Associated Companies, the aforesaid existing arrangements between the Associated Companies and the Beijing Geely University do not constitute continuing connected transactions of the Company for the purpose of the Listing Rules. Upon Completion, the Company's interest in each of the Associated Companies will increase to 91%. Accordingly, the proposed arrangements contemplated under the Co-operation Agreement (Beijing) will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules.

There was no such historical transaction prior to 31 December 2006. The table below sets out the historical amounts for the six months ended 30 June 2007 and the proposed annual caps for the above services pursuant to the Co-operation Agreement (Beijing):

	Historical amount for the six months ended 30 June 2007 (unaudited) *RMB'000*	Estimated annual cap from the effective date of the Co-operation Agreement (Beijing) to the year ending 31 December 2007 *RMB'000*	Estimated annual caps for the year ending 31 December 2008 *RMB'000*	Estimated annual caps for the year ending 31 December 2009 *RMB'000*
Conduct lectures by senior management staffs and engineers of the research and development department at the Beijing Geely University	10,000 (equivalent to approximately HK$10.37 million)	6,000 (equivalent to approximately HK$6.22 million)	36,000 (equivalent to approximately HK$37.31 million)	36,000 (equivalent to approximately HK$37.31 million)
Provision of facilities for conducting on–the-job training for students of Beijing Geely University	7,500 (equivalent to approximately HK$7.77 million)	1,267 (equivalent to approximately HK$1.31 million)	7,600 (equivalent to approximately HK$7.88 million)	7,600 (equivalent to approximately HK$7.88 million)
Total:	17,500 (equivalent to approximately HK$18.14 million)	7,267 (equivalent to approximately HK$7.53 million)	43,600 (equivalent to approximately HK$45.19 million)	43,600 (equivalent to approximately HK$45.19 million)

The proposed annual caps for the provision of lectures by senior management staffs and engineers of the research and development department of the Enlarged Group at the Beijing Geely University have been determined by the Directors with reference to the estimated number of senior management staffs and engineers to conduct the lectures; the estimated charge-out rate per lecture; and the estimated number of lectures per year.

The proposed annual caps for the provision of facilities to conduct on-the-job training for students of Beijing Geely University have been determined by the Directors with reference to the estimated number of students to attend the on-the-job training, the estimated duration of on-the-job training per year, and the historical annualized tuition fee received by the Beijing Geely University per student in the first half of 2007.

The Directors are of the view that terms of the Co-operation Agreement (Beijing), including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(3) Co-operation Agreement (Zhejiang)

Parties: (1) The Company
(2) Zhejiang Economic Management College

Term: From the effective date of the Co-operation Agreement (Zhejiang) up to 31 December 2009

Conditions precedent:

The Co-operation Agreement (Zhejiang) will be effective upon satisfaction of the following conditions precedent:

(a) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Co-operation Agreement (Zhejiang); and

(b) completion of the Agreements.

If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Co-operation Agreement (Zhejiang) will lapse and all the obligations and liabilities of the parties to the Co-operation Agreement (Zhejiang) will cease and terminate.

Subject matter:

Pursuant to the Co-operation Agreement (Zhejiang), the Enlarged Group agrees to (i) arrange senior management staffs and engineers of the research and development department to lecture at the Zhejiang Economic Management College; and (ii) provide facilities for conducting on-the-job training to not more than 4,000 students from the Zhejiang Economic Management College per month, subject to duration of no more than nine months per year.

Pricing basis:

Pursuant to the Co-operation Agreement (Zhejiang), the Company will arrange 20 representatives (subject to change) to conduct lectures at the Zhejiang Economic Management College. The remuneration to be received from Zhejiang Economic Management College for each senior management staff and engineer of the research and development department will be RMB720,000 per year. Such amount is determined based on a remuneration of RMB10,000 per lecture and 72 lectures per year for each senior management staff and engineer of the research and development department to be conducted at the Zhejiang Economic Management College.

In respect of the facilities for conducting on-the-job training, Zhejiang Economic Management College shall pay the Company a monthly fee of RMB700 per student. The lecture fees and on-the-job training fees received should be sufficient to cover the relevant costs to be incurred by the Enlarged Group upon Completion.

Historical transaction amounts and annual caps:

Currently, the Associated Companies have been arranging certain senior management staffs and engineers of the research and development department to lecture at the Zhejiang Economic Management College and have been providing facilities at the production plants for the on-the-job training. As the Company is currently only interested in 46.81% of each of the Associated Companies, the aforesaid existing arrangements between the Associated Companies and the Zhejiang Economic Management College do not constitute continuing connected transactions of the Company for the purpose of the Listing Rules. Upon Completion, the Company's interest in each of the Associated Companies will increase to 91%. Accordingly, the proposed arrangements contemplated under the Co-operation Agreement (Zhejiang) will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules.

There was no such historical transaction prior to 31 December 2006. The table below sets out the historical amounts for the six months ended 30 June 2007 and the proposed annual caps for above services pursuant to the Co-operation Agreement (Zhejiang):

	Historical amount for the six months ended 30 June 2007 (unaudited) *RMB'000*	Estimated annual cap from the effective date of the Co-operation Agreement (Zhejiang) to the year ending 31 December 2007 *RMB'000*	Estimated annual caps for the year ending 31 December 2008 *RMB'000*	2009 *RMB'000*
Conduct lectures by senior management staffs and engineers of the research and development department at the Zhejiang Economic Management College	nil (equivalent to approximately HK$nil million)	2,400 (equivalent to approximately HK$2.49 million)	14,400 (equivalent to approximately HK$14.93 million)	14,400 (equivalent to approximately HK$14.93 million)
Provision of facilities for conducting on-the-job training for students from the Zhejiang Economic Management College	7,682 (equivalent to approximately HK$7.96 million)	4,200 (equivalent to approximately HK$4.35 million)	25,200 (equivalent to approximately HK$26.12 million)	25,200 (equivalent to approximately HK$26.12 million)
Total:	7,682 (equivalent to approximately HK$7.96 million)	6,600 (equivalent to approximately HK$6.84 million)	39,600 (equivalent to approximately HK$41.05 million)	39,600 (equivalent to approximately HK$41.05 million)

The proposed annual caps for the provision of lectures by senior management staffs and engineers of the research and development department of the Enlarged Group at the Zhejiang Economic Management College have been determined by the Directors with reference to the estimated number of senior management staffs and engineers to conduct the lectures; the estimated charge-out rate per lecture; and the estimated number of lectures per year.

The proposed annual caps for the provision of facilities to conduct on-the-job training for students of Zhejiang Economic Management College have been determined by the Directors with reference to the estimated number of students to attend the on-the-job training, the estimated duration of on-the-job training per year and the historical annualized tuition fee received by the Zhejiang Economic Management College per student in the first half of 2007.

The Directors are of the view that terms of the Co-operation Agreement (Zhejiang), including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(4) Loan Guarantee Agreement

Parties: (1) The Company
(2) Geely Holding

Term: From the effective date of Loan Guarantee Agreement to 31 December 2009

Conditions precedent:

The Loan Guarantee Agreement will be effective upon satisfaction of the following conditions precedent:

(a) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Loan Guarantee Agreement and the Guarantees; and

(b) completion of the Agreements.

If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Loan Guarantee Agreement will lapse and all the obligations and liabilities of the parties to the Loan Guarantee Agreement will cease and terminate.

Subject matter:

Pursuant to the Loan Guarantee Agreement, the Enlarged Group agrees to provide guarantees (including the pledge of certain lands, buildings and facilities of the Associated Companies) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Associated Companies in relation to the manufacture and research and development of sedans of the Enlarged Group upon Completion. The Geely Holding Group i) guarantees that the loans will only be utilized for sedan manufacturing and research and development activity relating to the Enlarged Group; ii) would obtain consent from the Enlarged Group prior to drawdown of the loans; and iii) agrees to provide counter indemnities on the Guarantees. As i) the Associated Companies are the ultimate borrowers of the loans for the manufacture and research and development of sedans; ii) consent is required prior to drawdown of the loans and iii) the Geely Holding Group agrees to provide counter indemnities on the Guarantees, the Directors are of the view that there will not be material impact to the Enlarged Group's financial position.

The provision of the Guarantees constitutes a major and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements (by way of poll) as set out in Chapter 14A of the Listing Rules.

Historical transaction amounts and annual caps:

Currently, the Associated Companies have been providing guarantees on loans obtained by the Geely Holding Group on their behalf in relation to the manufacture and research and development of sedans. As the Company is currently only interested in 46.81% of each of the Associated Companies, the aforesaid existing arrangements between the Associated Companies and the Geely Holding Group do not constitute continuing connected transactions of the Company for the purpose of the Listing Rules. Upon Completion, the Company's interest in each of the Associated Companies will increase to 91%. Accordingly, the provision of the Guarantees contemplated under the Loan Guarantee Agreement will constitute major and non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules.

The table below sets out the historical transaction amounts and the proposed annual caps for the aggregate guarantee amount to be provided by the Enlarged Group pursuant to the Loan Guarantee Agreement:

	Historical amount for the year ended 31 December 2006	Historical amount for the six months ended 30 June 2007	Estimated annual cap from the effective date of the Loan Guarantee Agreement to the year ending 31 December 2007	Estimated annual caps for the year ending 31 December 2008	2009
	(unaudited)	(unaudited)			
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Aggregate guarantee amount	169,000 (equivalent to approximately HK$175.17 million)	300,000 (equivalent to approximately HK$310.95 million)	850,000 (equivalent to approximately HK$881.03 million)	850,000 (equivalent to approximately HK$881.03 million)	850,000 (equivalent to approximately HK$881.03 million)

The proposed annual caps for the Enlarged Group's guarantees are referenced to the aggregate guarantee amount on the loans obtained by the Geely Holding Group on behalf of the Associated Companies as at 30 June 2007 in relation to the sedan manufacturing and research and development activity relating to the Group. Given that (i) the Guarantees will be counter indemnified by the Geely Holding Group; (ii) the Geely Holding Group would obtain consent from the Enlarged Group prior to drawdown of the loans and (iii) the Associated Companies are the ultimate borrowers of the loans for the manufacture and research and development of sedans, the Directors are of the view that terms of the Guarantees and the Loan Guarantee Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

The Directors estimate that in order to tap into the increasing demand for the Geely's and Maple's sedans in the future, more funding resources have to be devoted to the research and development activities, which include the new car model design, development of new engine, gearbox, electronic and electric auto-related components, etc, of the Enlarged Group. The Geely Holding Group currently provides a good gateway for the Associated Companies to obtain loans at cheaper finance costs for sedan manufacturing and research and development activity through its long-term relationship with certain PRC banks. Guarantees including the pledge of certain lands, buildings and facilities of the Associated Companies are required by these banks. The Directors expect that there will be a significant increase in the proposed annual cap amount towards the end of year 2007 as more resources will be devoted to the research and development activity in the second half of 2007. Upon Completion of the Restructuring and as time goes by, the overall structure and transparency of the Enlarged Group should be improved and the Directors expect that the Company shall be able to obtain adequate funding requirements for future research and development activities of the Enlarged Group. Accordingly, the Directors expect the proposed annual caps amounts for the continuing connected transactions set out in Loan Guarantee Agreement for the two years ending 31 December 2009 would be stabilized as no additional loan will be obtained by the Geely Holding Group on behalf of the Associated Companies for the research and development of the Enlarged Group.

(5) Lease Agreement

Parties: (1) The Company
(2) Geely Holding
(3) Zhejiang Economic Management College

Term: From the effective date of the Lease Agreement to 31 December 2009

Conditions precedent:

The Lease Agreement will be effective upon satisfaction of the following conditions precedent:

(a) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Lease Agreement; and

(b) completion of the Agreements.

If the above conditions have not been fulfilled or waived on or before 31 December 2007 (or such later date as the parties may agree in writing), the Lease Agreement will lapse and all the obligations and liabilities of the parties to the Lease Agreement will cease and terminate.

Subject matter:

Pursuant to the Lease Agreement, the Enlarged Group agrees to lease the Properties located in Zhejiang Province to the Geely Holding Group and Zhejiang Economic Management College for the period from the effective date of the Lease Agreement to 31 December 2009.

Pricing basis:

The rent for the lands and buildings on the Properties for each month shall be RMB5-7 per square meter, which represents the market rental charge for adjacent lands and buildings in the local property market.

Historical transaction amounts and annual caps:

Currently, the Zhejiang Ruhoo JV has been leasing the Properties located in Zhejiang Province to the Zhejiang Economic Management College. As the Company is currently only interested in 46.81% of the Zhejiang Ruhoo JV, the aforesaid existing arrangements between the Zhejiang Ruhoo JV and the Zhejiang Economic Management College do not constitute continuing connected transactions of the Company for the purpose of the Listing Rules. Upon Completion, the Company's interest in the Zhejiang Ruhoo JV will increase to 91%. Accordingly, the proposed arrangements contemplated under the Lease Agreement will constitute non-exempt continuing connected transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (by way of poll) under Chapter 14A of the Listing Rules.

There was no such historical transaction prior to 31 December 2006. The table below sets out the historical transaction amounts for the six months ended 30 June 2007 and the proposed annual caps for rental payable by the Geely Holding Group and Zhejiang Economic Management College to the Enlarged Group pursuant to the Lease Agreement:

	Historical amount for the six months ended 30 June 2007 (unaudited) *RMB'000*	Estimated annual cap from the effective date of the Lease Agreement to the year ending 31 December 2007 *RMB'000*	Estimated annual caps for the year ending 31 December 2008 *RMB'000*	2009 *RMB'000*
Rental payable by the Geely Holding Group and Zhejiang Economic Management College	4,941 (equivalent to approximately HK$5.12 million)	1,724 (equivalent to approximately HK$1.79 million)	16,024 (equivalent to approximately HK$16.61 million)	16,024 (equivalent to approximately HK$16.61 million)

The above proposed annual caps for the rental payable by the Geely Holding Group and Zhejiang Economic Management College to the Enlarged Group have been determined by the Directors with reference to the rental charge for adjacent lands and buildings in the local property market. The Directors are of the view that terms of the Lease Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

The Directors estimate that more surplus lands and buildings in Linhai and Luqiao, Zhejiang Province, the PRC will be utilized in years 2008 and 2009 by way of the entering into of the Lease Agreement. Accordingly, there will be a significant increase in the proposed annual caps amounts involved in the continuing connected transactions set out in Lease Agreement for the two years ending 31 December 2009.

INFORMATION ON THE COMPANY

The Company and its subsidiaries are principally engaged in the manufacturing and trading of automobile parts and related automobile components, and investment holding.

INFORMATION ON THE ASSOCIATED COMPANIES AND ZHEJIANG FULIN GUORUN

Zhejiang JV

The Group, through a wholly-owned subsidiary, currently owns 46.81% of Zhejiang JV as an associated company. Zhejiang JV has production facilities in Ningbo, Linhai and Luqiao. The three production plants are fully-integrated plants, comprising stamping, welding, painting and assembly facilities and supporting production and testing lines for engines and gearboxes. Zhejiang JV is principally engaged in the research and development, production, marketing and sales of sedans and related components as well as the provision of related after-sales services in the PRC. As at 30 June 2007, Zhejiang JV's total assets amounted to approximately RMB5,411 million.

The table below sets out the audited results of Zhejiang JV in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") for the two years ended 31 December 2006 and the six months ended 30 June 2007.

	Year ended 31 December		**Six months ended 30 June**
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before taxation	263,867	532,503	123,450
Profit/(loss) after taxation	204,604	486,543	112,135
Net asset value (excluding minority interests)	1,199,057	2,333,052	2,110,432

Upon completion of the Zhejiang JV Transfer, Zhejiang JV will be owned as to 91% by Centurion and as to 9% by Zhejiang Geely Merrie, respectively, and will be accounted for as an indirect non-wholly owned subsidiary of the Company.

Shanghai Maple JV

The Group, through a wholly-owned subsidiary, currently owns 46.81% of Shanghai Maple JV as an associated company. Shanghai Maple JV 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. Shanghai Maple JV is principally engaged in the research and development, production, marketing and sales of sedans and related components as well as the provision of related after-sales services in the PRC. As at 30 June 2007, Shanghai Maple JV's total assets amounted to approximately RMB1,756 million.

The table below sets out the audited results of Shanghai Maple JV in accordance with the HKFRS for the two years ended 31 December 2006 and the six months ended 30 June 2007.

	Year ended 31 December 2005	2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before taxation	71,691	47,379	6,123
Profit/(loss) after taxation	67,408	36,151	2,366
Net asset value (excluding minority interests)	545,610	842,789	799,988

Upon completion of the Shanghai Maple JV Transfer, Shanghai Maple JV will be owned as to 91% by Value Century and as to 9% by Shanghai Maple Automobile, respectively, and will be accounted for as an indirect non-wholly owned subsidiary of the Company.

Zhejiang Kingkong JV

The Group, through a wholly-owned subsidiary, currently owns 46.81% of Zhejiang Kingkong JV as an associated company. Zhejiang Kingkong JV is principally engaged in the research, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC. As at 30 June 2007, Zhejiang Kingkong JV's total assets amounted to approximately RMB955 million.

Zhejiang Kingkong JV was established on 21 December 2006. For the period from 21 December 2006 (date of incorporation) to 31 December 2006, there were no profits or losses generated from Zhejiang Kingkong JV as its production has commenced in January 2007. The table below sets out the audited results of Zhejiang Kingkong JV in accordance with the HKFRS for the period from 21 December 2006 (date of incorporation) to 31 December 2006 and the six months ended 30 June 2007.

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Profit/(loss) before taxation	–	118,178
Profit/(loss) after taxation	–	118,178
Net asset value (excluding minority interests)	235,000	353,178

Upon completion of the Zhejiang Kingkong JV Transfer, Zhejiang Kingkong JV will be owned as to 91% by Centurion and as to 9% by Zhejiang Haoqing, respectively, and will be accounted for as an indirect non-wholly owned subsidiary of the Company.

Zhejiang Ruhoo JV

The Group, through a wholly-owned subsidiary, currently owns 46.81% of Zhejiang Ruhoo JV as an associated company. Zhejiang Ruhoo JV is principally engaged in research, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC. As at 30 June 2007, Zhejiang Ruhoo JV's total assets amounted to approximately RMB847 million.

Zhejiang Ruhoo JV was established on 21 December 2006. For the period from 21 December 2006 (date of incorporation) to 31 December 2006, there were no substantial profits or losses generated from Zhejiang Ruhoo JV as its production has commenced in January 2007. The table below sets out the audited results of Zhejiang Ruhoo JV in accordance with the HKFRS for the period from 21 December 2006 (date of incorporation) to 31 December 2006 and the six months ended 30 June 2007.

	Period from 21 December 2006 (date of incorporation) to 31 December 2006 *RMB'000*	**Six months ended 30 June 2007** *RMB'000*
Profit/(loss) before taxation	(234)	40,589
Profit/(loss) after taxation	(234)	40,589
Net asset value (excluding minority interests)	151,443	202,070

Upon completion of the Zhejiang Ruhoo JV Transfer, Zhejiang Ruhoo JV will be owned as to 91% by Centurion and as to 9% by Zhejiang Haoqing, respectively, and will be accounted for as an indirect non-wholly owned subsidiary of the Company.

Hunan Geely JV

The Group, through a wholly-owned subsidiary, currently owns 46.81% of Hunan Geely JV as an associated company. Hunan Geely JV is principally engaged in research, production, marketing and sales of sedan related components in the PRC.

Hunan Geely JV was established on 20 April 2007. Save for the administrative expenses of approximately RMB44,000, there were no profits or losses generated from Hunan Geely JV for the period from 20 April 2007 to 31 July 2007 as its production is expected to commence in December 2007. The table below sets out the audited results of Hunan Geely JV in accordance with the HKFRS for the period from 20 April 2007 (date of incorporation) to 31 July 2007.

	Period from 20 April 2007 (date of incorporation) to 31 July 2007 *RMB'000*
Profit/(loss) before taxation	(44)
Profit/(loss) after taxation	(44)
Net asset value (excluding minority interests)	39,426

Upon completion of the Hunan Geely JV Transfer, Hunan Geely JV will be owned as to 91% by Centurion and as to 9% by Zhejiang Haoqing, respectively, and will be accounted for as an indirect non-wholly owned subsidiary of the Company.

Zhejiang Fulin Guorun

The Group, through a wholly-owned subsidiary, currently owns 51% of Zhejiang Fulin Guorun as a subsidiary. Zhejiang Fulin Guorun is principally engaged in the manufacturing and trading of automobile parts and components in the PRC. As at 30 June 2007, Zhejiang Fulin Guorun's total assets amounted to approximately RMB95 million.

The table below sets out the audited results of Zhejiang Fulin Guorun in accordance with the HKFRS for the two years ended 31 December 2006 and the six months ended 30 June 2007.

	Year ended 31 December		**Six months ended 30 June**
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before taxation	9,663	12,599	5,954
Profit/(loss) after taxation	9,663	11,014	5,238
Net asset value	19,338	40,352	45,590

Upon completion of the Zhejiang Fulin Guorun Transfer, Zhejiang Fulin Guorun will be wholly-owned by Centurion and accounted for as an indirect wholly-owned subsidiary of the Company.

INFORMATION ON GEELY HOLDING

Geely Holding and its subsidiaries are principally engaged in sales of CBUs and automobile parts and components wholesale and retail businesses.

INFORMATION ON BEIJING GEELY UNIVERSITY AND ZHEJIANG ECONOMIC MANAGEMENT COLLEGE

Beijing Geely University and Zhejiang Economic Management College are principally engaged in the provision of education related services.

REASONS FOR THE RESTRUCTURING

The Group is principally engaged in the manufacture and trading of automobile parts and related automobiles in the PRC. As noted in the Company's annual report for the year ended 31 December 2006, the Group's short and medium term target will continue to seek for ways and opportunities to further rationalize its structure to transform itself into a company focusing on manufacturing and sales of automobiles and automobile parts and to streamline its corporate structure, aiming at further improving its operating efficiency and enhancing the transparency of the Group. Upon Completion, Zhejiang JV, Shanghai Maple JV, Zhejiang Kingkong JV, Zhejiang Ruhoo JV and Hunan Geely JV will be accounted for as subsidiaries of the Enlarged Group and their results will be consolidated into the Enlarged Group's financial statements. The Directors believe that the increase in the Group's shareholdings in the Associated Companies and Zhejiang Fulin Guorun will broaden the revenue base of the Enlarged Group. With the significant investment and effort spent by the Associated Companies in product development and capacity expansion over the past few years, the improved production facilities and the more comprehensive product lines and the fast developing vehicle market in the PRC, the Directors believe that the Group's profitability and thus its shareholders' return should continue to improve in the coming years. The Directors consider that the terms of the Associated Companies' Agreements and the Zhejiang Fulin Guorun Equity Transfer Agreement, all of which have been negotiated on an arm's length basis and on normal commercial terms, are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. Accordingly, the Directors consider that the entering into of the Associated Companies' Agreements and the Zhejiang Fulin Guorun Equity Transfer Agreement are in the interests of the Company and the Shareholders as a whole.

Following Completion, the Enlarged Group will have only one remaining associated company formed with Geely Holding Group, Lanzhou Geely JV. As at the Latest Practicable Date, Lanzhou Geely JV has not been established as the relevant PRC government authority responsible for the examination and approval of sino-foreign equity joint venture enterprises is still processing its approvals for the Lanzhou Geely JV Agreement. It is in the Company's intention to further acquire 44.19% interest in the registered capital of Lanzhou Geely JV from Zhejiang Geely Merrie once approvals for the Lanzhou Geely JV Agreement have been issued by the relevant PRC government authority. Further announcements will be made by the Company in this regard.

FINANCIAL EFFECTS OF THE RESTRUCTURING

Upon Completion, the Enlarged Group will be interested in 91% in each of the Associated Companies and 100% in Zhejiang Fulin Guorun. Each of the Associated Companies will become an indirect 91%-owned subsidiary of the Company and Zhejiang Fulin Guorun will become an indirect wholly-owned subsidiary of the Company. The results of the Associated Companies will be consolidated in the consolidated financial statements of the Enlarged Group. Detailed financial effects of the Restructuring on the earnings and assets and liabilities to the Enlarged Group are illustrated in the section headed "Appendix X – Pro Forma Financial Information" of this circular.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

Services Agreement

i) Sales of CKDs and Sedan Tool Kits from the Enlarged Group to the Geely Holding Group and Sales of CBUs from the Geely Holding Group to the Enlarged Group:

The Geely Holding Group performs final assembly on the CKDs and the Sedan Tool Kits and facilitates payment of the PRC consumption tax. After performing final assembly, the Geely Holding Group sells the CBUs back to the Enlarged Group's sales companies for distribution to end customers. The Directors consider that as the Enlarged Group is not in possession of the automobile catalogue issued by the National Development Reform Commission (NDRC) in the PRC, which is required to facilitate payment of the PRC consumption tax, the above continuing connected transactions contemplated under the Services Agreement will ensure smooth operation of the Enlarged Group as certain subsidiaries of the Geely Holding Group hold the relevant approved automobile products catalogue, which is required to facilitate payment of the PRC consumption tax.

ii) Sales of automobile parts and components from the Geely Holding Group to the Enlarged Group:

The Directors consider that the above continuing connected transactions contemplated under the Services Agreement are beneficially to the Enlarged Group as the Geely Holding Group has long-term relationship with suppliers of these automobile parts and components. Procurement of the automobile parts and components through the Geely Holding Group would enable a stable source of raw materials at a competitive cost to the Enlarged Group.

iii) Provision of process manufacturing services from the Geely Holding Group to the Enlarged Group:

Certain imported molding equipment are required for the manufacturing of sedans by the Enlarged Group. Only certain subsidiaries of the Geely Holding Group have the right to import these molding equipment required by the Enlarged Group, the Directors consider that the above continuing connected transactions contemplated under the Services Agreement are beneficial to the Enlarged Group.

The Directors consider that the Services Agreement has been arrived at after an arm's length negotiation between the parties to the Services Agreement, on normal commercial terms and are in the ordinary and usual course of business of the Enlarged Group. The Directors are of the view that terms of the Services Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang)

The Directors consider that the continuing connected transactions contemplated under the Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang) would provide relevant on-the-job training to the students of Beijing Geely University and Zhejiang Economic Management College and enhance the quality of education and recognitions of Beijing Geely University and Zhejiang Economic Management College, which will be beneficial to the Enlarged Group as the Enlarged Group will recruit some of the best students from these education institutes as its employees. Also, the Directors consider that the aforesaid transactions can provide an additional source of stable recurring income to the Enlarged Group.

The Directors consider that the Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang) are based on normal commercial terms or no less favorable terms than those offered by independent third parties. The Directors are of the view that terms of the Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang), including their relevant annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Loan Guarantee Agreement and the Guarantees

In view of the long-term good relationship with certain PRC banks, the Geely Holding Group is in a better position to obtain relatively larger loans on behalf of the Associated Companies at cheaper finance costs for sedan manufacturing and research and development activity relating to the Enlarged Group. Given that the Geely Holding Group (i) guarantees that the loans will only be utilized for sedan manufacturing and research and development activity relating to the Enlarged Group; (ii) would obtain consent from the Enlarged Group prior to drawdown of the loans; and (iii) the Associated Companies are the ultimate borrowers of the loans for the manufacture and research and development of sedans, the Directors consider that the Guarantees and the continuing connected transactions contemplated under the Loan Guarantee Agreement will enhance the Enlarged Group's future development. Furthermore, as the Geely Holding Group agrees to provide counter indemnities on those Guarantees, the Directors are of the view that the terms of the Guarantees and the Loan Guarantee Agreement, including its annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Lease Agreement

The Directors consider that the continuing connected transactions contemplated under the Lease Agreement are beneficial to the Enlarged Group as it can provide an additional source of stable recurring income from its surplus lands and buildings. The Directors also consider that the Lease Agreement has been arrived at after an arm's length negotiation between the parties to the Lease Agreement, on normal commercial terms or rental charge for adjacent lands and buildings in the local property market. The Directors are of the view that terms of the Lease Agreement, including its annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE INTENTIONS OF PROPER GLORY

As advised by the Directors, following Completion, there will be no change in the control or management of the Group and the core business of the Group will be continued. Moreover, Proper Glory does not intend to make any significant and immediate changes to the business, management and staff employment of the Group or any significant redeployment of the fixed assets of the Group, save for those which are in the ordinary and usual course of business of the Group. The Enlarged Group will continue to devote to the implementation of overall development strategy so as to transform itself into a company focusing on manufacturing and sales of automobiles and automobile parts and to streamline its corporate structure, aiming at further improving its operating efficiency and enhancing the transparency of the Enlarged Group.

IMPLICATIONS OF THE TAKEOVERS CODE AND WHITEWASH WAIVER

As at the Latest Practicable Date, Proper Glory and its concert parties owns in aggregate approximately 48.07% of the existing issued ordinary share capital of the Company. Upon Completion but before conversion of the Convertible Bonds and exercise of the Share Options, Proper Glory and its concert parties shall be interested in 3,788,759,000 Shares, representing approximately 58.38% of the issued ordinary share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares. As such, Proper Glory will, upon Completion, be required to make a mandatory general offer for all the issued shares of the Company not already owned or agreed to be acquired by Proper Glory and parties acting in concert with it under Rule 26.1 of the Takeovers Code unless, a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive and approved by the Independent Shareholders at the EGM.

Proper Glory, which is wholly-owned by Geely Group, has made an application to the Executive for the Whitewash Waiver. The Executive has indicated he/she will grant the Whitewash Waiver subject to the approval of the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is granted by the Executive, Proper Glory and parties acting in concert with it would not be required to make a mandatory general offer which would otherwise be required as a result of the allotment and issue of the Aggregate Consideration Shares pursuant to the Associated Companies' Agreements. Proper Glory, its associates and its concert parties who are involved in, or interested in, the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver are required to abstain from voting under the Takeovers Code. **If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders at the EGM, the Agreements will lapse and the Restructuring will not proceed.**

The aggregate shareholding of Proper Glory and parties acting in concert with it after Completion will exceed 50% of the issued share capital of the Company as enlarged by the Aggregate Consideration Shares to be issued pursuant to the Associated Companies' Agreements. Accordingly, if the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders at the EGM, any additional acquisition of Shares by the Proper Glory and parties acting in concert with it will not incur any further obligation under Rule 26 of the Takeovers Code to make a mandatory general offer.

Proper Glory subscribed for 600 million Shares at HK$1.06 per Share (the "Subscription") through a top-up placement as announced by the Company on 15 February 2007. Negotiations for the Subscription commenced in early February 2007. The Directors confirmed that the negotiations in relation to the Agreements commenced after completion of the top-up placement. An application has been made to the Executive and the Executive has confirmed that the Subscription does not constitute a disqualifying transaction. Notwithstanding the Subscription, neither Proper Glory nor persons acting in concert with it have acquired any voting rights or dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivatives in respect of securities in the Company during the six months immediately prior to the date of release of Restructuring Announcement.

INCREASE IN AUTHORIZED CAPITAL

The Company proposes to increase its authorized share capital from HK$160,000,000 to HK$240,000,000 by the creation of an additional 4,000,000,000 Shares of HK$0.02 each. The Directors have no present intention of issuing any part of the increased authorized share capital pursuant to Rule 13.57 of the Listing Rules.

FUND RAISING IN THE TWELVE MONTHS IMMEDIATELY PRECEDING THE LATEST PRACTICABLE DATE

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the Latest Practicable Date:

Net proceeds of approximately HK$609 million was raised by top-up placing of 600 million Shares as referred to in the announcement of the Company dated 15 February 2007. Such amounts were applied by the Company as to approximately HK$418.58 million to fund the capital contribution of the Shanghai Geely Maple Automobile Components Company Limited with the remaining balance as general working capital of the Group.

INDEPENDENT BOARD COMMITTEE/INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the terms of the Agreements, the Guarantees, the Whitewash Waiver, the terms of the Other Project Documents and the annual caps in relation to the continuing connected transaction contemplated under the Other Project Documents. As Mr. Xu Gang was re-designated from an executive Director to a non-executive Director with effect from 1 September 2007, the Board considered it is not appropriate to appoint Mr. Xu Gang as a member of the Independent Board Committee to advise the Independent Shareholders in respect of the Restructuring and the Whitewash Waiver. Quam Capital is independent of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connecting transactions contemplated under the Other Project Documents and the Whitewash Waiver. With the approval of the Independent Board Committee, Quam Capital has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements, the Other Project Documents (including portion of the Guarantees), the annual caps in relation to the continuing connecting transactions contemplated under the Other Project Documents and the Whitewash Waiver

EGM

The Company will convene the EGM at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Thursday, 22 November 2007, at 10:00 a.m. at which ordinary and special resolutions will be proposed for the purpose of considering and, if thought fit, approving the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transaction contemplated under the Other Project Documents, the increase in authorized share capital of the Company and the Whitewash Waiver. Proper Glory and Geely Group (both wholly-owned by Mr. Li, and holding in aggregate, 48.07% in the issued share capital of the Company), their respective associates and parties acting in concert will abstain from voting for the resolutions to approve the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Wavier to be put forward at the EGM. The voting on the resolutions in respect of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transaction contemplated under the Other Project Documents and the Whitewash Waiver will be conducted by way of poll in accordance with the requirements of the Listing Rules and the Takeovers Code (in relation to the Whitewash Waiver), as appropriate. As at the Latest Practicable Date, Mr. Ang Siu Lun, Lawrence, an executive Director holding 2,270,000 Shares, representing approximately 0.04% in the issued share capital of the Company, has no intention to vote against the resolutions to be proposed at the EGM.

A form or proxy for use at the EGM is enclosed with this circular. 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 Rooms 1901-02, 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 in respect of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver, set out on page 48 of this circular. 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 49 to 103 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)

31 October 2007

To the Independent Shareholders

Dear Sir or Madam,

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF INTERESTS IN THE REGISTERED CAPITAL OF THE ASSOCIATED COMPANIES AND ZHEJIANG FULIN GUORUN; (II) MAJOR AND CONNECTED TRANSACTION; (III) CONTINUING CONNECTED TRANSACTIONS; (IV) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL; AND (V) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 31 October 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 Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver, details of which are set out in the letter from the Board in the Circular.

Having taken into account the advice of Quam Capital, the independent financial adviser, we consider that the entering into of the Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and the terms of the Agreements, the Guarantees, the Other Project Documents, their respective annual caps and the Whitewash Waiver 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 Agreements, the Guarantees, the Other Project Documents, the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents and the Whitewash Waiver.

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 Agreements, the Whitewash Waiver, the Other Project Documents (including the provision of the Guarantees) and the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents.

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

31 October 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,

(I) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS RELATING TO THE PROPOSED ACQUISITION OF INTERESTS IN THE REGISTERED CAPITAL OF THE ASSOCIATED COMPANIES AND ZHEJIANG FULIN GUORUN; (II) APPLICATION FOR WHITEWASH WAIVER; (III) MAJOR AND CONNECTED TRANSACTION; AND (IV) 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 Agreements, the Whitewash Waiver, the Other Project Documents (including the provision of the Guarantees) and the annual caps in relation to the continuing connected transactions contemplated under the Other Project Documents (the "**Annual Caps**"). Details of the terms of the Agreements, the Whitewash Waiver and the terms of the Other Project Documents are set out in the "Letter from the Board" contained in the circular issued by the Company to the Shareholders dated 31 October 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.

The Company currently owns 46.81% equity interest in each of the Associated Companies and 51% equity interest in Zhejiang Fulin Guorun. On 13 July 2007, the Group entered into the Associated Companies' Agreements with Zhejiang Geely Merrie, Shanghai Maple Automobile and Zhejiang Haoqing (collectively, the "**Transfers Vendors**") respectively for the acquisition of a 44.19% equity interest in each of the Associated Companies for an aggregate consideration of RMB1,554.12 million (equivalent to about HK$1,610.84 million) (the "**Transfers Consideration**"). On the same date, the Group also entered into the Zhejiang Fulin Guorun Equity Transfer Agreement with Zhejiang Fulin Automobile for the acquisition of the remaining 49% equity interest in Zhejiang Fulin Guorun for a consideration of RMB22.48 million (equivalent to about HK$23.30 million) (the "**Zhejiang Fulin Guorun Transfer Consideration**"). Pursuant to the Agreements, the Transfers Consideration will be satisfied entirely by the allotment and issue of the 1,288,672,000 Aggregate Consideration Shares; while the Group will fully finance the Zhejiang Fulin Guorun Transfer Consideration in cash.

Each of the Transfers Vendors and Zhejiang Fulin Automobile is a connected person of the Company under the Listing Rules by virtue of the fact that the Transfers Vendors are beneficially owned by Mr. Li and his associates and Zhejiang Fulin Automobile is a substantial shareholder of Zhejiang Fulin Guorun. The Agreements constitute very substantial acquisitions and connected transactions for the Company under Chapters 14 and 14A of the Listing Rules and are subject to Independent Shareholders' approval by poll at the EGM. The Agreements are also conditional on, among other things, the grant of the Whitewash Waiver, which under the provisions of the Takeovers Code also requires approval by the Independent Shareholders by way of poll, by the Executive to Proper Glory and parties acting in concert with it. If the Whitewash Waiver is not approved by the Independent Shareholders and/or granted by the Executive, the Agreements will lapse and the Restructuring will not proceed.

On 17 September 2007, the Company entered into the Other Project Documents with Geely Holding, Beijing Geely University and Zhejiang Economic Management College respectively, with an aim to implement and facilitate the manufacturing operations and business expansion of the Enlarged Group. The transactions contemplated under the Other Project Documents (the "**Continuing Connected Transactions**") will, upon Completion, constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, the provision of the Guarantees contemplated under the Loan Guarantee Agreement constitutes a major and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules. All the Continuing Connected Transactions are subject to the approval of the Independent Shareholders at the EGM by way of poll.

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 Agreements, the Guarantees and the Other Project Documents 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 Whitewash Waiver and 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 Agreements, the Whitewash Waiver, the Guarantees, the Other Project Documents and the adoption of the Annual Caps. It is stated in the "Letter from the Board" of the Circular that as Mr. Xu Gang was re-designated from an executive Director to a non-executive Director with effect from 1 September 2007, the Board considered it is not appropriate to appoint Mr. Xu Gang as a member of the Independent Board Committee to advise the Independent Shareholders in respect of the Restructuring and the Whitewash Waiver. 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 Agreements, the Whitewash Waiver, the Other Project Documents and the Annual Caps.

In formulating our recommendation, we have relied on the information and facts supplied by the Company and its advisers, and the opinions expressed by and the representations of the Directors and management of the Group. 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 until the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Group and 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 or any of its subsidiaries or associates.

A. THE AGREEMENTS

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background to and reasons for entering into the Agreements

(a) The historical performance of the Group and its reliance on the Associated Companies and Zhejiang Fulin Guorun

We have been advised that the Group primarily conducts its existing automobile business in the PRC through the Associated Companies and Zhejiang Fulin Guorun, being its main operating subsidiary, while working alongside other members of the Geely Holding Group, which are principally engaged in the sales of CBUs and automobile parts and components wholesale and retail businesses.

The Associated Companies are principally engaged in the research and development, production, marketing and sales of sedans and related components as well as the provision of related after-sales services in the PRC, with production facilities located in Ningbo, Shanghai, Linhai and Luqiao, the PRC; while the principal activities of Zhejiang Fulin Guorun are the manufacture and trading of automobile parts and components in the PRC.

We noted that the Group has implemented a series of expansion plans, including, but not limited to, establishment of joint ventures (including the Associated Companies), to capture the potential growth opportunities for its business in the PRC automobile industry and to tap into the increasing demand for its sedans in recent years. As a result of these efforts, the Group has established a strong market presence in both the coastal and inner cities of the PRC, and achieved geographical coverage of over 40 other countries and regions (mostly located in Middle East, Africa and Central America), with the establishments of 26 sales agents and 128 sales and maintenance spots by the Associated Companies in the overseas markets by the end of 2006. More significantly, the Group has achieved a compound growth rate of about 55.4% per annum for its audited profit after taxation for the four financial years since 2002.

Set out below is a summary of the financial results of the Group for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 as extracted from Appendix I to the Circular:

Table 1

	(Audited) Year ended 31 December		**(Unaudited) Six months ended 30 June**
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	101,411	127,006	65,638
Share of results of associates	122,691	243,230	129,615
Profit attributable to the equity holders of the Company	110,827	208,752	82,416
Net asset value	798,080	1,030,157	2,027,277

As illustrated in Table 1 above, the Company's profit attributable to the equity holders of the Company for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 of about HK$110.8 million, HK$208.8 million and HK$82.4 million respectively was mainly derived from the share of results of associates, in particular the Zhejiang JV and the Shanghai Maple JV as advised by the Company. It should be noted that if the share of results of associates is excluded, the Company would have incurred losses for the aforesaid financial periods. Furthermore, the Directors have confirmed to us that the Group's operating cash inflow for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 was mainly dependent upon the respective dividend payments from the Zhejiang JV and the Shanghai Maple JV. A summary of the respective audited financial information of the Associated Companies and the Zhejiang Fulin Guorun for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 or the period from 20 April 2007 to 31 July 2007 (as the case may be) are set out in sub-section (b) below.

We have discussed with the Company's management regarding the factors contributing to the Group's performance in business developments and expansions as well as the financial results and position as discussed above. We are advised that one of the key factors was the significant investment and effort spent by the Associated Companies (particularly the Zhejiang JV and the Shanghai Maple JV) and Zhejiang Fulin Guorun in product development and production capacity expansion over the past few years in order to accommodate the increasing demand for sedans in the PRC.

(b) Reasons for and benefits of the Restructuring

As disclosed in the Company's annual report for the year ended 31 December 2006 (the "**Annual Report**"), it is a stated objective of the Group in the short to medium term to continue to seek for ways and opportunities to further rationalise its structure, with an aim to further improve its operating efficiency and enhance its transparency. It is also stated that the Group will continue to (i) focus on the operation and expansion of its automobile business; (ii) expand its revenue base; and (iii) further reduce costs, thereby to enhance returns to the Shareholders.

It is also disclosed in the interim report of the Company for the six months ended 30 June 2007 (the "**Interim Report**") that the stated business strategy of the Associated Companies is to continue to expand their product line towards higher priced and higher margin models, with an aim to further enhance their profitability and to alleviate the impact of fluctuation in raw material prices and price competition among sedan manufacturers in the PRC.

The Restructuring involves the acquisitions of a further 44.19% stake in each of the Associated Companies and the remaining 49% stake in Zhejiang Fulin Guorun. Upon Completion, each of the Associated Companies will be indirectly owned as to 91% by the Company; whereas Zhejiang Fulin Guorun will become an indirect wholly-owned subsidiary of the Company. The Directors have confirmed to us that the Company currently has no intention to introduce any changes to the Associated Companies' existing business as discussed in sub-section (a) above upon completion of the Restructuring.

Set out below is a summary of the audited financial information of the Associated Companies and Zhejiang Fulin Guorun for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 or the period from 20 April 2007 to 31 July 2007 (as the case may be) prepared in accordance with the Hong Kong Financial Reporting Standards as extracted from Appendices II to VII to the Circular:

Table 2

	Profit/(loss) after taxation *RMB'000*	**Net asset value** *RMB'000*
Associated Companies		
– Zhejiang JV	2005: 204,604 (equivalent to about HK$212.1 million)	2005: 1,199,057 (equivalent to about HK$1,242.8 million)
	2006: 486,543 (equivalent to about HK$504.3 million)	2006: 2,333,052 (equivalent to about HK$2,418.2 million)
	2007*: 112,135 (equivalent to about HK$116.2 million)	2007: 2,110,432 (equivalent to about HK$2,187.5 million)
– Shanghai Maple JV	2005: 67,408 (equivalent to about HK$69.9 million)	2005: 545,610 (equivalent to about HK$565.5 million)
	2006: 36,151 (equivalent to about HK$37.5 million)	2006: 842,789 (equivalent to about HK$873.6 million)
	2007*: 2,366 (equivalent to about HK$2.5 million)	2007: 799,988 (equivalent to about HK$829.2 million)
– Zhejiang Kingkong JV *(Note)*	2005:– (equivalent to about HK$nil million)	2005:– (equivalent to about HK$nil million)
	2006:– (equivalent to about HK$nil million)	2006: 235,000 (equivalent to about HK$243.6 million)
	2007*: 118,178 (equivalent to about HK$122.5 million)	2007: 353,178 (equivalent to about HK$366.1 million)

	Profit/(loss) after taxation *RMB'000*	Net asset value *RMB'000*
– Zhejiang Ruhoo JV *(Note)*	2005:– (equivalent to about HK$nil million)	2005:– (equivalent to about HK$nil million)
	2006: (234) (equivalent to about HK$0.2 million)	2006: 151,443 (equivalent to about HK$157.0 million)
	2007*: 40,589 (equivalent to about HK$42.1 million)	2007: 202,070 (equivalent to about HK$209.4 million)
– Hunan Geely JV *(Note)*	2005:– (equivalent to about HK$nil million)	2005:– (equivalent to about HK$nil million)
	2006:– (equivalent to about HK$nil million)	2006:– (equivalent to about HK$nil million)
	2007**: (44) (equivalent to about HK$0.05 million)	2007: 39,426 (equivalent to about HK$40.9 million)
Zhejiang Fulin Guorun	2005: 9,663 (equivalent to about HK$10.0 million)	2005: 19,338 (equivalent to about HK$20.0 million)
	2006: 11,014 (equivalent to about HK$11.4 million)	2006: 40,352 (equivalent to about HK$41.8 million)
	2007*: 5,238 (equivalent to about HK$5.4 million)	2007: 45,590 (equivalent to about HK$47.3 million)

* *For the six months ended 30 June 2007 only.*

** *For the period from 20 April 2007 (being the date of incorporation of the Hunan Geely JV) to 31 July 2007 only.*

Note: Both the Zhejiang Kingkong JV and the Zhejiang Ruhoo JV were established on 21 December 2006 and their production was only commenced in January 2007; while the Hunan Geely JV was only established on 20 April 2007 and its production operation is expected to commence in December 2007.

As illustrated in Table 2 above, the Zhejiang JV and Zhejiang Fulin Guorun have achieved an increase of about 137.8% and 14.0% respectively of their respective audited profit after taxation for the year ended 31 December 2006; while the Shanghai Maple JV has recorded a decrease of about 46.4% for the relevant year. Based on our discussion with the Directors regarding the respective financial results of the Zhejiang JV, Zhejiang Fulin Guorun and the Shanghai Maple JV for 2006, it is our understanding that the growth in the respective businesses of the Zhejiang JV and Zhejiang Fulin Guorun was primarily attributable to the strong demand for new higher priced sedan models launched in 2005 and 2006 and more stable raw material costs. As stated in the Annual Report, the relatively slower growth in the earnings of Zhejiang Fulin Guorun was mainly due to higher expenses incurred as a result of the relocation of plant in 2007 and higher tax expenses following the expiry of income tax incentives in 2006, and the earnings growth is expected to expedite in 2007 given the expected launch of a new generation of electric power steering and braking system of “Geely Kingkong” and “Vision” series sedans. We are also advised that the poor result of the Shanghai Maple JV for the year ended 31 December 2006 was mainly due to the reduction in the selling prices of its sedans in view of the then prevailing market condition.

We noted that all the Zhejiang JV, the Shanghai Maple JV and Zhejiang Fulin Guorun were able to remain profitable in the first half of 2007, with a reported profit after taxation of about RMB112.1 million, RMB2.4 million and RMB5.2 million respectively (equivalent to about HK$116.2 million, HK$2.5 million and HK$5.4 million respectively) for the six months ended 30 June 2007. We are advised that the decrease in the profit after taxation of the Zhejiang JV of about RMB169.4 million (equivalent to about HK$175.6 million) for the six months ended 30 June 2007 as compared to that for the respective period in 2006 was mainly due to the transfer of part of its business activities to the Zhejiang Kingkong JV and the Zhejiang Ruhoo JV in January 2007 in view of the tax benefits to be enjoyed by the Zhejiang Kingkong JV and the Zhejiang Ruhoo JV. We also noted that since the commencement of their operations in January 2007, the Zhejiang Kingkong JV and the Zhejiang Ruhoo JV generated an aggregate profit after taxation of about RMB158.8 million (equivalent to about HK$164.6 million) for the six months ended 30 June 2007. It should be noted that the profitability of the Zhejiang JV, the Zhejiang Kingkong JV and the Zhejiang Ruhoo JV for the six months ended 30 June 2007 as a whole was comparable to that of the Zhejiang JV for the respective period in 2006. We are further advised that the decrease in the profit after taxation of the Shanghai Maple JV of about RMB39.5 million (equivalent to about HK$40.9 million) for the six months ended 30 June 2007 as compared to that for the respective period in 2006 was mainly due to the reduction in the selling prices of its sedans in view of the then prevailing market condition. As stated in Appendix VI to the Circular, no turnover was derived by the Hunan Geely JV since its incorporation on 20 April 2007 as it has not yet commenced its operations, and hence its loss after taxation of about RMB44,000 (equivalent to about HK$0.05 million) for the period from 20 April 2007 to 31 July 2007 was arisen from the preliminary expenses incurred in the course of its formation.

It is noted that based on the Company's 46.81% interests in each of the Associated Companies, the Company's share of results of such associates in aggregate for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 amounted to about RMB127.3 million, RMB244.7 million and RMB127.9 million respectively (equivalent to about HK$132.0 million, HK$253.6 million and HK$132.6 million respectively), representing about 119.1%, 121.5% and 160.9% of the profit attributable to the equity holders of the Company for the relevant periods respectively. It is also noted that the profit after taxation of Zhejiang Fulin Guorun accounted for about 9.0%, 5.5% and 6.6% of the profit attributable to the equity holders of the Company for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 respectively. As advised by the Directors, given the Group's track record, existing business and revenue model as discussed in sub-section (a) above, it is expected that the Group's future overall business development and earning capability will continue to be significantly dependent upon the performance of the Associated Companies and Zhejiang Fulin Guorun.

In view of the respective track record of the Associated Companies and Zhejiang Fulin Guorun and the fact that the Restructuring allows the Company to further consolidate its control on the Associated Companies and Zhejiang Fulin Guorun, we concur with the view of the Directors that the Restructuring can enable the Group to broaden its revenue base and improve its profitability, which in turn would improve the Shareholders' return. This conforms to the Group's stated business objectives and strategy as discussed above.

(c) Outlook of the PRC automobile industry

(i) Overview of the PRC automobile market

According to the statistical report released in July 2007 by the China Automotive Information Net (中國汽車工業信息網), a statistics bureau for the PRC automobile industry managed by the PRC government, the total sales volume of sedans manufactured in the PRC reached about 4.26 million units in 2006, representing a year-on-year increase of about 33.4% for 2005 to 2006, surpassing most market expectations, and is expected to continue to increase during the period between 2007 and 2009, with annual growth rates ranging from about 18.5% to 22.0%.

In addition, the total sales volume of sedans in the PRC brands reached about 1.13 million units in 2006, representing a year-on-year increase of about 40.4% for 2005 to 2006 and an average annual growth rate of about 45.0% from 2001 to 2006; while the actual sales volume of sedans in the PRC brands in the first half of 2007 accounted for almost 70% of that for the full year of 2006. According to the forecast of the PRC Passenger Car Forum (全國乘用車市場訊息聯合會), a non-governmental statistics bureau for the PRC automobile industry recognised by the PRC government, the sales volume of sedans in the PRC brands is expected to grow by about 25.7% in 2007 as compared to that for 2006.

One of the major tasks of the PRC government relating to the PRC automobile industry outlined under The Eleventh Five-Year Plan for National Economic and Social Development of the PRC (the "**Eleventh Five-Year Plan**") for the period from 2006 to 2010 is to develop the local brand models, with an aim to capture about 50% market share for the local brand models by the end of 2010. We are advised by the Directors that the Group is the second largest automobile manufacturer of local branded sedans in the PRC with about 4.8% market share in 2006.

(ii) Principal growth factors driving the PRC automobile industry

- Rapid growth in the automobile export sales market

  According to the statistical report released in July 2007 by the China Automotive Information Net (中國汽車工業信息網), the export sales volume of sedans is expected to increase from about 10,000 units in 2004 to about 750,000 in 2009, representing an average annual growth rate of about 137.1%. It is stipulated under the Eleventh Five-Year Plan that the PRC government targets to achieve 1,000,000 export sales volume of sedans by 2010. The potential growth in the export sales market as a result of the aforesaid PRC government's development strategy and the increasing demand for automobiles by the developing countries mainly in the Asia Pacific and Middle East offers potential growth opportunities for the overall PRC automobile industry.

- Strong growth in the PRC's gross domestic product

  According to the statistics released by the National Bureau of Statistics of China, the gross domestic product (the "**GDP**") for 2006 increased by around 11.5% as compared to the previous year. Under the Eleventh Five-Year Plan, the PRC government expects the annual growth rate of the GDP for each of the three years ending 31 December 2009 to be ranged from about 10.5% to 11.3%. As the automobile industry is highly correlated to the national economic development, this will help enhance the future development of the PRC automobile industry.

(d) Conclusion

In light of the foregoing and in particular after taking into account the following:

- that the respective principal activities of the Associated Companies and Zhejiang Fulin Guorun set out in sub-section (a) above are in line with the Group's core business of manufacturing and trading of automobile parts and related automobiles in the PRC; and

- the Restructuring would help facilitate the implementation of the Group's overall business strategy as discussed in sub-section (b) above,

we are of the view that the entering into of the Agreements by the Group is conducted in its ordinary and usual course of business; and in the interests of both the Company and the Shareholders as a whole in that respect.

2. Consideration payable by the Group

(a) The Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration and their basis of determination

The considerations for the Zhejiang JV Transfer, the Shanghai Maple JV Transfer, the Zhejiang Kingkong JV Transfer, the Zhejiang Ruhoo JV Transfer, the Hunan Geely JV Transfer and the Zhejiang Fulin Guorun Transfer payable by the Group to the respective Transfers Vendors and Zhejiang Fulin Automobile are RMB936.33 million, RMB354.53 million, RMB155.84 million, RMB90.21 million, RMB17.21 million and RMB22.48 million respectively (equivalent to about HK$970.51 million, HK$367.47 million, HK$161.52 million, HK$93.50 million, HK$17.84 million and HK$23.30 million respectively).

It is noted that the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration were determined after arm's length negotiations between the relevant parties involved and on normal commercial terms with reference to the 44.19% (for the Transfers) or 49% (for the Zhejiang Fulin Guorun Transfer) attributable interest of the unaudited net asset value of the relevant Associated Companies or Zhejiang Fulin Guorun (as the case may be) as at 30 June 2007.

We have reviewed the respective audited and unaudited financial statements of the Associated Companies and Zhejiang Fulin Guorun as at 30 June 2007, and noted that each of the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration represents a price to net asset value ("**P/NAV**") ratio of about 1 time the 44.19% (for the Transfers) or 49% (for the Zhejiang Fulin Guorun Transfer) attributable interest of the audited/unaudited net asset value of the relevant Associated Companies or Zhejiang Fulin Guorun (as the case may be) as at 30 June 2007.

(b) Comparable analysis

(i) Comparison with other Hong Kong listed companies

In order to assess the fairness and reasonableness of the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration, we have attempted to compare them with the P/NAV ratios of other Hong Kong listed companies (excluding those with the issue of A shares) with principal activities and net asset values similar to those of the Associated Companies and Zhejiang Fulin Guorun. However, we are unable to identify any comparable companies based on the aforementioned two criteria. As an alternative, based on the information available on the website of the Stock Exchange, we have identified and made references to, so far as we are aware, all companies listed on the Stock Exchange (excluding those with the issue of A shares) as at the Latest Practicable Date which are principally engaged in the manufacturing and trading of automobile and/or automobile parts (the "**Comparable Companies**"), this is in line with the principal businesses of the Associated Companies and Zhejiang Fulin Guorun. It should however be noted that given the latest published net asset values of the Comparable Companies, the Comparable Companies, in terms of size, may not be comparable to the Associated Companies and Zhejiang Fulin Guorun, and hence the result of our comparison below should not be used in isolation as a determining factor in deciding whether or not the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration are fair and reasonable. Your attention is also drawn to section (2)(b)(ii) below for details of the comparison with other similar transactions of acquisition of automobile related business undertaken by companies listed on the Stock Exchange.

We have reviewed the respective P/NAV ratios of the Comparable Companies and made a comparison on this basis with the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration in our analysis as detailed in Table 3 below. As a supplemental reference, we have also considered the respective price to earnings ("**P/E**") ratios of the Comparable Companies in relation to the Zhejiang JV Transfer, the Shanghai Maple JV Transfer and the Zhejiang Fulin Guorun Transfer, given the respective track record of the Zhejiang JV, the Shanghai Maple JV and the Zhejiang Fulin Guorun as discussed in sub-section (1)(b) above.

Table 3

Comparable Companies (Stock code)	**Principal activities**	**Current Market Cap** *(Note 1)* *(HK$ million)*	**P/NAV** *(Notes 2 and 3)* *(times)*	**P/E** *(Notes 2 and 4)* *(times)*
Brilliance China Automotive Holdings Limited (Stock code: 1114)	Manufacture and sale of minibuses and automotive components	7,413	1.24	N/A *(Note 5)*
Denway Motors Limited (Stock code: 203)	Manufacture, assembly, trading and servicing of motor vehicles and manufacture and trading of motor vehicle related electrical equipment and parts in the PRC, and manufacture and trading of audio equipment in Hong Kong.	39,624	3.53	17.52
Minth Group Limited (Stock code: 425)	Design, manufacture and sale of automotive parts	10,137	7.50	36.40
New Focus Auto Tech Holdings Limited (Stock code: 360)	Manufacture and sale of automotive parts	797	3.08	54.10
Norstar Founders Group Limited (Stock code: 2339)	Manufacture and sale of automotive parts	3,325	1.08	7.94
Xingda International Holdings Limited (Stock code: 1899)	Manufacture and sale of automotive parts	3,055	1.55	15.17

Comparable Companies (Stock code)	Principal activities	Current Market Cap *(Note 1)* *(HK$ million)*	P/NAV *(Notes 2 and 3)* *(times)*	P/E *(Notes 2 and 4)* *(times)*
Xinyi Glass Holdings Limited (Stock code: 868)	Manufacture and sale of automobile, construction and household glass products and a variety of related products	15,260	6.29	39.31
Average			**3.47**	**28.41**
Maximum			**7.50**	**54.10**
Minimum			**1.08**	**7.94**
The Company		**4,785**	**2.36**	**22.89**
Zhejiang JV			**1.00**	**4.51**
Shanghai Maple JV			**1.00**	**23.06**
Zhejiang Kingkong JV			**1.00**	**N/A** *(Note 6)*
Zhejiang Ruhoo JV			**1.00**	**N/A** *(Note 6)*
Hunan Geely JV			**1.00**	**N/A** *(Note 6)*
Zhejiang Fulin Guorun			**1.00**	**4.32**

Sources: *The respective latest published annual and/or interim reports of the Company and the Comparable Companies and the website of the Stock Exchange (http://www.hkex.com.hk)*

Notes:

1. The market capitalisation (the "**Market Cap**") of each of the Comparable Companies is calculated by multiplying the total number of issued shares outstanding with the closing share price as quoted on the Stock Exchange as at the Latest Practicable Date.

2. The valuation multiples have been computed on a historical basis, using financial data obtained from the respective latest published annual and interim reports of the Company and the Comparable Companies, as appropriate.

3. The P/NAV ratio of each of the Company and the Comparable Companies is calculated as the Market Cap divided by their respective net asset value based on their respective latest published annual and interim reports.

4. The P/E ratio of each of the Company and the Comparable Companies is calculated as the Market Cap divided by their respective audited profit attributable to the equity holders for the latest full financial year based on their respective latest published annual reports.

5. Brilliance China Automobile Holdings Limited recorded a loss for the year ended 31 December 2006, and hence no P/E ratio is available.

6. Neither the Zhejiang Kingkong JV nor the Zhejiang Ruhoo JV had generated any profit during the financial year 2006. The Hunan Geely JV was only established on 20 April 2007.

As noted from Table 3 above, the respective implied P/NAV ratios represented by the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration are (i) below the lower end of the range of present rating of the Comparable Companies; and (ii) lower than the P/NAV ratio of the Company and the average of the P/NAV ratios of the Comparable Companies.

It is also noted that the implied P/E ratios represented by the respective consideration for the Zhejiang JV Transfer, the Shanghai Maple JV Transfer and the Zhejiang Fulin Guorun Transfer are (i) within, or below the lower end of, the range of present rating of the Comparable Companies; and (ii) lower than, or comparable to, the P/E ratio of the Company and lower than the average of the P/E ratios of the Comparable Companies.

(ii) Comparison with other similar transactions

Based on the information available on the website of the Stock Exchange, we have identified and made references to, so far as we are aware, all similar transactions of acquisition of automobile related business undertaken by companies listed on the Stock Exchange for the three years prior to 11 July 2007, the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement (the "**Suspension Day**"), and up to and including the Latest Practicable Date (the "**Comparable Transactions**"). Each of the Comparable Transactions is of similar nature contemplated under the Agreements, and the considerations thereof have been determined based on the same basis of determination adopted for the Transfers and the Zhejiang Fulin Guorun Transfer, which are considered to be appropriate basis for our comparison. We have reviewed the respective P/NAV ratios of the Comparable Transactions for comparison purposes, details of which are set out in the following table:

Table 4

Date of announcement	**Purchaser (Stock code)**	**Target**	**Principal activities of the target group (including subsidiaries/ associates)**	**Interest acquired** *(%)*	**P/NAV** *(Note)* *(times)*
12 February 2007	Minth Group Limited (Stock code: 425)	嘉興敏榮汽車零部件有限公司 (Jiaxing Minrong Automotive Parts Co., Ltd.*),	Manufacture and sale of automobile body parts and comprehensive metal surface treatment of auto parts	30	0.79
12 February 2007	Minth Group Limited (Stock code: 425)	嘉興敏勝汽車零部件有限公司 (Jiaxing EL Triumph Automotive Parts Co., Ltd.*)	Manufacture and sale of automobile body parts and comprehensive metal surface treatment of auto parts	20	0.71
12 September 2006	Minth Group Limited (Stock code: 425)	Chongqing Changtai Automobile Spare Parts Co., Ltd.	Manufacture and sale of exterior automobile body parts	20	1.01
9 June 2006	Xinyi Glass Holdings Limited (Stock code: 868)	Conson Investment Limited	Manufacture and sale of rubber and plastic products for automobile and construction applications	100	1.00

Date of announcement	Purchaser (Stock code)	Target	Principal activities of the target group (including subsidiaries/ associates)	Interest acquired (%)	P/NAV *(Note)* *(times)*
12 May 2006	Weichai Power Co., Ltd. (Stock code: 2338)	Weichai Power (Weifang) Investment Co., Ltd.	Manufacture and sale of heavy duty trucks and vehicle parts	5	1.00
19 October 2004	Brilliance China Automotive Holdings Limited (Stock code: 1114)	Ningbo Yuming Machinery Industrial Co., Ltd.	Manufacture and sale of automotive component parts	49	0.59
Average					**0.85**
Maximum					**1.01**
Minimum					**0.59**

Source: Website of the Stock Exchange (http://www.hkex.com.hk)

* *For identification purpose only*

Note: Based on the consideration of the Comparable Transactions divided by the net asset value (subject to the percentage of interest acquired) of the Target as disclosed in the respective announcement in relation to the Comparable Transactions.

As illustrated in Table 4 above, notwithstanding that each of the implied P/NAV ratios represented by the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration respectively of about 1 time each is higher than the average of the P/NAV ratios of the Comparable Transactions, it is within the range of present rating of the Comparable Transactions.

(iii) Conclusion

In light of the foregoing, we are of the view that the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration, as well as their basis of determination, are fair and reasonable so far as the Independent Shareholders are concerned.

(c) Method of payment

As stated in the "Letter from the Board" of the Circular, the Transfers Consideration will be satisfied entirely by the allotment and issue of the Aggregate Consideration Shares of 1,288,672,000 Shares, which represent about 24.78% of the Company's existing issued share capital and about 19.86% of the Company's issued share capital as enlarged by the issue of the Aggregate Consideration Shares. We are advised that the aforesaid payment method is considered to be favourable to the Group at this juncture of its development given that it enables the Group to implement the Transfers without a large outlay of cash, but involves the issue of a substantial number of new Shares with consequent dilution to the existing public Shareholders, details of which are set out in section (5) below.

It is also noted that the Group will fully finance the Zhejiang Fulin Guorun Transfer Consideration in cash. We are advised that it is the Company's current intention that the Zhejiang Fulin Guorun Transfer Consideration is to be funded by the Company's existing internal resources and the dividend to be distributed by Zhejiang Fulin Guorun for the two financial years ended 31 December 2006.

3. The issue and allotment of the Aggregate Consideration Shares

As discussed above, the Transfers Consideration will be satisfied entirely by the allotment and issue of the Aggregate Consideration Shares. It is noted that the Aggregate Consideration Shares will rank pari passu in all aspects with the Shares in issue upon allotment and issue thereof on the date of Completion and will be issued at HK$1.25 per Share (the "**Issue Price**"). It is also noted that Mr. Li, the sole director of Proper Glory, confirmed that no Aggregate Consideration Shares will be transferred, charged or pledged to any other persons immediately upon Completion.

(a) The Issue Price

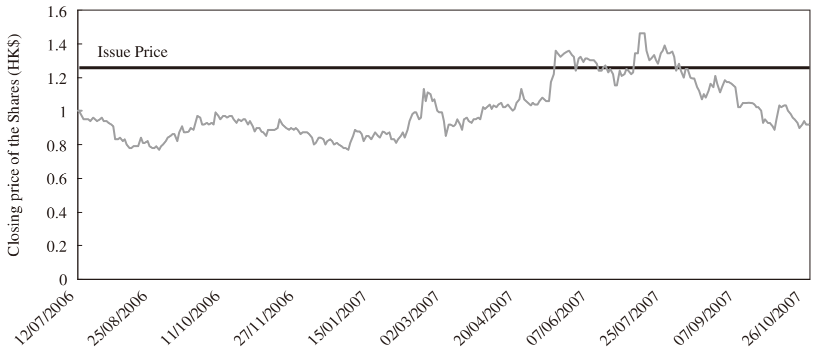
As stated in the "Letter from the Board" of the Circular, the Issue Price has been determined after arm's length negotiations between the Group and the Transfers Vendors with reference to the average closing price of the Shares as quoted on the Stock Exchange for the 20 consecutive trading days up to and including the Suspension Day.

In order to assess the fairness and reasonableness of the Issue Price, we have reviewed (i) the price performance of the Shares for the 12 months prior to the Suspension Day and up to and including the Latest Practicable Date (the "**Review Period**"); and (ii) the issue prices of the consideration shares issued by other Hong Kong listed companies under their respective acquisition transactions.

(i) Historical price performance of the Shares

The following chart illustrates the daily closing prices of the Shares as quoted on the Stock Exchange for the Review Period:

Chart 1



Source: Website of the Stock Exchange (http://www.hkex.com.hk)

As illustrated in Chart 1 above, during the Review Period, the daily closing prices of the Shares were generally below the Issue Price, which represents:

- a discount of about 6.72% to the closing price of HK$1.34 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of about 14.38% to the closing price of HK$1.46 per Share as quoted on the Stock Exchange on the Suspension Day;
- a discount of about 5.30% to the average closing price of about HK$1.32 per Share for the 5 consecutive trading days up to and including the Suspension Day;
- a discount of about 1.57% to the average closing price of about HK$1.27 per Share for the 10 consecutive trading days up to and including the Suspension Day;

- equal to the average closing price of about HK$1.25 per Share for the 20 consecutive trading days up to and including the Suspension Day;

- a premium of about 11.61% over the average closing price of about HK$1.12 per Share for the 90 consecutive trading days up to and including the Suspension Day;

- a premium of about 23.76% over the average closing price of about HK$1.01 per Share for the 180 consecutive trading days up to and including the Suspension Day;

- a premium of about 35.87% over the closing price of HK$0.92 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

- a premium of about 400.00% over the audited consolidated net asset value per Share of about HK$0.25 as at 31 December 2006 based on the audited consolidated net asset value of the Company of about HK$1,030 million and 4,151,388,496 Shares in issue as at 31 December 2006 set out in the Annual Report;

- a premium of about 212.50% over the unaudited consolidated net asset value per Share of about HK$0.40 million as at 30 June 2007 based on the unaudited consolidated net asset value of the Group of about HK$2,027 million and 5,067,265,274 Shares in issue as at 30 June 2007 set out in the Interim Report; and

- a premium of about 73.61% over the unaudited pro forma combined net asset value per Share of about HK$0.72 million in accordance with the unaudited pro forma combined net asset value of the Enlarged Group of about HK$3,630 million set out in Appendix X to the Circular and 5,067,265,274 Shares in issue as at 30 June 2007 set out in the Interim Report.

(ii) Comparable analysis

To assess whether the relevant discounts represented by the Issue Price set out in sub-section (a)(i) above are in line with those of other acquisition transactions involving issue of consideration shares, we have attempted to compare it with acquisition transactions involving issue of consideration shares and application for the granting of the Whitewash Waiver undertaken during the Review Period by Hong Kong listed companies with principal activities similar to those of the Group as the basis of our comparison. However, we are unable to identify any relevant acquisition transactions during the Review Period by companies engaged in the automobile business. As an alternative, based on the information available on the website of the Stock Exchange, we have identified and made references to, so far as we are aware, all relevant acquisition transactions effected during the Review Period by companies which are engaged in various businesses different from that of the Group (the "**Comparable Acquisitions**"). We believe that although all the aforementioned Hong Kong listed companies are not engaged in the similar principal activities as the Group, they provide a reasonable size of comparison basis and could reflect the recent trend of the terms of issue of consideration shares in the market. We are mindful of the fact that the terms of the consideration shares may vary under different stock market conditions as well as among companies with different financial standings and business performance. Nevertheless, we consider that a broader comparison of issuance of consideration shares announced recently would provide a more general reference for the terms of issue of the Aggregate Consideration Shares.

We have reviewed the respective issue prices of the consideration shares under the Comparable Acquisitions and their respective comparison with the then prevailing share prices of the relevant Hong Kong listed companies. Details of the Comparable Acquisitions are set out in the following table:

Table 5

				Premium/(discount) of the issue price of the consideration shares over/to the closing price/average closing price of shares of			
Company (Stock code)	**Date of the announcement**	**Amount involved for the consideration shares** *(HK$ million)*	**Issue price of the consideration shares** *(HK$)*	**last trading day** *(%)*	**last 5 trading days before the last trading day** *(%)*	**last 10 trading days before the last trading day** *(%)*	**Principal activities**
Casil Telecommunications Holdings Limited (Stock code: 1185)	2 April 2007	770	0.35	(55.13)	(50.70)	(50.00)	Manufacture and distribution of communications products, intelligent transportation system, video conference system and broadband wireless access
Dongfang Electrical Machinery Company Limited (Stock code: 1072)	2 February 2007	8,814	24.57 *(Note 1)*	(31.75) *(Note 2)*	(27.60) *(Note 2)*	(24.60) *(Note 2)*	Manufacture power generating equipment including hydro turbine generator, steam turbine generator, A.C. and D.C. motors and control equipment

Company (Stock code)	Date of the announcement	Amount involved for the consideration shares *(HK$ million)*	Issue price of the consideration shares *(HK$)*	Premium/(discount) of the issue price of the consideration shares over/to the closing price/average closing price of shares of last trading day *(%)*	last 5 trading days before the last trading day *(%)*	last 10 trading days before the last trading day *(%)*	Principal activities
Emperor Entertainment Hotel Limited (Stock code: 296)	12 June 2007	171	1.63	0.00	(4.45)	(4.23)	Hotel and entertainment business, and property development
Emperor International Holdings Limited (Stock code: 163)	12 June 2007	182	2.15	(6.11)	(8.59)	(3.63)	Property development and investment, and hotel operations
Inno-tech Holdings Limited (Stock code: 8202)	6 March 2007	59	0.168	(18.45)	(12.50)	(9.19)	Provision of residential sales of intranet, e-property management software application consulting services and sales of home-automation and other products
Panva Gas Holdings Limited (Stock code: 1083)	4 December 2006	3,231	4.18	5.56	11.82	12.70	Sale and distribution of gas fuel and related products and gas pipelines
SEEC Media Group Limited (Stock code: 205)	22 June 2007	63	0.375	(12.79)	(10.93)	(8.31)	Provision of advertising services
SRE Group Limited (Stock code: 1207)	17 August 2007	1,600	3.04	3.40	0.33	(1.23)	Property developments and technology investment and operation in Shanghai, the PRC
Winfoong International Limited (Stock code: 63)	25 May 2007	90	0.1	(87.70)	(86.60)	(86.17)	Property development and investment, property management services, and horticultural services
Mean *(Note 3)*				(35.32)	(28.77)	(23.42)	
Maximum				5.56	11.82	12.70	
Minimum				(87.70)	(86.60)	(86.17)	
The Company		**1,611**	**1.25**	**(14.38)** *(Note 4)*	**(5.30)** *(Note 4)*	**(1.57)** *(Note 4)*	

Source: Website of the Stock Exchange (http://www.hkex.com.hk)

Notes:

1. The consideration shares of Dongfang Electrical Machinery Company Limited are A shares issued at RMB24.17 per A share (equivalent to about HK$24.57 at an exchange rate of HK$1 to RMB0.9835) as stated in its circular dated 17 May 2007.

2. The percentages represent discounts of the issue price denominated in HK$ as discussed in Note 1 above to the respective closing price of shares, the average closing price of the last 5 trading days and the average closing price of the last 10 trading days before the last trading day.

3. As the Aggregate Consideration Shares are issued at discounts to the closing price of the Shares of the Suspension Day and the average closing price of the Shares for the last five/ten trading days up to and including the Suspension Day, it is considered to be inappropriate to aggregate all the premium and discounts represented by the issue prices of the consideration shares under the Comparable Acquisitions to calculate the mean. As such, only the discounts represented by the issue prices of consideration shares under the relevant Comparable Acquisitions are considered in the computation of the mean.

4. Based on the closing price of HK$1.46 per Share as quoted on the Stock Exchange on the Suspension Day.

As illustrated in Table 5 above, we noted that:

(i) the majority of the issue prices of the consideration shares under the Comparable Acquisitions were set at discounts to the then prevailing prices of the shares of the relevant listed companies;

(ii) the discount of about 14.38% represented by the Issue Price to the closing price of the Shares of the Suspension Day is (i) within the range of ratios of the Comparable Acquisitions for their respective last trading days, which range between a premium of about 5.56% and a discount of about 87.70%; and (ii) less than the average ratio of a discount of about 35.32% of the Comparable Acquisitions;

(iii) the discount of about 5.30% represented by the Issue Price to the average closing price of the Shares for the last five trading days up to and including the Suspension Day is (i) within the range of ratios of the Comparable Acquisitions for their respective last five trading days, which range between a premium of about 11.82% and a discount of about 86.60%; and (ii) less than the average ratio of a discount of about 28.77% of the Comparables Transactions; and

(iv) the discount of about 1.57% represented by the Issue Price to the average closing price of the Shares for the last ten trading days up to and including the Suspension Day is (i) within the range of ratios of Comparable Acquisitions for their respective last ten trading days, which range between a premium of about 12.70% and a discount of about 86.17%; and (ii) less than the average ratio of a discount of about 23.42% of the Comparable Acquisitions.

(b) Conclusion

In light of the foregoing, we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

4. Possible financial impacts of the Restructuring on the Group

Upon Completion, the Company's effective attributable interest will increase from 46.81% to 91.00% in the Associated Companies and from 51% to 100% in Zhejiang Fulin Guorun. As such, each of the Associated Companies and Zhejiang Fulin Guorun will become an indirect non-wholly owned or wholly-owned (as the case may be) subsidiary of the Company and their respective results will be consolidated into the financial statements of the Enlarged Group.

In accordance with the unaudited pro forma combined financial information of the Enlarged Group contained in Appendix X to the Circular (the "**Pro Forma Financial Information**"), the profit attributable to the equity holders of the Company will be increased by about 112.1% from about HK$208.8 million to HK$442.8 million. It is also noted that based on the unaudited net asset value of the Group of about HK$2,027.3 million as at 30 June 2007, the unaudited pro forma combined net asset value of the Enlarged Group will be increased by about 79.1% to about HK$3,630.2 million.

As discussed in section (2)(c) above, the payment of the Zhejiang Fulin Guorun Transfer Consideration will be partially satisfied by the Group's existing internal resources. Based on the Interim Report, the Group had bank balances and cash of about HK$623.0 million as of 30 June 2007, and the total Zhejiang Fulin Guorun Transfer Consideration only accounts for about 3.7% of such balances. We have reviewed the latest management accounts of the Group as at 31 August 2007 and noted that there was no adverse change to the cash position of the Group since 30 June 2007. Based on the Pro Forma Financial Information, the Enlarged Group's bank balances and cash will be increased to about HK$1,520.6 million; while the net current asset position of the Enlarged Group will be decreased by about 9.5% to about HK$738.7 million. The Directors have confirmed to us that (1) the Group has sufficient resources to satisfy the Zhejiang Fulin Guorun Transfer Consideration; and (2) there will be no material adverse impact on the Enlarged Group's working capital position as a result of the Restructuring, after taking into account (i) the Group's current working capital position; (ii) the payment method for the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration as discussed in section (2)(c) above; (iii) the estimated dividends to be distributed by Zhejiang Fulin Guorun; and (iv) the present internal financial resources and bank facilities available to the Group.

Based on the Interim Report, the Group's gearing ratio (defined as the ratio of total borrowings excluded the embedded derivatives of the Company's convertible bonds and trade and other payables to the equity attributable to equity holders of the Company) was about 22.4% as of 30 June 2007. According to the Pro Forma Financial Information, the Enlarged Group's gearing ratio as at 30 June 2007 will be increased to about 55.2% mainly due to the increase in short term borrowings by about HK$1,660 million as a result of the Transfers. The Directors have confirmed to us that the aforesaid increase in the Enlarged Group's gearing ratio is not expected to have any material adverse impact on the Enlarged Group, after taking into account (i) the profitable track record of the Associated Companies; (ii) the economic benefits to be generated from the Associated Companies' external borrowings; (iii) the combined bank balances and cash of the Enlarged Group (which represent about 75.9% of the total borrowings of the Enlarged Group as at 30 June 2007 based on the Pro Forma Financial Information); and (iv) the present bank facilities available to the Enlarged Group.

In view of the foregoing, there will be no material adverse impact on the financial position of the Group as a result of the Restructuring.

5. Potential dilution to shareholding of the existing public Shareholders

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date, and for illustrative purpose, the effects to the shareholding of the Company upon the issue of the Aggregate Consideration Shares before and after full conversion of the Convertible Bonds and full exercise of the Share Options (assuming that there will be no change in the Company's shareholding structure from the Latest Practicable Date to the date of Completion):

Table 6

Shareholders	**As at the Latest Practicable Date** *Number of Shares*	*%*	**Immediately after the issue of the Aggregate Consideration Shares but before full conversion of the Convertible Bonds and full exercise of the Share Options** *(Notes 1 & 2)* *Number of Shares*	*%*	**Immediately after the issue of the Aggregate Consideration Shares and assuming full conversion of the Convertible Bonds and full exercise of the Share Options** *(Notes 1 & 2)* *Number of Shares*	*%*
Proper Glory and parties acting in concert with it *(Notes 3 and 4)*	2,500,087,000	48.07	3,788,759,000	58.38	3,788,759,000	52.92
Ang Siu Lun, Lawrence, the executive Director *(Note 2)*	2,270,000	0.04	2,270,000	0.03	47,270,000	0.66
Other Directors excluding Ang Siu Lun, Lawrence and Mr. Li *(Note 2)*	–	–	–	–	136,000,000	1.90
Public Shareholders:						
Holders of the Convertible Bonds *(Note 1)*	–	–	–	–	361,261,364	5.04
Existing public Shareholders	2,698,726,450	51.89	2,698,726,450	41.59	2,826,246,450 *(Note 2)*	39.48
Total public Shareholders	2,698,726,450	51.89	2,698,726,450	41.59	3,187,507,814	44.52
Total	**5,201,083,450**	**100.00**	**6,489,755,450**	**100.00**	**7,159,536,814**	**100.00**

Notes:

1. As at the Latest Practicable Date, there are outstanding convertible bonds (the "**Convertible Bonds**") with a principal amount of HK$317.91 million convertible into about 361,261,364 new Shares upon exercise in full at the adjusted conversion price of HK$0.88 per Share at any time from the Latest Practicable Date up to the close of business on 10 March 2011.

2. As at the Latest Practicable Date, the Company has outstanding share options (the "**Share Options**") granted under its share option scheme entitling the holders thereof to subscribe for an aggregate of 308,520,000 Shares at a subscription price ranging from HK$0.70 to HK$1.06 per Share with the expiry of the exercise period ranging from 22 February 2009 to 17 September 2012. Of these Share Options, 181,000,000 Share Options are held by the Directors with the remaining Share Options being held by the existing public Shareholders.

3. Proper Glory is a limited liability company incorporated in the British Virgin Islands and wholly-owned by Geely Group, which is a private company incorporated in the British Virgin Islands and wholly-owned by Mr. Li.

4. To the best knowledge of the Directors having made all reasonable enquiries, Proper Glory and its concert parties do not have any interests in the Convertible Bonds and the Share Options as at the Latest Practicable Date.

As illustrated in Table 6 above, upon the issue of the Aggregate Consideration Shares but before full conversion of the Convertible Bonds and full exercise of the Share Options, the shareholding interests of the existing public Shareholders will be diluted from about 51.89% to 41.59%.

The Directors have confirmed to us that save for the Convertible Bonds and the Share Options, the Company does not have any warrants, options, derivatives, convertible securities or other securities in issue as at the Latest Practicable Date.

Having considered that (i) the reasons for and benefits of the Restructuring discussed in section (1)(b) above; (ii) the Transfers Consideration, the Zhejiang Fulin Guorun Transfer Consideration and the Issue Price are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the shareholding of all existing public Shareholders will be diluted proportionally to their respective shareholdings upon the issue of the Aggregate Consideration Shares, we consider the aforementioned potential dilution effect to be acceptable in this regard.

6. The Whitewash Waiver

As at the Latest Practicable Date, Proper Glory and its concert parties hold an aggregate of 2,500,087,000 Shares, representing approximately 48.07% of the existing total issued share capital of the Company. The Directors have confirmed to us that save as mentioned in section (5) above, neither Proper Glory nor any of its concert parties holds any warrants, options, derivatives, convertible securities or other securities in issue of the Company.

As discussed in section (2)(c) above, the Transfers Consideration will be satisfied in full by the issue of the Aggregate Consideration Shares of 1,288,672,000 Shares. Immediately following the issue of the Aggregate Consideration Shares but before full conversion of the Convertible Bonds and full exercise of the Share Options, Proper Glory and its concert parties will be interested in 3,788,759,000 Shares, representing about 58.38% of the issued ordinary share capital of the Company as enlarged by the issue of the Aggregate Consideration Shares. An analysis of the shareholding interest of Proper Glory and its concert parties on various assumptions is set out in section (5) above. Under Rule 26.1 of the Takeovers Code, Proper Glory and its concert parties would be obligated to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Proper Glory or its concert parties, unless the Whitewash Waiver is approved by the Independent Shareholders by poll at the EGM and is granted by the Executive. Proper Glory has applied to the Executive for the Whitewash Waiver and the Executive has indicated he/she will grant the Whitewash Waiver to Proper Glory and its concert parties, subject to the approval of the Whitewash Waiver by the Independent Shareholders at the EGM by way of a poll.

As set out in the "Letter from the Board" of the Circular, Proper Glory has subscribed for 600 million Shares at HK$1.06 per Share (the "**Subscription**") through a top-up placement as announced by the Company on 15 February 2007. It is noted that negotiations for the Subscription commenced in early February 2007, and the Directors confirmed that such negotiations were conducted prior to the negotiations of the Restructuring. An application has been made to the Executive and the Executive has confirmed that the Subscription does not constitute a disqualifying transaction. It is also noted that notwithstanding the Subscription, neither Proper Glory nor any persons acting in concert with it have acquired any voting rights in the Company or dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivatives in respect of the securities of the Company during the six months immediately prior to the date of release of the Restructuring Announcement. Furthermore, we are advised by the Directors that Proper Glory has confirmed that neither itself nor any of its concert parties has intention to acquire or dispose of any voting rights in the Company during the period between the Latest Practicable Date and the date of the EGM.

It should be noted that if the Whitewash Waiver is approved by the Independent Shareholders by poll at the EGM and is granted by the Executive, Proper Glory and parties acting in concert with it will hold more than 50% of the voting rights of the Company as a result of the issue of the Aggregate Consideration Shares (detailed analysis of the shareholding of Proper Glory and parties acting in concert with it are set out in section (5) above). Proper Glory and its concert parties may increase their holdings of voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

It is noted that Completion is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll and the granting of the Whitewash Waiver by the Executive to Proper Glory and parties acting in concert with it, which cannot be waived by any of the relevant parties to the Agreements. If the Whitewash Waiver is not approved by the Independent Shareholders and/or granted by the Executive, the Agreements will lapse and the Restructuring will not proceed even if the other conditions precedent to the Agreements are fulfilled. As such, no general offer obligation under Rule 26 of the Takeovers Code will be triggered. In the event that the Restructuring cannot proceed, the Group and the Shareholders will not be able to enjoy the commercial benefits that would arise from the Restructuring, in particular, the Restructuring being an important step in implementing the Group's stated business objective and strategy and the potential enhancement in the Group's revenue base and earning capability as discussed in section (1)(b) above.

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 existing business mode of the Group and the reasons for and benefits of the Restructuring as discussed in sections (1)(a) and (b) above;

- that the Restructuring is in line with the Group's stated business objective and strategy as discussed in section (1)(b) above;

- that the respective implied P/NAV ratios represented by the Transfers Consideration and the Zhejiang Fulin Guorun Transfer Consideration are (i) below the lower end of the range of present rating of the Comparable Companies; and (ii) lower than the P/NAV ratio of the Company and the average of the P/NAV ratios of the Comparable Companies;

- that the implied P/E ratios represented by the respective consideration for the Zhejiang JV Transfer, the Shanghai Maple JV Transfer and the Zhejiang Fulin Guorun Transfer are (i) within, or below the lower end of, the range of present rating of the Comparable Companies; and (ii) lower than, or comparable to, the P/E ratio of the Company and lower than the average of the P/E ratios of the Comparable Companies;

- that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned based on the findings of our comparable analysis as detailed in section (3)(a)(ii) above;

- that there will be no material adverse impact on the financial position of the Group as a result of the Restructuring;

- that the potential dilution effect of the shareholding of the Independent Shareholders is considered to be acceptable; and

- that Completion is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll and the granting of the Whitewash Waiver by the Executive to Proper Glory and parties acting in concert with it,

we consider that the entering into of the Agreements by the Group is conducted within its ordinary and usual course of business based on normal commercial terms, and the terms thereof and the Whitewash Waiver 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 Agreements and the Whitewash Waiver.

B. OTHER PROJECT DOCUMENTS 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 to and reasons for the Other Project Documents and the Annual Caps

(a) The Services Agreement

We noted that upon Completion, the following inter-related contractual arrangements with regard to automobile manufacturing will continue to be conducted between the Enlarged Group and the Geely Holding Group in their usual and ordinary course of businesses:

(i) Sales of automobile parts and components by the Geely Holding Group to the Enlarged Group

As advised by the Directors, the Associated Companies have been procuring certain automobile parts and components for use in their manufacturing of the CKDs and the Sedan Tool Kits through other members of the Geely Holding Group on a sole source basis since 2003. In view of the long-term relationship between the relevant members of the Geely Holding Group and the relevant suppliers of the required parts and components, the Directors consider that it is in the interest of the Enlarged Group to continue the aforesaid procurement arrangement after the Restructuring, as this will ensure it can secure a reliable source of supply of the required automobile parts and components at a competitive price.

(ii) Provision of process manufacturing services by the Geely Holding Group to the Enlarged Group

We noted that certain imported molding equipment are required for the manufacturing of certain automobile parts and components which form part of the CKDs and the Sedan Tool Kits; and only certain members of the Geely Holding Group other than the Associated Companies have the right to import the aforesaid molding equipment. We are advised by the Company that it would be cost ineffective and time consuming for the Associated Companies to apply for the approval from the relevant PRC regulatory authorities to import and operate the required molding equipment.

As advised by the Company, the process manufacturing services, involving the use of the aforesaid imported molding equipment, are essential and imperative to the manufacturing process of the CKDs and the Sedan Tool Kits, and will continue to be undertaken by certain other members of the Geely Holding Group at the Associated Companies' production facilities.

Having considered the above, the Directors regard that the relevant outsourcing arrangement with the Geely Holding Group is beneficial to the Enlarged Group given that, as opposed to outsourcing to other independent processors, it will enable the Enlarged Group to streamline its manufacturing process by (i) minimising the related administrative and logistic costs and the required production and transportation lead time; and (ii) that ensuring the quality standard of the relevant automobile parts and components to be manufactured by the Geely Holding Group is met.

(iii) Sales of the CKDs and the Sedan Tool Kits by the Enlarged Group to the Geely Holding Group and sales of the CBUs by the Geely Holding Group to the Enlarged Group

It is noted that certain other members of the Geely Holding Group have been performing the final assembly of the CKDs and the Sedan Tool Kits and facilitating payment of the PRC consumption tax for the sales of the CBUs (each composing of a CKD and a Sedan Tool Kit) on behalf of the Associated Companies. It is also noted that after performing the aforesaid final assembly procedure, the Geely Holding Group will sell the CBUs to the Enlarged Group's sales companies for onward sales and distribution to independent dealers or end customers.

We are advised by the Directors 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 business and facilitate the payment of the consumption tax for the sales of automobiles in the PRC. We are further advised by the Company that both the Group and the Associated Companies are not currently in possession of the Automobile Products Catalogue and it would not be practical at present for the Group and the Associated Companies to apply for such accreditation. On the other hand, certain other members of the Geely Holding Group have already been approved as automobile manufacturers in the PRC with the relevant Automobile Products Catalogue for certain types of automobiles in the PRC, including the categories to which the CBUs belong. Given the above, the Directors consider that it is in the interest of the Enlarged Group to continue engaging in the abovementioned sales transactions as stipulated in the Services Agreement.

Each of the aforesaid transactions contemplated under the Services Agreement (collectively, the "**Services Transactions**") is for the implementation and facilitation of the automobile manufacturing operations of the Enlarged Group in future; and therefore forms an integral part of the Enlarged Group's principal business. In this regard, we concur with the view of the Directors that the Services Agreement is essential to the Enlarged Group's successful manufacturing operations, and all the Services Transactions will be imperative in ensuring the continued smooth business operation of the Enlarged Group in the PRC automobile industry.

(b) The Loan Guarantee Agreement

The Directors have confirmed that for the purpose of facilitating the business development of the Associated Companies, the Geely Holding Group has entered into various facility agreements with certain banks in the PRC for the grant to it of loan facilities in a total amount of about RMB950 million, all of which had been drawdown as at the Latest Practicable Date being entirely utilised for financing the research and development activities in relation to the Associated Companies' sedan business, which are within the ordinary and usual course of business of the Group. These drawdown loans are secured by guarantees (including the pledge of certain lands, buildings and facilities) granted by the Associated Companies and the Geely Holding Group respectively.

As advised by the Directors, prior to the solicitation for the abovementioned loan facilities, the Associated Companies had attempted to directly obtain loan facilities from the relevant PRC banks to finance their respective production operations and research and development activities. Nevertheless, having considered the terms of the loan facilities offered by such PRC banks to the Associated Companies, the management of the Geely Holding Group considered that it is highly beneficial to have the Geely Holding Group to solicit for the loan facilities on behalf of the Associated Companies from such PRC banks, as it would enable the Associated Companies to obtain sufficient funding to accomplish their respective development plans while avoiding unnecessarily high funding cost.

It is noted that the Directors estimate that in order to tap into the increasing demand for the Enlarged Group's sedans in the future, more funding resources have to be devoted to the Enlarged Group's research and development activities relating to, among others, the design of new sedan models and the development of new engine, gearbox and electronic and electric auto-related components, particularly in the second half of 2007. The Directors advised that given the long-term good relationship with the relevant PRC banks, it is the belief of the Directors that, as opposed to the Enlarged Group, the Geely Holding Group will continue to be in a better position to negotiate with such banks on behalf of the Associated Companies for the best favourable financing terms relating to additional loan facilities to be obtained for financing the Enlarged Group's manufacture and research and development activities. In this regard, we concur with the view of the Directors that such financing arrangement is beneficial to both the Company and the Shareholders, as it enables the Enlarged Group to continue to leverage the Geely Holding Group's ability to obtain low-cost financing for its business operations and the aforementioned development plan.

Based on our discussion with the management of the Company regarding the Enlarged Group's future capital requirement, it is our understanding that the loan facilities obtained or to be obtained by the Geely Holding Group on behalf of the Associated Companies (the "**Loan Facilities**"), which will be solely utilised by the Associated Companies to finance their sedan manufacturing activities and the research and development relating thereto, are essential for the Enlarged Group's continued overall business development, and the sole purpose of the provision of the Guarantees (including the pledge of certain lands, buildings and facilities of the Associated Companies) is to facilitate the Geely Holding Group to secure the Loan Facilities.

(c) The Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang)

It is noted that the principal activity of both Beijing Geely University and Zhejiang Economic Management College is the provision of education related services.

As confirmed by the Directors, it is and will continue to be a compulsory course requirement for all the students undertaking the respective automobile related curriculums at Beijing Geely University and Zhejiang Economic Management College to participate in the lectures and on-the-job training organised by the Enlarged Group (subject to the final assessment by the Enlarged Group). We have reviewed the respective subjects and objectives of the relevant lectures and training courses, and noted that they are in line with the principal activities of both the Group and the Associated Companies.

We have discussed with the management of the Company regarding the factors contributing to the Group's and the Associated Companies' successes in business development, and expansions in recent years, and noted that one the key factors was the concerted efforts and competency of the Group's personnel. We are also advised that the demand for new staff with automobile related education background, experience and qualification is likely to increase significantly alongside the Enlarged Group's business expansion strategy. Given this and the cost and time effectiveness in terms of savings on (i) the required advertising/agency expenses and time of recruitment; and (ii) the initial training cost and time of new staff, the Directors are of the view that the Enlarged Group's co-operations with the aforesaid education institutes in the form of provision of lectures and on-the-job training courses would help facilitate the Enlarged Group's future recruitment of eligible staff who have the potential to help the Enlarged Group achieve its expansion strategy.

In light of the foregoing, we concur with the view of the Directors that the co-operation arrangements contemplated under the Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang) (collectively, the "**Co-operation Transactions**") are beneficial to the Enlarged Group, as they would facilitate the Enlarged Group's recruitment process and at the same time, provide the Enlarged Group a recurrent source of income.

(d) The Lease Agreement

It is noted that the Properties comprise certain surplus land and buildings located in Linhai and Taizhou, Zhejiang Province, the PRC (the "**Linhai Properties**" and "**Taizhou Properties**", respectively) which are currently under the ownership of the Associated Companies. The Directors have confirmed that the Properties are currently not in operational use, and each of the Group and the Associated Companies has no present intention to dispose of any of the Properties or use the Properties for its business operation in the short to medium term. Given this, we concur with the Directors' view that the leasing of the Properties to the Geely Holding Group and Zhejiang Economic Management College (the "**Leasing Transactions**") is beneficial to the Enlarged Group as this would provide it a recurrent source of income.

As advised by the management of the Company, the Geely Holding Group will utilise the Linhai Properties for conducting its research and development of automobile parts and components to be sold to the Enlarged Group and as warehouse for the aforesaid imported molding equipment; whereas the Taizhou Properties to be leased to Zhejiang Economic Management College will be used as lecture facilities for conducting, among others, lectures by the Enlarged Group pursuant to the Co-operation Agreement (Zhejiang).

Each of the aforementioned Other Project Documents is for the implementation and facilitation of the manufacturing operations and business expansion of the Enlarged Group in future, and each of the Continuing Connected Transactions are in line with the Group's stated short to medium term business objective and strategy as discussed in section (A)(1)(b) above.

Given the above and in particular (i) the respective business nature and objectives of the Group and the Associated Companies as described under sections (A)(1)(a) and (b) above; and (ii) the respective principal activities of the Geely Holding Group, Beijing Geely University and Zhejiang Economic Management College, it is reasonable to expect that each of the Continuing Connected Transactions will continue to take place on a regular and frequent basis in the Enlarged Group's ordinary and usual course of business in future. As such, it would be impractical for the Company to strictly comply with the requirements stipulated under the Listing Rules regarding "connected transactions" on each occasion when they arise. In this respect, we are of the view that it is beneficial to the Enlarged Group to have the Other Projects Documents in place and to adopt the

Annual Caps, as that would help facilitate the smooth operation and future development of the Enlarged Group's business for the next three financial years ending 31 December 2009.

Given the above, we consider that the entering into of the Other Project Documents together with the adoption of the Annual Caps are conducted in the ordinary and usual course of the Enlarged Group's business and are in the interests of both the Company and the Shareholders as a whole.

2. Principal terms of the Other Project Documents

Set out below are the principal terms of the Other Project Documents and the nature of the subject transactions related thereto:

(a) The Services Agreement

(i) Sales of automobile parts and components by the Geely Holding Group to the Enlarged Group

Nature of the transactions

The Geely Holding Group agreed to sell the automobile parts and components in accordance with the product specifications set out in the Services Agreement to the Enlarged Group. The Directors have confirmed that all the automobile parts and components to be supplied by the Geely Holding Group to the Enlarged Group will be solely used for its production of the CKDs and the Sedan Tool Kits.

Pricing basis

It is noted that the selling prices of the automobile parts and components shall be determined based on the sourcing costs plus the relevant service costs. The Directors confirmed that the consideration payable by the Group to the Geely Holding Group is only to reimburse the actual costs (including the purchase cost of the automobile parts and components and the related labour, administrative and transportation costs) to be incurred in the procurement process by the Geely Holding Group, and therefore no profit would be generated by the Geely Holding Group as a result of its sales of automobile parts and components to the Enlarged Group.

(ii) Provision of process manufacturing services by the Geely Holding Group to the Enlarged Group

Nature of the transactions

The Geely Holding Group agreed to provide the process manufacturing services in accordance with the service specifications set out in the Services Agreement to the Enlarged Group. As advised by the Directors, the process manufacturing services to be performed by the Geely Holding Group relate to the stamping and welding of certain automobile parts and components for use in the manufacturing of the CKDs and the Sedan Tool Kits by the Enlarged Group.

Pricing basis

It is noted that the fee to be charged by the Geely Holding Group shall be determined based on the annual linear depreciation of the value of the imported molding equipment. We are advised that the depreciation policy of the imported molding equipment adopted by the Geely Holding Group is based on straight-line depreciation over an estimated useful life of three years and a residual value of 5% of the cost of the imported molding equipment. The Directors have confirmed to us that such depreciation policy is in line with those adopted by the Group and the Associated Companies respectively.

Furthermore, the Directors confirmed that all the relevant molding equipment imported by the Geely Holding Group on behalf of the Enlarged Group will be solely used for performing the process manufacturing services contemplated under the Services Agreement.

(iii) Sales of the CKDs and the Sedan Tool Kits by the Enlarged Group to the Geely Holding Group and sales of the CBUs by the Geely Holding Group to the Enlarged Group

Nature of the transactions

The Enlarged Group agreed to supply to the Geely Holding Group the CKDs and the Sedan Tool Kits in accordance with the product specifications set out in the Services Agreement. The Directors confirmed that all the CKDs and the Sedan Tool Kits will be solely used for the manufacturing of the CBUs by the Geely Holding Group on behalf of the Enlarged Group. In addition, the Geely Holding Group may request additional services other than the aforesaid services from the Enlarged Group (subject to the Enlarged Group's ability in providing the relevant additional services) that might occur in the manufacturing process of the CKDs and the Sedan Tool Kits for new models in the future. We have discussed with the management of the Company regarding the nature of the possible additional services and are advised that such additional services will likely relate to the modifications of the CKDs and/or the Sedan Tool Kits by the Enlarged Group to accommodate new sedan models. The Directors confirmed that the pricing term relating to any aforesaid additional services will be based on normal commercial terms to be determined by the parties to the Services Agreement on an arm's length basis and in compliance with the requirements stipulated under the Listing Rule regarding "connected transactions".

Furthermore, the Geely Holding Group agreed to sell to the Enlarged Group the CBUs in accordance with the product specifications set out in the Services Agreement. The Directors confirmed that all the CBUs to be manufactured by the Geely Holding Group on behalf of the Enlarged Group are to be sold back to the Enlarged Group for onward sales and distribution to independent dealers or end customers.

Pricing basis

It is noted that the selling price of the CBUs, depending on the models, to be sold by the Geely Holding Group to the Enlarged Group shall be determined based on the selling price of the relevant sedans to the independent dealers or end users after deduction of the related distribution costs incurred by the Enlarged Group (the "**CBU Price**"). As advised by the Company, the aforesaid distribution costs mainly consist of any commission or payment the Enlarged Group may need to pay its dealers, distributors or sales agents or advertising and aftersales service expenses. The Directors confirmed that (i) the consideration payable by the Enlarged Group to the Geely Holding Group is only to reimburse the actual PRC taxes (mainly the consumption tax) payable by the Geely Holding Group on behalf of the Enlarged Group and the actual purchase cost of the Sedan Tool Kits; and (ii) the Geely Holding Group is responsible for all other relevant expenses payable in relation to its final assembly of the CKDs and the Sedan Tool Kits and sale of the CBUs, and therefore no profit would be generated by the Geely Holding Group as a result of its sales of CBUs to the Enlarged Group.

The selling price of the Sedan Tool Kits to be supplied by the Enlarged Group to the Geely Holding Group shall be determined based on the manufacturing costs of the Sedan Tool Kits to the Enlarged Group. The Directors confirmed that such pricing basis is on normal commercial terms given the fact that all the Sedan Tool Kits will be solely used for the manufacture of the CBUs by the Geely Holding Group, which will be sold back to the Enlarged Group for onward sales and distribution to independent dealers or end users.

The CKDs, depending on the specifications and models, shall be sold to the Geely Holding Group at a price based on the CBU Price less the PRC taxes (mainly the consumption tax) and the manufacturing costs of the Sedan Tool Kits. It should be noted that given the respective pricing bases of the other transactions contemplated under the Services Agreement as discussed above, the Enlarged Group will potentially profit from its sales of the CKDs to the Geely Holding Group, and the profitability relating thereto would be principally subject to the final selling prices of the sedans to independent dealers or end customers.

The Directors confirmed that each of the aforesaid pricing basis as provided under the Services Agreement has been determined after arm's length negotiations between the Company and Geely Holding based on the earning objectives of the Enlarged Group and a pricing policy whereby (i) the final selling prices of the sedans to independent dealers or end customers will be solely determined by the Enlarged Group with reference to the then prevailing market rates; (ii) the Enlarged Group will bear the risks of loss in and the rewards of its manufacturing and sales of sedans; (iii) any possible profit to be derived therefrom will only be realised from the sales transaction relating to the CKDs; and (iv) the consideration payable by the Enlarged Group to the Geely Holding Group under the Services Agreement is to only cover the reimbursement of most of the related expenses actually incurred by the Geely Holding Group in support of the Enlarged Group's manufacturing and sale of sedans business in the PRC, after taking into account the supporting role of the Geely Holding Group in assisting the Enlarged Group in implementation of its principal activities in the PRC.

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

(b) The Loan Guarantee Agreement

Pursuant to the Loan Guarantee Agreement, the Group agreed to provide the Guarantees (including the pledge of certain lands, buildings and facilities of the Associated Companies) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Associated Companies in relation to the manufacture and research and development of sedans of the Enlarged Group upon Completion.

It should be noted that the Geely Holding Group (i) guarantees that the Loan Facilities will only be utilised for sedan manufacturing and research and development activities relating to the Enlarged Group; (ii) would obtain consent from the Enlarged Group prior to the drawdown of the Loan Facilities; and (iii) agrees to provide counter indemnities on the Guarantees whereby in the event that the Guarantees are enforced by the relevant banks as a result of the default of the Geely Holding Group under the relevant facilities agreement, the Enlarged Group shall have the right to be fully indemnified by the Geely Holding Group.

The Directors have confirmed to us that the provision of the Guarantees which are capped at RMB850 million is not expected to have any material adverse impact on the Enlarged Group's financial position, given (i) the existing financial positions of the Group and the Associated Companies; (ii) the economic benefits to be generated from the Loan Facilities; (iii) that the repayment obligations shall lie with the Associated Companies which are and will continue to be the ultimate borrowers of the Loan Facilities; (iv) that a consent of the Enlarged Group is required every time prior to drawdown of the Loan Facilities; and (v) the grant of counter indemnities by the Geely Holding Group in consideration of the Guarantees. The Directors further confirmed that notwithstanding the above, the Enlarged Group will assess its then financial position every time prior to drawdown of the Loan Facilities in order to avoid any material adverse impacts on its financial position.

Having considered the above and in particular after taking into account the following:

- the solicitation for the Loan Facilities from the relevant PRC banks have been and will be undertaken by the Geely Holding Group on behalf of the Associated Companies;

- the Associated Companies, being the ultimate borrowers of the Loan Facilities which will become non-wholly owned subsidiaries of the Company upon Completion, are to be managed and controlled by the Company;

- the sole purpose of the provision of the Guarantees is to facilitate the Geely Holding Group to secure the Loan Facilities which are and will be solely utilised by the Enlarged Group to finance its sedan manufacturing activities and the research and development relating thereto;

- the drawdown of the Loan Facilities is subject to prior consent of the Enlarged Group; and

- the Loan Facilities are counter indemnified by the Geely Holding Group,

we are of the view that the provision of the Guarantees contemplated under the Loan Guarantee Agreement (the "**Guarantee Transactions**") is fair and reasonable, on normal commercial terms and is in the interests of both the Company and the Shareholders as a whole.

(c) *The Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang)*

Nature of the transactions

Pursuant to the Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang), the Enlarged Group agreed to (i) arrange certain senior management staff and engineers of its research and development department (the "**Lecturer(s)**") to lecture at Beijing Geely University and Zhejiang Economic Management College respectively (the "**Beijing Lectures**" and "**Zhejiang Lectures**", respectively); and (ii) provide facilities at its production plants for on-the-job training to not more than 2,000 students of Beijing Geely University and not more than 4,000 students of Zhejiang Economic Management College per month (the "**Beijing Trainings**" and "**Zhejiang Trainings**", respectively), subject to a maximum duration of four and nine months per student per year, respectively.

It is advised by the Company that the employment of graduates of the aforesaid education institutes by the Group has been increasing in recent years, accounting for about 6%, 9% and 11% of its total new employment undertaken during each of the three years ended 31 December 2006 respectively.

Pricing basis

In respect of the Beijing Lectures and the Zhejiang Lectures, the Enlarged Group will arrange 50 and 20 Lecturers (subject to change) to provide about six hours of lectures and six hours of tutorials within two days per week for the students undertaking the automobile related curriculums at Beijing Geely University and Zhejiang Economic Management College, respectively. The remuneration payable by both Beijing Geely University and Zhejiang Economic Management College for each Lecturer will be RMB720,000 per year. Such amount was determined by the parties involved after arm's length negotiations based on a remuneration of RMB10,000 per lecture day (the "**Lecture Fee**") and 72 lecture days per year for each Lecturer, assuming that the lectures will be conducted within a nine-month period with two days per week.

We have reviewed the tuition fees for corporate training courses and workshops charged by an independent education institute which is principally engaged in the provision of corporate training services in the PRC, and noted that the Lecture Fee is within the range of such tuition fees ranging from RMB6,000 to RMB14,400 per lecture day, which averaged RMB10,200 per lecture day.

In respect of the Beijing Trainings and the Zhejiang Trainings, Beijing Geely University and Zhejiang Economic Management College shall pay the Enlarged Group a monthly fee of RMB950 and RMB700 per student (the "**Training Fee**") respectively. We are advised that the Training Fee was determined by the parties involved after arm's length negotiations with reference to the tuition fee for the automobile related curriculums undertaken at Beijing Geely University and Zhejiang Economic Management College respectively for the academic year of 2007, given that the on-the-job trainings are regarded as part of the relevant students' education programme at Beijing Geely University and Zhejiang Economic Management College. We are also advised that the Training Fee payable by Zhejiang Economic Management College has been set at a relatively low rate as it is a post-secondary college; whereas Beijing Geely University is an institution of higher education. Based on our review of the tuition fee for the relevant curriculums, we noted that the aforesaid monthly fees of RMB950 and RMB700 per student are equal to the average monthly tuition fees for the aforesaid curriculums at Beijing Geely University and Zhejiang Economic Management College respectively.

The Directors have confirmed to us that based on the aforesaid pricing basis, the revenue to be derived from the provision of the Beijing Lectures, the Beijing Trainings, the Zhejiang Lectures and the Zhejiang Trainings will be sufficient to cover the related costs to be incurred by the Enlarged Group.

In view of the above, we consider that the Lecture Fee and the Training Fee are fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

(d) The Lease Agreement

Nature of the transactions

Pursuant to the Lease Agreement, the Enlarged Group agreed to lease the Properties to the Geely Holding Group and Zhejiang Economic Management College for the period from the effective date of the Lease Agreement to 31 December 2009.

Pricing basis

Pursuant to the Lease Agreement, the monthly rental for the Properties payable by the Geely Holding Group and Zhejiang Economic Management College for each month shall be RMB5-7 per sq.m. (the "**Rental Rates**"), amounting to about RMB16.0 million (equivalent to about HK$16.6 million) per annum. The actual amount of rental charge payable by the Geely Holding Group and Zhejiang Economic Management College will be subject to proportional adjustment based on the actual area of the respective lands and buildings in use and shall be paid semi-annually.

We are advised that the Rental Rates have been determined by the parties involved after arm's length negotiations with reference to the market rental rates for adjacent lands and buildings in the relevant local property market.

The Directors have confirmed to us that based on the advice of a local property agent, the prevailing market rates for rental of similar lands and buildings in the same region in which the Linhai Properties are located are within a range of RMB6.8 to RMB7.5 per sq.m. per month. Furthermore, based on our review of publicly available information released by a local property agent on the rental rates for lands and buildings for industrial purposes in Linhai, Zhejiang Province, the PRC, we noted that the prevailing market rates vary between RMB4 and RMB9 per sq.m. per month. It is noted that the monthly rental rate for the Linhai Properties of RMB7 per sq.m. to be levied by the Enlarged Group falls within the aforementioned ranges.

In respect of the Taizhou Properties, we have reviewed similar arrangement in relation to the leasing of certain land and building in the same region in which the Taizhou Properties are located by the Zhejiang Kingkong JV to an independent third party for industrial purposes. We noted that the monthly rental rate for the Taizhou Properties of RMB5 per sq.m. is the same as the rental rate offered to the independent third party under the aforesaid similar arrangement.

In light of the above, we consider that the Rental Rates are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(e) Conclusion

In light of the foregoing, we are of the opinion that the respective terms and conditions of the Other Project Documents are fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

3. Requirements of the Listing Rules

For each financial year of the Company during the terms of the Other Project Documents, 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 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 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 Continuing Connected Transactions will be conducted on terms that are fair and reasonable.

4. The Annual Caps

(a) The Services Agreement

Set out below are the details of the actual transacted amount of each of the Services Transactions for the financial year ended 31 December 2006 and the six months ended 30 June 2007 respectively; and the respective estimated annual caps for the Services Transactions for each of the period from the effective date of the Services Agreement to 31 December 2007 and the two financial years ending 31 December 2009:

Table 7

Type of the Services Transactions	Actual transacted amount (unaudited) For the year ended 31 December 2006	For the six months ended 30 June 2007	Annual caps For the period from the effective date of the Services Agreement to 31 December 2007 (Note)	For the year ending 31 December 2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales of automobile parts and components by the Geely Holding Group to the Enlarged Group	3,633,280 (equivalent to approximately HK$3,765.89 million)	2,382,008 (equivalent to approximately HK$2,468.95 million)	1,631,717 (equivalent to approximately HK$1,691.27 million)	2,985,619 (equivalent to approximately HK$3,094.59 million)	3,673,960 (equivalent to approximately HK$3,808.06 million)
Provision of process manufacturing services by the Geely Holding Group to the Enlarged Group	45,765 (equivalent to approximately HK$47.44 million)	25,525 (equivalent to approximately HK$26.46 million)	13,165 (equivalent to approximately HK$13.65 million)	121,580 (equivalent to approximately HK$126.02 million)	194,546 (equivalent to approximately HK$201.65 million)
Sales of CKDs by the Enlarged Group to the Geely Holding Group	5,566,683 (equivalent to approximately HK$5,769.87 million)	2,955,078 (equivalent to approximately HK$3,062.94 million))	1,683,590 (equivalent to approximately HK$1,745.04 million)	10,275,245 (equivalent to approximately HK$10,650.29 million)	12,707,335 (equivalent to approximately HK$13,171.15 million)
Sales of Sedan Tool Kits by the Enlarged Group to the Geely Holding Group	6,543 (equivalent to approximately HK$6.78 million)	4,569 (equivalent to approximately HK$4.74 million)	2,279 (equivalent to approximately HK$2.36 million)	13,125 (equivalent to approximately HK$13.60 million)	16,500 (equivalent to approximately HK$17.10 million)
Sales of CBUs by the Geely Holding Group to the Enlarged Group	5,776,639 (equivalent to approximately HK$5,987.49 million)	3,036,700 (equivalent to approximately HK$3,147.54 million)	1,753,740 (equivalent to approximately HK$1,817.75 million)	10,703,380 (equivalent to approximately HK$11,094.05 million)	13,236,807 (equivalent to approximately HK$13,719.95 million)

Note: As advised by the Company, the effective date of the Services Agreement is expected to be 1 November 2007 (subject to the fulfilment of the conditions precedent related thereto), and therefore the respective annual caps have been set on a pro rata basis and represent the estimated transaction amount for the two months ending 31 December 2007.

It is noted that a substantial growth is generally expected for each of the Services Transactions (save for the decrease in the transaction relating to the sales of automobile parts and components) for the period from the effective date of the Services Agreement to 31 December 2007 and the year ending 31 December 2008. It is also noted that the increases in the annual caps for the Services Transactions for the year ending 31 December 2009 are generally in line with the expected growth rate of the sales of the PRC brand sedans of the relevant year. In this regard, we have discussed with the Company's management on the underlying reasons and noted that the Directors have principally taken into account (i) the expected increase in the demand for the Enlarged Group's sedans in the fourth quarter of 2007 owing to industry seasonality; (ii) the expected substantial growth in demand for sedans in the PRC in view of the current economy and the expected economic development of the PRC; (iii) the expected growth in the PRC's sedan sales volume to be maintained at a rate of about 20% in the coming years; (iv) the improved production capability and product mix of the Enlarged Group; (v) the recent geographical diversification and expansion of the Enlarged Group's business to the inner cities of the PRC and the automobile export market; (vi) the estimated portion of the total procurement of automobile parts and components from the Geely Holding Group; and (vii) the respective accounting policies of the Group and the Associated Companies. Please also refer to the section headed "Other Project Documents" set out in the "Letter from the Board" of the Circular for further details of the basis of determination of the annual caps for the Services Transactions.

In our assessment of the reasonableness and fairness of the respective annual caps for the Services Transactions, we have reviewed, among other things, (i) the related sales budget for the three years ending 31 December 2009 compiled by the Associated Companies and the underlying bases and assumptions related thereto as detailed above; (ii) the product range of the Enlarged Group; (iii) the latest consumption tax rates on sales of sedans in the PRC released by the PRC tax bureau; (iv) the respective accounting policies of the Group and the Associated Companies; (v) the Associated Companies' sales breakdown by month for the three years ended 31 December 2006; and (vi) the present and prospective automobile industry in the PRC as discussed in section (A)(1)(c) above. 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 Directors in setting the relevant annual caps. We concur with the Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned annual caps at the proposed levels, after taking into consideration the following:

- the current intention of the Enlarged Group to devote to the research and development of automobile technology and to launch new sedan models and engine components to enhance its competitive advantages in the local market;

- that the Enlarged Group tends to perform better during the last two months of the year ending 31 December 2007 given that the peak season generally falls within the fourth quarter of any particular financial year;

- the expected increase in demand for the Enlarged Group's sedans in view of (i) the expected launch of new sedan models particularly in 2008 and 2009; (ii) the geographical coverage and market position of the Associated Companies in the PRC and automobile export sales market (the sales volume of the Zhejiang JV and the Shanghai Maple JV in aggregate for 2006 accounted for over 10% of the PRC's total sedan export volume for the relevant year as stated in the Annual Report); and (iii) the potential downward adjustment of the selling prices of the Associated Companies' existing sedans by about 3%

per annum in average for each of the two years ending 31 December 2009, which falls within the range of the historical average reduction in the selling prices of sedans in the PRC automobile market of about 1.7% to 6.5% per annum from 2001 to 2006 according to the China Automotive Information Net (中國汽車工業信息網);

- that the estimated selling prices of new sedan models to be sold by the Enlarged Group for each of the two years ending 31 December 2009 are in line with the prevailing market prices of similar existing models in the PRC automobile market;

- that the distribution costs of the CBUs, the manufacturing costs of the Sedan Tool Kits and the purchase cost of the imported molding equipment are estimated to remain at about the similar level as those incurred in the previous years;

- the adoption of an estimated average consumption tax rate of 4% for the transactions relating to the sale of the CKDs, which is comparable to the existing consumption tax rates on sales of sedans in the PRC of 3% or 5% (subject to the engine size of the relevant sedan models);

- the depreciation policy of the imported molding equipment adopted by the Geely Holding Group is in line with those adopted by the Group and the Associated Companies respectively;

- the current intention of the Group to set up its own parts procurement division in 2008 which will undertake about two-third of the total procurement of automobile parts and components required by the Enlarged Group thereafter; this results in relatively low annual caps for the transactions relating to the sales of automobile parts and components for each of the two years ending 31 December 2009 as compared to the relevant historical transacted amounts for previous years;

- the expansion plan of the Enlarged Group to enhance its production capacity by installing several new production lines equipped with the abovementioned imported molding equipment and upgrading and expanding the existing production plants; in order to accommodate the expected increasing demand in the PRC and overseas sedan markets and the development of new sedan models; and

- the expected growth in the PRC automobile industry as discussed in section (A)(1)(c) above.

Based on the factors and reasons discussed above, we are of the view that the annual caps for the Services Transactions were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

(b) The Loan Guarantee Agreement

Set out below are the details of the actual transacted amount of the Guarantee Transactions for the financial year ended 31 December 2006 and the six months ended 30 June 2007 respectively; and the estimated annual caps for the Guarantee Transactions for each of the period from the effective date of the Loan Guarantee Agreement to 31 December 2007 and the two financial years ending 31 December 2009:

Table 8

	Actual transacted amount (unaudited)		**Annual caps**		
Type of the Guarantee Transactions	**For the year ended 31 December 2006**	**For the six months ended 30 June 2007**	**For the period from the effective date of the Loan Guarantee Agreement to 31 December 2007** *(Note)*	**For the year ending 31 December 2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Provision of the Guarantees	169,000 (equivalent to approximately HK$175.17 million)	300,000 (equivalent to approximately HK$310.95 million)	850,000 (equivalent to approximately HK$881.03 million)	850,000 (equivalent to approximately HK$881.03 million)	850,000 (equivalent to approximately HK$881.03 million)

Note: As advised by the Company, the effective date of the Loan Guarantee Agreement is expected to be 1 November 2007 (subject to the fulfilment of the conditions precedent related thereto), and therefore the annual cap has been set on a pro rata basis and represents the estimated transaction amount for the two months ending 31 December 2007.

We note the significant increase in the annual cap for the Guarantee Transaction for the period from the effective date of the Loan Guarantee Agreement to 31 December 2007 as compared to the historical transacted amounts of the Guarantee Transactions for the year ended 31 December 2006 and the six months ended 30 June 2007 respectively; while the annual caps remain at the same level for each of the two years ending 31 December 2009 thereafter. In this regard, we have discussed with the Company's management on the underlying reasons, and noted that the Directors have principally taken into account (i) the Enlarged Group's agenda for research and development activities and the related funding requirement and cost; (ii) the ability of the Geely Holding Group to obtain low-cost financing on behalf of the Associated Companies given its long-term relationship with certain banks in the PRC; (iii) the amount of the Loan Facilities; (iv) the estimated amount of the Enlarged Group's assets available to be pledged for the purpose of the provision of the Guarantees; and (v) the potential ability of the Group to solicit for bank facilities after 2008 as a result of the Restructuring. Please refer to the section headed "**Other Project Documents**" set out in the "**Letter from the Board**" of the Circular for further details of the basis of determination of the annual caps for the Guarantee Transactions.

In our assessment of the reasonableness and fairness of the respective annual caps for the Guarantee Transactions, we have reviewed, among other things, (i) the respective guarantee policies of the Group, the Associated Companies and the Geely Holding Group; (ii) the unaudited financial statements of the Group and the audited financial statements of the Associated Companies as at 30 June 2007; and (iii) the respective latest unaudited management accounts of the Group and the Associated Companies as at 31 August 2007. 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 Directors in setting the relevant annual caps. We concur with the Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned annual caps at the proposed levels, after taking into consideration the following:

- that more funding resources will be devoted to the Enlarged Group's research and development activities for, among others, the design of new sedan models and the development of new engine, gearbox and electronic and electric auto-related components particularly in the second half of 2007, in order to tap into the increasing demand for the Enlarged Group's sedans in the PRC and overseas sedan markets in the future;

- that the Loan Facilities available to the Associated Companies as at the date of the Company's announcement in relation to the Continuing Connected Transactions (the "**CCT Announcement**") amounted to RMB850 million, which had been completely drawdown as at the Latest Practicable Date, of which about RMB300 million had been guaranteed by the Associated Companies with the remaining balance being guaranteed by the Geely Holding Group;

- that the adoption of the guarantee policies by the Geely Holding Group is in line with those adopted by the Group and the Associated Companies respectively;

- the current intention of the Geely Holding Group to obtain additional bank facilities on behalf of the Associated Companies in the second half of 2007 subsequent to the date of the CCT Announcement in view of the funding requirement for the implementation of the Enlarged

Group's research and development activities in the aforesaid areas; and up to the Latest Practicable Date, the Geely Holding Group has further obtained and drawdown in full a loan facility of RMB100 million which has been solely guaranteed by the Zhejiang Kingkong JV, one of the Associated Companies;

- the Directors' confirmation that, in the absence of unforeseen circumstances, the provision of the Guarantees in a total amount of RMB850 million is not expected to have any material adverse impact on the Enlarged Group's financial position, given (i) the total net asset value of the Group and the Associated Companies of about HK$2.0 billion and HK$3.6 billion respectively as at 30 June 2007 as stated in the Pro Forma Financial Information contained in Appendix X to the Circular; (ii) that there is no material adverse change to the respective net asset value position of each of the Group and the Associated Companies since 30 June 2007; and (iii) the grant of counter indemnities by the Geely Holding Group in consideration of the Guarantees; and

- that the annual caps for the Guarantee Transactions for each of the two years ending 31 December 2009 continue to be RMB850 million, after taking into consideration the belief of the Directors that the Enlarged Group will be capable to directly solicit from the PRC bank for loan facilities on favourable terms for its research and development activities in view of its improved overall structure and transparency as a result of the Restructuring, and therefore solicitation for additional loan facilities by the Geely Holding Group on behalf of the Associated Companies will no longer be required by the Enlarged Group after 2008.

Based on the factors and reasons discussed above, we are of the view that the annual caps for the Guarantee Transactions were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

(c) The Co-operation Agreement (Beijing) and the Co-operation Agreement (Zhejiang)

Set out below are the details of the actual transacted amount of each of the Co-operation Transactions for the year ended 31 December 2006 and the six months ended 30 June 2007; and the respective estimated annual caps for the Co-operation Transactions for each of the period from the effective date of the Co-operation

Agreement (Beijing) or the Co-operation Agreement (Zhejiang) to 31 December 2007 and the two financial years ending 31 December 2009:

Table 9

Type of the Co-operation Transactions	**Actual transacted amount** (unaudited) **For the year ended 31 December 2006** *(Note 1)* *RMB'000*	**For the six months ended 30 June 2007** *RMB'000*	**Annual caps** **For the period from the effective date of the Co-operation Agreement (Beijing) or the Co-operation Agreement (Zhejiang) to 31 December 2007** *(Note 2)* *RMB'000*	**For the year ending 31 December 2008** *RMB'000*	**2009** *RMB'000*
Provision of the Beijing Lectures	nil	10,000 (equivalent to approximately HK$10.37 million)	6,000 (equivalent to approximately HK$6.22 million)	36,000 (equivalent to approximately HK$37.31 million)	36,000 (equivalent to approximately HK$37.31 million)
Provision of the Beijing Trainings	nil	7,500 (equivalent to approximately HK$7.77 million)	1,267 (equivalent to approximately HK$1.31 million)	7,600 (equivalent to approximately HK$7.88 million)	7,600 (equivalent to approximately HK$7.88 million)
Provision of the Zhejiang Lectures	nil	nil	2,400 (equivalent to approximately HK$2.49 million)	14,400 (equivalent to approximately HK$14.93 million)	14,400 (equivalent to approximately HK$14.93 million)
Provision of the Zhejiang Trainings	nil	7,682 (equivalent to approximately HK$7.96 million)	4,200 (equivalent to approximately HK$4.35 million)	25,200 (equivalent to approximately HK$26.12 million)	25,200 (equivalent to approximately HK$26.12 million)

Notes:

1. It is confirmed by the Directors that all the Co-operation Transactions only commenced in 2007.

2. As advised by the Company, the effective date of the Co-operation Agreement (Beijing) or the Co-operation Agreement (Zhejiang) is expected to be 1 November 2007 (subject to the fulfilment of the conditions precedent related thereto), and therefore the respective annual caps have been set on a pro rata basis and represent the estimated transaction amount for the two months ending 31 December 2007.

We have discussed the above with the management of the Company and were advised that the respective annual caps for the Co-operation Transactions were determined by the Directors after taking into consideration the following principal bases and assumptions:

- that the subjects of the each of the Beijing Lectures, the Beijing Trainings, the Zhejiang Lectures and the Zhejiang Trainings are in line with the respective principal activities of the Group and the Associated Companies as well as their objectives of co-operating with Beijing Geely University and Zhejiang Economic Management College;

- the schedules of the Beijing Lectures, the Beijing Trainings, the Zhejiang Lectures and the Zhejiang Trainings;

- the comparisons of (i) the total number of the eligible students and the Lecturers; (ii) the general principles of education; and (iii) the education of Beijing Geely University and Zhejiang Economic Management College respectively;

- the tuition fee for corporate training courses and workshops charged by an independent education institute which is principally engaged in the provision of corporate training services in the PRC; and

- the average monthly tuition fees for the automobile related curriculums undertaken at Beijing Geely University and Zhejiang Economic Management College respectively for the academic year of 2007.

In our assessment of the reasonableness and fairness of the respective annual caps for the Co-operation Transactions, we have reviewed (i) the Group's and the Associated Companies' objectives of co-operating with Beijing Geely University and Zhejiang Economic Management College; (ii) the subjects and schedules of each of the Beijing Lectures, the Beijing Trainings, the Zhejiang Lectures and the Zhejiang Trainings for the academic year of 2007; (iii) the tuition fees for corporate training courses and workshops charged by an independent education institute; and (iv) the tuition fee for the automobile related curriculums undertaken at Beijing Geely University and Zhejiang Economic Management College respectively for the academic year of 2007. We concur with the

Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned annual caps at the proposed levels, after taking into consideration the following:

- that it is a compulsory course requirement for all the students undertaking the respective automobile related curriculums at Beijing Geely University and Zhejiang Economic Management College to participate in the Beijing Lectures and the Beijing Trainings or the Zhejiang Lectures and the Zhejiang Trainings (as the case may be) (subject to the final assessment by the Enlarged Group);

- that the estimated number of the Lecturers in each of 2007, 2008 and 2009 for the Beijing Lectures is the same as the actual number of those appointed in the first half of 2007;

- that fewer Lecturers have been allocated for the Zhejiang Lectures and longer duration of the Zhejiang Trainings is necessary as compared to the Beijing Lectures and the Beijing Trainings respectively, mainly due to the education of Zhejiang Economic Management College is more practice-oriented, emphasising on practical skills and techniques; whereas the education of Beijing Geely University is more theory-oriented;

- that the estimated number of students to attend in the Zhejiang Trainings is comparable to the actual number of students in the first half of 2007; whereas the number of students to attend the Beijing Trainings for each of the two years ending 31 December 2009 is expected to decrease significantly by about 50% as compared to that in the first half of 2007, after taking into account the location of the production facilities of the Enlarged Group; and

- that the Lecture Fees and Training Fees are considered to be fair and reasonable (detailed analysis of which are set out in section (B)(2)(c) above).

Based on the factors and reasons discussed above, we are of the view that the annual caps for the Co-operation Transactions were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

(d) The Lease Agreement

Set out below are the details of the actual transacted amount of the Leasing Transactions for the financial year ended 31 December 2006 and the six months ended 30 June 2007 respectively; and the estimated annual caps for the Leasing Transactions for each of the period from the effective date of the Lease Agreement to 31 December 2007 and the two financial years ending 31 December 2009:

Table 10

	Actual transacted amount (unaudited)		Annual caps		
Type of the Leasing Transactions	**For the year ended 31 December 2006**	**For the six months ended 30 June 2007**	**For the period from the effective date of the Lease Agreement to 31 December 2007** *(Note)*	**For the year ending 31 December 2008**	**For the year ending 31 December 2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Leasing of the Properties to the Geely Holding Group and Zhejiang Economic Management College	nil	4,941 (equivalent to approximately HK$5.12 million)	1,724 (equivalent to approximately HK$1.79 million)	16,024 (equivalent to approximately HK$16.61 million)	16,024 (equivalent to approximately HK$16.61 million)

Note: As advised by the Company, the effective date of the Lease Agreement is expected to be 1 November 2007 (subject to the fulfilment of the conditions precedent related thereto), and therefore the annual caps have been set on a pro rata basis and represents the estimated transaction amount for the two months ending 31 December 2007.

We note the significant increase in the annual cap for the Leasing Transaction for the year ending 31 December 2008 as compared to the historical transaction amounts of the Leasing Transactions for the six months ended 30 June 2007; while the annual cap remains at the same level for the year ending 31 December 2009 thereafter. In this regard, we have discussed with the Company's management on the underlying reasons and noted that the Directors have principally taken into account (i) the prevailing rental rates for similar lands and buildings adjacent to the Properties; (ii) the availability of surplus lands and buildings of the Enlarged Group in Zhejiang Province, the PRC for rental purposes; and (iii) the construction schedule of the lecture facilities for use by Zhejiang Economic Management College.

In our assessment of the reasonableness and fairness of the respective annual caps for the Leasing Transactions, we have reviewed (i) the market rate for rental of lands and buildings for industrial purposes in Linhai, Zhejiang Province, the PRC in which the Linhai Properties are located; (ii) similar leasing arrangement for certain land and building located in the same region in which the Taizhou Properties are located between the Zhejiang Kingkong JV and an independent third party for industrial purposes; and (iii) the construction schedule of the lecture facilities catering for Zhejiang Economic Management College. 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 Directors in setting the relevant annual caps. We concur with the Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned annual caps at the proposed levels, after taking into consideration the following:

- that the Rental Rates are considered to be fair and reasonable (detailed analysis of which are set out in section (B)(2)(d) above);
- the leasing arrangements relating to the Taizhou Properties with Zhejiang Economic Management College is expected to commence in January 2008, given that the relevant lecture facilities are currently under construction, and the construction completion and full establishment of such facilities are expected to take place in the fourth quarter in 2007; and
- that the Properties will continue to be fully occupied by the Geely Holding Group and Zhejiang Economic Management College respectively in both 2008 and 2009.

Based on the factors and reasons discussed above, we are of the view that the annual caps for the Leasing Transactions were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent 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 Continuing Connected Transactions;
- that each of the aforementioned Other Project Documents is for the implementation and facilitation of the manufacturing operations and business expansion of the Enlarged Group in future, and each of the Continuing Connected Transactions are in line with the Group's stated short to medium term business objective and strategy as discussed in section (A)(1)(b) above;
- that the respective pricing basis as provided under each of the Continuing Connected Transactions is fair and reasonable;
- the control and review procedures and arrangements in place to safeguard the interests of the Company and the Shareholders in relation to the Continuing Connected Transactions; and

- that the Annual Caps have been set by the Directors, after careful and due considerations, at a level which will be in the interests of both the Company and the Shareholders, in view of the factors as discussed in details in section (B)(4) above,

we consider that the Other Project Documents have been entered into within the usual and ordinary course of the Enlarged 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 Continuing Connected Transactions and the adoption of the Annual Caps.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Richard D. Winter
Managing Director

SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2006 AND THE SIX MONTHS ENDED 30 JUNE 2007

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 as extracted from the annual reports of the Company for the years ended 31 December 2005 and 2006 as well as the interim report of the Company for the six months ended 30 June 2007.

Consolidated Income Statement

	For the year ended 31 December			For the six months ended
	2004	2005	2006	30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited and restated)	(Audited)	(Audited)	(Unaudited)
Continuing operations				
Turnover/Revenue	31,903	101,411	127,006	65,638
Cost of sales	(30,378)	(90,649)	(110,036)	(57,536)
Gross profit	1,525	10,762	16,970	8,102
Other income	91	681	18,224	9,658
Distribution and selling expenses	(183)	(379)	(3,016)	(1,781)
Administrative expenses	(16,465)	(18,378)	(22,542)	(22,082)
Finance costs	–	–	(32,390)	(20,804)
Fair value loss on embedded derivate components of convertible bonds	–	–	(4,742)	(18,629)
Share of results of associates	93,471	122,691	243,230	129,615
Profit before taxation	78,439	115,377	215,734	84,079
Taxation	–	–	(1,585)	(730)
Profit for the year/period from continuing operations	78,439	115,377	214,149	83,349
Discontinued operations				
Profit for the year/period from discontinued operations	2,395	–	–	–
Profit for the year/period	80,834	115,377	214,149	83,349
Attributable to:				
Equity holders of the Company	81,305	110,827	208,752	82,416
Minority interests	(471)	4,550	5,397	933
	80,834	115,377	214,149	83,349
Dividends	41,203	41,203	57,327	–
Dividends per Share	HK 1.00 cents	HK 1.00 cents	HK 1.20 cents	HK nil cents
Earnings per share				
Basic				
– From continuing and discontinued operations	HK 1.97 cents	HK 2.69 cents	HK 5.05 cents	HK 1.77 cents
– From continuing operations	HK 1.91 cents	HK 2.69 cents	HK 5.05 cents	HK 1.77 cents

Notes:

(1) The reports of the auditors in respect of the financial statements of the Group for each of the three years ended 31 December 2006 did not contain any qualification.

(2) There was no extraordinary or exceptional item during the three years ended 31 December 2006 and the six months ended 30 June 2007.

Consolidated Balance Sheet

	As at 31 December			As at
	2004	2005	2006	30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Non-current assets				
Property, plant and equipment	5,831	7,433	12,282	13,513
Interest in associates	651,750	786,996	1,666,999	1,858,684
	657,581	794,429	1,679,281	1,872,197
Current assets				
Inventories	8,815	5,703	9,910	11,819
Trade and other receivables	11,921	44,840	59,065	68,536
Dividend receivables from associates	–	8,220	74,840	219,628
Amounts due from an associate	338	–	–	–
Amounts due from related companies	613	–	–	–
Tax recoverable	–	–	–	707
Bank balances and cash	1,499	8,449	20,972	623,021
	23,186	67,212	164,787	923,711
Current liabilities				
Trade and other payables	12,575	34,817	23,653	32,908
Amounts due to related companies	2,252	923	–	–
Amount due to a minority shareholder	5,027	4,588	–	–
Amount due to immediate holding company	–	14,220	11,220	3,720
Taxation	–	–	293	–
Convertible bonds – embedded derivatives	–	–	53,888	51,515
Short-term bank borrowings (secured)	–	–	22,250	19,010
	19,854	54,548	111,304	107,153
Net current assets	3,332	12,664	53,483	816,558
	660,913	807,093	1,732,764	2,688,755
Capital and reserves				
Share capital	82,405	82,405	83,028	101,345
Reserves	571,042	715,675	947,129	1,925,932
Equity attributable to equity holders of the Company	653,447	798,080	1,030,157	2,027,277
Minority interests	4,466	9,013	19,769	230,807
Total Equity	657,913	807,093	1,049,926	2,258,084
Non-current liabilities				
Advance from former ultimate holding company	3,000	–	–	–
Convertible bonds	–	–	682,838	430,671
	660,913	807,093	1,732,764	2,688,755

AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2006

The following is the audited financial statements of the Group for the year ended 31 December 2006 as extracted from the annual report 2006 of the Company.

Consolidated Income Statement
For the year ended 31 December 2006

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

Consolidated Balance Sheet
At 31 December 2006

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Accumulated profits	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	82,405	533,964	–	1,179	3,089	32,810	653,447	4,466	657,913
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	12,777	–	–	12,777	(3)	12,774
Profit for the year	–	–	–	–	–	110,827	110,827	4,550	115,377
Total recognised income for the year	–	–	–	12,777	–	110,827	123,604	4,547	128,151
Recognition of share based payments	–	–	–	–	5,538	–	5,538	–	5,538
Dividend paid	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
Deemed contribution from shareholders *(Note)*	–	–	56,694	–	–	–	56,694	–	56,694
At 31 December 2005	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
At 1 January 2006	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	31,690	–	–	31,690	459	32,149
Profit for the year	–	–	–	–	–	208,752	208,752	5,397	214,149
Total recognised income for the year	–	–	–	31,690	–	208,752	240,442	5,856	246,298
Shares issued upon conversion of convertible bonds	623	27,555	–	–	–	–	28,178	–	28,178
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	4,900	4,900
Recognition of share based payments	–	–	–	–	4,660	–	4,660	–	4,660
Dividend paid	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
At 31 December 2006	83,028	561,519	56,694	45,646	13,287	269,983	1,030,157	19,769	1,049,926

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

Consolidated Cash Flow Statement
For the year ended 31 December 2006

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

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

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

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

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

2. STATEMENT OF COMPLIANCE

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

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

3. EFFECTS OF APPLICATION OF HKFRSS NOT YET EFFECTIVE

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

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

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

Interest in associates

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

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

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

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

Inventories

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

Foreign currencies

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

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

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

Financial instruments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including dividend receivables from associates and trade and other receivables) are initially measured recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Other financial liabilities

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

Convertible bonds

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

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

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

Equity instruments

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

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

Derecognition

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

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

Property, plant and equipment

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

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

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

Impairment

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

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

Cash equivalents

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

Revenue recognition

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

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

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

Taxation

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

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

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

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

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

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

Equity-settled share-based transactions

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

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

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

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify of recognise as assets. Corresponding adjustments have been made to 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 income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include convertible bonds, short-term bank borrowings, trade and other receivables, trade and other payables, amounts due from/to related parties. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has concentration of credit risk with exposure limited to its associates. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debts due from an associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's exposure to bad debts is minimal.

The credit risk on liquid funds and notes receivable is limited because the counterparties are either banks or guaranteed by banks with high credit ratings assigned by credit-rating agencies.

Interest rate risk

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

(b) Fair value of financial instruments

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

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

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

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

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

6. TURNOVER/REVENUE

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Geographical segments

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

8. OTHER INCOME

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

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2006	2005
	HK$'000	*HK$'000*
Finance costs		
Effective interest expense on convertible bonds	32,289	–
Interest on bank borrowings wholly repayable within one year	101	–
	32,390	–
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	13,181	10,284
Retirement benefit scheme contributions	481	297
Recognition of share based payments (included in administrative expenses)	4,660	5,538
	18,322	16,119
Other items		
Cost of sales	110,036	90,649
Auditors' remuneration	1,192	580
Depreciation	1,403	811
Operating leases charges on premises	1,220	1,478
Share of tax of associates (included in share of results of associates)	26,770	28,596

10. TAXATION

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

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

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to an exemption from PRC foreign enterprise income tax for the two years starting from its first profit-making year (i.e. year 2004), followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

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

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

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

11. DIVIDENDS

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

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

12. EARNINGS PER SHARE

(a) Basic earnings per share

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

(i) Weighted average number of ordinary shares

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

(b) Diluted earnings per share

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

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

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

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

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

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

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

2006

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

2005

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

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

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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: five) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining individual for the year ended 31 December 2006 are as follows:

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

15. INTEREST IN ASSOCIATES

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

At 31 December 2006, the Group had interest in the following associates:

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited *	PRC	USD231,008,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited *	PRC	USD99,763,600	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江美人豹汽車銷售有限公司 Zhejiang Mybo Automobile Sales Company Limited #	PRC	RMB10,000,000	42.1%	Marketing and sales of sedans in the PRC
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

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited #	PRC	RMB30,000,000	42.1%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited #	PRC	RMB10,000,000	42.1%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited #	PRC	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江陸虎汽車有限公司 Zhejiang Ruhoo Automobile Company Limited *	PRC	RMB151,677,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江金剛汽車有限公司 Zhejiang Kingkong Automobile Company Limited *	PRC	RMB235,000,000	46.8%	Research, development, production and sales of sedans and related automobile components in the PRC
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited #	PRC	RMB10,000,000	42.1%	Production of automobile components in the PRC
上海國邦汽車配件有限公司 Shanghai Guobang Automobile Parts Company Limited #	PRC	RMB1,000,000	39.3%	Marketing and sales automobile components in the PRC

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

\# *Translation of registered name in Chinese for identification purpose*

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

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

16. INVENTORIES

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

17. TRADE AND OTHER RECEIVABLES

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

(a) Trade receivables

The trade receivables comprise:

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

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

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

(b) Notes receivables

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

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

18. CONVERTIBLE BONDS

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

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

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

Conversion price reset

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

(i) any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than 80% of the conversion price prevailing on the relevant reset date (after taking into account any adjustments as in certain events which may have occurred prior to the reset date); and

(ii) the conversion price shall not be reduced below the then par value (currently HK$0.02 per share) of the shares unless under applicable law then in effect the CB 2011 could be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

Redemption

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

(i) the closing price of the Company's shares on the SEHK shall have been at least 130% of the applicable early redemption amount divided by the conversion ratio for each of the 30 consecutive trading day period; or

(ii) at any time providing at least 90% of the principal amount of the CB 2011 has been converted, redeemed or purchased and cancelled.

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

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

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

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

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

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

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

19. TRADE AND OTHER PAYABLES

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

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

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

20. AMOUNTS DUE TO RELATED COMPANIES

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

21. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

22. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

23. SHARE CAPITAL

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

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

24. CASH USED IN OPERATIONS

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

25. MAJOR NON-CASH TRANSACTION

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

26. COMMITMENTS

Capital expenditure commitments

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

Operating lease commitments

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

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	926	1,706
In the second to fifth year inclusive	–	1,212
	926	2,918

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

27. RETIREMENT BENEFITS SCHEME

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

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

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 17% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect of the retirement benefit scheme is to make the specified contributions.

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

28. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

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

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

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

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

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

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

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

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

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

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

2006

Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
Directors					
Mr. Ang Siu Lun,	23.2.2004 – 22.2.2009	0.95	35,000,000	–	35,000,000
Lawrence	5.8.2005 – 4.8.2010	0.70	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5.8.2005 – 4.8.2010	0.70	23,000,000	–	23,000,000
Mr. Xu Gang	5.8.2005 – 4.8.2010	0.70	23,000,000	–	23,000,000
Mr. Yang Jian	5.8.2005 – 4.8.2010	0.70	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5.8.2005 – 4.8.2010	0.70	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5.8.2005 – 4.8.2010	0.70	16,000,000	–	16,000,000
Mr. Zhao Jie	5.8.2005 – 4.8.2010	0.70	18,000,000	–	18,000,000
Dr. Zhao Fuquan	28.11.2006 – 27.11.2011	0.89	–	12,000,000	12,000,000
Mr. Song Lin	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Mr. Lee Cheuk Yin, Dannis	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
Mr. Yeung Sau Hang, Alex	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
			166,000,000	15,000,000	181,000,000
Employees	5.8.2005 – 4.8.2010	0.70	88,500,000	–	88,500,000
	10.7.2006 – 16.5.2011	0.93	–	10,000,000	10,000,000
	28.11.2006 – 27.11.2011	0.89	–	3,000,000	3,000,000
			254,500,000	28,000,000	282,500,000
			HK$	*HK$*	*HK$*
Weighted average exercise price per share			0.73	0.91	0.75

Weighted average remaining contractual life of options outstanding at 31 December 2006	3.52 years
Number of options exercisable at 31 December 2006	263,820,000
	HK$
Weighted average exercise price per share of options exercisable at 31 December 2006	0.74

2005

Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Cancelled during the year	Outstanding at 31 December
Directors						
Mr. Ang Siu Lun,	23.2.2004 – 22.2.2009	0.95	35,000,000	–	–	35,000,000
Lawrence	5.8.2005 – 4.8.2010	0.70	–	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Xu Gang	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Yang Jian	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5.8.2005 – 4.8.2010	0.70	–	16,000,000	–	16,000,000
Mr. Nan Yang (resigned as director on 18 October 2005)	5.8.2005 – 4.8.2010	0.70	–	15,000,000	(15,000,000)	–
Mr. Zhao Jie	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
			35,000,000	146,000,000	(15,000,000)	166,000,000
Employees	5.8.2005 – 4.8.2010	0.70	–	93,500,000	(5,000,000)	88,500,000
			35,000,000	239,500,000	(20,000,000)	254,500,000
			HK$	*HK$*	*HK$*	*HK$*
Weighted average exercise price per share			0.95	0.70	0.70	0.73
Weighted average remaining contractual life of options outstanding at 31 December 2005						4.40 years
Number of options exercisable at 31 December 2005						108,170,000
						HK$
Weighted average exercise price per share of options exercisable at 31 December 2005						0.78

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

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

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

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

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

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

The Group recognised total expense of HK$4,660,000 for the year ended 31 December 2006 (2005: HK$5,538,000) in relation to share options granted by the Company.

29. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(a) Transactions

Name of related parties	**Nature of transactions**	**2006** *HK$'000*	**2005** *HK$'000*
Associates			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of automobile parts and components	126,796	27,478
	Dividend income	241,096	56,262
Shanghai Maple Guorun Automobile Company Limited (上海華普國潤汽車有限公司)	Dividend income	53,683	457
Related companies *(Note)*			
Zhejiang Haoqing Automobile Manufacturing Company Limited (浙江豪情汽車製造有限公司)	Sales of automobile parts and components	–	73,774
Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	326	462

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

(b) Compensation of key management personnel

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

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

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

30. POST BALANCE SHEET EVENTS

a) Placing of existing shares and subscription for new shares

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

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

b) Proposed disposal of interest in the SGM

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

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

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

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

31. BALANCE SHEET OF THE COMPANY

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

32. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Centurion Industries Limited	British Virgin Islands	USD1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
吉利國際貿易有限公司 Geely International Limited	Hong Kong	HK$2	100%	–	Inactive
浙江福林國潤汽車零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD2,459,200	–	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 2007

The following is the unaudited financial statements of the Group for the six months ended 30 June 2007 as extracted from the 2007 interim report of Company.

Consolidated Income Statement
For six months ended 30 June 2007

		Six months ended 30 June	
	NOTE	**2007**	**2006**
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover/Revenue		65,638	69,331
Cost of sales		(57,536)	(59,986)
Gross profit		8,102	9,345
Other income		9,658	7,840
Distribution and selling expenses		(1,781)	(1,949)
Administrative expenses		(22,082)	(10,714)
Finance costs	4	(20,804)	(10,142)
Fair value loss on embedded derivative components of convertible bonds		(18,629)	(7,518)
Share of results of associates	9	129,615	137,680
Profit before taxation		84,079	124,542
Taxation	5	(730)	(842)
Profit for the period	4	83,349	123,700
Attributable to:			
Equity holders of the Company		82,416	120,699
Minority interests		933	3,001
		83,349	123,700
Dividends	6	57,327	41,203
Earnings per share			
Basic	7	HK1.77 cents	HK2.93 cents
Diluted	7	HK1.74 cents	HK2.78 cents

Consolidated Balance Sheet

At 30 June 2007

	NOTE	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	13,513	12,282
Interest in associates	9	1,858,684	1,666,999
		1,872,197	1,679,281
Current assets			
Inventories	10	11,819	9,910
Tax recoverable		707	–
Trade and other receivables	11	68,536	59,065
Dividend receivable from associates		219,628	74,840
Bank balances and cash		623,021	20,972
		923,711	164,787
Current liabilities			
Trade and other payables	13	32,908	23,653
Amount due to immediate holding company		3,720	11,220
Taxation		–	293
Convertible bonds – embedded derivatives	12	51,515	53,888
Short-term bank borrowings (secured)		19,010	22,250
		107,153	111,304
Net current assets		816,558	53,483
Total assets less current liabilities		2,688,755	1,732,764
Capital and reserves			
Share capital	14	101,345	83,028
Reserves		1,925,932	947,129
Equity attributable to equity holders of the Company		2,027,277	1,030,157
Minority interests		230,807	19,769
Total Equity		2,258,084	1,049,926
Non-current liabilities			
Convertible bonds	12	430,671	682,838
		2,688,755	1,732,764

Consolidated Statement of Changes in Equity

For six months ended 30 June 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Accumulated profits	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	96	–	–	96	–	96
Profit for the period	–	–	–	–	–	120,699	120,699	3,001	123,700
Total recognised income 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
At 1 January 2007	83,028	561,519	56,694	45,646	13,287	269,983	1,030,157	19,769	1,049,926
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	36,644	–	–	36,644	2,089	38,733
Profit for the period	–	–	–	–	–	82,416	82,416	933	83,349
Total recognised income for the period	–	–	–	36,644	–	82,416	119,060	3,022	122,082
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	4,284	4,284
Disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	203,732	203,732
Issue of shares	12,000	597,867	–	–	–	–	609,867	–	609,867
Shares issued upon conversion of convertible bonds	6,317	287,508	–	–	–	–	293,825	–	293,825
Recognition of share based payments	–	–	–	–	1,349	–	1,349	–	1,349
Dividend paid	–	–	–	–	–	(57,327)	(57,327)	–	(57,327)
Deemed contribution from shareholders *(Note)*	–	–	30,346	–	–	–	30,346	–	30,346
At 30 June 2007	101,345	1,446,894	87,040	82,290	14,636	295,072	2,027,277	230,807	2,258,084

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

Consolidated Cash Flow Statement

For six months ended 30 June 2007

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(14,780)	2,030
NET CASH FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,902)	(4,374)
Dividend received from associates	61,231	47,157
Interest received	8,239	6,975
	67,568	49,758
NET CASH FROM FINANCING ACTIVITIES		
Dividend paid	(57,327)	(41,161)
Capital contribution from a minority shareholder	4,284	–
Net proceeds from the issuance of shares	609,867	–
Net proceeds from the issuance of convertible bonds	–	727,872
Other financing activities	(7,648)	(2,078)
	549,176	684,633
Net increase in cash and cash equivalents	601,964	736,421
Cash and cash equivalents at beginning of period	20,972	8,449
Effect of foreign exchange rate changes	85	96
Cash and cash equivalents at end of period, represented by bank balances and cash	623,021	744,966

Notes to the Financial Statements

For six months ended 30 June 2007

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2007 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs" which term collectively includes individual HKFRSs, HKASs and Interpretations) that are effective for accounting periods beginning on or after 1 January 2007 as follows:

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2[3]
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment[5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised. The Group has not early applied the following new/revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Interpretation 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – Interpretation 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business Segments

No business segment information has been presented for the six months ended 30 June 2007 and 30 June 2006 as the directors consider that the Group is principally engaged in the 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 and its customers are based in the People's Republic of China (the "PRC"). Accordingly, no geographical analysis is presented.

4. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Finance costs		
Effective interest expense on convertible bonds	20,656	10,142
Interest on bank borrowings wholly repayable within one year	148	–
Total finance costs	20,804	10,142
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	8,115	6,346
Retirement benefits scheme contributions	776	136
Recognition of share based payments (included in administrative expenses)	1,349	2,985
Total staff costs	10,240	9,467
Other items		
Interest income	(8,239)	(6,975)
Cost of inventories sold	57,536	59,986
Depreciation	869	622
Share of tax of associates (included in share of results of associates)	7,197	15,837

5. TAXATION

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC foreign enterprise income tax	730	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 subsidiaries are entitled to an exemption from PRC foreign enterprise income tax for the two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

6. DIVIDENDS

During the current period, a final dividend and a special dividend for the year ended 31 December 2006 of HK$0.01 per share (2006: HK1 cent per share) and HK$0.002 (2006: Nil) per share respectively, amounting to HK$57,327,000 (2006: HK$41,203,000), were paid to the shareholders.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$82,416,000 (2006: HK$120,699,000) and weighted average number of ordinary shares of 4,667,546,612 shares (2006: 4,120,264,902 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	4,151,388,496	4,120,264,902
Effect of new shares issued	447,513,812	–
Effect of shares issued upon conversion of convertible bonds	68,644,304	–
Weighted average number of ordinary shares at 30 June	4,667,546,612	4,120,264,902

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period is based on the profit attributable to equity holders of the Company of HK$82,416,000 (2006: HK$138,359,000) and the weighted average number of ordinary shares of 4,745,191,036 shares (2006: 4,970,176,228 shares), calculated as follows:

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

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share (profit attributable to equity holders)	82,416	120,699
After tax effect of effective interest on the liability component of convertible bonds	–	10,142
After tax effect of fair value losses on embedded derivative components of convertible bonds	–	7,518
Earnings for the purpose of diluted earnings per share	82,416	138,359

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

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,667,546,612	4,120,264,902
Effect of deemed conversion of convertible bonds	–	833,258,427
Effect of deemed issue of shares under the Company's share option scheme	77,644,424	16,652,899
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,745,191,036	4,970,176,228

The effect of deemed conversion of convertible bonds for the period has not been included in the calculation of diluted earnings per share because it is anti-dilutive.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK$1,902,000 (2006: HK$4,374,000).

9. INTEREST IN ASSOCIATES

	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Share of net assets other than goodwill	1,844,211	1,666,999
Goodwill	14,473	–
	1,858,684	1,666,999

During the period, the Group, a related party and Manganese Bronze Holdings plc ("MBH"), a company which shares are listed on the London Stock Exchange, jointly set up a sino-foreign equity joint venture, Shanghai LTI Automobile Components Company Limited ("Shanghai LTI") in which the Group, the related party and MBH own 51%, 1% and 48% respectively. MBH raised the funds required for satisfying its share of the capital contribution to Shanghai LTI by issuing 5,700,000 ordinary shares to the Group. As a result, the Group becomes the holder of 22.83% of the equity shares of MBH and MBH becomes an associate of the Group. Details of the incorporation of Shanghai LTI and the acquisition of interest in MBH are set out in the Company's circular dated 2 April 2007.

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

	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Total assets	10,110,766	6,949,568
Total liabilities	(5,746,464)	(3,388,365)
Net assets	4,364,302	3,561,203
Group's share of net assets of associates	1,844,211	1,666,999

	Six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Revenue	5,006,190	3,288,163
Profit for the period attributable to equity holders of the associates	276,895	294,189
Group's share of results of associates for the period	129,615	137,680

10. INVENTORIES

	30 June 2007 *HK$'000* (Unaudited)	31 December 2006 *HK$'000* (Audited)
At costs:		
Raw materials	7,518	5,656
Work in progress	310	1,000
Finished goods	3,991	3,254
	11,819	9,910

11. TRADE AND OTHER RECEIVABLES

	30 June 2007 *HK$'000* (Unaudited)	31 December 2006 *HK$'000* (Audited)
Trade and notes receivables		
Trade receivables from an associate	30,526	20,538
Notes receivables	28,500	37,405
	59,026	57,943
Other receivables		
Deposits, prepayments and other receivables	9,510	1,122
	68,536	59,065

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:

	30 June 2007 *HK$'000* (Unaudited)	31 December 2006 *HK$'000* (Audited)
0 – 60 days	30,526	20,503
61 – 90 days	–	35
	30,526	20,538

12. CONVERTIBLE BONDS

Details of the terms of the convertible bonds are set out in the Company's annual report for the year ended 31 December 2006. Convertible bonds contain a liability component and the embedded derivatives (comprising a put option, a call option and conversion option), which are required to be accounted for separately. The movements of the convertible bonds for the period are set out below:

	Six months ended 30 June 2007 *HK$'000* (Unaudited)	Year ended 31 December 2006 *HK$'000* (Audited)
Liability component		
Carrying amount brought forward/Fair value at inception	682,838	689,917
Issuing costs	–	(13,632)
Conversion during the period/year	(272,823)	(25,736)
Accrued effective interest charges	20,656	32,289
	430,671	682,838
Fair value of embedded derivative		
in respect of the put option and conversion option		
Carrying amount brought forward/Fair value at inception	169,782	192,714
Conversion during the period/year	(66,169)	(10,694)
Changes in fair value	135,130	(12,238)
	238,743	169,782
Less: Fair value of embedded derivative in respect of the call option		
Carrying amount brought forward/Fair value at inception	115,894	141,126
Conversion during the period/year	(45,167)	(8,252)
Changes in fair value	116,501	(16,980)
	187,228	115,894
	51,515	53,888

The principal amount of the convertible bonds converted during the period was HK$278.2 million (year ended 31 December 2006: HK$27.7 million) and the principal amount outstanding at 30 June 2007 is HK$435.7 million (31 December 2006: HK$713.9 million).

The derivatives embedded in the convertible bonds are measured at fair value at 30 June 2007 by an independent professional valuer, BMI Appraisals Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method.

13. TRADE AND OTHER PAYABLES

	30 June 2007 *HK$'000* (Unaudited)	31 December 2006 *HK$'000* (Audited)
Trade payables		
To third parties	26,943	19,498
Other payables		
Accrued charges and other creditors	5,965	4,155
	32,908	23,653

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

	30 June 2007 *HK$'000* (Unaudited)	31 December 2006 *HK$'000* (Audited)
0 – 60 days	21,085	16,379
61 – 90 days	3,854	1,407
Over 90 days	2,004	1,712
	26,943	19,498

14. SHARE CAPITAL

	Note	Number of shares	Nominal value *HK$'000*
Authorised:			
Ordinary shares of HK$0.02 each			
At 31 December 2006 and 30 June 2007		8,000,000,000	160,000
Issued and fully paid:			
Ordinary shares of HK$0.02 each			
Balance at 1 January 2006		4,120,264,902	82,405
Shares issued upon conversion of convertible bonds		31,123,594	623
Balance at 31 December 2006 and at 1 January 2007 (Audited)		4,151,388,496	83,028
Issue of shares for cash	*(a)*	600,000,000	12,000
Shares issued upon conversion of convertible bonds	*(b)*	315,876,778	6,317
Balance at 30 June 2007 (Unaudited)		5,067,265,274	101,345

Note:

(a) During the period, the Company issued 600,000,000 ordinary shares (year ended 31 December 2006: Nil) of HK$0.02 each at a subscription price of HK$1.06 per share for cash to provide for additional working capital of the Group and to finance the investment in Shanghai LTI. These shares rank pari passu with the existing shares in all respects.

(b) During the period, convertible bonds of principal amount of HK$278,230,000 (year ended 31 December 2006: HK$27,700,000) have been converted into 315,876,778 ordinary shares (year ended 31 December 2006: 31,123,594 ordinary shares) of the Company at a conversion price of HK$0.89 per share and HK$0.88 per share before and after the distribution of 2006 final dividends and special dividends, respectively. These shares rank pari passu with the existing shares in all respects.

15. COMMITMENTS

Capital expenditure commitments

As at the balance sheet dates, the Group had entered into contracts with related parties to establish sino-foreign equity joint ventures in the PRC in which the Group will invest approximately the following amount:

	30 June 2007 *HK$'000* (Unaudited)	**31 December 2006** *HK$'000* (Audited)
Capital contribution	182,849	418,580

Operating lease commitments

(1) At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office and factory premises under non-cancellable operating leases with third parties which fall due as follows:

	30 June 2007 *HK$'000* (Unaudited)	**31 December 2006** *HK$'000* (Audited)
Within one year	760	926
In the second to fifth year inclusive	490	–
	1,250	926

Leases are negotiated and rentals are fixed for an average term of 2 years.

(2) At the balance sheet date, the Group had commitments for future minimum lease payments in respect of factory premises and equipment under non-cancellable operating leases with an associate of the Company which fall due as follows:

	30 June 2007	**31 December 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	33,980	–
In the second to fifth year inclusive	135,918	–
Over five years	507,367	–
	677,265	–

Leases are negotiated and rentals are fixed for an average term of 20 years.

16. RETIREMENT BENEFITS SCHEME

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

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

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 17% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

For the six months ended 30 June 2007, the aggregate employer's contributions made by the Group and charged to the income statement are HK$776,000 (2006: HK$136,000).

17. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible employees of the Group. Details of the terms of the scheme have been set out in the Company's annual report for the year ended 31 December 2006. Movements in number of share options during the period are as follows:

	Six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
Outstanding at the beginning of the period	282,500,000	254,500,000
Granted during the period	–	13,000,000
Forfeited during the period	(2,480,000)	–
Outstanding at the end of the period	280,020,000	267,500,000

No options were exercised or granted to subscribe for shares in the Company during the period.

The Group recognised a total expense of HK$1,349,000 for the six months ended 30 June 2007 (2006: HK$2,985,000) in relation to share options granted by the Company.

18. RELATED PARTY TRANSACTIONS

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

(a) Transactions

Name of related parties	Nature of transactions	Six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Associates			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of automobile parts and components	65,333	69,271
	Purchase of automobile part and components	–	580
	Dividend income	183,463	174,489
Shanghai Maple Guorun Automobile Company Limited (上海華普國潤汽車有限公司)	Dividend income	22,556	53,683
Related company *(Note)*			
Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	75	217

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

(b) Compensation of key management personnel

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

	Six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Salaries and other short-term benefits	3,559	1,826
Retirement benefits scheme contribution	31	17
Share-based payments	1,349	2,985
	4,939	4,828

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

19. POST BALANCE SHEET EVENTS

On 13 July 2007, the Group entered into agreements with various connected persons to acquire 44.19% of the remaining interests in each of the PRC associates from its respective controlling shareholder and its associates at the total consideration of approximately HK$1,611 million to be satisfied fully by the issue of 1,288,672,000 ordinary shares of nominal value of HK$0.02 each at HK$1.25 per share. In addition, on the same day, the Group entered into agreement with a related party to acquire the remaining 49% interest in the registered capital of the Company's non wholly-owned subsidiary for a total consideration of approximately HK$23 million, which is payable in cash by primarily applying the dividends to be distributed from the non wholly-owned subsidiary.

The above acquisitions are subject to the approval by the independent shareholders of the Company and at the date of issue of these condensed consolidated financial statements, the above acquisitions have not yet been completed.

20. COMPARATIVE FIGURES

Certain comparative figures on the condensed consolidated balance sheet have been reclassified to conform with current period's presentation.

WORKING CAPITAL

The Directors are of the opinion that, having regard to the financial resources available to the Enlarged Group, including internally generated funds and other banking facilities available, the Enlarged Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

MATERIAL CHANGES

Save as (i) disclosed in the interim report of the Company for the six months ended 30 June 2007, in particular information relating to the set up of a new production joint venture, named Shanghai LTI Automobile Components Company Limited, with Manganese Bronze to manufacture the iconic London Taxies, a limousine and two large saloon car models in Shanghai starting from the second half of 2008; (ii) the reduction in the units of sedan sold by the Company's major operating associates for the nine months ended 30 September 2007, as compared to the major operating associates' management budget set in early 2007, primarily due to the continued keen competitions prevailing in the PRC automobile market (details of the above are also disclosed in the section headed "Management discussion and analysis of the results and operations of the Group" of this appendix), and (iii) the establishment of the Hunan Geely JV and the proposed establishment of the Lanzhou Geely JV as announced by the Company on 26 March 2007, the Directors are not aware of any material change in the financial or trading position or prospects or outlook of the Group since 31 December 2006, the date to which the latest published audited accounts of the Group were made up.

INDEBTEDNESS

At the close of business on 31 August 2007, being the latest practicable date for this statement of indebtedness prior to the printing of the circular, the Enlarged Group had outstanding long-term borrowings (excluding the embedded derivatives of the Company's convertible bonds) of approximately HK$495.5 million comprising liability component of the Company's unsecured convertible bonds of approximately HK$326.9 million and secured long-term bank borrowings of approximately HK$168.6 million; and short-term bank borrowings of approximately HK$1,453.7 million comprising the discounted notes receivables of approximately HK$906.5 million, secured short-term bank borrowings of approximately HK$292.4 million and unsecured short-term bank borrowings of approximately HK$254.8 million. As at 31 August 2007, the secured bank borrowings (both long-term and short-term) were secured by certain land use rights, buildings and equipment of the Enlarged Group with the total value of approximately HK$528.2 million while the unsecured short-term bank borrowings were guaranteed by the Geely Holding Group. Also, as at 31 August 2007, the Enlarged Group's certain land use rights and buildings with value of approximately HK$508.8 million were pledged for banking facilities granted to the Geely Holding Group. Furthermore, as at 31 August 2007, the Enlarged Group pledged deposits of approximately HK$305.8 million in favor of certain PRC banks.

Save as aforesaid, at the close of business on 31 August 2007, the Enlarged 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.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 August 2007.

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

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF THE GROUP

The following is the management discussion and analysis of the Group principally extracted from the annual reports of the Company for each of the three years ended 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007.

(i) 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 Zhejiang 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, Zhejiang 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.

(ii) 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 Zhejiang Fulin Guorun returned to profitability in 2005. Zhejiang 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 Zhejiang 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.

(iii) For the year ended 31 December 2006

Financial Review

The Group's turnover amounted to HK$127 million for the year ended 31 December 2006, representing an increase of 25% over 2005. Profit attributable to the equity holders of the Company amounted to HK$209 million, a significant increase of 88% over 2005. The large increase in net profit was attributable to the significant growth in profit contributions from the Company's four associates – Zheijang JV, Shanghai Maple JV, Zhejiang Kingkong JV and Zhejiang Ruhoo JV – (collectively referred as "the Associates") mainly due to the strong demand for "Free Cruiser" family sedans launched in 2005, the initial good response to "Geely Kingkong" mid-end sedans launched in mid 2006, and a more stable raw material prices, more than offsetting the intensified price competition in China's sedan market during the year.

Business Overview

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

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

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

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

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

Outlook

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

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

According to the figures released by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China increased by 37% to 3.8 million units in 2006, surpassing most market expectations. Although fierce competition in China's sedan market should remain, the Company expects growth of China's sedan sales volume to be maintained at around 20% in the coming few years.

With the successful launches of the "Geely Kingkong" and "Vision" sedans, JL-ZA series of automatic gearboxes, and 4G18 VVT engines – considered the Associates' most strategically important new product launches in their history – in 2006, and the significant efforts spent in the exploration of export markets, the Associates are well positioned to further increase their combined market shares from 4.6% to 5% in 2007, thus translating into total contracted sales volume of 240,000 units, representing an YoY growth of 37%.

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

Capital Structure and Treasury Policies

The business activities of the Group are mainly financed by the share capital, dividend received from the Group's two major associates and proceeds of the convertible bonds issued by the Company on 10 April 2006. As at 31 December 2006, the Group's equity holders fund amounted to HK$1,030 million (As at 31 December 2005: HK$798 million). Apart from the shares issued upon conversion of convertible bonds, no additional share was issued during the year.

Exposure to Foreign Exchange Risk

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

Liquidity and Financial Resources

As at 31 December 2006, the Group's current ratio (current assets/current liabilities) was 1.24 (As at 31 December 2005: 1.23) and the gearing ratio of the Group was 69.5% (As at 31 December 2005: 2.4%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 31 December 2006 amounted to approximately HK$716 million (As at 31 December 2005: approximately HK$19 million) were mainly the Company's convertible bonds, bank borrowings and the amount due to immediate holding company. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity. For the bank borrowings, they were secured by notes receivables, interest-bearing and repaid on maturity. While for the amount due to immediate holding company, it was unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

Employees' Remuneration Policy

As at 31 December 2006, the total number of employees of the Group including associates was about 9,498 (As at 31 December 2005: 7,714). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

(iv) For the six months ended 30 June 2007

Overall Performance

The Group's performance in the first half of 2007 was affected by the intensified competition in China's sedan market, featured by repeated price cuts by major sedan manufacturers and a slow down in the demand for economy sedans in the China market. To cope with the rapid changes in market environment, the Group has embarked on a major strategic transformation, through expansion into higher-end and large sized vehicles and major investments to enhance the Group's technology competence and product branding, aiming at transforming Geely's competitive advantages from price competitive to technology and performance competent. Although the strategic transformation has so far yielded very positive results, it has also caused some short-term negative impact on sales volume growth and profitability so far this year.

The Company's turnover, which principally came from the Company's 51%-owned auto parts subsidiary Zhejiang Fulin Guorun, amounted to HK$66 million for the six months ended 30 June 2007, representing a small decline of 5% from the same period last year. Profit attributable to shareholders amounted to HK$82 million, down 32% from the same period in 2006. The decline in net profit was mainly due to the 6% decrease in profit contribution from its four associates: Zhejiang JV, Shanghai Maple JV, Zhejiang Kingkong JV and Zhejiang Ruhoo JV, the startup costs of Shanghai LTI Automobile Components Company Limited ("Shanghai LTI"), the Company's new joint venture with Manganese Bronze, and the large increase in the net expenses related to the outstanding convertible bonds "CBs", including the accrued interests for the debt portion of the CBs and the revaluation deficit of the derivative portion of the CBs. Key contributor to the Company's net profit in the first half of 2007 remained the Company's four associates which recorded a 6% decline in net profit during the period, mainly due to the decline in the sales volume of low end sedans and a 5-6% price cuts during the first half of 2007 for most of their models, which had more than offset the increased profit contribution from new models like "Geely Kingkong".

The earnings performance of the Company's 51%-owned auto parts subsidiary Zhejiang Fulin Guorun in the first half of 2007 was also affected by the slower sales of Geely sedans, which utilized the Company's braking and steering products for its lower end models. As a result, Zhejiang Fulin Guorun's net profit after tax decreased by around 11% to HK$5.3 million during the period.

The Company issued 600 million new shares at HK$1.06 per share in February 2007, raising net proceeds of HK$609 million, mainly used to fund the capital contribution to Shanghai LTI, the Company's new joint-venture with Manganese Bronze.

Proposal to Acquire Additional Interests in Operating Associates and Zhejiang Fulin Guorun

The Company announced on 13 July 2007 that it had signed an agreement with its controlling shareholder to acquire 44.19% stakes in each of the Group's five operating associates: Zhejiang JV, Shanghai Maple JV, Zhejiang Kingkong, Zhejiang Ruhoo JV and Hunan Geely JV – an associate established in April 2007 to invest in a new plant under construction in Xiangtan of Hunan province, raising its equity interests in these operating associates to 91%, for a total consideration of HK$1,611 million to be satisfied by the issue of 1,289 million new shares of the Group at HK$1.25 per share. The consideration of HK$1,611 million has been determined with reference to the unaudited net asset value of the operating associates on 30 June 2007.

The Company also entered into another agreement on the same day with a connected party for the acquisition of the remaining 49% stake in Zhejiang Fulin Guorun, raising its equity interests in Zhejiang Fulin Guorun from 51% to 100%, for a total consideration of HK$23.3 million, payable in cash. The consideration is based on the 49% attributable interest in unaudited net asset value of Zhejiang Fulin Guorun on 30 June 2007.

The proposal reflects the management's continued effort to further rationalize and restructure the Group's structure, aiming at improving the Group's overall transparency and its effectiveness as the ultimate holding vehicle of Geely Holding's auto-related businesses. The use of new share issue rather than cash to pay for the additional stakes in the operating associates would not only help to reduce the financial burden over the Company, but also help the Group to further expand its capital base to cope with the rapid development of the Group in the future. The acquisitions are subject to approval by relevant government bodies and independent shareholders of the Company and are expected to be completed before the end of 2007.

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

51%-owned Zhejiang 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 in the first half of 2007 was affected by the slower sales volume growth achieved by Geely's and Maple's lower-end sedans, which utilized the Company's braking and steering products. As a result, Zhejiang Fulin Guorun's turnover declined by 5% to HK$66 million and net profit was down 10.6% to HK$5.3 million in the first half of 2007. Zhejiang Fulin Guorun had started to supply new generation of Electric Power Steering ("EPS") for higher end Geely sedans in the first half of 2007. This, coupled with the relocation of production to new facilities completed in mid-2007, should help to improve Zhejiang Fulin Guorun's production efficiency and further reduce its production costs.

New Joint-venture with Manganese Bronze – Shanghai LTI

In March 2007, the Company set up a new production joint venture, named Shanghai LTI Automobile Components Company Limited, with Manganese Bronze to manufacture the iconic London Taxies, a limousine and two large saloon car models in Shanghai starting from the second half of 2008. The Company invested US$53.8 million for a 51% stake in Shanghai LTI, plus a 22.83% stake or 5.7 million new shares in Manganese Bronze, which in turn owns 48% stake in the joint venture. The remaining 1% stake of the joint venture is owned by Shanghai Maple Automobile Company Limited, which is 90%-owned by Geely Holding. Total investment of Shanghai LTI is estimated to be around US$99.5 million, which is funded by shareholders' capital contribution and subsequent bank borrowings. Manganese Bronze will appoint Mr. Gui Sheng Yue and Mr. Ang Siu Lun, Lawrence, both are executive directors of the Group, to join the board of Manganese Bronze as non-executive directors with effect from 25 September 2007. The Group will start to equity account for Manganese Bronze's financial results in its financial statements from the second half of 2007.

Shanghai LTI has completed its product plans and has commenced the redesign and reengineering of Manganese Bronze's TX4 models for subsequent production of the localized models in China. Shanghai LTI is scheduled to start production in an existing production plant leased from Shanghai Maple JV towards the end of 2008. Without revenues during the period, Shanghai LTI recorded a net loss of HK$3.4 million in the first half of 2007.

Vehicle Manufacturing – Zhejiang JV, Shanghai Maple JV, Zhejiang Kingkong JV and Zhejiang Ruhoo JV

46.8%-owned Zhejiang JV, Shanghai Maple JV, Zhejiang Kingkong JV and Zhejiang Ruhoo JV remained the key earnings contributors to the Company, accounting for the bulk of the Company's earnings in the first half of 2007. The four operating associates sold a total of 84,111 units of vehicles in the first six months of 2007, down 3% from the restated sales volume of 86,641 units in the same period last year. The combined market share of Geely and Maple sedans declined from 4.3% in 2006 to 3.7% in the first half of 2007 due to the dramatic drop in the sales volumes of the low-priced models like Haoqing and Ulion, as a result of the Group's strategic transformation towards more performance and technology driven products.

Despite the slight decline in sales volume, the four associates continued to improve their product mixes towards higher-priced models through the introduction of more higher-priced models like "Vision" and the 1.8L "Power Version" of "Geely Kingkong" during the first half of 2007. Sales of the three higher-priced models: "Free Cruiser", "Geely Kingkong" and "Vision" accounted for 59% of their total sales volume in the first half of 2007 compared with only 34% during the same period in 2006. In particular, "Geely Kingkong", the Group's key new product last year, has received very good market response and achieved a tremendous success in the first half of 2007 with a total sales volume of 16,504 units and become the second best selling models of the associates during the period. "Free Cruiser" remained the associates' best selling models during the period, achieving sales volume of 30,606 units, 6% higher than the level achieved the same period last year. Although "Vision", the associates' key new product in 2007, was only officially launched in May 2007, the market response has been encouraging so far with a total of 2,622 units sold in the first half of 2007.

In the first half of 2007, the four operating associates recorded total net profit of HK$277 million, down 6% from the same period in 2006, on 3% decrease in sales volume to 84,111 units and 52.2% increase in total revenue to HK$5,006 million. Average revenue per car improved significantly by 47% to HK$53,745 per car as improved product mix more than offset the 5-6% price reduction during the first half of 2007. Net profit per car, however, decreased by 3% YoY to HK$3,292 per car during the first half of 2007, as price reduction and increased expenses related to new product launches more than offset the improved product mix and costs cutting achieved during the period. Total unit production costs for comparable models are estimated to have fallen by around 3-5% during the first half of 2007.

Outlook

Although competition in China's sedan market continues to intensify, the Group expects the growth of China's sedan sales volume to be maintained at around 20% per annum in the coming few years. According to the figures compiled by the China Association of Automobile Manufacturers, total sales volume of sedans in China amounted to 2.3 million units in the first half of 2007, up almost 26% from the previous year. However, sales of smaller sized cars have slowed down significantly since the end of 2006. In particular, sales volume of sedans with engine size of 1.0L or less was down almost 30% YoY during the first half of 2007, reflecting an interesting shift in preference for larger size cars by the Chinese consumers, probably a result of the increasing need for longer distance intra city travel and a strong domestic stock market, which is reported to have prompted potential car buyers to delay their car purchase plans to spare more funds for investment in the local stock market. As a result of the dramatic slow down in the demand for smaller cars, most small car manufacturers have decided to adopt a more aggressive pricing strategy, resulting in several rounds of competitive price cuts since the beginning of 2007, resulting in tremendous price pressures in the economy car segment so far this year. Despite this, the very difficult market condition, which has resulted in dramatic fall in sales volume and major deterioration in profitability amongst most economy car manufacturers in China, has so far only limited impact on the Group's performance, thanks to the Group's well timed transformation to broaden its product range over the past few years.

To cope with the rapid changes in market environment, the Group has reduced the retail prices of its products by 5-6% so far in 2007. In addition, more resources have been allocated to improve the Group's brand images, product mix, customer services and the quality and technology standards of its products, aiming to enhance the Group's pricing power through differentiating the Group's products from the products offered by other Chinese sedan manufacturers. Additional efforts were also spent to promote exports sales in order to compensate for the shortfall in the domestic demand. Major restructuring in various business areas including the research and development department, the auto parts procurement system, and the suppliers' system have been implemented to further reduce cost and improve product quality. A management reshuffle also happened in Shanghai Maple JV, aiming to revive the profitability of the Maple's sedans. Major restructuring of the Group's dealers and distribution network has also started to improve the effectiveness of the Geely sedans' market penetration.

In view of the less than satisfactory performance in the first half of 2007, featured by dramatic fall in the sales volume of the Group's low end sedan models, which have long been the key contributors to the Group's total sales volume, the Company has decided to revise downwards our full year sales target from 240,000 units to 190,000 units, which still represent a respectful growth of 16% over 2006. In the first half of 2007, the Company's four associates had sold 84,111 units of vehicles, achieving 44% of their revised combined full year sales volume target.

In the medium to longer term, the Group will continue to upgrade and expand our 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's sedans, to invest in product and technology innovation in order to differentiate our 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 develop the Group into an internationally competitive sedan manufacturer.

The Group's major achievements in the first half of 2007, including the successful launch of Geely's first mid-end sedan model: "Vision", the significant improvement in average unit sales price to HK$53,745 per car, up 47% from the same period last year, and thus a huge increase in the half year sale revenue of the operating associates to over HK$5 billion benchmark, paving way for the operating associates to achieve their target of surpassing HK$10 billion in revenue in 2007, and the substantial effort devoted to restructure the associates' parts procurement system and dealers' network, should have built up a good foundation for the Group's sustained long-term growth in the future.

Capital Structure and Treasury Policies

The business activities of the Group are mainly financed by the share capital, dividends received from the Group's two major associates, net proceeds from the top-up placement of 600 million shares issued by the Company in February 2007. As at 30 June 2007, the Group's shareholders' fund amounted to approximately HK$2,027 million (As at 31 December 2006: approximately HK$1,030 million). Save for the 600 million shares issued for the top-up placement in February 2007 and 315,876,778 shares issued upon conversion of convertible bonds, no further shares were issued by the Group during the period.

Exposure to Foreign Exchange Risk

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

Liquidity and Financial Resources

As at 30 June 2007, the Group's current ratio (current assets/current liabilities) was 8.62 (As at 31 December 2006: 1.48) and the gearing ratio of the Group was 22.4% (As at 31 December 2006: 69.5%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 30 June 2007 amounted to approximately HK$453 million (As at 31 December 2006: approximately HK$716 million) were mainly the Company's convertible bonds, bank borrowings and the amount due to immediate holding company. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity. For the bank borrowings, they were secured by notes receivables, interest-bearing and repaid on maturity. Whilst for the amount due to immediate holding company, they were unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

Employees' Remuneration Policy

As at 30 June 2007, the total number of employees of the Group including associates was about 8,409 (As at 31 December 2006: approximately 9,484). 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.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

31 October 2007

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

Dear Sirs

We set out below our report on the financial information ("Financial Information") regarding Zhejiang Geely Automobile Company Limited ("Zhejiang JV") (English translation of 浙江吉利汽車有限公司 for identification purpose) and its subsidiaries (hereinafter collectively referred to as "Zhejiang JV Group") for each of the three years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in a circular issued by Geely Automobile Holdings Limited (the "Company") dated 31 October 2007 (the "Circular") in connection with the proposed acquisition of 44.19% additional interest in Zhejiang JV.

Zhejiang JV is a sino-foreign equity joint venture established in the People's Republic of China ("PRC") with limited liability on 27 May 2003. The principal activities of Zhejiang JV are research, development, production, marketing and sales of sedans and related automobile parts and components in the PRC.

As at the date of this report, Zhejiang JV has the following subsidiaries, all of which are limited liability companies established and operated in the PRC:

Company name	Date of establishment	Registered capital	Proportion of nominal value of registered capital held by Zhejiang JV		Principal activities
			Directly	*Indirectly*	
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited (*)	9 January 2003	RMB20,000,000	90%	–	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 (*)	14 June 2001	RMB15,000,000	90%	–	Marketing and sales of sedans in the PRC

Company name	Date of establishment	Registered capital	Proportion of nominal value of registered capital held by Zhejiang JV *Directly*	*Indirectly*	Principal activities
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation (*)	9 July 2002	RMB20,000,000	70%	4.5%	Export of sedans outside the PRC
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited (*)	15 July 2004	RMB10,000,000	90%	–	Production of automobile components in the PRC
上海國邦汽車配件有限公司 Shanghai Guobang Automobile Parts Company Limited (*)	7 July 2006	RMB1,000,000	–	74.5%	Marketing and sales of automobile components in the PRC
寧波吉利發動機研究所公司 Ningbo Geely Engine Research Institute Limited(*)	6 June 2003	RMB10,000,000	100%	–	Research, development, production, marketing and sales of sedans and related automobile components in the PRC.

(*) The English names of these companies are for identification purpose only.

Zhejiang JV Group has adopted 31 December as its financial year end date. The statutory financial statements of Zhejiang JV for the years ended 31 December 2004, 2005 and 2006 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP") which were audited by Deloitte Touche Tohmatsu CPA Ltd. (「德勤華永會計師事務所有限公司」), Zhejiang TianPing Certified Public Accountants, Co., Ltd. (「浙江天平會計師事務所有限公司」) and Moores Rowland CEC Certified Public Accountants (「東建中永信會計師事務所」), respectively. There is no statutory audit requirement for all other companies comprising Zhejiang JV Group.

For the purpose of this report, the directors of Zhejiang JV have prepared the consolidated financial statements of Zhejiang JV Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The accompanying Financial Information has been prepared based on the Underlying Financial Statements of Zhejiang JV Group and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of the Zhejiang JV Group and carried out such additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Zhejiang JV are responsible for the preparation of the Underlying Financial Statements which are prepared in accordance with accounting principles generally accepted in Hong Kong and which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

We planned our work so as to obtain relevant and reliable evidence sufficient to enable us to prepare the Financial Information to be included in our report and to form an opinion on that information. However, we were unable to obtain sufficient information and evidence in respect of the following:

As explained in note 2, the Financial Information have included the results and cash flows of Zhejiang Haoqing Automobile Manufacturing Company Limited and its subsidiary Taizhou Geely Automobile Sales Company Limited (collectively referred to as "Zhejiang Haoqing Group") for the periods from 1 July 2004 to 31 December 2004 and from 1 January 2005 to 31 October 2005, which contributed losses of approximately RMB5,559,000 and RMB14,506,000 for the years ended 31 December 2004 and 2005 respectively, and the net assets of Zhejiang Haoqing Group of approximately RMB345,063,000 as at 31 December 2004. Following the disposal of Zhejiang Haoqing Group, the books and records of Zhejiang Haoqing Group for the period from 1 July 2004 to 31 October 2005 are no longer under the custody of the management of Zhejiang JV. We were unable to conduct an examination or to apply alternative procedures on the separate financial information of Zhejiang Haoqing Group and to verity the goodwill arising from acquisition of Zhejiang Haoqing Group amounting to RMB157,563,000 as at 31 December 2004.

Except for any adjustment that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matter set out above, in our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Zhejiang JV Group as at 31 December 2004 and of the results and cash flows of Zhejiang JV Group for the years ended 31 December 2004 and 2005.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Zhejiang JV as at 31 December 2004, 2005, 2006 and 30 June 2007 and Zhejiang JV Group as at 31 December 2005, 2006 and 30 June 2007 and of the results and cash flows of Zhejiang JV Group for the year ended 31 December 2006 and six months ended 30 June 2007.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of Zhejiang JV Group for the six months ended 30 June 2006 together with the notes thereon (the "30 June 2006 Financial Information") have been extracted from Zhejiang JV Group's financial information for the same period which were prepared by the directors of Zhejiang JV solely for the purpose of this report.

We have reviewed the 30 June 2006 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 30 June 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 30 June 2006 Financial Information.

(A) FINANCIAL INFORMATION

Consolidated Income Statements

		Year ended 31 December			Six months ended 30 June	
		2004	**2005**	**2006**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover	*6*	1,967,508	4,047,418	5,212,621	2,672,403	2,979,006
Cost of sales		(1,665,040)	(3,524,733)	(4,405,211)	(2,209,630)	(2,726,840)
Gross profit		302,468	522,685	807,410	462,773	252,166
Other income	*8*	45,535	189,715	192,738	55,611	104,950
Distribution and selling expenses		(55,586)	(249,581)	(250,494)	(101,735)	(148,693)
Administrative expenses		(57,009)	(146,869)	(194,587)	(105,907)	(53,809)
Finance costs	*9*	(20,222)	(52,083)	(22,564)	(15,583)	(31,164)
Profit before taxation		215,186	263,867	532,503	295,159	123,450
Taxation	*11*	(15,106)	(59,263)	(45,960)	(13,623)	(11,315)
Profit for the year/period		200,080	204,604	486,543	281,536	112,135
Attributable to:						
Equity holders of the parent		200,685	206,894	483,810	281,582	110,915
Minority interests		(605)	(2,290)	2,733	(46)	1,220
		200,080	204,604	486,543	281,536	112,135
Dividends	*12*	–	127,684	521,256	387,672	384,246

Consolidated Balance Sheets

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Goodwill	*14*	183,770	26,207	19,995	19,995
Intangible assets	*16*	142,667	155,526	81,486	85,485
Property, plant and equipment	*17*	1,082,008	861,515	918,716	827,825
Land lease prepayments	*18*	336,809	132,444	127,524	125,064
Other non-current assets	*16*	33,656	2,818	2,009	2,039
Total non-current assets		1,778,910	1,178,510	1,149,730	1,060,408
Current assets					
Inventories	*19*	362,041	326,941	368,076	291,232
Trade and other receivables	*20*	1,769,648	2,413,648	2,293,934	3,303,555
Land lease prepayments	*18*	9,785	4,920	4,920	4,920
Other investments	*21*	–	8,000	7,737	9,493
Pledged deposits		245,568	664,488	242,760	191,668
Bank balances and cash		131,240	332,549	613,839	549,405
Total current assets		2,518,282	3,750,546	3,531,266	4,350,273
Current liabilities					
Trade and other payables	*22*	1,727,728	2,075,176	1,372,756	1,763,809
Provisions for warranty	*23*	3,168	9,902	1,595	1,289
Taxation		22,020	21,113	23,128	27,514
Short-term bank borrowings, secured	*24*	920,000	1,597,659	760,000	1,210,000
Dividend payables		–	15,260	105,601	174,413
Total current liabilities		2,672,916	3,719,110	2,263,080	3,177,025
Net current assets (liabilities)		(154,634)	31,436	1,268,186	1,173,248
Total assets less current liabilities		1,624,276	1,209,946	2,417,916	2,233,656
Equity					
Paid-up capital	*26*	684,891	684,891	1,856,332	1,856,332
Reserves	*27*	353,599	514,166	476,720	254,100
Equity attributable to equity holders of the parent		1,038,490	1,199,057	2,333,052	2,110,432
Minority interests		35,623	10,889	14,864	16,084
Total equity		1,074,113	1,209,946	2,347,916	2,126,516
Non-current liabilities					
Other non-current liabilities		106,823	–	–	–
Long-term bank borrowings, secured	*24*	–	–	70,000	107,140
Amount due to the ultimate holding company	*25*	443,340	–	–	–
Total non-current liabilities		550,163	–	70,000	107,140
		1,624,276	1,209,946	2,417,916	2,233,656

Balance Sheets of Zhejiang JV

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Investment in subsidiaries	*15*	489,408	88,665	89,719	84,890
Intangible assets	*16*	142,667	154,640	78,567	81,849
Property, plant and equipment	*17*	541,963	840,771	894,178	803,933
Land lease prepayments	*18*	137,365	132,444	127,524	125,064
Other non-current assets	*16*	3,253	2,818	2,007	2,039
Total non-current assets		1,314,656	1,219,338	1,191,995	1,097,775
Current assets					
Inventories	*19*	85,718	222,036	253,410	137,095
Trade and other receivables	*20*	331,731	1,230,703	1,627,002	1,956,736
Taxation	*11*	–	–	29,195	–
Land lease prepayments	*18*	4,920	4,920	4,920	4,920
Pledged deposits		10,000	85,000	112,760	60,200
Bank balances and cash		113,310	44,977	497,950	412,406
Total current assets		545,679	1,587,636	2,525,237	2,571,357
Current liabilities					
Trade and other payables	*22*	372,973	1,114,254	465,283	216,088
Taxation	*11*	13,011	48,004	–	9,100
Short-term bank borrowings	*24*	–	400,010	680,000	1,050,000
Dividend payables		–	15,260	105,601	174,413
Total current liabilities		385,984	1,577,528	1,250,884	1,449,601
Net current assets		159,695	10,108	1,274,353	1,121,756
Total assets less current liabilities		1,474,351	1,229,446	2,466,348	2,219,531
Equity					
Paid-up capital	*26*	684,891	684,891	1,856,332	1,856,332
Reserves	*27*	346,120	544,555	540,016	256,059
Total equity		1,031,011	1,229,446	2,396,348	2,112,391
Non-current liabilities					
Long-term bank borrowings, secured	*24*	–	–	70,000	107,140
Amount due to the ultimate holding company	*25*	443,340	–	–	–
Total non-current liabilities		443,340	–	70,000	107,140
		1,474,351	1,229,446	2,466,348	2,219,531

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the parent						
	Paid-up capital *RMB'000*	Statutory reserves *RMB'000*	Capital reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January 2004	684,891	–	–	152,914	837,805	–	837,805
Profit for the year	–	–	–	200,685	200,685	(605)	200,080
Transfers	–	689	–	(689)	–	–	–
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	36,228	36,228
At 31 December 2004	684,891	689	–	352,910	1,038,490	35,623	1,074,113
Profit for the year	–	–	–	206,894	206,894	(2,290)	204,604
Dividends declared	–	–	–	(127,684)	(127,684)	–	(127,684)
Transfers	–	23,087	–	(23,087)	–	–	–
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	10,055	10,055
Disposal of non-wholly owned subsidiaries	–	–	–	–	–	(32,499)	(32,499)
Deemed contribution from equity holders *(note)*	–	–	81,357	–	81,357	–	81,357
At 31 December 2005	684,891	23,776	81,357	409,033	1,199,057	10,889	1,209,946
Profit for the year	–	–	–	483,810	483,810	2,733	486,543
Dividends declared	–	–	–	(521,256)	(521,256)	–	(521,256)
Transfers	–	56,685	–	(56,685)	–	–	–
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	1,242	1,242
Capital contribution	1,171,441	–	–	–	1,171,441	–	1,171,441
At 31 December 2006	1,856,332	80,461	81,357	314,902	2,333,052	14,864	2,347,916
(Unaudited)							
At 1 January 2006	684,891	23,776	81,357	409,033	1,199,057	10,889	1,209,946
Profit for the period	–	–	–	281,582	281,582	(46)	281,536
Dividends declared	–	–	–	(387,672)	(387,672)	–	(387,672)
Transfers	–	41,170	–	(41,170)	–	–	–
At 30 June 2006	684,891	64,946	81,357	261,773	1,092,967	10,843	1,103,810
At 1 January 2007	1,856,332	80,461	81,357	314,902	2,333,052	14,864	2,347,916
Profit for the period	–	–	–	110,915	110,915	1,220	112,135
Dividends declared	–	–	–	(384,246)	(384,246)	–	(384,246)
Transfers	–	11,006	–	(11,006)	–	–	–
Deemed contribution from equity holders *(note)*	–	–	50,711	–	50,711	–	50,711
At 30 June 2007	1,856,332	91,467	132,068	30,565	2,110,432	16,084	2,126,516

note: Deemed contribution from equity holders mainly represented difference between the consideration received and the fair value of net assets disposed by Zhejiang JV Group to Zhejiang Geely Holding Group Company Limited (translation of registered name in Chinese of 浙江吉利控股集團有限公司 for identification purpose), the ultimate holding company of Zhejiang JV Group, and/or its subsidiaries (collectively referred to as "Zhejiang Geely Holding Group").

Consolidated Cash Flow Statements

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	215,186	263,867	532,503	295,159	123,450
Amortisation of intangible assets	16,000	16,685	23,160	11,125	6,462
Amortisation of land lease prepayments	11,832	14,023	4,920	4,920	2,460
Bad debt written off	–	56	3,035	3,035	–
Depreciation	65,529	92,093	94,647	46,412	38,504
Dividend income	–	–	–	–	(3,966)
Loss/(Gain) on disposal of property, plant and equipment	380	(3,707)	1,040	318	439
Loss on disposal of intangible asset	–	–	962	–	–
Unrealised Loss/(Gain) on other investment	–	–	263	164	(1,756)
Interest expenses	20,222	52,083	22,564	15,583	31,164
Interest income	(14,458)	(25,420)	(16,689)	(8,971)	(5,084)
Impairment of goodwill	–	–	6,328	–	–
Excess of fair value of identified net assets acquired	–	–	–	–	(129)
Amortisation of other non-current assets	442	436	1,403	405	695
Changes in working capital:					
Inventories	(104,755)	(135,429)	(37,487)	(31,969)	76,843
Trade and other receivables	1,055,112	(721,110)	198,699	189,156	(1,035,041)
Trade and other payables	(2,125,958)	861,386	(787,045)	500,717	470,668
Provision for warranty	3,168	6,734	(8,307)	(9,902)	(306)
Cash generated from (used in) operations	(857,300)	421,697	39,996	1,016,152	(295,597)
Interest paid	(20,222)	(52,083)	(22,564)	(15,583)	(31,164)
Interest received	14,458	25,420	16,689	8,971	5,084
Tax paid	(12,601)	(43,267)	(43,945)	(11,849)	(7,702)
Net cash from (used in) operating activities	(875,665)	351,767	(9,824)	997,691	(329,379)

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	(203,082)	(516,504)	(338,839)	(44,835)	(32,260)
Acquisition of subsidiaries	158,078	38,868	83	–	195
Additions of other non-current assets	(26,281)	(54,308)	(594)	(594)	(725)
Acquisition of intangible assets	–	(29,544)	(2,210)	–	(10,461)
Dividend received	–	–	–	–	3,966
Proceeds on disposal of intangible assets	–	–	52,128	–	–
Proceeds from disposal of subsidiaries	–	(16,531)	–	–	(3,498)
Proceeds from disposal of other investment	3,400	–	–	–	–
Fixed bank deposits	(45,568)	–	–	–	
Pledged deposit	–	(347,715)	421,728	764,488	51,092
Proceeds from disposal of property, plant and equipment	14,999	60,040	185,951	55,571	84,930
Net cash from (used in) investing activities	(98,454)	(865,694)	318,247	774,630	93,239
FINANCING ACTIVITIES					
Issue of shares	–	–	1,171,441	–	–
Dividends paid	–	(112,423)	(430,915)	(249,915)	(315,434)
New short-term bank loan raised	860,000	1,567,659	760,000	834,107	1,210,000
New long-term bank borrowings	–	–	70,000	–	37,140
Repayment of short-term bank loan	(140,000)	(740,000)	(1,597,659)	(1,597,659)	(760,000)
Net cash from (used in) financing activities	720,000	715,236	(27,133)	(1,013,467)	171,706
Net increase (decrease) in cash and cash equivalents	(254,119)	201,309	281,290	758,854	(64,434)
Cash and cash equivalents at beginning of year/period	385,359	131,240	332,549	332,549	613,839
Cash and cash equivalents at end of year/period, represented by bank balances and cash	131,240	332,549	613,839	1,091,403	549,405

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Zhejiang JV is a limited liability company established in the PRC under laws and regulations applicable to sino-foreign joint ventures. The address of the registered office and principal place of business is located at 1528 Henshan Road, Beilun Economic and Technological Development Zone, Ningbo, the PRC. The principal activities of Zhejiang JV Group are research, development, production, marketing and sales of sedans and related automobile parts and components in the PRC. The parent of Zhejiang JV is Zhejiang Geely Merrie Automobile Company Limited (English translation of registered name of 浙江吉利美日汽車有限公司 for identification purpose only). In the opinion of the directors, the ultimate parent of Zhejiang JV is Zhejiang Geely Holding Group Company Limited (English translation of registered name of 浙江吉利控股集團有限公司 for identification purpose only), which is established in the PRC.

This Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment (i.e. functional currency) in which Zhejiang JV Group operates.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

On 30 June 2004, Zhejiang JV acquired 90% of equity interest in Zhejiang Haoqing Group from Zhejiang Geely Holding Group Company Limited, the ultimate holding company. Subsequently on 31 October 2005, Zhejiang JV disposed of its entire interest in Zhejiang Haoqing Group to Zhejiang Geely Holding Group Company Limited. The Financial Information have included the results and cash flows of Zhejiang Haoqing Group for the period from 1 July 2004 to 31 December 2004 and from 1 January 2005 to 31 October 2005 for the years ended 31 December 2004 and 2005 respectively and the net assets of Zhejiang Haoqing Group as at 31 December 2004. Following the disposal of Zhejiang Haoqing Group, the books and records of Zhejiang Haoqing Group for the period from 1 July 2004 to 31 October 2005 are no longer under the custody of the management of Zhejiang JV. The results and cash flows of Zhejiang Haoqing Group for the period from 1 July 2004 to 31 December 2004 and 1 January 2005 to 31 October 2005 and its financial position as at 31 December 2004 which have been included in the Financial Information are set out below.

Financial position of Zhejiang Haoqing Group

	At 31 December 2004 *RMB'000* (Unaudited)
Property, plant and equipment	534,035
Land lease prepayments	204,309
Other non-current assets	30,401
Goodwill	64
Inventories	93,379
Trade and other receivables	763,940
Bank balances and cash	8,667
Trade and other payables	(987,009)
Tax payables	(15,803)
Short-term bank loans	(180,000)
Other non-current liabilities	(106,823)
Minority interests	(97)
Net assets	345,063

Financial results of Zhejiang Haoqing Group

	From 1 July 2004 to 31 December 2004	From 1 January 2005 to 31 October 2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Turnover	711,906	1,882,477
Cost of sales	(686,782)	(1,873,165)
Gross profit	25,124	9,312
Other income	115,990	687,724
Distribution and selling expenses	(500)	(899)
Administrative expenses	(122,898)	(666,082)
Finance costs	(15,976)	(17,630)
Profit before taxation	1,740	12,425
Taxation	(7,299)	(26,931)
Loss for the period	(5,559)	(14,506)

Cash flows contributed by Zhejiang Haoqing Group

	From 1 July to 31 December 2004	From 1 January to 31 October 2005
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash (outflow) inflow from operating activities	(186,221)	197,480
Net cash used in investing activities	(90,871)	(205,850)
Net cash from financing activities	180,543	16,234

3. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies adopted by the Zhejiang JV Group for the purposes of preparation of Financial Information is set out below. Consistent accounting policies have been adopted for the preparation of 30 June 2006 Financial Information.

Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

The principal accounting policies applied in the preparation of the Financial Information which are in conformity with all HKFRSs issued by the HKICPA and are effective for the accounting periods beginning on or after 1 January 2007. For the purpose of presenting the Financial Information, these policies have been consistently applied to all the years/periods presented, unless otherwise stated.

Zhejiang JV Group has not early adopted the following new and revised standards and interpretation issued by the HKICPA that are not yet effective for the accounting periods beginning on or after 1 January 2007.

HKFRS 8	Operating segments[1]
HKAS 23 (revised)	Borrowing costs[1]
HK (IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[2]
HK (IFRIC)-INT 12	Service concession arrangements[3]
HK (IFRIC)-INT 13	Customer Loyalty Programmes[4]
HK (IFRIC)-INT 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for accounting periods beginning on or after 1 January 2009.
[2] Effective for accounting periods beginning on or after 1 March 2007.
[3] Effective for accounting periods beginning on or after 1 January 2008.
[4] Effective for accounting periods beginning on or after 1 July 2008.

The directors of Zhejiang JV anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of Zhejiang JV Group.

The Financial Information has been prepared on the historical cost basis, except for financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies set out below.

Basis of consolidation

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

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

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 Zhejiang JV 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 Zhejiang JV Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill on acquisition of subsidiaries, being the excess of the cost of the acquisition over Zhejiang JV Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities, is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of Zhejiang JV Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of businesses at the date of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product of process is technically and commercially feasible and the entity has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the consolidated income statement during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Buildings	10-30 years
Machinery and equipment	5-10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5-10 years
Moulds	3-5 years

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Land lease prepayments

Land lease prepayments represent amounts paid for land use rights. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the consolidated income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, Zhejiang JV Group reviews internal and external sources of information to determine whether its property, plant and equipment, land lease prepayments, intangible assets and interests in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, Zhejiang JV Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income immediately.

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 and on a trade date basis. 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured 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 the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which incorporates any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that Zhejiang JV Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective as hedging instruments.

Financial assets are designated at initial recognition as fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Zhejiang JV 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 the consolidated income statement.

For financial liabilities, they are removed from Zhejiang JV Group's consolidated balance sheet 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 the consolidated income statement.

Inventories

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the entity and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods, including scrap materials, is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed. Sale of scrap materials is presented net of cost of scrap materials.

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.

Subcontracting income and training income are recognised when the services are rendered.

Foreign currencies

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise.

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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Zhejiang JV Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where Zhejiang JV 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 consolidated 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

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.

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

Retirement benefit costs

Payments to the state-managed retirement benefit scheme in the PRC are charged as expenses as they fall due. Further information is set out in Note 29.

Borrowing costs

Borrowing costs are recognised in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or resale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Provisions

Provisions are recognised when Zhejiang JV Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where Zhejiang JV Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Zhejiang JV Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. Sedans are sold with a 24-months or 60,000 kilometres first-to-occur limited warranty. During the warranty periods, Zhejiang JV Group pays service stations for parts and labour covered by the warranty.

The costs of the warranty obligation are accrued at the time the sales are recognised, based on the estimated costs of fulfilling the total obligations, including handling and transportation costs. The factors used to estimate warranty expenses are reviewed periodically in light of actual experience.

Cash equivalents

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

Related parties

A party is related to Zhejiang JV Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Zhejiang JV Group; or has an interest in Zhejiang JV Group that gives it significant influence over Zhejiang JV Group; or has joint control over Zhejiang JV Group;

(ii) the party is an associate of Zhejiang JV Group;

(iii) the party is a joint venture in which Zhejiang JV Group is a venturer;

(iv) the party is a member of the key management personnel of Zhejiang JV Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Zhejiang JV Group, or any entity that is a related party of Zhejiang JV Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key source of estimation uncertainty at the balance sheet dates, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period, are also discussed below:

Depreciation and amortisation

Zhejiang JV Group depreciates and amortises its property, plant and equipment and intangible assets on a straight-line basis, after taking into account their estimated residual value, over their estimated useful lives, commencing from the date the asset is available for use. The estimated useful life reflects the directors' estimate of the periods that Zhejiang JV Group intends to derive future economic benefits from the use of the asset.

Impairment of assets

Zhejiang JV Group determines whether an asset is impaired at least on annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires Zhejiang JV Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Allowances for inventories

Zhejiang JV Group's management reviews the conditions of its inventories at each balance sheet date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production or for sale. The management estimates the net realisable value of inventories based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Allowances for bad and doubtful debts

The policy for allowance for Zhejiang JV Group's bad and doubtful debts is based on the evaluation of collectability of accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of Zhejiang JV Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Warranty provisions

Zhejiang JV Group makes provisions under the warranties it gives on sale of its sedans and related parts after taking into account its recent claim experience. As Zhejiang JV Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future periods. Details of provisions are set out in Note 23.

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Zhejiang JV Group's major financial instruments include trade and other receivables, trade and other payables, amount due to ultimate holding company, other investment and interest-bearing borrowings. Details of the policies on how to mitigate the risks from these financial instruments are set out below. Zhejiang JV Group's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

All operating subsidiaries of Zhejiang JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities. The recent appreciating trend of Renminbi versus various foreign currencies made purchases of foreign-produced equipment and payments denominated in foreign currency less expensive for Zhejiang JV Group in terms of Renminbi, thereby marginally improving its results of operations.

Interest rate risk

Zhejiang JV Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loans and discounted bank guaranteed notes.

Zhejiang JV Group's fair value interest rate risk relates primarily to certain fixed-rate bank borrowings (see Note 24 for details). Zhejiang JV Group has not used any derivative contracts to hedge its exposure to interest rate risk.

Zhejiang JV Group's cash flow interest rate risk primarily relates to variable-rate bank balances. Zhejiang JV Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Funds not required by Zhejiang JV Group in the short-term are kept as temporary demand or time deposits in commercial banks and Zhejiang JV Group does not hold any market risk-sensitive instruments for speculative purposes.

Credit risk

The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. Zhejiang JV Group's credit risk primarily consists of trade and other receivables from related parties and a variety of customers. Zhejiang JV Group has concentration of credit risk with exposure limited to its group companies as detailed in Note 20.

In order to minimise credit risk, credit history and background of new third party customers are checked and securities deposits are usually obtained from major customers. Credit limits with credit terms of 60 days to 90 days are set for customers and designated staff monitors accounts receivable and follows up collection with customers. Customers considered to be high risk are traded on cash basis (or bank guaranteed notes). Zhejiang JV Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be irrecoverable.

Zhejiang JV Group's bank balances are deposited with a number of banks and Zhejiang JV Group has limited exposure to any single financial institution.

Categories of financial instruments

Categories of financial instruments of Zhejiang JV Group are as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at fair value through profit or loss:				
Other investments	–	8,000	7,737	9,493
Loans and receivables:				
Trade and other receivables	1,056,156	1,903,147	1,850,162	2,976,022
Pledged deposits	245,568	664,488	242,760	191,668
Bank balances and cash	131,240	332,549	613,839	549,405
	1,432,964	2,900,184	2,706,761	3,717,095
Financial liabilities				
At amortised cost:				
Trade and other payables	1,523,779	1,677,180	749,152	694,831
Short term bank borrowings	920,000	1,597,659	760,000	1,210,000
Other non-current liabilities	106,823	–	–	–
Long-term bank borrowings	–	–	70,000	107,140
Amount due to the ultimate holding company	443,340	–	–	–
	2,993,942	3,274,839	1,579,152	2,011,971

Liquidity risk

As at 30 June 2007, the Zhejiang JV Group had net current assets of approximately RMB1,173 million which include short-term bank borrowings of approximately RMB1,210 million.

Zhejiang JV Group's liquidity position is monitored on a daily basis by the management. The following tables detail the Zhejiang JV Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Zhejiang JV Group can be required to pay. The table includes both interest, if any, and principal cash flows. The adjustment column represents the possible future cash flows in respect of the interest portion attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liabilities on each balance sheet date.

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2004						
Non-interest bearing		1,523,779	–	550,163	–	2,073,942
Fixed interest rate instruments	6.02	678,088	252,508	–	(10,596)	920,000
		2,201,867	252,508	550,163	(10,596)	2,993,942

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2005						
Non-interest bearing		1,677,180	–	–	–	1,677,180
Fixed interest rate instruments	5.56	1,600,601	–	–	(2,942)	1,597,659
		3,277,781	–	–	(2,942)	3,274,839

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006						
Non-interest bearing		749,152	–	–	–	749,152
Fixed interest rate instruments	5.35	705,616	62,407	73,744	(11,767)	830,000
		1,454,768	62,407	73,744	(11,767)	1,579,152

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2007						
Non-interest bearing		694,831	–	–	–	694,831
Fixed interest rate instruments	5.86	881,255	350,532	113,415	(28,062)	1,317,140
		1,576,086	350,532	113,415	(28,062)	2,011,971

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates and interest rates. Zhejiang JV Group is exposed to market risk (interest rate risk) primarily through its interest-bearing borrowings and bank balances and cash which has been set out above. Risk management techniques, such as value-at-risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control interest rate risk. VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices such as interest rates and foreign exchange rates reflect possible future changes. Since Zhejiang JV Group's interest-bearing borrowings have maturity of less than one year and the historical fluctuations of interest rates in the PRC is not significant, VaR for interest rate risk and sensitivity analysis for market risk is not presented.

(b) Capital risk management

Zhejiang JV Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Zhejiang JV Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, Zhejiang JV Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to ultimate holding company, short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2004, 2005 and 2006 and 30 June 2007 were as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings	3,197,891	3,672,835	2,170,630	3,046,716
Less: bank balances and cash	(376,808)	(997,037)	(856,599)	(741,073)
Net debt	2,821,083	2,675,798	1,314,031	2,305,643
Total equity	1,074,113	1,209,946	2,347,916	2,126,516
Total capital	3,895,196	3,885,744	3,661,947	4,432,159
Gearing ratio	72%	69%	36%	52%

(c) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Zhejiang JV considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

6. TURNOVER

Turnover represented the proceeds from sales, net of discounts, returns and related sales taxes, of goods and is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales of sedans	1,692,218	3,344,331	4,563,574	2,353,401	2,637,727
Sales of automobile parts and components	275,290	703,087	649,047	319,002	341,279
	1,967,508	4,047,418	5,212,621	2,672,403	2,979,006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

No business segment information has been presented for the Relevant Periods as the directors considered that Zhejiang JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profits of Zhejiang JV Group for the periods presented.

Geographical segments

Zhejiang JV Group's activities and operations are based solely in the PRC. Accordingly, no geographical segment analysis is presented.

8. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Accessories income	–	–	5,408	–	4,101
Bank interest income	14,458	25,420	16,689	8,971	5,084
Dividend income from other investment	–	–	–	–	11,899
Gain/(loss) on disposal of property, plant and equipment	(380)	3,707	(1,040)	(318)	(439)
Donation income	–	–	–	–	6,650
Dividend income from other investment	–	–	–	–	3,966
Insurance income	–	554	8,428	–	–
Subcontracting income, net	–	29,949	774	–	–
Subsidy income	–	40,133	125,900	22,900	45,188
Sundry income	1,601	6,178	504	12,123	3,484
Training income	–	12,000	–	–	13,500
Gain on sale of scrap materials	–	–	23,342	4,634	3,288
Loss on disposal of intangible assets	–	–	(962)	–	–
Sales of semi-finished goods	–	–	–	926	–
Warranty income, net	29,856	71,774	13,695	6,375	8,229
	45,535	189,715	192,738	55,611	104,950

9. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging/(crediting):

(a) Finance costs

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest payable on:					
Short-term bank borrowings	5,834	18,186	9,481	5,830	19,317
Surcharges by related parties in respect of late settlement of trade payables	–	–	–	–	6,477
Discounted bank guaranteed notes	14,388	33,897	13,083	9,753	2,393
Others	–	–	–	–	2,977
	20,222	52,083	22,564	15,583	31,164

(b) Staff costs

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages and salaries	114,249	183,655	189,025	94,551	41,012
Social security costs	4,027	8,696	11,776	1,713	5,027
Other benefits	7,952	10,464	17,151	10,197	2,113
	126,228	202,815	217,952	106,461	48,152

(c) Other items

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of inventories	1,665,040	3,524,733	4,405,211	2,209,630	2,726,840
Auditors' remuneration	–	66	73	1,362	93
Depreciation of property, plant and equipment	65,529	92,093	94,647	46,412	38,504
Amortisation on:					
– Intangible assets, included in cost of sales	16,000	16,685	23,160	11,125	6,462
Operating lease charges on premises	124	476	2,113	1,888	1,350
Research and development costs	5,286	35,315	65,792	35,881	17,688
Bad debt written-off	–	56	3,035	3,035	–
Excess of fair value of identifiable net assets acquired	–	–	–	–	(129)
Impairment of goodwill	–	–	6,328	–	–
Unrealised (gain)/loss on other investments	–	–	263	164	(1,756)

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF ZHEJIANG JV

The consolidated profit attributable to equity holders of Zhejiang JV includes a profit of RMB193,206,000, RMB313,168,000 and RMB516,717,000 for the years ended 31 December 2004, 2005 and 2006 respectively and a profit of RMB281,581,000 (unaudited) and RMB100,289,000 for the six months ended 30 June 2006 and 2007 respectively, which has been dealt with in the financial statements of Zhejiang JV.

11. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current tax:					
PRC enterprise income tax for current years/periods	11,770	62,599	52,897	20,560	11,506
Underprovision/(Overprovision) in prior years	3,336	(3,336)	(6,937)	(6,937)	(191)
	15,106	59,263	45,960	13,623	11,315

Pursuant to the relevant laws and regulations in the PRC, Zhejiang JV is entitled to an exemption from PRC foreign enterprise income tax applicable to foreign enterprises of 33% for the two years starting from its first profit-making year (i.e. year 2003), followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year/period based on existing legislation, interpretations and practices in respect thereof.

Zhejiang JV's subsidiaries operating in the PRC are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively, based on the respective taxable income reported in their financial statements in accordance with the relevant state and local income tax laws applicable.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from 1 January 2008. Pursuant to the new CIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of Zhejiang JV Group. As Zhejiang JV Group does not recognise any deferred tax assets and deferred tax liabilities at the balance sheet dates, there is no impact on the financial position or results. Zhejiang JV Group will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

The charge for the Relevant Periods can be reconciled to the profit per consolidated income statement as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before taxation	215,186	263,867	532,503	295,159	123,450
Tax at applicable tax rate	71,011	87,076	175,726	97,402	40,738
Effect of tax incentive granted	(70,983)	(61,262)	(158,143)	(97,865)	(29,113)
Tax effect on expenses that are not deductible in determining taxable profits	18,410	35,992	44,845	26,690	4,138
Tax effect on income that are not taxable in determining taxable profits	(10,426)	(6,332)	(13,890)	(7,063)	–
Adjustment in respect of prior periods	3,336	(3,336)	(6,937)	(6,937)	(191)
Unrecognised temporary differences	1,521	241	3,535	1,396	(4,257)
Unrecognised tax losses	2,237	6,884	824	–	–
Tax charge for year/period	15,106	59,263	45,960	13,623	11,315

The applicable tax rate is the PRC's enterprise income tax rate of 33%.

12. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Amounts recognised as distributions to equity holders in the period:					
Dividend for the year ended 31 December 2003	–	127,684	–	–	–
Dividend for the year ended 31 December 2004	–	–	161,327	161,327	–
Dividend for the year ended 31 December 2005	–	–	253,115	226,345	–
Dividend for the year ended 31 December 2006	–	–	106,814	–	384,246
	–	127,684	521,256	387,672	384,246

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. GOODWILL

	Cost
	RMB'000
At 1 January 2004	–
Recognised upon acquisition of subsidiaries	183,770
At 31 December 2004	183,770
Eliminated upon disposal of subsidiaries	(157,563)
At 31 December 2005	26,207
Recognised upon acquisition of subsidiaries	116
Impairment losses	(6,328)
At 31 December 2006 and at 30 June 2007	19,995

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that are expected to benefit from that business combination. As explained in note 6, Zhejiang JV Group has only one business segment which is also the lowest level of CGU within Zhejiang JV Group which the goodwill is monitored for internal management purpose.

Zhejiang JV 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 annual financial budgets, approved by the management, extrapolated for the subsequent years at a flat rate which approximates to the discounted rate.

During the year ended 31 December 2006, one subsidiary ceased its operation and therefore full provision was made for the impairment losses of goodwill arising from the acquisition of that subsidiary.

Except as disclosed above, no impairment arose in each of the above periods, as the value in use of the CGU is in excess of the carrying amount of goodwill.

15. INTEREST IN SUBSIDIARIES

Zhejiang JV

	At 31 December			**At 30 June**
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	489,408	88,665	89,719	84,890

Details of subsidiaries are set out in Note 35.

16. INTANGIBLE ASSETS AND OTHER NON-CURRENT ASSETS

Intangible assets

Zhejiang JV Group

	Engine design rights	Sedan design rights	Software	Total
	(note (i))	*(note (i))*	*(note (ii))*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January and 31 December 2004	100,000	60,000	–	160,000
Additions	12,000	16,635	909	29,544
At 31 December 2005	112,000	76,635	909	189,544
Additions	–	–	2,210	2,210
Disposals	–	(76,635)	–	(76,635)
At 31 December 2006	112,000	–	3,119	115,119
Additions	–	7,477	2,984	10,461
At 30 June 2007	112,000	7,477	6,103	125,580
Accumulated amortisation:				
At 1 January 2004	833	500	–	1,333
Charge for the year	10,000	6,000	–	16,000
At 31 December 2004	10,833	6,500	–	17,333
Charge for the year	10,200	6,462	23	16,685
At 31 December 2005	21,033	12,962	23	34,018
Charge for the year	12,400	10,583	177	23,160
Eliminated on disposals	–	(23,545)	–	(23,545)
At 31 December 2006	33,433	–	200	33,633
Charge for the period	6,200	62	200	6,462
At 30 June 2007	39,633	62	400	40,095
Carrying amount:				
At 31 December 2004	89,167	53,500	–	142,667
At 31 December 2005	90,967	63,673	886	155,526
At 31 December 2006	78,567	–	2,919	81,486
At 30 June 2007	72,367	7,415	5,703	85,485

Zhejiang JV

	Engine design rights *(note (i))* *RMB'000*	Sedan design rights *(note (i))* *RMB'000*	Software *(note (ii))* *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2004 and 31 December 2004	100,000	60,000	–	160,000
Additions	12,000	16,635	–	28,635
At 31 December 2005	112,000	76,635	–	188,635
Disposals	–	(76,635)	–	(76,635)
At 31 December 2006	112,000	–	–	112,000
Additions	–	7,477	2,088	9,565
At 30 June 2007	112,000	7,477	2,088	121,565
Accumulated amortisation:				
At 1 January 2004	833	500	–	1,333
Charge for the year	10,000	6,000	–	16,000
At 31 December 2004	10,833	6,500	–	17,333
Charge for the year	10,200	6,462	–	16,662
At 31 December 2005	21,033	12,962	–	33,995
Eliminated on disposals	–	(23,545)	–	(23,545)
Charge for the year	12,400	10,583	–	22,983
At 31 December 2006	33,433	–	–	33,433
Charge for the period	6,200	62	21	6,283
At 30 June 2007	39,633	62	21	39,716
Carrying amount:				
At 31 December 2004	89,167	53,500	–	142,667
At 31 December 2005	90,967	63,673	–	154,640
At 31 December 2006	78,567	–	–	78,567
At 30 June 2007	72,367	7,415	2,067	81,849

(i) Sedan/Engine design rights represent acquired rights, titles and interest in certain design and engineering agreements and technical assistant agreements in relation to the production of automobiles/engines. They are amortised on a straight-line basis over the expected life of the products to which they relate, as follows:

– Sedan design rights 3 to 10 years
– Engine design rights 5 to 10 years

(ii) Software is amortised on a straight-line basis over the remaining life of the asset to which they relate, normally about ten years.

Other non-current assets

Other non-current assets represented ERP systems acquired. ERP system are amortised on a straight-line basis over five years.

17. PROPERTY, PLANT AND EQUIPMENT

Zhejiang JV Group

	Buildings	Machinery and equipment	Moulds	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2004	207,120	277,029	8,815	4,657	34	497,655
Additions	140	20,157	508	11,940	170,337	203,082
Acquired on acquisition of subsidiaries	351,826	144,708	–	4,472	130,545	631,551
Transfers	134	11,511	–	–	(11,645)	–
Disposals	–	(21,580)	–	(1,071)	–	(22,651)
At 31 December 2004	559,220	431,825	9,323	19,998	289,271	1,309,637
Additions	750	282,793	53,150	5,537	174,274	516,504
Acquired on acquisition of subsidiaries	356	36	–	3,853	12,830	17,075
Transfers	98,345	201,829	805	17,271	(318,250)	–
Disposals	(450,007)	(315,338)	(30,325)	(22,758)	(60,989)	(879,417)
Reclassification	–	(1,179)	1,179	–	–	–
At 31 December 2005	208,664	599,966	34,132	23,901	97,136	963,799
Additions	11,802	81,672	37,226	12,971	195,168	338,839
Transfers	19,042	130,188	5,067	69	(154,366)	–
Disposals	(120)	(195,556)	(26,907)	(2,286)	(26,078)	(250,947)
At 31 December 2006	239,388	616,270	49,518	34,655	111,860	1,051,691
Additions	–	10,504	1,280	2,554	17,922	32,260
Acquired on acquisition of subsidiaries	–	681	–	652	–	1,333
Transfers	–	6,967	–	–	(6,967)	–
Disposals	(285)	(64,423)	(4,493)	(5,892)	(22,841)	(97,934)
At 30 June 2007	239,103	569,999	46,305	31,969	99,974	987,350

	Buildings	Machinery and equipment	Moulds	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation:						
At 1 January 2004	544	9,330	1,633	223	–	11,730
Acquired on acquisition of subsidiaries	72,747	79,864	–	5,031	–	157,642
Charge for the year	17,327	42,944	2,924	2,334	–	65,529
Disposals	–	(6,722)	–	(550)	–	(7,272)
At 31 December 2004	90,618	125,416	4,557	7,038	–	227,629
Acquired on acquisition of subsidiaries	8	9	–	326	–	343
Charge for the year	16,174	67,919	2,877	5,123	–	92,093
Disposals	(93,114)	(115,787)	(3,546)	(5,334)	–	(217,781)
Reclassification	–	(86)	86	–	–	–
At 31 December 2005	13,686	77,471	3,974	7,153	–	102,284
Charge for the year	6,112	71,781	11,795	4,959	–	94,647
Disposals	(14)	(55,519)	(7,733)	(690)	–	(63,956)
At 31 December 2006	19,784	93,733	8,036	11,422	–	132,975
Acquired on acquisition of subsidiaries	–	200	–	298	–	498
Charge for the period	3,478	25,899	6,927	2,200	–	38,504
Disposals	(4)	(7,259)	(4,010)	(1,179)	–	(12,452)
At 30 June 2007	23,258	112,573	10,953	12,741	–	159,525
Carrying amount:						
At 31 December 2004	468,602	306,409	4,766	12,960	289,271	1,082,008
At 31 December 2005	194,978	522,495	30,158	16,748	97,136	861,515
At 31 December 2006	219,604	522,537	41,482	23,233	111,860	918,716
At 30 June 2007	215,845	457,426	35,352	19,228	99,974	827,825

Zhejiang JV

	Buildings	Machinery and equipment	Moulds	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2004	207,120	281,982	8,815	4,657	33	502,607
Additions	140	11,825	508	1,301	81,860	95,634
Transfers	–	298	–	–	(298)	–
Disposals	–	(652)	–	(25)	–	(677)
At 31 December 2004	207,260	293,453	9,323	5,933	81,595	597,564
Additions	523	235,845	53,150	6,847	104,635	401,000
Transfers	507	94,188	804	72	(95,571)	–
Disposals	–	(23,523)	(30,325)	(654)	(6,541)	(61,043)
Reclassification	–	(1,179)	1,179	–	–	–
At 31 December 2005	208,290	598,784	34,131	12,198	84,118	937,521
Additions	11,802	81,571	37,226	10,557	189,611	330,767
Transfers	1,933	130,188	5,067	69	(137,257)	–
Disposals	(120)	(195,557)	(26,907)	(2,202)	(24,617)	(249,403)
At 31 December 2006	221,905	614,986	49,517	20,622	111,855	1,018,885
Additions	–	10,492	1,280	1,834	17,922	31,528
Transfers	–	6,967	–	–	(6,967)	–
Disposals	(285)	(64,423)	(4,493)	(4,877)	(22,836)	(96,914)
At 30 June 2007	221,620	568,022	46,304	17,579	99,974	953,499

	Buildings	Machinery and equipment	Moulds	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation:						
At 1 January 2004	544	9,330	1,633	224	–	11,731
Charge for the year	6,552	33,669	2,924	822	–	43,967
Disposals	–	(93)	–	(4)	–	(97)
At 31 December 2004	7,096	42,906	4,557	1,042	–	55,601
Charge for the year	6,569	39,313	2,878	1,190	–	49,950
Disposals	–	(5,043)	(3,546)	(212)	–	(8,801)
Reclassification	–	(86)	86	–	–	–
At 31 December 2005	13,665	77,090	3,975	2,020	–	96,750
Charge for the year	5,896	71,665	11,796	2,551	–	91,908
Disposals	(14)	(55,519)	(7,733)	(685)	–	(63,951)
At 31 December 2006	19,547	93,236	8,038	3,886	–	124,707
Charge for the period	3,066	25,831	6,927	1,028	–	36,852
Disposals	(4)	(7,259)	(4,010)	(720)	–	(11,993)
At 30 June 2007	22,609	111,808	10,955	4,194	–	149,566
Carrying amount:						
At 31 December 2004	200,164	250,547	4,766	4,891	81,595	541,963
At 31 December 2005	194,625	521,694	30,156	10,178	84,118	840,771
At 31 December 2006	202,358	521,750	41,479	16,736	111,855	894,178
At 30 June 2007	199,011	456,214	35,349	13,385	99,974	803,933

18. LAND LEASE PREPAYMENTS

Zhejiang JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights in the PRC				
Medium term lease	346,594	137,364	132,444	129,984
Analysis for reporting purpose:				
Current asset	9,785	4,920	4,920	4,920
Non-current asset	336,809	132,444	127,524	125,064
	346,594	137,364	132,444	129,984

Zhejiang JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights in the PRC				
Medium term lease	142,285	137,364	132,444	129,984
Analysis for reporting purpose:				
Current asset	4,920	4,920	4,920	4,920
Non-current asset	137,365	132,444	127,524	125,064
	142,285	137,364	132,444	129,984

19. INVENTORIES

Zhejiang JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	96,472	80,600	139,912	32,238
Work in progress/semi-finished goods	30,410	96,898	60,630	30,282
Finished goods	236,225	150,685	173,523	228,712
	363,107	328,183	374,065	291,232
Provision	(1,066)	(1,242)	(5,989)	–
	362,041	326,941	368,076	291,232

Zhejiang JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	47,177	80,620	139,912	32,238
Work in progress/semi-finished goods	10,157	96,898	66,116	28,906
Finished goods	28,384	45,760	47,382	75,951
	85,718	223,278	253,410	137,095
Provision	–	(1,242)	–	–
	85,718	222,036	253,410	137,095

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

20. TRADE AND OTHER RECEIVABLES

Zhejiang JV Group

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables					
Trade receivables	*(a)*	330,292	392,723	157,951	1,012,907
Notes receivables	*(b)*	367,583	854,395	1,210,516	1,562,863
		697,875	1,247,118	1,368,467	2,575,770
Other receivables					
Deposit, prepayments and other receivables		390,493	131,181	96,387	78,598
Other tax recoverable		–	–	67,727	34,233
Due from immediate holding company	*(c)*	128,313	225,713	–	250
Due from fellow subsidiaries	*(c)*	1,456	50,090	407,983	481,803
Due from related parties	*(c)*	551,511	127,816	353,370	132,901
Due from ultimate holding company	*(c)*	–	631,730	–	–
		1,071,773	1,166,530	925,467	727,785
		1,769,648	2,413,648	2,293,934	3,303,555

Zhejiang JV

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables					
Trade receivables	*(a)*	272,283	365,009	38,181	707,316
Notes receivables	*(b)*	786	324,946	779,539	790,519
		273,069	689,955	817,720	1,497,835
Other receivables					
Deposit, prepayments and other receivables		47,983	108,294	62,966	11,124
Other tax recoverable		–	–	–	14,059
Due from fellow subsidiaries	*(c)*	–	–	395,690	352,494
Due from related parties	*(c)*	10,679	127,791	350,541	81,224
Due from subsidiaries	*(c)*	–	–	85	–
Due from ultimate holding company	*(c)*	–	304,663	–	–
		58,662	540,748	809,282	458,901
		331,731	1,230,703	1,627,002	1,956,736

(a) Trade receivables

Zhejiang JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
From third parties	83,835	40,034	148,101	356,994
From immediate holding company	123,433	25,388	–	–
From fellow subsidiaries	123,024	327,301	9,850	654,434
From related parties	–	–	–	1,479
	330,292	392,723	157,951	1,012,907

Zhejiang JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
From third parties	1,544	8,207	17,585	14,965
From immediate holding company	123,434	25,388	–	–
From fellow subsidiaries	55,445	325,304	9,850	652,920
From related parties	–	–	–	1,471
From subsidiaries	91,860	6,110	10,746	37,960
	272,283	365,009	38,181	707,316

Zhejiang JV 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:

Zhejiang JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	245,166	380,351	146,142	519,376
61 – 90 days	25,124	5,745	1,840	355,885
91 – 120 days	8,411	4,284	7,610	45,592
121 – 365 days	38,186	745	2,062	88,202
Over 365 days	13,405	1,598	297	3,852
	330,292	392,723	157,951	1,012,907

Zhejiang JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	241,076	360,935	37,762	283,227
61 – 90 days	16,484	2,444	272	315,135
91 – 120 days	182	–	138	41,395
121 – 365 days	14,541	31	9	67,556
Over 365 days	–	1,599	–	3
	272,283	365,009	38,181	707,316

The trade receivables with age more than 90 days were past due but not impaired. These receivables related to a number of different customers for whom there is no recent history of default. Zhejiang JV Group does not hold any collateral over these balances.

(b) **Notes receivables**

All notes receivables are denominated in RMB and are primarily notes received from trade debtors for settlement of trade receivable balances. All notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from the balance sheet dates.

During the Relevant Periods, Zhejiang JV Group has discounted notes receivables to banks in exchange for cash with recourse in the ordinary course of business. Zhejiang JV Group continues to recognise the full carrying amount of notes receivables and has recognised the cash received as secured short-term bank borrowings, which is wholly repayable within one year, as reported in note 24 to the consolidated balance sheet.

	At 31 December			**At 30 June**
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Discounted notes receivables	640,000	1,470,659	580,000	757,000

(c) **Due from immediate holding company/subsidiaries/fellow subsidiaries/ultimate holding company/ related parties**

The amounts due are unsecured, interest free and have no fixed repayment term.

21. OTHER INVESTMENTS

The other investments represented Zhejiang JV Group's interests in certain unit funds managed by established financial institutions in the PRC. They are designated as financial assets at fair value through profit or loss upon initial recognition.

22. TRADE AND OTHER PAYABLES

Zhejiang JV Group

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables					
To third parties		898,844	908,282	53,962	83,018
To fellow subsidiaries		85,047	167,752	18,373	3,007
To intermediate holding company		9,604	8,695	40,110	–
To related parties		173,739	18,313	20,538	138,018
		1,167,234	1,103,042	132,983	224,043
Notes payable		100,000	400,000	390,000	331,087
Other payables					
Accrued charges		1,766	51,821	49,114	32,542
Receipts in advance		195,544	381,454	605,911	1,059,260
Sundry creditors		206,211	88,300	84,875	64,559
Other tax payables		1,861	16,543	–	–
Due to ultimate holding company	*(a)*	38,758	360	–	–
Due to intermediate holding company	*(a)*	307	36	–	972
Due to fellow subsidiaries	*(a)*	14,727	33,620	109,873	2,342
Due to related parties	*(a)*	1,320	–	–	49,004
		460,494	572,134	849,773	1,208,679
		1,727,728	2,075,176	1,372,756	1,763,809

Zhejiang JV

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables					
To third parties		257,228	852,076	52,540	70,972
To fellow subsidiaries		17,990	35,077	7,365	201
To related parties		23,143	18,313	20,538	15,089
		298,361	905,466	80,443	86,262
Notes payable		–	120,000	160,000	80,000
Other payables					
Accrued charges		501	3,927	5,089	2,207
Receipts in advance		99	19	43	337
Sundry creditors		62,892	52,895	57,336	31,980
Due to ultimate holding company	*(a)*	–	360	–	–
Due to intermediate holding company	*(a)*	–	–	–	365
Due to fellow subsidiaries	*(a)*	9,800	31,587	162,372	13,823
Due to related parties	*(a)*	1,320	–	–	1,114
		74,612	88,788	224,840	49,826
		372,973	1,114,254	465,283	216,088

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

Zhejiang JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	742,590	916,190	106,517	190,831
61 – 90 days	125,122	80,512	1,768	4,934
91 – 120 days	98,046	73,294	10,848	2,273
121 – 365 days	113,290	24,439	4,697	16,599
Over 365 days	88,186	8,607	9,153	9,406
	1,167,234	1,103,042	132,983	224,043

Zhejiang JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	201,019	720,084	55,322	60,438
61 – 90 days	65,443	80,512	632	154
91 – 120 days	24,165	73,185	10,848	190
121 – 365 days	7,734	24,273	4,584	16,084
Over 365 days	–	7,412	9,057	9,396
	298,361	905,466	80,443	86,262

(a) Due to fellow subsidiaries/ultimate holding company/intermediate holding company/related parties

The amounts due are unsecured, interest free and have no fixed repayment term.

23. PROVISIONS FOR WARRANTY

Zhejiang JV Group

	Warranty
	RMB'000
At 1 January 2004	–
Additional provisions	10,597
Amount used	(9,115)
Acquired on acquisition of subsidiaries	1,686
At 31 December 2004	3,168
Additional provisions	65,725
Amount used	(58,991)
At 31 December 2005	9,902
Additional provisions	81,366
Amount used	(89,673)
At 31 December 2006	1,595
Additional provisions	46,697
Amount used	(47,003)
At 30 June 2007	1,289

Provisions are measured and recognised for warranty costs at the management's best estimate of the net expenditure, required to settle the obligations under Zhejiang JV Group's warranty policies for its products sold at the balance sheet dates. The estimate has been made by reference to historical statistics.

It is expected that the majority of this expenditure will be incurred within one year from the date of sales.

24. BANK BORROWINGS

Zhejiang JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Discounted notes receivables	640,000	1,470,659	580,000	757,000
Secured bank borrowings	–	27,000	82,000	510,140
Unsecured short-term bank borrowings	280,000	100,000	168,000	50,000
	920,000	1,597,659	830,000	1,317,140
Effective interest rate (per annum)	5.84%-6.55%	5.52%-5.58%	4.5%-6.3%	5.32%-6.39%
Current portion	920,000	1,597,659	760,000	1,210,000
Non-current portion	–	–	70,000	107,140
	920,000	1,597,659	830,000	1,317,140
Repayable:				
within 1 year	920,000	1,597,659	760,000	1,210,000
2-5 years	–	–	70,000	107,140
	920,000	1,597,659	830,000	1,317,140

Zhejiang JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Discounted notes receivables	–	360,010	580,000	757,000
Secured bank borrowings	–	–	70,000	350,140
Unsecured short-term bank borrowings	–	40,000	100,000	50,000
	–	400,010	750,000	1,157,140
Effective interest rate (per annum)	–	5.52%	5.3%-6.14%	5.32%-6.39%
Current portion	–	400,010	680,000	1,050,000
Non-current portion	–	–	70,000	107,140
	–	400,010	750,000	1,157,140
Repayable:				
within 1 year	–	400,010	680,000	1,050,000
2-5 years	–	–	70,000	107,140
	–	400,010	750,000	1,157,140

The secured bank borrowings were secured by certain land use rights and buildings as detailed in note 31 while the unsecured short-term bank borrowings were guaranteed by the immediate holding company, ultimate holding company and their affiliated companies of Zhejiang JV Group.

25. AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

The amount due, represented consideration for acquisition of subsidiaries from the ultimate holding company, is unsecured and interest-free. During the year ended 31 December 2005, the amount was settled through re-assignment of debt with other fellow subsidiaries.

26. PAID-UP CAPITAL

	USD'000	*RMB'000*
Registered and paid-up capital:		
At 1 January 2004, 31 December 2004 and 31 December 2005	82,803	684,891
Capital contribution by equity holders	148,205	1,171,441
At 31 December 2006 and 30 June 2007	231,008	1,856,332

On 19 September 2006, the registered and paid-up capital of Zhejiang JV was increased to USD176,266,000 by the injection of USD93,463,000 in cash from its equity holders to provide for additional working capital.

On 27 October 2006, the registered and paid-up capital of Zhejiang JV was further increased to USD231,008,000 by the injection of USD54,742,000 in cash from its equity holders to provide for additional working capital.

27. RESERVES

Zhejiang JV Group's reserves comprise:

		At 31 December			**At 30 June**
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Statutory reserves	*(a)*	689	23,776	80,461	91,467
Capital reserves	*(b)*	–	81,357	81,357	132,068
Retained profits	*(c)*	352,910	409,033	314,902	30,565
		353,599	514,166	476,720	254,100

For the movements of above reserves, please refer to consolidated statements of changes in equity.

Movement of Zhejiang JV's reserves are as follows:

	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2004	–	–	152,914	152,914
Profit for the year	–	–	193,206	193,206
At 31 December 2004	–	–	346,120	346,120
Profit for the year	–	–	313,168	313,168
Dividends declared	–	–	(127,683)	(127,683)
Transfers	–	22,937	(22,937)	–
Deemed contribution from equity holders	12,950	–	–	12,950
At 31 December 2005	12,950	22,937	508,668	544,555
Profit for the year	–	–	516,717	516,717
Dividends declared	–	–	(521,256)	(521,256)
Transfers	–	53,601	(53,601)	–
At 31 December 2006	12,950	76,538	450,528	540,016
Profit for the period	–	–	100,289	100,289
Dividends declared	–	–	(384,246)	(384,246)
Transfers	–	11,005	(11,005)	–
At 30 June 2007	12,950	87,543	155,566	256,059

(a) Statutory reserves

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, Zhejiang JV is required to maintain certain statutory reserves, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The statutory reserves are to be appropriated from statutory net profit as calculated in accordance with the PRC GAAP with percentages determined by the board of directors and recorded as a component of shareholders equity which are restricted as to use. Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the consolidated income statement.

In accordance with the Company Law of the PRC, Zhejiang JV's subsidiaries in the PRC are required to allocate 10% and 5% to 10% of their profits after tax (determined under the PRC GAAP) to the statutory surplus reserve ("SSR") and the statutory public welfare fund, respectively. No allocation to the SSR is required after the balance of such reserve reaches 50% of the registered capital of the respective companies. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase in registered capital, provided that the remaining balance after the capitalisation is not less that 25% of the registered capital. Starting from 1 January 2006, pursuant to a notice issued by the Ministry of Finance regarding the change of accounting treatment of profit appropriation of statutory public welfare fund after the implementation of PRC Company Law, no statutory public welfare fund will be accrued. The remaining balance of statutory public welfare fund will be transferred to SSR. The transfer to these funds must be made before distribution of dividend to equity owners.

(b) Capital reserves

Capital reserves represented difference between the consideration received/paid and the fair value of net assets disposed/acquired by Zhejiang JV Group to/from Zhejiang Geely Holding Group.

(c) Retained profits

For dividend distribution purposes, Zhejiang JV Group's distributable profit is determined based on its after-tax profit, and transfer to reserves as set out above, as reported in its statutory financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the Financial Information, which are prepared in accordance with HKFRSs.

28. DEFERRED TAXATION

Unrecognised deferred tax assets arising from

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible temporary differences	4,609	5,341	16,052	3,152
Tax losses	–	20,860	2,499	2,499
At the balance sheet date	4,609	26,201	18,551	5,651

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the companies within Zhejiang JV Group can utilise the benefits therefrom.

The unrecognised temporary differences do not expire under current legislation, but the unrecognised tax losses will be expired as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year 2010	–	20,860	–	–
Year 2011	–	–	2,499	2,499

29. RETIREMENT BENEFIT OBLIGATIONS

The employees of Zhejiang JV Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government of the PRC. Zhejiang JV is required to contribute a specified percentage of the employee's basic salary to the retirement benefit schemes to fund the benefits. The only obligation of Zhejiang JV Group with respect to the retirement benefit schemes is to make the specified contributions.

For the Relevant Periods, the employer's contributions made by Zhejiang JV Group and charged to the consolidated income statement are disclosed in note 9(b).

30. COMMITMENTS

(a) Capital expenditure commitments

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for net of deposit paid	89,515	80,439	89,130	8,259

(b) Commitments under operating leases

Zhejiang JV Group leases a number of properties under operating leases, which typically run for an initial period of around one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the balance sheet date, Zhejiang JV Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	16	–
In the second to fifth years inclusive	–	–	6	–
Over five years	–	–	–	–
	–	–	22	–

31. PLEDGE OF ASSETS

Assets with the following carrying amount have been pledged:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For banking facilities granted to Zhejiang JV Group				
Land use rights	103,727	168,084	53,227	55,814
Buildings	146,330	215,982	93,911	74,142
Equipment	–	–	81,777	74,717
	250,057	384,066	228,915	204,673
For banking facilities granted to a fellow subsidiary				
Land use rights	55,895	–	–	–
Buildings	41,222	–	–	–
	97,117	–	–	–
For banking facilities granted to immediate holding company				
Land use rights	–	–	78,132	73,845
Buildings	–	–	123,411	124,367
	–	–	201,543	198,212
	347,174	384,066	430,458	402,885

32. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these Financial Information, during the Relevant Periods, Zhejiang JV Group had the following material transactions with related parties:

(a) Transactions

With immediate holding company

Nature of transactions	Year ended 31 December 2004 *RMB'000*	Year ended 31 December 2005 *RMB'000*	Year ended 31 December 2006 *RMB'000*	Six months ended 30 June 2006 *RMB'000* (Unaudited)	Six months ended 30 June 2007 *RMB'000*
Sales of sedans	(97,482)	–	(31,071)	–	–
Sales of automobile parts and components	–	–	–	(30,641)	(366)
Purchase of automobile parts and components	3,099	11	12,924	–	21,105
Sub-contracting fee paid	22,379	48,421	82,063	60,287	14,313
Subcontracting and claims income	(31,118)	(47,053)	(378)	–	(29,794)
Additional costs on mould	–	–	37,385	–	–
Acquisitions of fixed assets	–	–	197,901	–	354

With fellow subsidiaries (*)

Nature of transactions	Year ended 31 December 2004 *RMB'000*	Year ended 31 December 2005 *RMB'000*	Year ended 31 December 2006 *RMB'000*	Six months ended 30 June 2006 *RMB'000* (Unaudited)	Six months ended 30 June 2007 *RMB'000*
Sales of sedans	(5,074)	–	–	–	–
Sales of automobile parts and components	(52,569)	(192,806)	(47,305)	(29,358)	(231,481)
Purchases of sedans	–	1,564,523	–	–	–
Purchases of automobile related parts and components	10,782	15,680	44,275	23,576	44,087
Warranty costs paid	–	322	–	4,042	324
Purchase of technology development projects	–	–	–	–	25,023
Additional cost on mould	–	39,402	–	–	–
Subcontracting and claims income	(33,980)	(82,363)	(70,412)	(34,107)	(122,186)
Acquisition/(Disposal) of fixed assets	–	195,358	(158,863)	(223)	75,622

(*) Under Geely Automobile Holdings Limited, the above transactions also represented the associated companies' transactions.

With connected and related parties

Nature of transactions	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales of sedans	(200,935)	–	–	–	–
Sales of automobile parts and components	(99,171)	–	(11,136)	(4,433)	(10,038)
Purchases of sedans	52,966	86,141	–	–	1,254,112
Purchases of automobile related parts and components	569,002	303,306	3,403,442	1,356,650	1,328,510
Reimbursement of warranty costs received	–	(66,439)	(95,966)	(5,803)	(36,565)
Additional cost on mould	–	–	7,212	494	11,819
Subcontracting and claims income	(14,519)	(23,461)	(2,622)	(40,137)	(61,531)
Acquisitions of fixed assets	–	–	(52,128)	–	–

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the Relevant Periods have been absorbed and borne by Zhejiang JV Group's equity holders for which no reimbursement would be sought from Zhejiang JV Group.

33. MAJOR NON-CASH TRANSACTIONS

In addition to the information disclosed elsewhere in these Financial Information, during the year ended 31 December 2004, Zhejiang JV Group acquired Zhejiang Haoqing Group (as defined in note 34) in the PRC with an aggregate consideration of RMB478,710,000 from its ultimate holding company and the consideration was settled by offsetting the current account due from the ultimate holding company.

During the year ended 31 December 2005, Zhejiang JV disposed of its entire interest in Zhejiang Haoqing Group (as defined in note 34) to ultimate holding company in the consideration of RMB509,193,000 and the consideration was settled by offsetting the current account due to the ultimate holding company.

In addition to the above, during the Relevant Periods, Zhejiang JV Group acquired and disposed certain other subsidiaries of which details have been set out in note 35.

34. ACQUISITION AND DISPOSAL OF ZHEJIANG HAOQING

On 30 June 2004, Zhejiang JV acquired 90% of equity interest in Zhejiang Haoqing (together with its 90% owned subsidiary, Taizhou Geely Automobile Sales Company Limited, referred as to "Zhejiang Haoqing Group") at a consideration of RMB478,710,000 from Zhejiang Geely Holding Group Company Limited, the ultimate holding company.

Name of company	Principal activities
台州吉利汽車銷售有限公司 Taizhou Geely Automobile Sales Company Limited (*)	Marketing and sales of Sedans in the PRC
浙江豪情汽車制造有限公司 Zhejiang Haoqing Automobile Manufacturing Company Limited (*)	Production and sales of Sedans in the PRC

(*) The English names of these companies are for identification purpose only.

The fair values of the combined identifiable assets and liabilities of the subsidiaries as at the date of acquisition which are the same as their carrying combined value determined in accordance with HKFRSs immediately before the acquisition are as follows:

	At 30 June 2004 carrying value and fair value
	RMB'000
Property, plant and equipment	466,686
Land lease prepayments	206,299
Other investment	3,400
Other non-current assets	7,817
Inventories	121,127
Trade and other receivables	1,035,319
Bank balances and cash	105,216
Trade and other payables	(1,471,449)
Tax payable	(10,558)
Non-current liabilities	(106,823)
	357,034
Minority interest	(35,887)
Goodwill arising on acquisition	157,563
Total consideration, payable to the ultimate holding company	478,710
Net cash acquisition of subsidiaries	105,216

On 31 October 2005, Zhejiang JV disposed of its entire interest in Zhejiang Haoqing Group to Zhejiang Geely Holding Group Company Limited at a consideration of RMB509,193,000. The net assets of Zhejiang Haoqing Group at the date of disposal were as follows:

	At 31 October 2005 carrying value
	RMB'000
	(Unaudited)
Net assets disposed of:	
Property, plant and equipment	605,302
Land lease prepayments	195,207
Other non-current assets	88,480
Inventories	170,910
Trade and other receivables	745,845
Bank balances and cash	16,531
Pledge deposits	88,795
Non-current liabilities	(107,324)
Short-term bank loans	(180,000)
Tax payables	(21,373)
Trade and other payables	(1,279,559)
	322,814
Minority interest	(32,499)
Goodwill realised on disposal of subsidiaries *(Note 14)*	157,563
Gain on disposal of subsidiaries, included in capital reserve as deemed contribution from equity holders	61,315
Total consideration, satisfied by receivables from the ultimate holding company	509,193
Net cash outflow arising on disposal of subsidiaries	16,531

35. SUBSIDIARIES

(a) At the balance sheet dates, details of Zhejiang JV's subsidiaries, which are all established and operated in the PRC, are as follows:

Company name	Date of establishment	Registered capital	Proportion of nominal value of registered capital held by Zhejiang JV *Directly*	*Indirectly*	Principal activities
As at 31 December 2004, 2005 and 2006 and 30 June 2007					
浙江美人豹汽車銷售有限公司 Zhejiang Mybo Automobile Sales Company Limited (*)	12 October 2004	RMB10,000,000	90%	–	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 (*)	14 June 2001	RMB15,000,000	90%	–	Marketing and sales of sedans in the PRC
As at 31 December 2005 and 2006 and 30 June 2007					
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited (*)	9 January 2003	RMB20,000,000	90%	–	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 (*)	9 July 2002	RMB20,000,000	70%	4.5%	Export of sedans outside the PRC
As at 31 December 2006 and 30 June 2007					
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited (*)	15 July 2004	RMB10,000,000	90%	–	Production of automobile components in the PRC
上海國邦汽車配件有限公司 Shanghai Guobang Automobile Parts Company Limited (*)	7 July 2006	RMB1,000,000	–	74.5%	Marketing and sales of automobile components in the PRC
As at 30 June 2007					
寧波吉利發動機研究所公司 Ningbo Geely Engine Research Institute Limited (*)	6 June 2003	RMB10,000,000	100%	–	Research, development, production, marketing and sale of sedans and related automobile components in the PRC
As at 31 December 2004					
浙江豪情汽車製造有限公司 Zhejiang Haoqing Automobile Manufacturing Company Limited (*)	17 December 1999	RMB530,000,000	90%	–	Production and sales of Sedans in the PRC
台州吉利汽車銷售有限公司 Taizhou Geely Automobile Sales Company Limited (*)	16 October 2003	RMB2,000,000	–	90%	Marketing and sales of Sedans in the PRC

(*) The English names of these companies are for identification purpose.

(b) Acquisition of subsidiaries other than Zhejiang Haoqing Group ("Other Subsidiaries")

During the Relevant Periods, Zhejiang JV acquired its entire interests in Other Subsidiaries from Zhejiang Geely Holding Group Company Limited as follows:

On 30 June 2004

Zhejiang Mybo Automobile Sales Company Limited

Zhejiang Geely Automobile Sales Company Limited

On 31 March 2005

Zhejiang Geely Holding Group Automobile Sales Company Limited

On 31 August 2005

Geely International Corporation

On 1 July 2006

Zhejiang Geely Gearbox Limited

On 31 May 2007

Ningbo Geely Engine Research Institute Limited

The fair value of the identifiable assets and liabilities of the Other Subsidiaries at the date of acquisition and their combined carrying value determined in accordance with HKFRS immediately before acquisition are as follows:

	At 30 June 2004 Carrying value and fair value *RMB'000*	**At 31 March 2005 Carrying value and fair value** *RMB'000*	**At 31 August 2005 Carrying value and fair value** *RMB'000*	**At 1 July 2006 Carrying value and fair value** *RMB'000*	**At 31 May 2007 Carrying value and fair value** *RMB'000*
Property, plant and equipment	7,224	1,325	15,406	–	835
Other non-current assets	–	3,770	–	–	–
Other investments	–	8,000	–	–	–
Inventories	57,259	–	381	3,648	–
Trade and other receivables	1,321,006	541,221	61,718	14,038	12,018
Pledged deposits	160,000	160,000	–	–	–
Bank balances and cash	52,862	27,976	10,892	83	195
Trade and other payables	(1,531,241)	(703,902)	(50,260)	(7,898)	(2,919)
Income tax payables	(3,699)	(4,072)	(397)	–	–
Short-term bank borrowings	(60,000)	(30,000)	–	–	–
	3,411	4,318	37,740	9,871	10,129
Minority interests	(341)	(432)	(9,623)	(987)	–
Goodwill arising on acquisition/ (Excess of fair value of identifiable net assets acquired over cost)	26,207	(3,886)*	(13,117)*	116	(129)
Total consideration, satisfied by payables to the ultimate holding company	29,277	–	15,000	9,000	10,000
Net cash acquired from the subsidiaries	52,862	27,976	10,892	83	195

* *Included in capital reserve as deemed contribution from equity holders.*

From the date of acquisition to the balance sheet date of respective period of acquisition occurred, the acquired business have made the following contribution to the operating results to Zhejiang JV Group:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue	–	–	4,644	–	–
Profit (Loss)	(484)	25,701	(2,370)	–	(24)

If the acquisition effected during the Relevant Periods had taken place at the beginning of the respective period, the operating results of Zhejiang JV Group would have been:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue	1,967,508	4,047,418	5,217,265	2,672,403	2,979,006
Profit (Loss)	199,596	230,305	486,543	281,536	111,900

The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of Zhejiang JV Group that actually would have been achieved had the acquisition been completed at the beginning of respective period of acquisition occurred, nor is it intended to be a projection of future results.

Included in the goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. Assets included in this balance consist of dealership networks and assembled workforce engaged in research and development of technology for the manufacturing of automobiles.

(c) Disposal of subsidiaries other than Zhejiang Haoqing Group ("Other Subsidiaries")

During the Relevant Periods, Zhejiang JV disposed of its entire interests in Other Subsidiaries to Zhejiang Geely Holding Group Limited as follows:

On 31 May 2007

Zhejiang Mybo Automobile Sales Company Limited

The fair value of the identifiable assets and liabilities of the Other Subsidiaries at the date of disposal and their combined carrying value determined in accordance with HKFRS immediately before disposal are as follows:

	At 31 May 2007
	Carrying value
	RMB'000
Property, plant and equipment	113
Trade and other receivables	3,944
Bank balances and cash	3,498
Trade and other payables	(50,040)
Income tax receivables	774
	(41,711)
Gain on disposal, included in capital reserve as deemed contribution from equity holders	50,711
Total consideration, satisfied by offsetting payables to the ultimate holding company	9,000
Net cash outflow arising on disposal of subsidiaries	3,498

36. SUBSEQUENT EVENT

On 13 July 2007, Centurion, the shareholder of the Company and Zhejiang Geely Merrie entered into the Zhejiang JV Equity Transfer Agreement pursuant to which Genturion agreed to acquire the remaining 44.19% interest in the registered capital of Zhejiang JV from Zhejiang Geely Merrie for a total consideration of RMB936.33 million. The consideration of RMB936.33 million for the Zhejiang JV transfer was determined after the arm's length negotiation between Centurion and Zhejiang Geely Merrie with reference to the 44.19% attributable interest in the unaudited net asset value of Zhejiang JV as at 30 June 2007.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in Zhejiang JV Group have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF ZHEJIANG JV

For the financial year ended 31 December 2004

(a) Results of operation

Zhejiang JV Group had an audited consolidated net asset of approximately RMB1,038.5 million as at 31 December 2004 and an audited net profit after tax of approximately RMB200.1 million for the year. During the year, turnover of approximately RMB1,967.5 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB302.5 million. Other income amounted to approximately RMB45.5 million comprising mainly the bank interest income of approximately RMB14.5 million and warranty income of approximately RMB29.9 million during the year.

Operating expenses were mainly finance costs of approximately RMB20.2 million, distribution and selling expenses of approximately RMB55.6 million and administrative expenses of approximately RMB57.0 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Zhejiang JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang JV Group for the year.

Geographical segments

Zhejiang JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2004, the major assets of Zhejiang JV Group were primarily property, plant and equipment of approximately RMB1,082.0 million, land lease prepayments of approximately RMB346.6 million, trade and other receivables of approximately RMB1,769.6 million, inventories of approximately RMB362.0 million, pledged deposits of approximately RMB245.6 million and cash and bank balances of approximately RMB131.2 million.

Capital structure and liquidity

As at 31 December 2004, liabilities of the Zhejiang JV Group were solely trade and other payables of approximately RMB1,727.7 million, secured short-term bank borrowings of approximately RMB920 million and amount due to the ultimate holding company of approximately RMB443.3 million. As at 31 December 2004, the shareholders' fund (excluding minority interests) of Zhejiang JV Group amounted to approximately RMB1,038.5 million. No capital increase arrangement was made during the year.

As at 31 December 2004, the current ratio (current assets/current liabilities) of Zhejiang JV Group was 0.94 and the gearing ratio of Zhejiang JV Group was 72% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to ultimate holding company, short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

As at 31 December 2004, land use rights of approximately RMB103.7 million and buildings of approximately RMB146.3 million were pledged for banking facilities granted to the Zhejiang JV Group. Also, land use rights of approximately RMB55.9 million and buildings of approximately RMB41.2 million were pledged for banking facilities granted to a fellow subsidiary. Further, deposits of approximately RMB245.6 million were pledged by the Zhejiang JV Group in favor of the bank.

(d) Foreign currency management

All operating subsidiaries of Zhejiang JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities.

(e) Contingent liabilities

As at 31 December 2004, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 30 June 2004, Zhejiang JV acquired 90% of equity interest in Zhejiang Geely Automobile Sales Company Limited, Zhejiang Mybo Automobile Sales Company Limited, Zhejiang Haoqing Automobile Manufacturing Company Limited and Taizhou Geely Automobile Sales Company Limited from Geely Holding.

(g) Future plans for material investments or capital assets

As at 31 December 2004, there were future plans for investments in developing "Free Cruiser" ("FC") model. As such, capital commitments of approximately RMB89.5 million had been contracted but not provided net of deposit paid as at 31 December 2004.

(h) Employees and remuneration policies

As at 31 December 2004, the total number of employees of Zhejiang JV Group was about 5,182. 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. Zhejiang JV Group also participates in state-managed retirement benefit scheme in the PRC.

For the financial year ended 31 December 2005

(a) Results of operation

Zhejiang JV Group had an audited consolidated net asset of approximately RMB1,199.1 million as at 31 December 2005 and an audited net profit after tax of approximately RMB204.6 million for the year. During the year, turnover of approximately RMB4,047.4 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB522.7 million. Other income amounted to approximately RMB189.7 million comprising mainly the bank interest income of approximately RMB25.4 million, subsidy income of approximately RMB40.1 million and warranty income of approximately RMB71.8 million during the year.

Operating expenses were mainly finance costs of approximately RMB52.1 million, distribution and selling expenses of approximately RMB249.6 million and administrative expenses of approximately RMB146.9 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Zhejiang JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang JV Group for the year.

Geographical segments

Zhejiang JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2005, the major assets of Zhejiang JV Group were primarily property, plant and equipment of approximately RMB861.5 million, land lease prepayments of approximately RMB137.4 million, trade and other receivables of approximately RMB2,413.6 million, inventories of approximately RMB326.9 million, pledged deposits of approximately RMB664.5 million and cash and bank balances of approximately RMB332.5 million.

Capital structure and liquidity

As at 31 December 2005, liabilities of the Zhejiang JV Group were solely trade and other payables of approximately RMB2,075.2 million and secured short-term bank borrowings of approximately RMB1,597.7 million. As at 31 December 2005, the shareholders' fund (excluding minority interests) of Zhejiang JV Group amounted to approximately RMB1,199.1 million. No capital increase arrangement was made during the year.

As at 31 December 2005, the current ratio (current assets/current liabilities) of Zhejiang JV Group was 1.01 and the gearing ratio of Zhejiang JV Group was 69% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

As at 31 December 2005, land use rights of approximately RMB168.1 million and buildings of approximately RMB216.0 million were pledged for banking facilities granted to the Zhejiang JV Group. Also, deposits of approximately RMB664.5 million were pledged by the Zhejiang JV Group in favor of the bank.

(d) Foreign currency management

All operating subsidiaries of Zhejiang JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities.

(e) Contingent liabilities

As at 31 December 2005, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 31 March 2005, Zhejiang JV acquired 90% of equity interest in Zhejiang Geely Holding Group Automobile Sales Company Limited from Geely Holding. On 31 August 2005, Zhejiang JV acquired 70% of equity interest in Geely International Corporation from Geely Holding. On 31 October 2005, Zhejiang JV disposed of 90% equity interests in Zhejiang Haoqing Automobile Manufacturing Company Limited and Taizhou Geely Automobile Sales Company Limited to Geely Holding.

(g) Future plans for material investments or capital assets

As at 31 December 2005, there were future plans for investments in developing "Geely Kingkong" ("LG-1") model. As such, capital commitments of approximately RMB80.4 million had been contracted but not provided net of deposit paid as at 31 December 2005.

(h) Employees and remuneration policies

As at 31 December 2005, the total number of employees of Zhejiang JV Group was about 6,936. 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. Zhejiang JV Group also participates in state-managed retirement benefit scheme in the PRC.

For the financial year ended 31 December 2006

(a) Results of operation

Zhejiang JV Group had an audited consolidated net asset of approximately RMB2,333.1 million as at 31 December 2006 and an audited net profit after tax of approximately RMB486.5 million for the year. During the year, turnover of approximately RMB5,212.6 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB807.4 million. Other income amounted to approximately RMB192.7 million comprising mainly the bank interest income of approximately RMB16.7 million, subsidy income of approximately RMB125.9 million and warranty income of approximately RMB13.7 million during the year.

Operating expenses were mainly finance costs of approximately RMB22.6 million, distribution and selling expenses of approximately RMB250.5 million and administrative expenses of approximately RMB194.6 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Zhejiang JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang JV Group for the year.

Geographical segments

Zhejiang JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2006, the major assets of Zhejiang JV Group were primarily property, plant and equipment of approximately RMB918.7 million, land lease prepayments of approximately RMB132.4 million, trade and other receivables of approximately RMB2,293.9 million, inventories of approximately RMB368.1 million, pledged deposits of approximately RMB242.8 million and cash and bank balances of approximately RMB613.8 million.

Capital structure and liquidity

As at 31 December 2006, liabilities of the Zhejiang JV Group were solely trade and other payables of approximately RMB1,372.8 million, secured short-term bank borrowings of approximately RMB760.0 million and secured long-term bank borrowings of approximately RMB70.0 million. As at 31 December 2006, the shareholders' fund (excluding minority interests) of Zhejiang JV Group amounted to approximately RMB2,333.1 million. On 19 September 2006, the registered and paid-up capital of Zhejiang JV was increased to USD176,266,000 by the injection of USD93,463,000 in cash from its equity holders to provide for additional working capital. On 27 October 2006, the registered and paid-up capital of Zhejiang JV was further increased to USD231,008,000 by the injection of USD54,742,000 in cash from its equity holders provide additional working capital.

As at 31 December 2006, the current ratio (current assets/current liabilities) of Zhejiang JV Group was 1.56 and the gearing ratio of Zhejiang JV Group was 36% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt. The decrease in the gearing ratio during the year stemmed primarily from the capital contribution from equity holders.

Borrowings and pledge of assets

As at 31 December 2006, land use rights of approximately RMB53.2 million, buildings of approximately RMB93.9 million and equipment of approximately RMB81.8 million were pledged for banking facilities granted to the Zhejiang JV Group. Also, land use rights of approximately RMB78.1 million and buildings of approximately RMB123.4 million were pledged for banking facilities granted to the Zhejiang Geely Merrie. Further, deposits of approximately RMB242.8 million were pledged by the Zhejiang JV Group in favor of the bank.

(d) Foreign currency management

All operating subsidiaries of Zhejiang JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities. The recent appreciating trend of Renminbi versus various foreign currencies made purchases of foreign-produced equipment and payments denominated in foreign currency less expensive for Zhejiang JV Group in terms of Renminbi, thereby marginally improving its results of operations.

(e) Contingent liabilities

As at 31 December 2006, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 1 July 2006, Zhejiang JV acquired 90% of equity interest in Zhejiang Geely Gearbox Limited from Geely Holding.

(g) Future plans for material investments or capital assets

As at 31 December 2006, there were future plans for investments in developing “Geely Vision” (“FC-1”) model. As such, capital commitments of approximately RMB89.1 million had been contracted but not provided net of deposit paid as at 31 December 2006.

(h) Employees and remuneration policies

As at 31 December 2006, the total number of employees of Zhejiang JV Group was about 7,285. 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. Zhejiang JV Group also participates in state-managed retirement benefit scheme in the PRC.

For the period from 1 January 2007 to 30 June 2007

(a) Results of operation

Zhejiang JV Group had an audited consolidated net asset of approximately RMB2,110.4 million as at 30 June 2007 and an audited net profit after tax of approximately RMB112.1 million for the period. During the period, turnover of approximately RMB2,979.0 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB252.2 million. Other income amounted to approximately RMB105.0 million comprising mainly the interest income of approximately RMB17.0 million, subsidy income of approximately RMB45.2 million, training income of approximately RMB13.5 million and warranty income of approximately RMB8.2 million during the period.

Operating expenses were mainly finance costs of approximately RMB31.2 million, distribution and selling expenses of approximately RMB148.7 million and administrative expenses of approximately RMB53.8 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the period as the directors considered that Zhejiang JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang JV Group for the period.

Geographical segments

Zhejiang JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 30 June 2007, the major assets of Zhejiang JV Group were primarily property, plant and equipment of approximately RMB827.8 million, land lease prepayments of approximately RMB130.0 million, trade and other receivables of approximately RMB3,303.6 million, inventories of approximately RMB291.2 million, pledged deposits of approximately RMB191.7 million and cash and bank balances of approximately RMB549.4 million.

Capital structure and liquidity

As at 30 June 2007, liabilities of the Zhejiang JV Group were solely trade and other payables of approximately RMB1,763.8 million, secured short-term bank borrowings of approximately RMB1,210.0 million and secured long-term bank borrowings of approximately RMB107.1 million. As at 30 June 2007, the shareholders' fund (excluding minority interests) of Zhejiang JV Group amounted to approximately RMB2,110.4 million. No further capital increase arrangement was made during the period.

As at 30 June 2007, the current ratio (current assets/current liabilities) of Zhejiang JV Group was 1.37 and the gearing ratio of Zhejiang JV Group was 52% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank borrowings, long-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

As at 30 June 2007, land use rights of approximately RMB55.8 million, buildings of approximately RMB74.1 million and equipment of approximately RMB74.7 million were pledged for banking facilities granted to the Zhejiang JV Group. Also, land use rights of approximately RMB73.8 million and buildings of approximately RMB124.3 million were pledged for banking facilities granted to the Zhejiang Geely Merrie. Further, deposits of approximately RMB191.7 million were pledged by the Zhejiang JV Group in favor of the bank.

(d) Foreign currency management

All operating subsidiaries of Zhejiang JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities. The recent appreciating trend of Renminbi versus various foreign currencies made purchases of foreign-produced equipment and payments denominated in foreign currency less expensive for Zhejiang JV Group in terms of Renminbi, thereby marginally improving its results of operations.

(e) Contingent liabilities

As at 30 June 2007, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 31 May 2007, Zhejiang JV acquired 100% of equity interest in Ningbo Geely Engine Research Institute Limited from Geely Holding. Also, on 31 May 2007, Zhejiang JV disposed of 90% equity interest in Zhejiang Mybo Automobile Sales Company Limited to Geely Holding.

(g) Future plans for material investments or capital assets

As at 30 June 2007, there were future plans for investments in developing "FC-2" and "FC-3" new series models. As such, capital commitments of approximately RMB8.3 million had been contracted but not provided net of deposit paid as at 30 June 2007.

(h) Employees and remuneration policies

As at 30 June 2007, the total number of employees of Zhejiang JV Group was about 3,326. 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. Zhejiang JV Group also participates in state-managed retirement benefit scheme in the PRC.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

31 October 2007

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

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple JV") (English translation of 上海華普國潤汽車有限公司 for identification purpose) and its subsidiaries (hereinafter collectively referred to as "Shanghai Maple JV Group") for each of the three years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in a circular issued by Geely Automobile Holdings Limited (the "Company") dated 31 October 2007 (the "Circular") in connection with the proposed acquisition of 44.19% additional interest in Shanghai Maple JV.

Shanghai Maple JV is a sino-foreign equity joint venture established in the People's Republic of China ("PRC") with limited liability on 24 November 2003. The principal activities of Shanghai Maple JV are research, development, production, marketing and sales of sedans and related automobile parts and components in the PRC.

As at the date of this report, Shanghai Maple JV has the following subsidiaries, all of which are limited liability companies established and operated in the PRC:

Company name	Date of establishment	Registered capital	Proportion of nominal value of registered capital directly held by Shanghai Maple JV	Principal activities
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited (*)	2 June 2003	RMB 30,000,000	90%	Research and development of sedans and related automobile components in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited (*)	20 February 2001	RMB 20,000,000	90%	Marketing and sales of sedans in the PRC

(*) The English names of these companies are for identification purpose only.

Shanghai Maple JV Group has adopted 31 December as its financial year end date. The statutory financial statements of Shanghai Maple JV for the years ended 31 December 2004, 2005 and 2006 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP") which were audited by Deloitte Touche Tohmatsu CPA Ltd. (「德勤華永會計師事務所有限公司」), Zhejiang TianPing Certified Public Accountants, Co., Ltd. (「浙江天平會計師事務所有限公司」) and Moores Rowland CEC Certified Public Accountants (「東建中永信會計師事務所」), respectively. There is no statutory audit requirement for all other companies comprising Shanghai Maple JV Group.

For the purpose of this report, the directors of Shanghai Maple JV have prepared the consolidated financial statements of Shanghai Maple JV Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The accompanying Financial Information has been prepared based on the Underlying Financial Statements of Shanghai Maple JV Group and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of Shanghai Maple JV Group and carried out such additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Shanghai Maple JV are responsible for the preparation of the Underlying Financial Statements which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, 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 Shanghai Maple JV and Shanghai Maple JV Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and of the results and cash flows of Shanghai Maple JV Group for each of the Relevant Periods.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of Shanghai Maple JV Group for the six months ended 30 June 2006 together with the notes thereon (the "30 June 2006 Financial Information") have been extracted from Shanghai Maple JV Group's financial information for the same period which were prepared by the directors of Shanghai Maple JV solely for the purpose of this report.

We have reviewed the 30 June 2006 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries 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 30 June 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 30 June 2006 Financial Information.

(A) FINANCIAL INFORMATION

Consolidated Income Statements

		Year ended 31 December			Six months ended 30 June	
		2004	**2005**	**2006**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover	*5*	581,899	1,255,611	1,369,803	761,377	651,124
Cost of sales		(526,099)	(1,035,164)	(1,169,921)	(631,742)	(591,743)
Gross profit		55,800	220,447	199,882	129,635	59,381
Other income	*7*	6,291	11,213	43,726	16,128	34,756
Distribution and selling expenses		(8,213)	(91,990)	(106,531)	(53,352)	(47,789)
Administrative expenses		(30,694)	(67,840)	(81,599)	(40,827)	(33,165)
Finance costs	*8*	(5,383)	(139)	(8,099)	(2,745)	(7,060)
Profit before taxation		17,801	71,691	47,379	48,839	6,123
Taxation	*10*	(88)	(4,283)	(11,228)	(6,940)	(3,757)
Profit for the year/period	*8*	17,713	67,408	36,151	41,899	2,366
Attributable to:						
Equity holders of the parent	*9*	18,683	65,753	35,869	41,509	1,676
Minority interests		(970)	1,655	282	390	690
		17,713	67,408	36,151	41,899	2,366
Dividends	*11*	–	1,041	119,164	119,164	47,242

Consolidated Balance Sheets

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Goodwill	*13*	23,635	23,635	23,635	22,945
Intangible assets	*15*	81,300	72,187	64,015	61,224
Property, plant and equipment	*16*	324,554	367,517	703,754	762,616
Land lease prepayments	*17*	56,209	54,195	293,956	292,566
Long-term investment	*18*	–	2,000	2,000	2,000
Total non-current assets		485,698	519,534	1,087,360	1,141,351
Current assets					
Inventories	*19*	85,235	84,520	206,006	183,576
Trade and other receivables	*20*	205,384	360,274	133,990	326,090
Land lease prepayments	*17*	2,014	2,014	11,122	11,432
Bank balances and cash		76,488	172,613	104,183	93,105
Total current assets		369,121	619,421	455,301	614,203
Current liabilities					
Trade and other payables	*21*	369,437	549,384	449,941	593,297
Provisions for warranty	*22*	1,238	6,858	1,038	1,173
Taxation		–	3,644	1,248	1,660
Short-term bank borrowings	*23*	–	30,000	200,000	310,000
Dividend payables		–	–	43,904	46,018
Total current liabilities		370,675	589,886	696,131	952,148
Net current assets (liabilities)		(1,554)	29,535	(240,830)	(337,945)
Total assets less current liabilities		484,144	549,069	846,530	803,406
Equity					
Paid-up capital	*25*	427,603	427,603	808,077	808,077
Reserves	*26*	20,137	118,007	34,712	(8,089)
Equity attributable to equity holders of the parent		447,740	545,610	842,789	799,988
Minority interests		404	3,459	3,741	3,418
Total equity		448,144	549,069	846,530	803,406
Non-current liabilities					
Amount due to the ultimate holding company	*24*	36,000	–	–	–
		484,144	549,069	846,530	803,406

Balance Sheets

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Interest in subsidiaries	*14*	36,000	48,600	48,600	39,600
Intangible assets	*15*	80,250	71,297	62,292	57,789
Property, plant and equipment	*16*	289,908	317,280	642,036	694,278
Land lease prepayments	*17*	56,209	54,195	288,244	287,206
Long-term investment	*18*	–	1,000	1,000	1,000
Total non-current assets		462,367	492,372	1,042,172	1,079,873
Current assets					
Inventories	*19*	42,155	78,578	159,670	91,626
Trade and other receivables	*20*	166,024	234,562	86,695	311,633
Land lease prepayments	*17*	2,014	2,014	11,122	11,216
Bank balances and cash		74,005	137,466	97,160	72,020
Total current assets		284,198	452,620	354,647	486,495
Current liabilities					
Trade and other payables	*21*	249,512	369,582	268,723	349,093
Provisions for warranty	*22*	1,238	4,330	–	–
Taxation		–	–	1,248	1,633
Short-term bank borrowings	*23*	–	30,000	200,000	310,000
Dividend payables		–	–	43,904	46,018
Total current liabilities		250,750	403,912	513,875	706,744
Net current assets (liabilities)		33,448	48,708	(159,228)	(220,249)
Total assets less current liabilities		495,815	541,080	882,944	859,624
Equity					
Paid-up capital	*25*	427,603	427,603	808,077	808,077
Reserves	*26*	32,212	113,477	74,867	51,547
Total equity		459,815	541,080	882,944	859,624
Non-current liabilities					
Amount due to the ultimate holding company	*24*	36,000	–	–	–
		495,815	541,080	882,944	859,624

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the parent						
	Paid-up capital	**Statutory reserves**	**Capital reserve**	**Retained profits (accumulated losses)**	**Sub-total**	**Minority interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	427,603	–	–	1,454	429,057	–	429,057
Profit for the year	–	–	–	18,683	18,683	(970)	17,713
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	1,374	1,374
At 31 December 2004	427,603	–	–	20,137	447,740	404	448,144
Profit for the year	–	–	–	65,753	65,753	1,655	67,408
Dividends declared	–	–	–	(1,041)	(1,041)	–	(1,041)
Transfers	–	218	–	(218)	–	–	–
Capital contribution	–	–	–	–	–	1,400	1,400
Deemed contribution from equity holders *(note)*	–	–	33,158	–	33,158	–	33,158
At 31 December 2005	427,603	218	33,158	84,631	545,610	3,459	549,069
Profit for the year	–	–	–	35,869	35,869	282	36,151
Dividends declared	–	–	–	(119,164)	(119,164)	–	(119,164)
Transfers	–	9,048	–	(9,048)	–	–	–
Capital contribution	380,474	–	–	–	380,474	–	380,474
At 31 December 2006	808,077	9,266	33,158	(7,712)	842,789	3,741	846,530
(Unaudited)							
At 1 January 2006	427,603	218	33,158	84,631	545,610	3,459	549,069
Profit for the period	–	–	–	41,509	41,509	390	41,899
Dividends declared	–	–	–	(119,164)	(119,164)	–	(119,164)
Transfers	–	9,048	–	(9,048)	–	–	–
At 30 June 2006	427,603	9,266	33,158	(2,072)	467,955	3,849	471,804
At 1 January 2007	808,077	9,266	33,158	(7,712)	842,789	3,741	846,530
Profit for the period	–	–	–	1,676	1,676	690	2,366
Dividends declared	–	–	–	(47,242)	(47,242)	–	(47,242)
Transfers	–	2,294	–	(2,294)	–	–	–
Disposal of subsidiary *(note 33)*	–	–	(806)	–	(806)	(1,013)	(1,819)
Deemed capital contribution from equity holders *(note)*	–	–	3,571	–	3,571	–	3,571
At 30 June 2007	808,077	11,560	35,923	(55,572)	799,988	3,418	803,406

Note: Deemed contribution from equity holders mainly represented difference between the consideration received and the fair value of net assets disposed by Shanghai Maple JV Group to Zhejiang Geely Holding Group Company Limited (translation of registered name in Chinese of 浙江吉利控股集團有限公司 for identification purpose), the ultimate holding company of Shanghai Maple JV Group, and/or its subsidiaries (collectively referred to as "Zhejiang Geely Holding Group").

Consolidated Cash Flow Statements

		Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
OPERATING ACTIVITIES						
Profit before taxation		17,801	71,691	47,379	48,839	6,123
Amortisation of intangible assets		9,230	9,273	9,323	4,646	4,858
Amortisation of land lease prepayments		2,014	2,014	2,014	1,007	3,608
Bad debt written off		1,423	(678)	598	–	–
Depreciation		15,006	26,646	33,771	14,552	19,905
Loss on disposal of property, plant and equipment		–	582	76	–	151
Interest expenses		5,383	139	8,099	2,745	7,060
Interest income		(404)	(1,941)	(1,627)	(921)	(453)
Changes in working capital:						
Inventories		2,289	715	(121,486)	(102,459)	22,430
Trade and other receivables		147,887	(154,212)	(8,732)	173,095	(204,118)
Trade and other payables		(42,748)	179,947	(99,443)	(83,206)	155,275
Provision for warranty		671	5,620	(5,820)	(3,172)	135
Cash generated from (used in) operations		158,552	139,796	(135,848)	55,126	14,974
Interest paid		(5,383)	(139)	(8,099)	(2,745)	(7,060)
Interest received		404	1,941	1,627	921	453
Tax paid		(88)	(639)	(13,624)	(8,221)	(3,345)
Net cash from (used in) operating activities		153,485	140,959	(155,944)	45,081	5,022
INVESTING ACTIVITIES						
Acquisition of property, plant and equipment		(158,897)	(87,286)	(370,113)	(122,304)	(80,140)
Acquisition of intangible assets		(164)	(160)	(1,151)	–	(2,067)
Acquisition of long-term investment		–	(2,000)	–	–	–
Acquisition of land use rights		–	–	(16,465)	–	(2,528)
Net cash acquired from the acquisition of subsidiaries	*33*	2,371	–	–	–	–
Proceeds from disposal of property, plant and equipment		–	17,095	29	9	387
Proceeds from disposal of subsidiary	*33*	–	–	–	–	(195)
Net cash used in investing activities		(156,690)	(72,351)	(387,700)	(122,295)	(84,543)

		Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
FINANCING ACTIVITIES						
Capital contribution from other joint venture partners of non-wholly owned subsidiaries		–	1,400	–	–	–
Dividends paid		–	(1,041)	(75,260)	(75,260)	(45,128)
Deemed capital contribution from equity holders		–	33,158	–	–	3,571
New short-term bank loan raised		–	30,000	200,000	86,717	110,000
New capital raised		–	–	380,474	–	–
Repayment of short-term bank loan		–	–	(30,000)	–	–
Repayment of amount due to ultimate holding company		(97,832)	(36,000)	–	–	–
Net cash from (used in) financing activities		(97,832)	27,517	475,214	11,457	68,443
Net increase (decrease) in cash and cash equivalents		(101,037)	96,125	(68,430)	(65,757)	(11,078)
Cash and cash equivalents at beginning of year/period		177,525	76,488	172,613	172,613	104,183
Cash and cash equivalents at end of year/period, represented by bank balances and cash		76,488	172,613	104,183	106,856	93,105

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Shanghai Maple JV is a limited liability company established in the PRC under laws and regulations applicable to sino-foreign joint ventures. The address of the registered office and principal place of business is located at Fengjing Industrial Park, Jinshan District, Shanghai, the PRC. The principal activities of Shanghai Maple JV Group are research, development, production, marketing and sales of sedans and related automobile parts and components in the PRC. The parent of Shanghai Maple JV is Shanghai Maple Automobile Company Limited (English translation of registered name of 上海華普汽車有限公司 for identification purpose only). In the opinion of the directors, the ultimate parent of Shanghai Maple JV is Zhejiang Geely Holding Group Company Limited (English translation of registered name of 浙江吉利控股集團有限公司 for identification purpose only) which is established in the PRC.

This Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment (i.e. functional currency) in which Shanghai Maple JV Group operates.

2. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies adopted by the Shanghai Maple JV Group for the purposes of preparation of Financial Information is set out below. Consistent accounting policies have been adopted for the preparation of 30 June 2006 Financial Information.

Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

The principal accounting policies applied in the preparation of the Financial Information which are in conformity with all HKFRSs issued by the HKICPA and are effective for the accounting periods beginning on or after 1 January 2007. For the purpose of presenting the Financial Information, these policies have been consistently applied to all the years/periods presented, unless otherwise stated.

Shanghai Maple JV Group has not early adopted the following new and revised standards and interpretations issued by the HKICPA that are not yet effective for the accounting periods beginning on or after 1 January 2007.

HKFRS 8	Operating segments[1]
HKAS 23 (revised)	Borrowing costs[1]
HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[2]
HK (IFRIC) – INT 12	Service concession arrangements[3]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Assets Minimum Funding Requirements and their Interaction[3]

[1] Effective for accounting periods beginning on or after 1 January 2009.
[2] Effective for accounting periods beginning on or after 1 March 2007.
[3] Effective for accounting periods beginning on or after 1 January 2008.
[4] Effective for accounting periods beginning on or after 1 July 2008.

The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of Shanghai Maple JV Group.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of Shanghai Maple JV and its subsidiaries. A subsidiary is an entity in which Shanghai Maple JV, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

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 Shanghai Maple JV 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 Shanghai Maple JV Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill on acquisition of subsidiaries, being the excess of the cost of the acquisition over Shanghai Maple JV Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities, is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of Shanghai Maple JV Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of businesses at the date of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the consolidated income statement during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Buildings	10-30 years
Plant and machinery	5-10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5-10 years
Moulds	7 years

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Land lease prepayments

Land lease prepayments represent amounts paid for land use rights. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the consolidated income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, Shanghai Maple JV Group reviews internal and external sources of information to determine whether its property, plant and equipment, land lease prepayments, intangible assets and interest in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, Shanghai Maple JV Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income immediately.

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 and on a trade date basis. 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured 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 the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the consolidated income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Shanghai Maple JV 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 the consolidated income statement.

For financial liabilities, they are removed from Shanghai Maple JV Group's consolidated balance sheet 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 the consolidated income statement.

Inventories

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the entity and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods is recongised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Income from sales of technology development projects is recognised on the execution of a binding sales agreement after the projects are completed.

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.

Foreign currencies

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise.

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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Shanghai Maple JV Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where Shanghai Maple JV 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 consolidated 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

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.

As lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

As lessee

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

Retirement benefit costs

Payments to the state-managed retirement benefit scheme in the PRC are charged as expenses as they fall due. Further information is set out in Note 28.

Borrowing costs

Borrowing costs are recognised in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Provisions

Provisions are recognised when Shanghai Maple JV Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where Shanghai Maple JV Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Shanghai Maple JV Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. Sedans are sold with a 24-months or 60,000 kilometres first-to-occur limited warranty. During the warranty periods, Shanghai Maple JV Group pays service stations for parts and labour covered by the warranty.

The costs of the warranty obligation are accrued at the time the sales are recognised, based on the estimated costs of fulfilling the total obligations, including handling and transportation costs. The factors used to estimate warranty expenses are reviewed periodically in light of actual experience.

Cash equivalents

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

Related parties

A party is related to Shanghai Maple JV Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Shanghai Maple JV Group; or has an interest in Shanghai Maple JV Group that gives it significant influence over Shanghai Maple JV Group; or has joint control over Shanghai Maple JV Group;

(ii) the party is an associate of Shanghai Maple JV Group;

(iii) the party is a joint venture in which Shanghai Maple JV Group is a venturer;

(iv) the party is a member of the key management personnel of Shanghai Maple JV Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Shanghai Maple JV Group, or any entity that is a related party of Shanghai Maple JV Group.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key source of estimation uncertainty at the balance sheet dates, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period, are also discussed below.

Depreciation and amortisation

Shanghai Maple JV Group depreciates and amortises its property, plant and equipment and intangible assets on a straight-line basis, after taking into account their estimated residual value, over their estimated useful lives, commencing from the date the asset is available for use. The estimated useful life reflects the directors' estimate of the periods that Shanghai Maple JV Group intends to derive future economic benefits from the use of the asset.

Impairment of assets

Shanghai Maple JV Group determines whether an asset is impaired at least on annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires Shanghai Maple JV Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Allowances for inventories

Shanghai Maple JV Group's management reviews the conditions of its inventories at each balance sheet date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production or for sale. The management estimates the net realisable value of inventories based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Allowances for bad and doubtful debts

The policy for allowance for Shanghai Maple JV Group's bad and doubtful debts is based on the evaluation of collectability of accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of Shanghai Maple JV Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Warranty provisions

Shanghai Maple JV Group makes provisions under the warranties it gives on sale of its sedans and related parts after taking into account its recent claim experience. As Shanghai Maple JV Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future periods. Details of provisions are set out in Note 22.

4. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Shanghai Maple JV Group's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables, amount due to the ultimate holding company, long-term investment and short-term bank borrowings. Details of the policies on how to mitigate the risks from these financial instruments are set out below. Shanghai Maple JV Group's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

All operating subsidiaries of Shanghai Maple JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollars and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities. The recent appreciating trend of Renminbi versus various foreign currencies made purchases of foreign-produced equipment and payments denominated in foreign currency less expensive for Shanghai Maple JV Group in terms of Renminbi, thereby marginally improving its results of operations.

Interest rate risk

Shanghai Maple JV Group's fair value interest rate risk relates primarily to certain fixed-rate bank borrowings (see Note 23 for details). Shanghai Maple JV Group has not used any derivative contracts to hedge its exposure to interest rate risk.

Shanghai Maple JV Group's cash flow interest rate risk primarily relates to variable-rate bank balances. Shanghai Maple JV Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Funds not required by Shanghai Maple JV Group in the short-term are kept as temporary demand or time deposits in commercial banks and Shanghai Maple JV Group does not hold any market risk-sensitive instruments for speculative purposes.

Credit risk

The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. Shanghai Maple JV Group's credit risk primarily consists of trade and other receivables from related parties and a variety of customers. Shanghai Maple JV Group has concentration of credit risk with exposure limited to its group companies as detailed in Note 20.

In order to minimise credit risk, credit history and background of new third party customers are checked and securities deposits are usually obtained from major customers. Credit limits with credit terms of 60 days to 90 days are set for customers and designated staff monitors accounts receivable and follow up collection with customers. Customers considered to be high risk are traded on cash basis (or bank guaranteed notes). Shanghai Maple JV Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be irrecoverable.

Shanghai Maple JV Group's bank balances are deposited with a number of banks and Shanghai Maple JV Group has limited exposure to any single financial institution.

Categories of financial instruments

Categories of financial instruments of Shanghai Maple JV Group are as follows:

		At 31 December		**At 30 June**
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available for sale financial assets:				
Long-term investment	–	2,000	2,000	2,000
Loans and receivables:				
Trade and other receivables	185,104	330,926	95,683	339,094
Bank balances and cash	76,488	172,613	104,183	93,105
	261,592	503,539	199,866	432,199
Financial liabilities				
At amortised cost:				
Trade and other payables	365,887	445,526	393,334	490,223
Short-term bank borrowings	–	30,000	200,000	310,000
	365,887	475,526	593,334	800,223

Liquidity risk

As at 30 June, 2007, Shanghai Maple JV Group had net current liabilities of approximately RMB338 million which include short-term bank borrowings of RMB310 million with terms of repayment within twelve months from the balance sheet date. Therefore, Shanghai Maple JV Group is exposed to liquidity risk. Management manages the exposure by re-financing the bank borrowings and expected cash inflows from operations.

Shanghai Maple JV Group's liquidity position is monitored on a daily basis by the management. The following tables detail the Shanghai Maple JV Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Shanghai Maple JV Group can be required to pay. The table includes both interest, if any, and principal cash flows. The adjustment column represents the possible future cash flows in respect of the interest portion attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liabilities on each balance sheet date.

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2004						
Non-interest bearing		329,887	–	36,000	–	365,887
		329,887	–	36,000	–	365,887

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2005						
Non-interest bearing		445,526	–	–	–	445,526
Fixed interest rate instruments	5.58	–	31,670	–	(1,670)	30,000
		445,526	31,670	–	(1,670)	475,526

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006						
Non-interest bearing		393,334	–	–	–	393,334
Fixed interest rate instruments	5.99	5,985	202,333	–	(8,318)	200,000
		399,319	202,333	–	(8,318)	593,334

	Weighted average effective interest rate	0-180 days	181-360 days	Over 360 days	Adjustments	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2007						
Non-interest bearing		490,223	–	–	–	490,223
Fixed interest rate instruments	6.07	263,850	50,758	–	(4,608)	310,000
		754,073	50,758	–	(4,608)	800,223

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates and interest rates. Shanghai Maple JV Group is exposed to market risk (interest rate risk) primarily through its interest-bearing borrowings and bank balances and cash which has been set out above. Risk management techniques, such as value-at-risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control interest rate risk. VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices such as interest rates and foreign exchange rates reflect possible future changes. Since Shanghai Maple JV Group's interest-bearing borrowings have maturity of less than one year and the historical fluctuations of interest rates in the PRC is not significant, VaR for interest rate risk and sensitivity analysis for market risk is not presented.

(b) Capital risk management

Shanghai Maple JV Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Shanghai Maple JV Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue capital or sell assets to reduce debt.

Consistent with others in the industry, Shanghai Maple JV Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to ultimate holding company, short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

During the Relevant Periods, Shanghai Maple JV Group's strategy was to maintain a gearing ratio within 40% to 50%. The gearing ratios at 31 December 2004, 2005 and 2006 and 30 June 2007 were as follows:

	At 31 December			**At 30 June**
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings	405,437	579,384	649,941	903,363
Less: bank balances and cash	(76,488)	(172,613)	(104,183)	(93,105)
Net debt	328,949	406,771	545,758	810,258
Total equity	448,144	549,069	846,530	803,406
Total capital	777,093	955,840	1,392,288	1,613,664
Gearing ratio	42%	43%	39%	50%

The decrease in the gearing ratio during year 2006 resulted primarily from the capital contribution from equity holders.

(c) Fair values of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Shanghai Maple JV consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

5. TURNOVER

Turnover represented the proceeds from sales, net of discounts, returns and related sales taxes of goods and is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sales of sedans	522,808	1,184,039	1,256,066	594,863	524,380
Sales of automobile parts and components	59,091	71,572	113,737	166,514	126,744
	581,899	1,255,611	1,369,803	761,377	651,124

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

No business segment information has been presented for the Relevant Periods as the directors considered that Shanghai Maple JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profits of Shanghai Maple JV Group for the periods.

Geographical segments

Shanghai Maple JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

7. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Bank interest income	404	1,941	1,627	921	453
Gain on disposal of technology development project	–	–	9,976	9,976	–
Services income	–	–	–	–	7,500
Subsidy income from government	102	5,840	29,220	3,840	20,819
Sundry income	5,785	3,432	2,903	1,391	5,984
	6,291	11,213	43,726	16,128	34,756

8. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging/(crediting):

(a) Finance costs

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest payable on:					
Short-term bank borrowings	–	11	5,371	655	7,060
Discounted bank guaranteed notes	–	128	1,802	2,090	–
Other loans	5,383	–	926	–	–
	5,383	139	8,099	2,745	7,060

(b) Staff costs

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages and salaries	22,309	102,943	74,688	38,127	25,906
Social security costs	1,870	3,708	6,759	2,221	4,768
	24,179	106,651	81,447	40,348	30,674

All the five individuals with the highest emoluments during the Relevant Periods were employees of Shanghai Maple JV Group. The emoluments of the five individuals were as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	1,765	3,907	1,530	791	823
Social security costs	88	110	78	31	36
	1,853	4,017	1,608	822	859

During the Relevant Periods, no emoluments were paid by Shanghai Maple JV Group to the directors and five highest paid individuals as an inducement to join or upon joining Shanghai Maple JV Group or as compensation for loss of office and no directors of Shanghai Maple JV waived or agreed to waive any emoluments.

(c) Other items

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of inventories	526,099	1,035,164	1,169,921	631,742	591,743
Auditors' remuneration	–	88	106	–	–
Depreciation of property, plant and equipment	15,006	26,646	33,771	14,552	19,905
Amortisation on:					
– Intangible assets, included in cost of sales	9,230	9,273	9,323	4,646	4,858
– Land lease prepayments	2,014	2,014	2,014	1,007	3,608
Operating lease charges on premises	–	–	–	61	35
Research and development costs	2,649	4,908	8,390	3,402	4,851
Bad debt written-off (Recovered)	1,423	(678)	598	–	–
Loss on disposal of property, plant and equipments	–	582	76	–	151

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF SHANGHAI MAPLE JV

The consolidated profit attributable to equity holders of Shanghai Maple JV includes a profit of RMB30,758,000, RMB82,025,000 and RMB82,507,000 for the years ended 31 December 2004, 2005 and 2006 respectively and a profit of RMB54,864,000 (unaudited) and RMB23,920,000 for the six months ended 30 June 2006 and 2007 respectively, which has been dealt with in the financial statements of Shanghai Maple JV.

10. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current tax:					
PRC enterprise income tax					
for current years/periods	–	4,283	11,115	6,827	3,757
Underprovision in prior years	88	–	113	113	–
	88	4,283	11,228	6,940	3,757

Pursuant to the relevant laws and regulations in the PRC, Shanghai Maple JV is entitled to an exemption from PRC enterprise income tax applicable to foreign enterprises of 27% for the two years starting from its first profit-making year (i.e. year 2004), followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year/period based on existing legislation, interpretations and practices in respect thereof.

Shanghai Maple JV's subsidiaries operating in the PRC are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively, based on the respective taxable income reported in their financial statements in accordance with the relevant state and local income tax laws applicable.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from 1 January 2008. Pursuant to the new CIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of Shanghai Maple JV Group. As Shanghai Maple JV Group does not recognise any deferred tax assets and deferred tax liabilities at the balance sheet dates, there is no impact on financial position or results. Shanghai Maple JV Group will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

The charge for the Relevant Periods can be reconciled to the profit per consolidated income statement as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before taxation	17,801	71,691	47,379	48,839	6,123
Tax at applicable tax rate	5,874	23,657	15,635	16,116	2,020
Effect of tax incentive granted	(10,057)	(19,716)	(9,856)	(8,738)	(6,602)
Tax effect on expenses that are not deductible in determining taxable profits	230	4,692	9,881	7,592	4,648
Tax effect on income that are not taxable in determining taxable profits	(607)	(704)	(5,233)	(3,651)	(2,247)
Unrecognised temporary differences	4,560	1,093	(4,320)	(4,492)	930
Unrecognised tax losses	–	–	5,008	–	5,008
Utilisation of previously unrecognised tax losses	–	(4,739)	–	–	–
Underprovision in prior years	88	–	113	113	–
Tax charge for year/period	88	4,283	11,228	6,940	3,757

The applicable tax rate is the PRC's enterprise income tax rate of 33%/foreign enterprise income tax rate of 27%.

11. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Amounts recognised as distributions to equity holders	–	1,041	119,164	119,164	47,242

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. GOODWILL

	Cost
	RMB'000
At 1 January 2004	–
Recognised on acquisition of subsidiaries *(note 33)*	23,635
At 31 December 2004, 2005 and 2006	23,635
At 1 January 2007	23,635
Disposal of subsidiary	(690)
At 30 June 2007	22,945

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. As explained in note 6, Shanghai Maple JV Group has only one business segment which is also the lowest level of CGU within Shanghai Maple JV Group which the goodwill is monitored for internal management purpose.

Shanghai Maple JV 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 annual financial budgets, approved by the management, extrapolated for the subsequent years at a flat rate which approximates to the discounted rate.

As the value in use of the CGU is in excess of the carrying amount of goodwill, no impairment arose in each of the above periods.

14. INTEREST IN SUBSIDIARIES

Shanghai Maple JV

	At 31 December			**At 30 June**
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	36,000	48,600	48,600	39,600

Details of subsidiaries are set out in note 33.

15. INTANGIBLE ASSETS

Shanghai Maple JV Group

	Sedan design rights *(note (i))* *RMB'000*	Software *(note (ii))* *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2004	90,000	–	90,000
Additions	–	164	164
Acquired on acquisition of subsidiaries	–	1,183	1,183
At 31 December 2004	90,000	1,347	91,347
Additions	–	160	160
At 31 December 2005	90,000	1,507	91,507
Additions	–	1,151	1,151
At 31 December 2006	90,000	2,658	92,658
Additions	–	2,067	2,067
At 30 June 2007	90,000	4,725	94,725
Accumulated amortisation:			
At 1 January 2004	817	–	817
Charge for the year	8,933	297	9,230
At 31 December 2004	9,750	297	10,047
Charge for the year	9,000	273	9,273
At 31 December 2005	18,750	570	19,320
Charge for the year	9,000	323	9,323
At 31 December 2006	27,750	893	28,643
Charge for the period	4,500	358	4,858
At 30 June 2007	32,250	1,251	33,501
Carrying amount:			
At 31 December 2004	80,250	1,050	81,300
At 31 December 2005	71,250	937	72,187
At 31 December 2006	62,250	1,765	64,015
At 30 June 2007	57,750	3,474	61,224

Shanghai Maple JV

	Sedan design rights *(note (i))* *RMB'000*	Software *(note (ii))* *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2004 and At 31 December 2004	90,000	–	90,000
Additions	–	49	49
At 31 December 2005	90,000	49	90,049
At 31 December 2006	90,000	49	90,049
At 30 June 2007	90,000	49	90,049
Accumulated amortisation:			
At 1 January 2004	817	–	817
Charge for the year	8,933	–	8,933
At 31 December 2004	9,750	–	9,750
Charge for the year	9,000	2	9,002
At 31 December 2005	18,750	2	18,752
Charge for the year	9,000	5	9,005
At 31 December 2006	27,750	7	27,757
Charge for the period	4,500	3	4,503
At 30 June 2007	32,250	10	32,260
Carrying amount:			
At 31 December 2004	80,250	–	80,250
At 31 December 2005	71,250	47	71,297
At 31 December 2006	62,250	42	62,292
At 30 June 2007	57,750	39	57,789

(i) Sedan design rights represent acquired rights, titles and interest in certain design and engineering agreements and technical assistant agreements in relation to the production of automobiles. They are amortised over on a straight-line basis over the expected life of the products to which they relate, normally about ten years.

(ii) Software is amortised on a straight-line basis over the remaining life of the asset to which they relate, normally about five years.

16. PROPERTY, PLANT AND EQUIPMENT

Shanghai Maple JV Group

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Moulds *RMB'000*	Furniture, fixtures, office equipment and motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2004	67,032	55,542	49,051	3,491	875	175,991
Additions	28,618	7,300	4,915	1,686	116,378	158,897
Acquired on acquisition of subsidiaries	–	2,770	–	1,755	1,213	5,738
Transfers	–	31,806	7,700	–	(39,506)	–
At 31 December 2004	95,650	97,418	61,666	6,932	78,960	340,626
Additions	2,306	10,988	593	7,539	65,860	87,286
Disposals	–	(8,197)	(10,056)	(426)	(765)	(19,444)
Transfers	51,026	63,370	3,963	2,783	(121,142)	–
At 31 December 2005	148,982	163,579	56,166	16,828	22,913	408,468
Additions	33,684	3,912	353	12,829	319,335	370,113
Disposals	–	(54)	–	(82)	(13)	(149)
Transfers	30,085	32,394	248	2,648	(65,375)	–
At 31 December 2006	212,751	199,831	56,767	32,223	276,860	778,432
Additions	–	429	–	2,572	77,139	80,140
Disposals	–	(882)	–	(1,080)	–	(1,962)
Transfers	550	3,254	–	19	(3,823)	–
At 30 June 2007	213,301	202,632	56,767	33,734	350,176	856,610
Depreciation:						
At 1 January 2004	172	458	392	44	–	1,066
Charge for the year	2,496	6,127	5,093	1,290	–	15,006
At 31 December 2004	2,668	6,585	5,485	1,334	–	16,072
Charge for the year	4,698	14,348	5,621	1,979	–	26,646
Disposals	–	(199)	(1,457)	(111)	–	(1,767)
At 31 December 2005	7,366	20,734	9,649	3,202	–	40,951
Charge for the year	5,713	15,285	8,031	4,742	–	33,771
Disposals	–	(16)	–	(28)	–	(44)
At 31 December 2006	13,079	36,003	17,680	7,916	–	74,678
Charge for the period	3,503	9,533	3,855	3,014	–	19,905
Disposals	–	(265)	–	(324)	–	(589)
At 30 June 2007	16,582	45,271	21,535	10,606	–	93,994
Carrying amount:						
At 31 December 2004	92,982	90,833	56,181	5,598	78,960	324,554
At 31 December 2005	141,616	142,845	46,517	13,626	22,913	367,517
At 31 December 2006	199,672	163,828	39,087	24,307	276,860	703,754
At 30 June 2007	196,719	157,361	35,232	23,128	350,176	762,616

Shanghai Maple JV

	Buildings	Machinery and equipment	Moulds	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2004	67,032	55,542	49,051	3,491	875	175,991
Additions	2,600	6,474	4,915	1,271	113,248	128,508
Transfers	–	30,898	7,700	–	(38,598)	–
At 31 December 2004	69,632	92,914	61,666	4,762	75,525	304,499
Additions	2,306	7,305	593	3,827	54,537	68,568
Disposals	–	(8,197)	(10,056)	(250)	(646)	(19,149)
Transfers	49,998	63,370	3,963	2,783	(120,114)	–
At 31 December 2005	121,936	155,392	56,166	11,122	9,302	353,918
Additions	28,770	1,124	353	7,854	315,567	353,668
Disposals	–	(54)	–	(74)	–	(128)
Transfers	17,448	32,394	248	1,151	(51,241)	–
At 31 December 2006	168,154	188,856	56,767	20,053	273,628	707,458
Additions	–	239	–	1,514	67,521	69,274
Disposals	–	–	–	(412)	–	(412)
Transfers	–	3,143	–	19	(3,162)	–
At 30 June 2007	168,154	192,238	56,767	21,174	337,987	776,320
Depreciation:						
At 1 January 2004	172	458	392	44	–	1,066
Charge for the year	2,152	5,484	5,093	796	–	13,525
At 31 December 2004	2,324	5,942	5,485	840	–	14,591
Charge for the year	3,470	13,318	5,621	1,369	–	23,778
Disposals	–	(199)	(1,457)	(75)	–	(1,731)
At 31 December 2005	5,794	19,061	9,649	2,134	–	36,638
Charge for the year	3,916	14,413	8,031	2,468	–	28,828
Disposals	–	(16)	–	(28)	–	(44)
At 31 December 2006	9,710	33,458	17,680	4,574	–	65,422
Charge for the period	2,443	8,506	3,855	1,832	–	16,636
Disposals	–	–	–	(16)	–	(16)
At 30 June 2007	12,153	41,964	21,535	6,390	–	82,042
Carrying amount:						
At 31 December 2004	67,308	86,972	56,181	3,922	75,525	289,908
At 31 December 2005	116,142	136,331	46,517	8,988	9,302	317,280
At 31 December 2006	158,444	155,398	39,087	15,479	273,628	642,036
At 30 June 2007	156,001	150,274	35,232	14,784	337,987	694,278

17. LAND LEASE PREPAYMENTS

Shanghai Maple JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights in the PRC				
Medium term lease	58,223	56,209	305,078	303,998
Analysis for reporting purpose:				
Current asset	2,014	2,014	11,122	11,432
Non-current asset	56,209	54,195	293,956	292,566
	58,223	56,209	305,078	303,998

Shanghai Maple JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights in the PRC				
Medium term lease	58,223	56,209	299,366	298,422
Analysis for reporting purpose:				
Current asset	2,014	2,014	11,122	11,216
Non-current asset	56,209	54,195	288,244	287,206
	58,223	56,209	299,366	298,422

As at 30 June 2007, land lease prepayments with carrying amount of approximately RMB11,171,000 is in the process of obtaining the land use right certificates.

18. LONG-TERM INVESTMENT

The long-term investment represents available-for-sale financial assets in unlisted equity securities issued by a private entity in the PRC. They are measured at cost less impairment at each balance sheet date and fair value has not been disclosed because the range of reasonable fair value estimates is so significant that the directors of Shanghai Maple JV are of the opinion that their fair values cannot be measured reliably and there is no active and public market for sales of these unlisted equity securities in the PRC. The carrying amount presented in the consolidated balance sheet represented the cost of acquisition.

19. INVENTORIES

Shanghai Maple JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	44,783	47,073	81,534	60,903
Work in progress	4,729	35,898	41,485	35,417
Finished goods	2,137	653	52,753	65,169
Technology development projects held for sales	34,363	2,424	31,762	23,615
	86,012	86,048	207,534	185,104
Provision	(777)	(1,528)	(1,528)	(1,528)
	85,235	84,520	206,006	183,576

Shanghai Maple JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	38,203	41,784	69,941	42,682
Work in progress/semi-finished goods	4,729	35,898	41,485	35,417
Finished goods	–	–	49,772	15,055
Technology development projects held for sales	–	2,424	–	–
	42,932	80,106	161,198	93,154
Provision	(777)	(1,528)	(1,528)	(1,528)
	42,155	78,578	159,670	91,626

All inventories, excluding those fully provided with nil carrying value, are stated at cost at the balance sheet dates.

20. TRADE AND OTHER RECEIVABLES

Shanghai Maple JV Group

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables					
Trade receivables	*(a)*	124,257	190,178	32,873	46,143
Notes receivables	*(b)*	18,142	64,412	35,886	239,718
		142,399	254,590	68,759	285,861
Other receivables					
Deposit, prepayments and other receivables		25,356	31,731	43,328	40,189
Due from immediate holding company	*(c)*	4,190	61,550	–	–
Due from fellow subsidiaries	*(c)*	33,439	12,403	21,903	40
		62,985	105,684	65,231	40,229
		205,384	360,274	133,990	326,090

Shanghai Maple JV

		At 31 December			At 30 June
		2004	2005	2006	2007
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables					
Trade receivables	*(a)*	119,443	132,082	19,682	61,179
Notes receivables	*(b)*	18,142	64,412	35,886	239,136
		137,585	196,494	55,568	300,315
Other receivables					
Deposit, prepayments and other receivables		11,900	26,181	9,219	11,308
Due from immediate holding company	*(c)*	100	–	–	–
Due from subsidiaries	*(c)*	–	–	200	–
Due from fellow subsidiaries	*(c)*	16,439	11,887	21,708	10
		28,439	38,068	31,127	11,318
		166,024	234,562	86,695	311,633

(a) Trade receivables

Shanghai Maple JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
From third parties	7,109	4,753	12,416	9,261
From related parties	–	–	–	897
From immediate holding company	102,415	122,358	1,525	35,985
From fellow subsidiaries	14,733	63,067	18,932	–
	124,257	190,178	32,873	46,143

Shanghai Maple JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
From third parties	–	–	17	35
From related parties	–	–	–	897
From subsidiaries	4,355	9,456	11,208	24,270
From immediate holding company	102,415	109,784	1,525	–
From fellow subsidiaries	12,673	12,842	6,932	35,977
	119,443	132,082	19,682	61,179

Shanghai Maple JV Group allows a credit period of 60 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

Shanghai Maple JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	109,283	188,662	17,844	16,607
61 – 90 days	12,803	198	431	9,577
91 – 120 days	168	400	626	4,084
121– 365 days	2,003	918	12,844	15,875
Over 365 days	–	–	1,128	–
	124,257	190,178	32,873	46,143

Shanghai Maple JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	106,770	132,082	19,682	23,413
61 – 90 days	12,615	–	–	12,674
91 – 120 days	58	–	–	11,819
121– 365 days	–	–	–	13,273
	119,443	132,082	19,682	61,179

All trade receivables with age more than 90 days were past due but not impaired. These receivables from third parties related to a number of independent customers for whom there is no recent history of default. Shanghai Maple JV Group does not hold any collateral over these balances.

(b) Notes receivables

All notes receivables are denominated in RMB and are primarily notes received from trade debtors for settlement of trade receivable balances. All notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from the balance sheet dates.

During the Relevant Periods, Shanghai Maple JV Group has discounted notes receivables to banks in exchange for cash with recourse in the ordinary course of business. Shanghai Maple JV Group continues to recognise the full carrying amount of notes receivables and has recognised the cash received as secured short-term bank borrowings, which is wholly repayable within one year, as reported in note 23 to the consolidated balance sheet.

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Discounted notes receivables	–	–	–	60,000

(c) Due from immediate holding company/subsidiaries/fellow subsidiaries

The amounts due are unsecured, interest free and have no fixed repayment term.

21. TRADE AND OTHER PAYABLES

Shanghai Maple JV Group

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables					
To third parties		175,046	310,607	178,522	183,523
To related parties		–	–	–	42,312
To fellow subsidiaries		64,668	33,494	71,566	58,305
To immediate holding company		–	–	–	28,915
		239,714	344,101	250,088	313,055
Other payables					
Accrued charges		7,479	17,473	21,339	13,854
Bills payables		–	–	–	37,000
Receipts in advance		26,969	87,891	51,191	89,312
Sundry creditors		13,931	22,783	36,050	126,383
Other tax payables		12,581	15,967	5,416	9,001
Due to fellow subsidiaries	*(a)*	68,763	61,169	85,857	–
Due to immediate holding company	*(a)*	–	–	–	4,692
		129,723	205,283	199,853	280,242
		369,437	549,384	449,941	593,297

Shanghai Maple JV

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables					
To third parties		170,427	304,405	175,788	180,649
To related parties		–	–	–	42,312
To fellow subsidiaries		54,857	33,493	71,558	58,292
		225,284	337,898	247,346	281,253
Other payables					
Accrued charges		2,045	6,374	6,620	–
Bills payables		–	–	–	37,000
Receipts in advance		200	12,401	–	4,765
Sundry creditors		769	1,076	8,283	4,768
Other tax payables		7,010	11,819	6,474	16,615
Due to fellow subsidiaries	*(a)*	14,204	14	–	–
Due to immediate holding company	*(a)*	–	–	–	4,692
		24,228	31,684	21,377	67,840
		249,512	369,582	268,723	349,093

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

Shanghai Maple JV Group

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	201,741	276,690	207,992	237,421
61 – 90 days	25,937	43,590	21,556	20,638
91 – 120 days	10,183	9,848	10,692	18,410
121– 365 days	849	11,588	7,556	27,272
Over 365 days	1,004	2,385	2,292	9,314
	239,714	344,101	250,088	313,055

Shanghai Maple JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	188,790	270,694	206,939	206,693
61 – 90 days	25,918	43,590	21,006	20,638
91 – 120 days	9,823	9,739	10,602	18,405
121– 365 days	753	11,494	6,742	26,203
Over 365 days	–	2,381	2,057	9,314
	225,284	337,898	247,346	281,253

(a) Due to fellow subsidiaries/immediate holding company

The amount due is unsecured, interest free and has no fixed repayment term.

22. PROVISIONS FOR WARRANTY

Shanghai Maple JV Group

	RMB'000
At 1 January 2004	–
Additional provisions	12,880
Amount utilised	(12,209)
Acquired on acquisition of subsidiaries	567
At 31 December 2004	1,238
Additional provisions	35,339
Amount utilised	(29,719)
At 31 December 2005	6,858
Additional provisions	29,386
Amount utilised	(35,206)
At 31 December 2006	1,038
Additional provisions	19,618
Amount utilised	(19,483)
At 30 June 2007	1,173

Shanghai Maple JV

	RMB'000
At 1 January 2004	–
Additional provisions	1,238
At 31 December 2004	1,238
Additional provisions	19,552
Amount utilised	(16,460)
At 31 December 2005	4,330
Additional provisions	31,928
Amount utilised	(36,258)
At 31 December 2006	–
Additional provisions	16,141
Amount utilised	(16,141)
At 30 June 2007	–

Provisions are measured and recognised for warranty costs at the management's best estimate of the net expenditure, required to settle the obligations under Shanghai Maple JV's warranty policies for its products sold at the balance sheet dates. The estimate has been made by reference to historical statistics.

It is expected that the majority of this expenditure will be incurred within one year from the date of sales.

23. SHORT-TERM BANK BORROWINGS

Shanghai Maple JV Group and Shanghai Maple JV

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Discounted notes receivables	–	–	–	60,000
Secured	–	30,000	50,000	50,000
Unsecured	–	–	150,000	200,000
	–	30,000	200,000	310,000
Effective interest rate (per annum)	–	5.58%	5.58% – 6.12%	5.58% – 6.39%

The secured short-term bank borrowings were secured by certain land use rights and buildings as detailed in Note 30 while the unsecured short-term bank borrowings were guaranteed by the immediate holding company and ultimate holding company of Shanghai Maple JV Group.

24. AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

The amount due, represented consideration for acquisition of subsidiaries from the ultimate holding company, is unsecured and interest-free.

25. PAID-UP CAPITAL

	USD'000	*RMB'000*
Registered and paid-up capital:		
At 1 January 2004, 31 December 2004 and 31 December 2005	51,697	427,603
Capital contribution by equity holders	48,067	380,474
At 31 December 2006 and 30 June 2007	99,764	808,077

On 25 July 2006, the registered and paid-up capital of Shanghai Maple JV was increased to USD99,764,000 by the injection of USD48,067,000 in cash from its equity holders to provide for additional working capital.

26. RESERVES

Shanghai Maple JV Group's reserves comprise:

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Statutory reserves	*(a)*	–	218	9,266	11,560
Capital reserves	*(b)*	–	33,158	33,158	35,923
Retained profits (accumulated losses)	*(c)*	20,137	84,631	(7,712)	(55,572)
		20,137	118,007	34,712	(8,089)

For the movements of above reserves, please refer to consolidated statements of changes in equity.

Movement of Shanghai Maple JV's reserves are as follows:

	Statutory reserves	**Retained profits (accumulated losses)**	**Total**
	(note a)		
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004	–	1,454	1,454
Profit for the year	–	30,758	30,758
At 31 December 2004	–	32,212	32,212
Profit for the year	–	82,306	82,306
Dividends declared	–	(1,041)	(1,041)
Transfers	218	(218)	–
At 31 December 2005	218	113,259	113,477
Profit for the year	–	80,554	80,554
Dividends declared	–	(119,164)	(119,164)
Transfers	9,048	(9,048)	–
At 31 December 2006	9,266	65,601	74,867
Profit for the period	–	23,921	23,921
Dividends declared	–	(47,241)	(47,241)
Transfers	2,294	(2,294)	–
At 30 June 2007	11,560	39,987	51,547

(a) Statutory reserves

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, Shanghai Maple JV is required to maintain certain statutory reserves, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The statutory reserves are to be appropriated from statutory net profit as calculated in accordance with the PRC GAAP with percentages determined by the board of directors and recorded as a component of shareholders equity which are restricted as to use. Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the consolidated income statement.

In accordance with the Company Law of the PRC, Shanghai Maple JV's subsidiaries in the PRC are required to allocate 10% and 5% to 10% of their profits after tax (determined under the PRC GAAP) to the statutory surplus reserve ("SSR") and the statutory public welfare fund, respectively. No allocation to the SSR is required after the balance of such reserve reaches 50% of the registered capital of the respective companies. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase in registered capital, provided that the remaining balance after the capitalisation is not less that 25% of the registered capital. Starting from 1 January 2006, pursuant to a notice issued by the Ministry of Finance regarding the change of accounting treatment of profit appropriation of statutory public welfare fund after the implementation of PRC Company Law, no statutory public welfare fund will be accrued. The remaining balance of statutory public welfare fund will be transferred to SSR. The transfer to these funds must be made before distribution of dividend to equity owners. No appropriation to SSR and the statutory public welfare fund was made during the Relevant Periods as Shanghai Maple JV's subsidiaries incurred losses during the Relevant Periods.

(b) Capital reserves

Capital reserves represented difference between the consideration received/paid and the fair value of net assets disposed/acquired by Shanghai Maple JV Group to/from Zhejiang Geely Holding Group.

(c) Retained profits (accumulated losses)

For dividend distribution purposes, Shanghai Maple JV Group's distributable profit is determined based on its after-tax profit as reported in its statutory financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the Financial Information, which are prepared in accordance with HKFRSs.

27. DEFERRED TAXATION

Unrecognised deferred tax assets arising from

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible temporary differences	16,372	19,684	6,593	9,410
Tax losses	16,059	1,698	16,874	16,874
At the balance sheet date	32,431	21,382	23,467	26,284

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the companies within Shanghai Maple JV Group can utilise the benefits therefrom.

The unrecognised temporary differences do not expire under current legislation, but the unrecognised tax losses will be expired as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year 2009	16,059	1,698	1,698	1,698
Year 2011	–	–	15,176	15,176
	16,059	1,698	16,874	16,874

28. RETIREMENT BENEFIT OBLIGATIONS

The employees of Shanghai Maple JV Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government of the PRC. Shanghai Maple JV Group is required to contribute a specified percentage of the employee's basic salary to the retirement benefit schemes to fund the benefits. The only obligation of Shanghai Maple JV Group with respect to the retirement benefit schemes is to make the specified contributions.

For the Relevant Periods, the employer's contributions made by Shanghai Maple JV Group and charged to the consolidated income statement are disclosed in note 8(b).

29. COMMITMENTS

(a) Capital expenditure commitments

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for net of deposit paid	3,230	19,783	125,889	109,307

(b) Commitments under operating leases

As lessee

Shanghai Maple JV Group leases a number of properties under operating leases, which typically run for an initial period of around 1 year, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the balance sheet date, Shanghai Maple JV Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	268	103

As lessor

Shanghai Maple JV Group leases out part of its buildings under operating leases with average lease terms of 3-5 years and with options to renew the leases upon expiry at new terms. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	–	27
In the second to fifth years inclusive	–	–	–	24
	–	–	–	51

30. PLEDGE OF ASSETS

Assets with the following carrying amount have been pledged:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For banking facilities granted to Shanghai Maple JV Group				
Land use rights	–	41,993	40,488	39,737
Buildings	–	45,341	45,259	44,540
	–	87,334	85,747	84,277
For banking facilities granted to a fellow subsidiary				
Buildings	25,673	25,473	24,187	23,544
	25,673	112,807	109,934	107,821

31. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these Financial Information, during the Relevant Periods, Shanghai Maple JV Group had the following material transactions with related parties:

(a) Transactions

With immediate holding company

Nature of transactions	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Six months ended 30 June 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales of sedans	258,642	36,110	184,222	54,545	16,883
Sales of automobile parts and components	5,591	–	4,676	–	896
Purchase of sedans	–	–	64,416	–	–
Purchase of automobile parts and components	31,768	–	–	–	–
Reimbursement of warranty costs received	11,987	11,453	–	–	–
Sales of technology development projects	–	12,574	–	–	–
Sub-contracting fee paid	13,203	45,776	39,515	67,444	5,589
Acquisitions of land use rights	–	–	234,418	–	–
Disposal of property, plant and equipment, at carrying amount	8,599	–	–	–	–

In addition, pursuant to a trademark license agreement, the immediate holding company granted Shanghai Maple JV Group the right to use certain trademarks and brands, including the "Maple" trademark, on its products and marketing materials for free.

With fellow subsidiaries (*)

Nature of transactions	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales of automobile parts and components	10,831	9,031	44,275	23,576	27,691
Purchases of automobile related parts and components	91,041	152,945	117,345	59,422	51,917
Sales of technology development projects, included in capital reserve as deemed contribution from an equity holder	–	36,402	–	–	25,023

(*) Under Geely Automobile Holdings Limited, the above transactions also represented the associated companies' transactions.

With companies controlled by the ultimate shareholder

Nature of transactions	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales of automobile parts and components	32,588	27,643	5,642	24	137
Purchases of automobile related parts and components	175,699	52,101	599,356	216,764	390,277
Reimbursement of warranty costs received	–	–	20,888	6,254	21,393
Sales of technology development projects	–	36,477	–	–	–
Services income	–	–	–	–	7,500
Handling fee paid	–	–	10,669	–	–

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the Relevant Periods have been absorbed and borne by Shanghai Maple JV Group's equity holders for which no reimbursement would be sought from Shanghai Maple JV Group.

32. MAJOR NON-CASH TRANSACTIONS

In addition to the information disclosed elsewhere in these Financial Information, during the year ended 31 December 2006, Shanghai Maple JV Group acquired certain land use rights in the PRC with an aggregate consideration of RMB234,418,000 from its immediate holding company and the consideration was settled by offsetting the outstanding trade receivables due from the immediate holding company.

33. SUBSIDIARIES

(a) At the balance sheet dates, details of Shanghai Maple JV's subsidiaries, which are all established and operated in the PRC, are as follows:

Company name	Date of establishment	Registered capital	Proportion of nominal value of registered capital directly held by Shanghai Maple JV	Principal activities
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited (*)	2 June 2003	RMB 30,000,000	90%	Research and development of sedans and related automobile components in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited (*)	20 February 2001	RMB 20,000,000	90%	Marketing and sales of sedans in the PRC
寧波吉利發動機研究所公司 Ningbo Geely Engine Research Institute Limited (*)	6 June 2003	RMB 10,000,000	90%	Research, development, production, marketing and sale of sedans and related automobile components in the PRC

(*) The English names of these companies are for identification purpose only.

(b) Acquisition of subsidiaries

On 30 June 2004, Shanghai Maple JV acquired 90% of equity interest in the following subsidiaries at an aggregate consideration of RMB36,000,000 from the ultimate holding company:

Zhejiang Geely Automobile Research Institute Limited *
Ningbo Geely Engine Research Institute Limited *
Shanghai Maple Automobile Sales Company Limited *

The fair values of the combined identifiable assets and liabilities of the subsidiaries as at the date of acquisition which are the same as their combined carrying value determined in accordance with HKFRSs immediately before the acquisition are as follows:

	At 30 June 2004 Carrying value and fair value *RMB'000*
Intangible assets	1,183
Property, plant and equipment	5,738
Inventories	64,007
Trade and other receivables	326,390
Bank balances and cash	2,371
Trade and other payables	(385,383)
Provision for warranty	(567)
	13,739
Minority interest	(1,374)
Goodwill arising on acquisition *(Note 13)*	23,635
Total consideration payable to the ultimate holding company	36,000
Net cash acquired from the acquisition of subsidiaries	2,371

From the date of acquisition to 31 December 2004, the acquired business has contributed revenue of RMB64,593,000 and loss of RMB13,045,000 to Shanghai Maple JV Group respectively.

If the business combinations effected during the year ended 31 December 2004 had been taken place at the beginning of 2004, the revenue and loss for Shanghai Maple JV Group would have been RMB653,918,000 and RMB9,049,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of Shanghai Maple JV Group that actually would have been achieved had the acquisition been completed on 1 January 2004, nor is it intended to be a projection of future results.

Included in the goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature. Assets included in this balance consist of dealership networks and assembled workforce engaged in research and development of technology for the manufacturing of automobiles.

(c) Disposal of subsidiary

On 31 May 2007, Shanghai Maple JV disposed of its entire interest in Ningbo Geely Engine Research Institute Limited to Zhejiang Geely Automobile Company Limited, a related company, at a consideration of RMB9,000,000. The net assets of Ningbo Geely Engine Research Institute Limited at the date of disposal were as follows:

	At 31 May 2007
	Carrying value
	RMB'000
Net assets disposed of:	
Goodwill	690
Property, plant and equipment	835
Trade and other receivables	12,018
Cash and bank balances	195
Trade and other payables	(2,919)
	10,819
Loss on disposal of subsidiary, included in capital reserve	(806)
Minority interest	(1,013)
Total consideration, satisfied by payables from the related company	9,000
Net cash outflow arising on disposal of subsidiary	195

34. SUBSEQUENT EVENT

On 13 July 2007, Value Century, the shareholder of the company, and Shanghai Maple Automobile entered into the Shanghai Maple JV Equity Transfer Agreement pursuant to which Value Century agreed to acquire the remaining 44.19% interest in the registered capital of Shanghai Maple JV from Shanghai Maple Automobile for a total consideration of RMB354.53 million. The consideration of RMB354.53 million for the Shanghai Maple JV Transfer was determined after the arm's length negotiation between Value Century and Shanghai Maple Automobile with reference to the 44.19% attributable interest in the unaudited net asset value of Shanghai Maple JV as at 30 June 2007. Also, on 1 July 2007, Shanghai Maple JV disposed of 90% of equity interest in Zhejiang Geely Engine Research Institute Limited to Zhejiang Ruhoo Automobile Company Limited at a consideration of RMB30 million. The results and financial position of Zhjiang Geely Engine Research Institute Limited are not significant.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in Shanghai Maple JV Group have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF SHANGHAI MAPLE JV

For the financial year ended 31 December 2004

(a) Results of operation

Shanghai Maple JV Group had an audited consolidated net asset of approximately RMB447.7 million as at 31 December 2004 and an audited net profit after tax of approximately RMB17.7 million for the year. During the year, turnover of approximately RMB581.9 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB55.8 million. Other income amounted to approximately RMB6.3 million comprising mainly the bank interest income of approximately RMB0.4 million and sundry income of approximately RMB5.8 million during the year.

Operating expenses were mainly finance costs of approximately RMB5.4 million, distribution and selling expenses of approximately RMB8.2 million and administrative expenses of approximately RMB30.7 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Shanghai Maple JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Shanghai Maple JV Group for the year.

Geographical segments

Shanghai Maple JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2004, the major assets of Shanghai Maple JV Group were primarily property, plant and equipment of approximately RMB324.6 million, land lease prepayments of approximately RMB58.2 million, trade and other receivables of approximately RMB205.4 million, inventories of approximately RMB85.2 million and cash and bank balances of approximately RMB76.5 million.

Capital structure and liquidity

As at 31 December 2004, liabilities of the Shanghai Maple JV Group were solely trade and other payables of approximately RMB369.4 million and amount due to the ultimate holding company of approximately RMB36.0 million. As at 31 December 2004, the shareholders' fund (excluding minority interests) of Shanghai Maple JV Group amounted to approximately RMB447.7 million. No capital increase arrangement was made during the year.

As at 31 December 2004, the current ratio (current assets/current liabilities) of Shanghai Maple JV Group was 1.00 and the gearing ratio of Shanghai Maple JV Group was 42% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to ultimate holding company and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

As at 31 December 2004, buildings of approximately RMB25.7 million were pledged for banking facilities granted to a fellow subsidiary.

(d) Foreign currency management

All operating subsidiaries of Shanghai Maple JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities.

(e) Contingent liabilities

As at 31 December 2004, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 30 June 2004, Shanghai Maple JV acquired 90% of equity interest in Zhejiang Geely Automobile Research Institute Limited, Ningbo Geely Engine Research Institute Limited and Shanghai Maple Automobile Sales Company Limited from Geely Holding.

(g) Future plans for material investments or capital assets

As at 31 December 2004, there were future plans for investments in developing "Marindo AA", "Hisoon AA" and "Hysoul MA" models. As such, capital commitments of approximately RMB3.2 million had been contracted but not provided net of deposit paid as at 31 December 2004.

(h) Employees and remuneration policies

As at 31 December 2004, the total number of employees of Shanghai Maple JV Group was about 1,035. 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. Shanghai Maple JV Group also participates in state-managed retirement benefit scheme in the PRC.

For the financial year ended 31 December 2005

(a) Results of operation

Shanghai Maple JV Group had an audited consolidated net asset of approximately RMB545.6 million as at 31 December 2005 and an audited net profit after tax of approximately RMB67.4 million for the year. During the year, turnover of approximately RMB1,255.6 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB220.4 million. Other income amounted to approximately RMB11.2 million comprising mainly the bank interest income of approximately RMB1.9 million, subsidy income of approximately RMB5.8 million and sundry income of approximately RMB3.4 million during the year.

Operating expenses were mainly distribution and selling expenses of approximately RMB92.0 million and administrative expenses of approximately RMB67.8 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Shanghai Maple JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Shanghai Maple JV Group for the year.

Geographical segments

Shanghai Maple JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2005, the major assets of Shanghai Maple JV Group were primarily property, plant and equipment of approximately RMB367.5 million, land lease prepayments of approximately RMB56.2 million, trade and other receivables of approximately RMB360.3 million, inventories of approximately RMB84.5 million and cash and bank balances of approximately RMB172.6 million.

Capital structure and liquidity

As at 31 December 2005, liabilities of the Shanghai Maple JV Group were solely trade and other payables of approximately RMB549.4 million and secured short-term bank borrowings of approximately RMB30.0 million. As at 31 December 2005, the shareholders' fund (excluding minority interests) of Shanghai Maple JV Group amounted to approximately RMB545.6 million. No capital increase arrangement was made during the year.

As at 31 December 2005, the current ratio (current assets/current liabilities) of Shanghai Maple JV Group was 1.05 and the gearing ratio of Shanghai Maple JV Group was 43% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including secured short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

As at 31 December 2005, land use rights of approximately RMB42.0 million and buildings of approximately RMB45.3 million were pledged for banking facilities granted to the Shanghai Maple JV Group. Also, buildings of approximately RMB25.5 million were pledged for banking facilities granted to a fellow subsidiary.

(d) Foreign currency management

All operating subsidiaries of Shanghai Maple JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities.

(e) Contingent liabilities

As at 31 December 2005, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 31 August 2005, Shanghai Maple JV and Shanghai Maple Automobile Sales Company Limited each acquired 5% of equity interest in Geely International Corporation from Geely Holding.

(g) Future plans for material investments or capital assets

As at 31 December 2005, there were future plans for investments in developing “Marindo MB” and “Hysoon AB” models. As such, capital commitments of approximately RMB19.8 million had been contracted but not provided net of deposit paid as at 31 December 2005.

(h) Employees and remuneration policies

As at 31 December 2005, the total number of employees of Shanghai Maple JV Group was about 1,346. 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. Shanghai Maple JV Group also participates in state-managed retirement benefit scheme in the PRC.

For the financial year ended 31 December 2006

(a) Results of operation

Shanghai Maple JV Group had an audited consolidated net asset of approximately RMB842.8 million as at 31 December 2006 and an audited net profit after tax of approximately RMB36.2 million for the year. During the year, turnover of approximately RMB1,369.8 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB199.9 million. Other income amounted to approximately RMB43.7 million comprising mainly gain on disposal of technological development project of approximately RMB10.0 million, subsidy income of approximately RMB29.2 million and sundry income of approximately RMB2.9 million during the year.

Operating expenses were mainly finance costs of approximately RMB8.1 million, distribution and selling expenses of approximately RMB106.5 million and administrative expenses of approximately RMB81.6 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Shanghai Maple JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Shanghai Maple JV Group for the year.

Geographical segments

Shanghai Maple JV Group’s activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2006, the major assets of Shanghai Maple JV Group were primarily property, plant and equipment of approximately RMB703.8 million, land lease prepayments of approximately RMB305.1 million, trade and other receivables of approximately RMB134.0 million, inventories of approximately RMB206.0 million and cash and bank balances of approximately RMB104.2 million.

Capital structure and liquidity

As at 31 December 2006, liabilities of the Shanghai Maple JV Group were solely trade and other payables of approximately RMB449.9 million and secured short-term bank borrowings of approximately RMB200.0 million. As at 31 December 2006, the shareholders' fund (excluding minority interests) of Shanghai Maple JV Group amounted to approximately RMB842.8 million. On 25 July 2006, the registered and paid-up capital of Shanghai Maple JV was increased to USD99,764,000 by the injection of USD48,067,000 in cash from its equity holders to provide additional working capital.

As at 31 December 2006, the current ratio (current assets/current liabilities) of Shanghai Maple JV Group was 0.65 and the gearing ratio of Shanghai Maple JV Group was 39% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including secured short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt. The decrease in the gearing ratio during the year stemmed primarily from the capital contribution from equity holders.

Borrowings and pledge of assets

As at 31 December 2006, land use rights of approximately RMB40.5 million, and buildings of approximately RMB45.3 million were pledged for banking facilities granted to the Shanghai Maple JV Group. Also, buildings of approximately RMB24.2 million were pledged for banking facilities granted to a fellow subsidiary.

(d) Foreign currency management

All operating subsidiaries of Shanghai Maple JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities. The recent appreciating trend of Renminbi versus various foreign currencies made purchases of foreign-produced equipment and payments denominated in foreign currency less expensive for Shanghai Maple JV Group in terms of Renminbi, thereby marginally improving its results of operations.

(e) Contingent liabilities

As at 31 December 2006, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by the Shanghai Maple JV Group during the year.

(g) Future plans for material investments or capital assets

As at 31 December 2006, there were future plans for investments in developing "Marindo MB" and "Hysoon MA" models. As such, capital commitments of approximately RMB125.9 million had been contracted but not provided net of deposit paid as at 31 December 2006.

(h) Employees and remuneration policies

As at 31 December 2006, the total number of employees of Shanghai Maple JV Group was about 1,403. 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. Shanghai Maple JV Group also participates in state-managed retirement benefit scheme in the PRC.

For the period from 1 January 2007 to 30 June 2007

(a) Results of operation

Shanghai Maple JV Group had an audited consolidated net asset of approximately RMB800.0 million as at 30 June 2007 and an audited net profit after tax of approximately RMB2.4 million for the period. During the period, turnover of approximately RMB651.1 million represented the sales of sedans, automobile parts and components, which contributed a gross profit of approximately RMB59.4 million. Other income amounted to approximately RMB34.8 million comprising mainly services income of approximately RMB7.5 million, subsidy income of approximately RMB20.8 million and sundry income of approximately RMB6.0 million during the period.

Operating expenses were mainly finance costs of approximately RMB7.1 million, distribution and selling expenses of approximately RMB47.8 million and administrative expenses of approximately RMB33.2 million incurred for the manufacture and sales of sedans, automobile parts and components which represented mainly staff costs, finance costs, depreciation of property, plant and equipment and research and development costs.

(b) Segmental information

Business Segments

No business segment information has been presented for the period as the directors considered that Shanghai Maple JV Group is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Shanghai Maple JV Group for the period.

Geographical segments

Shanghai Maple JV Group's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 30 June 2007, the major assets of Shanghai Maple JV Group were primarily property, plant and equipment of approximately RMB762.6 million, land lease prepayments of approximately RMB304.0 million, trade and other receivables of approximately RMB326.1 million, inventories of approximately RMB183.6 million and cash and bank balances of approximately RMB93.1 million.

Capital structure and liquidity

As at 30 June 2007, liabilities of the Shanghai Maple JV Group were solely trade and other payables of approximately RMB593.3 million and secured short-term bank borrowings of approximately RMB310.0 million. As at 30 June 2007, the shareholders' fund (excluding minority interests) of Shanghai Maple JV Group amounted to approximately RMB800.0 million. No further capital increase arrangement was made during the period.

As at 30 June 2007, the current ratio (current assets/current liabilities) of Shanghai Maple JV Group was 0.65 and the gearing ratio of Shanghai Maple JV Group was 50% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including secured short-term bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

As at 30 June 2007, land use rights of approximately RMB39.7 million and buildings of approximately RMB44.5 million were pledged for banking facilities granted to the Shanghai Maple JV Group. Also, buildings of approximately RMB23.5 million were pledged for banking facilities granted to a fellow subsidiary.

(d) Foreign currency management

All operating subsidiaries of Shanghai Maple JV Group operate in the PRC and the financial assets are largely denominated in Renminbi. Although certain trade and other payables are denominated in foreign currencies such as U.S. Dollar and Euro for purchases of plant, machinery and equipment from overseas, the amounts are not considered significant to the total financial liabilities. The recent appreciating trend of Renminbi versus various foreign currencies made purchases of foreign-produced equipment and payments denominated in foreign currency less expensive for Shanghai Maple JV Group in terms of Renminbi, thereby marginally improving its results of operations.

(e) Contingent liabilities

As at 30 June 2007, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 31 May 2007, Shanghai Maple JV disposed of 90% of equity interest in Ningbo Geely Engine Research Institute Limited to Zhejiang JV Group. Also, on 1 July 2007, Shanghai Maple JV disposed of 90% of equity interest in Zhejiang Geely Automobile Research Institute Limited to Zhejiang Ruhoo JV.

(g) Future plans for material investments or capital assets

As at 30 June 2007, there were future plans for investments in developing “Marindo” and “Haifeng” new series models. As such, capital commitments of approximately RMB109.3 million had been contracted but not provided net of deposit paid as at 30 June 2007.

(h) Employees and remuneration policies

As at 30 June 2007, the total number of employees of Shanghai Maple JV Group was about 1,541. 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. Shanghai Maple JV Group also participates in state-managed retirement benefit scheme in the PRC.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

31 October 2007

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

Dear Sirs

We set out below our report on the financial information ("Financial Information") regarding Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong JV") (English translation of 浙江金剛汽車有限公司 for identification purpose) for the period from 21 December 2006 (date of incorporation) to 31 December 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in a circular issued by Geely Automobile Holdings Limited (the "Company") dated 31 October 2007 (the "Circular") in connection with the proposed acquisition of 44.19% additional interest in Zhejiang Kingkong JV.

Zhejiang Kingkong JV is a sino-foreign equity joint venture established in the People's Republic of China ("PRC") with limited liability on 21 December 2006. The principal activities of Zhejiang Kingkong JV are research, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC.

No statutory audited accounts have been prepared since its incorporation.

For the purpose of this report, the directors of Zhejiang Kingkong JV have prepared the financial statements of Zhejiang Kingkong JV for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The accompanying Financial Information has been prepared based on the Underlying Financial Statements of Zhejiang Kingkong JV and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of Zhejiang Kingkong JV and carried out such additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Zhejiang Kingkong JV are responsible for the preparation of the Underlying Financial Statements which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, 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 Zhejiang Kingkong JV as at 31 December 2006 and 30 June 2007 and of the results and cash flows of Zhejiang Kingkong JV for each of the Relevant Periods.

(A) FINANCIAL INFORMATION

Income Statements

	Note	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
		RMB'000	*RMB'000*
Turnover	*5*	–	680,390
Cost of sales		–	(565,481)
Gross profit		–	114,909
Other income	*7*	–	19,314
Administrative expenses		–	(16,045)
Profit before taxation		–	118,178
Taxation	*9*	–	–
Profit for the period	*8*	–	118,178

Balance Sheets

	Note	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
Non-current assets			
Intangible asset	*10*	–	3,905
Property, plant and equipment	*11*	–	423,368
Land lease prepayments	*12*	122,809	376,558
Total non-current assets		122,809	803,831
Current assets			
Land lease prepayments	*12*	2,760	8,455
Inventories	*13*	–	63,609
Trade and other receivables	*14*	90,000	71,794
Bank balances and cash		22,650	6,835
Total current assets		115,410	150,693
Current liabilities			
Trade and other payables	*15*	3,219	601,346
Net current assets (liabilities)		112,191	(450,653)
Total assets less current liabilities		235,000	353,178
Capital and reserves			
Paid-up capital	*16*	235,000	235,000
Reserves	*17*	–	118,178
Total equity		235,000	353,178

Statement of Changes in Equity

	Paid-up capital *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Capital contribution during the period and at 31 December 2006	235,000	–	235,000
Profit for the period	–	118,178	118,178
At 30 June 2007	235,000	118,178	353,178

Cash Flow Statements

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before taxation	–	118,178
Amortisation of intangible assets	–	66
Amortisation of land lease prepayments	–	2,074
Depreciation	–	4,692
Loss on disposal of property, plant and equipment	–	29
Interest income	–	(66)
Changes in working capital:		
Inventories	–	(63,609)
Trade and other receivables	(90,000)	18,206
Trade and other payables	3,219	598,127
Cash (used in)/generated from operations	(86,781)	677,697
Interest received	–	66
Net cash (used in) from operating activities	(86,781)	677,763
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	–	(428,107)
Acquisition of intangible assets	–	(3,971)
Acquisition of land use rights	(569)	(261,518)
Proceeds from disposal of property, plant and equipment	–	18
Net cash used in investing activities	(569)	(693,578)
FINANCING ACTIVITIES		
New capital raised	110,000	–
Net cash from financing activities	110,000	–
Net increase (decrease) in cash and cash equivalents	22,650	(15,815)
Cash and cash equivalents at beginning of period	–	22,650
Cash and cash equivalents at end of period, represented by bank balances and cash	22,650	6,835

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Zhejiang Kingkong JV is a limited liability company established in the PRC under laws and regulations applicable to sino-foreign joint ventures. The address of the registered office and principal place of business is located at Geely Automobile City, Luoyang Street, Luqiao District, Taizhou, Zhejiang Province, PRC. The principal activities of Zhejiang Kingkong JV are research, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC.

From the date of incorporation to 29 June 2007, the parent of Zhejing Kingkong JV was Geely Holding Limited (English translation of registered name of 吉利集團有限公司 for identification purpose only). On 30 June 2007, Geely Holding Limited transferred its interest in Zhejiang Kingkong JV to Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing") (English translation of registered name of 浙江豪情汽車制造有限公司 for identification purpose only). Both Geely Holding Limited and Zhejiang Haoqing are under common control of an individual. The official approval for the transfer was subsequently granted by the relevant governmental authority in the PRC. Since 30 June 2007, the parent of Zhejiang Kingkong JV becomes Zhejiang Haoqing and, in the opinion of the directors, the ultimate parent of Zhejiang Kingkong JV is Zhejiang Geely Holding Group Company Limited (English translation of registered name of浙江吉利控股集團有限公司 for identification purpose only), which is established in the PRC.

This Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment (i.e. functional currency) in which Zhejiang Kingkong JV operates.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

The principal accounting policies applied in the preparation of the Financial Information which are in conformity with all HKFRSs issued by the HKICPA and are effective for the accounting periods beginning on or after 1 January 2007. For the purpose of presenting the Financial Information, these policies have been consistently applied to all the periods presented, unless otherwise stated.

Zhejiang Kingkong JV has not early adopted the following new and revised standards and interpretations issued by the HKICPA that are not yet effective for the accounting periods beginning on or after 1 January 2007.

HKFRS 8	Operating segments[1]
HKAS 23 (revised)	Borrowing costs[1]
HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[2]
HK (IFRIC) – INT 12	Service concession arrangements[3]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for accounting periods beginning on or after 1 January 2009.
2 Effective for accounting periods beginning on or after 1 March 2007.
3 Effective for accounting periods beginning on or after 1 January 2008.
4 Effective for accounting periods beginning on or after 1 July 2008.

The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of Zhejiang Kingkong JV.

The Financial Information has been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the excess of current liabilities over current assets. The shareholders have confirmed their intention to make available adequate funds to Zhejiang Kingkong JV as and when required to maintain Zhejiang Kingkong JV as a going concern.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20 years
Machinery and equipment	10 years
Furniture, fixtures and office equipment	5 years
Moulds	3 years

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Land lease prepayments

Land lease prepayments represent amounts paid for land use rights. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

Impairment of tangible and intangible assets

At each balance sheet date, Zhejiang Kingkong JV reviews internal and external sources of information to determine whether its tangible and intangible asset with finite useful lives have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, Zhejiang Kingkong JV estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Zhejiang Kingkong JV becomes a party to the contractual provisions of the instrument and on a trade date basis. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured 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 the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Zhejiang Kingkong JV 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 the income statement.

For financial liabilities, they are removed from Zhejiang Kingkong JV's balance sheet 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 the income statement.

Inventories

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the entity and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is 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.

Claims income is recognised upon the submission of claims to the suppliers provided the claim is valid within the relevant provisions of materials purchase agreements.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

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 periods and it further excludes items that are never taxable or deductible. Zhejiang Kingkong JV'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 assets and liabilities in a transaction affects neither the taxable profit nor the accounting profit.

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.

Retirement benefit costs

Payments to the state-managed retirement benefit scheme in the PRC are charged as expenses as they fall due. Further information is set out in note 18.

Provisions

Provisions are recognised when Zhejiang Kingkong JV has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where Zhejiang Kingkong JV expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Cash equivalents

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

Related parties

A party is related to Zhejiang Kingkong JV if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Zhejiang Kingkong JV; or has an interest in Zhejiang Kingkong JV that gives it significant influence over Zhejiang Kingkong JV; or has joint control over Zhejiang Kingkong JV;

(ii) the party is an associate of Zhejiang Kingkong JV;

(iii) the party is a joint venture in which Zhejiang Kingkong JV is a venturer;

(iv) the party is a member of the key management personnel of Zhejiang Kingkong JV or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Zhejiang Kingkong JV, or any entity that is a related party of Zhejiang Kingkong JV.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key source of estimation uncertainty at the balance sheet dates, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period, are also discussed below.

Depreciation and amortisation

Zhejiang Kingkong JV depreciates and amortises its property, plant and equipment and intangible assets on a straight-line basis, after taking into account their estimated residual value, over their estimated useful lives, commencing from the date the equipment is available for use. The estimated useful life reflects the directors' estimate of the periods that Zhejiang Kingkong JV intends to derive future economic benefits from the use of the asset.

Impairment of assets

Zhejiang Kingkong JV determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires Zhejiang Kingkong JV to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Allowances for inventories

Zhejiang Kingkong JV's management reviews the conditions of its inventories at each balance sheet date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production or for sale. The management estimates the net realisable value of inventories based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Allowances for bad and doubtful debts

The policy for allowance for Zhejiang Kingkong JV's bad and doubtful debts is based on the evaluation of collectability of accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of Zhejiang Kingkong JV were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Zhejiang Kingkong JV's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables, amounts due to related companies, fellow subsidiaries and the immediate holding company. Details of the policies on how to mitigate the risks from these financial instruments are set out below. Zhejiang Kingkong JV's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Zhejiang Kingkong JV has no fair value interest rate risk. Zhejiang Kingkong JV has not used any derivative contracts to hedge its exposure to interest rate risk.

Zhejiang Kingkong JV's cash flow interest rate risk primarily relates to variable-rate bank balances. Zhejiang Kingkong JV has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Funds not required by Zhejiang Kingkong JV in the short-term are kept as temporary demand or time deposits in commercial banks and Zhejiang Kingkong JV does not hold any market risk-sensitive instruments for speculative purposes.

Credit risk

The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. Zhejiang Kingkong JV's credit risk primarily consists of trade and other receivables. Zhejiang Kingkong JV has concentration of credit risk as detailed in Note 14.

In order to minimise credit risk, credit history and background of new third party customers are checked and securities deposits are usually obtained from major customers. Credit limits with credit terms of 60 days to 90 days are set for customers and designated staff monitors accounts receivable and follow up collection with customers. Customers considered to be high risk are traded on cash basis (bank guaranteed notes). Zhejiang Kingkong JV reviews regularly the recoverable amount of each individual receivable and impairment would be made for balance determined to be irrecoverable.

Zhejiang Kingkong JV's bank balances are deposited with a number of banks and Zhejiang Kingkong JV has limited exposure to any single financial institution.

Liquidity risk

As at 30 June 2007, Zhejiang Kingkong JV had net current liabilities of approximately RMB450 million. The shareholders have confirmed to provide funding to Zhejiang Kingkong JV as and when required to maintain its liquidity.

Zhejiang Kingkong JV's liquidity position is monitored on a daily basis by the management. The following tables detail Zhejiang Kingkong JV's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Zhejiang Kingkong JV can be required to pay. The table includes both interest and principal cash flows.

	0-180 days	**181-360 days**	**Over 360 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006				
Non-interest bearing	3,219	–	–	3,219

	0-180 days	**181-360 days**	**Over 360 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2007				
Non-interest bearing	601,346	–	–	601,346

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates and interest rates. Zhejiang Kingkong JV is exposed to market risk (interest rate risk) primarily through its interest-bearing borrowings and bank balances and cash which has been set out above. Risk management techniques, such as value-at-risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control interest rate risk. VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices such as interest rates and foreign exchange rates reflect possible future changes. Since Zhejiang Kingkong JV's interest-bearing borrowings have maturity of less than one year and the historical fluctuations of interest rates in the PRC is not significant, VaR for interest rate risk and sensitivity analysis for market risk is not presented.

(b) Capital risk management

Zhejiang Kingkong JV's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Zhejiang Kingkong JV may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, Zhejiang Kingkong JV monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to related companies and fellow subsidiaries and trade and other payables, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

During the Relevant Periods, Zhejiang Kingkong JV's strategy was to maintain a gearing ratio less than 65%. The gearing ratios at 31 December 2006 and 30 June 2007 were as follows:

	At 31 December 2006	At 30 June 2007
	RMB'000	*RMB'000*
Total borrowings	3,219	601,346
Less: bank balances and cash	(22,650)	(6,835)
Net debt	(19,431)	594,511
Total equity	235,000	353,178
Total capital	215,569	947,689
Gearing ratio	(9%)	63%

(c) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Zhejiang Kingkong JV consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

5. TURNOVER

Turnover represented the proceeds from sales, net of discounts, returns and related sales taxes, of goods.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

No business segment information has been presented for the Relevant Periods as the directors considered that Zhejiang Kingkong JV's principal activities in research, production, marketing and sales of sedan related components as well as the provision of related after-sales services which accounts for the total revenue and trading profits of Zhejiang Kingkong JV for the Relevant Periods.

Geographical segments

Zhejiang Kingkong JV's activities and operations are based solely in the PRC. Accordingly, no geographical segment analysis is presented.

7. OTHER INCOME

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Bank interest income	–	66
Interest received from related/group companies	–	4,996
Gain on disposal of raw materials	–	1,065
Net claims income on defected materials purchased	–	3,239
Service income	–	1,678
Subsidy income from government	–	7,575
Others	–	695
	–	19,314

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

(a) Staff costs

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Wages and salaries	–	19,027
Social security costs	–	666
	–	19,693

(b) Other items

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Cost of inventories	–	565,481
Auditors' remuneration	–	–
Depreciation of property, plant and equipment	–	4,692
Amortisation on:		
– Intangible assets (included in administrative expenses)	–	66
– Land lease prepayments	–	2,074
Loss on disposal of property, plant and equipment	–	29

9. TAXATION

Pursuant to the relevant laws and regulations in the PRC, Zhejiang Kingkong JV is entitled to an exemption from PRC enterprise income tax of 24% and local income tax 2.4% for the two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

No taxation has been provided as the six months ended 30 June 2007 is Zhejiang Kingkong JV's first profit-making period since incorporation.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from 1 January 2008. Pursuant to the new CIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of Zhejiang Kingkong JV. As Zhejiang Kingkong JV does not recognise any deferred tax assets and deferred tax liabilities at the balance sheet dates, there is no impact on financial position on results. Zhejiang Kingkong JV will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

The tax charge for the Relevant Periods can be reconciled to the profit per income statement as follows:

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	**Six months ended 30 June 2007**
	RMB'000	*RMB'000*
Profit before taxation	–	118,178
Tax at applicable tax rate	–	31,199
Effect of tax incentive granted	–	(31,199)
Tax charge for period	–	–

The applicable tax rate is the PRC enterprise income tax rate of 26.4%.

At the balance sheet dates, there was no material unprovided deferred taxation.

10. INTANGIBLE ASSET

	Design rights
	RMB'000
Cost:	
Additions during six months ended 30 June 2007 and at 30 June 2007	3,971
Accumulated amortisation:	
Charge for the six months ended 30 June 2007 and at 30 June 2007	66
Carrying amount:	
At 30 June 2007	3,905

Design rights represent acquired rights, titles and interest in certain design and engineering agreements and technical assistant agreements in relation to the production of automobiles. They are amortised on a straight-line basis over the expected life of the products to which they relate, normally about five years.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC under medium-term leases	Machinery and equipment	Moulds	Furniture, Fixtures & office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
For the six months ended 30 June 2007:						
Additions	221,008	165,466	2	6,048	35,583	428,107
Disposals	–	(5)	–	(44)	–	(49)
Transfers	76	1,424	–	–	(1,500)	–
At 30 June 2007	221,084	166,885	2	6,004	34,083	428,058
Accumulated depreciation:						
For the six months ended 30 June 2007:						
Charge for the period	6	4,177	–	509	–	4,692
Written back on disposals	–	–	–	(2)	–	(2)
At 30 June 2007	6	4,177	–	507	–	4,690
Carrying amount:						
At 30 June 2007	221,078	162,708	2	5,497	34,083	423,368

12. LAND LEASE PREPAYMENTS

Land lease prepayments represent cost paid for land use rights. The cost is amortised over the lease period.

	At 31 December 2006	At 30 June 2007
	RMB'000	*RMB'000*
Land use rights in the PRC		
Medium-term lease	125,569	385,013
Analysis for reporting purpose:		
Current asset	2,760	8,455
Non-current asset	122,809	376,558
	125,569	385,013

13. INVENTORIES

	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
Raw materials	–	55,128
Work in progress/semi-finished goods	–	8,481
	–	63,609

14. TRADE AND OTHER RECEIVABLES

	Note	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
Trade and notes receivables			
Trade receivables	*(a)*	–	28,637
Notes receivables	*(b)*	–	17,170
		–	45,807
Other receivables			
Due from a former related company (a fellow subsidiary since 30 June 2007)	*(c)*	90,000	–
Trade deposits paid		–	21,524
Deposit, prepayments and other receivables		–	4,463
		90,000	25,987
		90,000	71,794

(a) Trade receivables

	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
From third parties	–	14,797
From related companies	–	850
From immediate holding company, Zheijang Haoqing	–	12,037
From former related companies (fellow subsidiaries since 30 June 2007)	–	953
	–	28,637

The Company allows a credit period of 60 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
0 – 60 days	–	23,187
61 – 90 days	–	1,154
91 – 120 days	–	91
121– 365 days	–	4,205
	–	28,637

Trade receivables with age more than 90 days amounting to RMB4,296,000 were past due but not impaired. These receivables related to a number of different customers. The Company does not hold any collateral over these balances.

(b) Notes receivables

All notes receivables are denominated in RMB and are primarily notes received from trade debtors for settlement of trade receivable balances. All notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from the balance sheet dates.

(c) Due from a former related company

The amount due is unsecured, interest-free and has no fixed repayment term.

15. TRADE AND OTHER PAYABLES

	Note	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
Trade payables			
To third parties		–	59,419
To immediate holding company, Zhejiang Haoqing		–	75
To former fellow subsidiaries (related companies since 30 June 2007)		–	57,198
To former related companies (fellow subsidiaries since 30 June 2007)		–	244,375
		–	361,067
Other payables			
Accrued charges and other payables		–	11,459
Deposit received		–	238
Other tax payables		–	1,074
Due to former related companies (fellow subsidiaries since 30 June 20007)	*(a)*	–	36
Due to fellow subsidiaries	*(a)*	3,219	227,472
		3,219	240,279
		3,219	601,346

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

	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
0 – 60 days	–	156,048
61 – 90 days	–	28,275
91 – 120 days	–	46,251
121– 365 days	–	130,493
	–	361,067

(a) Due to fellow subsidiaries/former related companies

The amounts due are unsecured, interest free and have no fixed repayment term.

16. PAID-UP CAPITAL

	RMB'000
Registered and paid-up capital:	
Capital contribution by equity holders during the period ended 31 December 2006 and at 31 December 2006 and 30 June 2007	235,000

The registered capital of RMB235,000,000 were satisfied by injecting cash of RMB110,000,000 and other assets of RMB125,000,000 (note 21).

17. RESERVES

(a) Statutory reserves

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, Zhejiang Kingkong JV is required to maintain certain statutory reserves, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The statutory reserves are to be appropriated from statutory net profit as calculated in accordance with the PRC GAAP with percentages determined by the board of directors and recorded as a component of shareholders equity which are restricted as to use. No appropriation has been made during the Relevant Periods.

(b) Retained earnings

For dividend distribution purposes, Zhejiang Kingkong JV's distributable profit is determined based on its after-tax profit as reported in its statutory financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the Financial Information, which are prepared in accordance with the HKFRSs.

18. RETIREMENT BENEFIT OBLIGATIONS

The employees of Zhejiang Kingkong JV in the PRC are members of state-managed retirement benefit schemes operated by the respective local government of the PRC. Zhejiang Kingkong JV is required to contribute a specified percentage of the employee's basic salary to the retirement benefit schemes to fund the benefits. The only obligation of Zhejiang Kingkong JV with respect to the retirement benefit schemes is to make the specified contributions.

For the Relevant Periods, the aggregate employer's contributions made by Zhejiang Kingkong JV and charged to the income statement are disclosed in note 8(a).

19. CAPITAL COMMITMENTS

	At 31 December 2006 *RMB'000*	**At 30 June 2007** *RMB'000*
Contracted but not provided net of deposit paid	466,079	27,942

20. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these Financial Information, during the Relevant Periods, Zhejiang Kingkong JV had the following material transactions with related parties:

(a) Transactions

With immediate holding company, Zhejiang Haoqing

Nature of transactions	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment	–	39,215
Sales of sedans, automobile parts and components	–	680,390
Purchase of automobile parts and components	–	15
Other operating expenses paid	–	17,158
Other operating income received	–	1,062
Interest income received	–	4,210
Reimbursement of warranty costs received	–	48

With former immediate holding company, Geely Holding Limited (related company since 30 June 2007)

Nature of transactions	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Acquisition of intangible assets (other than as capital injection)	569	261,519
Acquisition of property, plant and equipment (other than as capital injection)	–	233,297

With former related companies (fellow subsidiaries since 30 June 2007)

Nature of transactions	**Period from 21 December 2006 (date of incorporation) to 31 December 2006**	**Six months ended 30 June 2007**
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment	–	75,622
Purchase of intangible assets	–	3,971
Purchase of automobile parts and components	–	173,405
Other operating expenses paid	–	33
Interest income received	–	81
Other operating income received	–	15,786
Reimbursement of warranty costs received	–	335

With former fellow subsidiaries (related companies since 30 June 2007)

Nature of transactions	**Period from 21 December 2006 (date of incorporation) to 31 December 2006**	**Six months ended 30 June 2007**
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment	–	9
Purchase of automobile parts and components	–	406,254
Interest income received	–	704
Other operating income received	–	10,597

In addition, during the six months ended 30 June 2007, utilities charges incurred by Zhejiang Kingkong JV of RMB1,223,865 on behalf of a related company 台州吉利喜苑房地產開發有限公司 controlled by a shareholder of the ultimate holding company were fully reimbursed by this related company.

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the Relevant Periods have been absorbed and borne by Zhejiang Kingkong JV's equity holders for which no reimbursement would be sought from Zhejiang Kingkong JV.

21. MAJOR NON-CASH TRANSACTION

During the period ended 31 December 2006, land lease prepayments of RMB125,000,000 were transferred from the immediate holding company, Geely Holding Limited, as part of the capital contribution to Zhejiang Kingkong JV.

22. SUBSEQUENT EVENT

On 13 July 2007, Centurion, the shareholder of the company and Zhejiang Haoqing entered into the Zhejiang Kingkong JV Equity Transfer Agreement pursuant to which Centurion agreed to acquire the remaining 44.19% interest in the registered capital of Zhejiang Kingkong JV from Zhejiang Haoqing for a total consideration of RMB155.84 million (the "Zhejiang Kingkong JV Transfer"). The consideration of RMB155.84 million for the Zhejiang Kingkong JV Transfer was determined after the arm's length negotiation between Centurion and Zhejiang Haoqing with reference to the 44.19% attributable interest in the unaudited net asset value of Zhejiang Kingkong JV as at 30 June 2007.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Zhejiang Kingkong JV have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF ZHEJIANG KINGKONG JV

For the period from 21 December 2006 (date of incorporation) to 31 December 2006

(a) Results of operation

The Zhejiang Kingkong JV had an audited net assets of approximately RMB235.0 million as at 31 December 2006 and an audited net profit after tax of approximately RMB nil for the period. During the period, no turnover was derived as the Zhejiang Kingkong JV has not yet commenced its operations.

(b) Segmental information

No segmental information has been presented for the period as the Zhejiang Kingkong JV has not yet commenced its operations and all its assets and liabilities are located in the PRC.

(c) Liquidity and financial resources

As at 31 December 2006, the major assets of the Zhejiang Kingkong JV were primarily land lease prepayments of approximately RMB125.6 million, amount due from a related company of approximately RMB90 million and cash and bank balances of approximately RMB22.7 million.

Capital structure and liquidity

As at 31 December 2006, liabilities of the Zhejiang Kingkong JV were solely amounts to related companies of approximately RMB3.2 million. During the period, the business activities of the Zhejiang Kingkong JV were solely financed by its registered capital. As at 31 December 2006, the shareholders' fund of the Zhejiang Kingkong JV amounted to approximately RMB235.0 million. Apart from an initial capital contribution, no further capital increase arrangement was made during the period.

Since the Zhejiang Kingkong JV has not yet commenced its operations, the ratio analysis is not presented as its inclusion is not considered meaningful.

Borrowings and pledge of assets

As at 31 December 2006, there were no borrowings and pledge of assets.

(d) Foreign currency management

The management of the Zhejiang Kingkong JV considered fluctuations in exchange rate did not impose a significant risk to the Zhejiang Kingkong JV as its operations would be principally in the PRC.

(e) Contingent liabilities

As at 31 December 2006, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by the Zhejiang Kingkong JV during the period.

(g) Future plans for material investments or capital assets

As at 31 December 2006, there were future plans for material investments on capital assets, like land lease prepayments, machinery and production equipment. As such, capital commitments of approximately RMB466.1 million had been contracted but not provided net of deposit paid as at 31 December 2006.

(h) Employees and remuneration policies

As at 31 December 2006, the total number of employees of the Zhejiang Kingkong JV was nil. 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 Zhejiang Kingkong JV also participates in state-managed retirement benefit scheme in the PRC.

For the period from 1 January 2007 to 30 June 2007

(a) Results of operation

The Zhejiang Kingkong JV had an audited net assets of approximately RMB353.2 million as at 30 June 2007 and an audited net profit after tax of approximately RMB118.2 million for the period. During the period, turnover of RMB680.4 million represented the sales of sedan related components, which contributed a gross profit of approximately RMB114.9 million. Other income amounted to approximately RMB19.3 million comprising mainly the subsidy income of approximately RMB7.6 million, interest income of approximately RMB5.0 million and net claims income of approximately RMB3.2 million during the period.

Operating expenses were mainly administrative expenses of RMB16.0 million incurred for the manufacture and sales of sedan related components which represented mainly staff costs, depreciation of property, plant and equipment and amortization on land lease prepayments during the period.

(b) Segmental information

Business Segments

No business segment information has been presented for the period as the management considered that Zhejiang Kingkong JV is principally engaged in research, production, marketing and sales of sedan related components as well as the provision of related after-sales services which accounts for the total revenue and trading profit of Zhejiang Kingkong JV for the period.

Geographical segments

Zhejiang Kingkong JV's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 30 June 2007, the major assets of the Zhejiang Kingkong JV were primarily property, plant and equipment of approximately RMB423.4 million, land lease prepayments of approximately RMB385.0 million, trade and other receivables of approximately RMB71.8 million, inventories of approximately RMB63.6 million and cash and bank balances of approximately RMB6.8 million.

Capital structure and liquidity

As at 30 June 2007, liabilities of the Zhejiang Kingkong JV were solely trade and other payables of approximately RMB601.3 million. During the period, the business activities of the Zhejiang Kingkong JV were solely financed by its registered capital and amounts due to related companies (as included in trade and other payables). As at 30 June 2007, the shareholders' fund of the Zhejiang Kingkong JV amounted to approximately RMB353.2 million. No capital increase arrangement was made during the period.

As at 30 June 2007, the current ratio (current assets/current liabilities) of Zhejiang Kingkong JV was 0.25 and the gearing ratio of Zhejiang Kingkong JV was 62.7% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including solely the trade and other payables, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt. As at 30 June 2007, Zhejiang Kingkong JV had net current liabilities of approximately 450.7 million. The shareholders have confirmed to provide funding to Zhejiang Kingkong JV as and when required to maintain its liquidity.

Borrowings and pledge of assets

As at 30 June 2007, there were no borrowings or pledge of assets.

(d) Foreign currency management

The management of the Zhejiang Kingkong JV considered fluctuations in exchange rate did not impose a significant risk to the Zhejiang Kingkong JV as its operations are principally in the PRC.

(e) Contingent liabilities

As at 30 June 2007, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by the Zhejiang Kingkong JV during the period.

(g) Future plans for material investments or capital assets

As at 30 June 2007, there were future plans for investments in upgrading "Geely Kingkong" model. As such, capital commitments of approximately RMB27.9 million had been contracted but not provided net of deposit paid as at 30 June 2007.

(h) Employees and remuneration policies

As at 30 June 2007, the total number of employees of the Zhejiang Kingkong JV was 1,028. 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 Zhejiang Kingkong JV also participates in state-managed retirement benefit scheme in the PRC.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

31 October 2007

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

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo JV") (English translation of 浙江陸虎汽車有限公司 for identification purpose) for the period from 21 December 2006 (date of incorporation) to 31 December 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in a circular issued by Geely Automobile Holdings Limited (the "Company") dated 31 October 2007 (the "Circular") in connection with the proposed acquisition of 44.19% additional interest in Zhejiang Ruhoo JV.

Zhejiang Ruhoo JV is a sino-foreign equity joint venture established in the People's Republic of China ("PRC") with limited liability on 21 December 2006. The principal activities of Zhejiang Ruhoo JV are research, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC.

No statutory audited accounts have been prepared since the incorporation.

For the purpose of this report, the directors of Zhejiang Ruhoo JV have prepared the financial statements of Zhejiang Ruhoo JV for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The accompanying Financial Information has been prepared based on the Underlying Financial Statements of Zhejiang Ruhoo JV and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of Zhejiang Ruhoo JV and carried out such additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Zhejiang Ruhoo JV are responsible for the preparation of the Underlying Financial Statements which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, 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 Zhejiang Ruhoo JV as at 31 December 2006 and 30 June 2007 and of the results and cash flows of Zhejiang Ruhoo JV for each of the Relevant Periods.

(A) FINANCIAL INFORMATION

Income Statements

	Note	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
		RMB'000	*RMB'000*
Turnover	*5*	–	594,713
Cost of sales		–	(559,436)
Gross profit		–	35,277
Other income	*7*	–	28,998
Administrative expenses		(234)	(21,524)
Finance costs	*8*	–	(2,162)
Profit (loss) before taxation		(234)	40,589
Taxation	*9*	–	–
Profit (loss) for the period	*8*	(234)	40,589

Balance Sheets

	Note	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
Non-current assets			
Intangible assets	*10*	–	58,918
Property, plant and equipment	*11*	474,410	503,257
Land lease prepayments	*12*	79,120	97,394
Total non-current assets		553,530	659,569
Current assets			
Land lease prepayments	*12*	2,033	2,533
Inventories	*13*	–	54,500
Trade and other receivables	*14*	15	108,421
Bank balances and cash		921	21,687
Total current assets		2,969	187,141
Current liabilities			
Trade and other payables	*15*	405,056	644,640
Total current liabilities		405,056	644,640
Net current liabilities		(402,087)	(457,499)
Total assets less current liabilities		151,443	202,070
Capital and reserves			
Paid-up capital	*16*	151,677	151,677
Reserves	*17*	(234)	50,393
Total equity		151,443	202,070

Statements of Changes in Equity

	Paid-up capital	Capital reserve	Retained earnings (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital contribution	151,677	–	–	151,677
Loss for the period	–	–	(234)	(234)
At 31 December 2006	151,677	–	(234)	151,443
Profit for the period	–	–	40,589	40,589
Buildings transferred at nil consideration from Zhejiang Haoqing Automobile Manufacturing Company Limited on 10 May 2007 *(Note 17(b))*	–	10,038	–	10,038
At 30 June 2007	151,677	10,038	40,355	202,070

Cash Flow Statements

	Period from 21 December 2006 (date of incorporation) to 31 December 2006 *RMB'000*	Six months ended 30 June 2007 *RMB'000*
OPERATING ACTIVITIES		
Profit/(loss) before taxation	(234)	40,589
Amortisation of intangible assets	–	1,163
Amortisation of land lease prepayments	170	1,231
Depreciation	–	25,557
Loss on disposal of property, plant and equipment	–	853
Interest expenses	–	2,162
Interest income	–	(62)
Changes in working capital:		
Inventories	–	(54,500)
Trade and other receivables	(15)	(108,406)
Trade and other payables	(70,000)	239,584
Cash generated from/(used in) operations	(70,079)	148,171
Interest paid	–	(2,162)
Interest received	–	62
Net cash from/(used in) operating activities	(70,079)	146,071
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	–	(45,311)
Acquisition of intangible assets	–	(60,081)
Acquisition of land use rights	–	(20,005)
Proceeds from disposal of property, plant and equipment	–	92
Net cash used in investing activities	–	(125,305)
FINANCING ACTIVITIES		
New capital raised	71,000	–
Net cash from financing activities	71,000	–
Net increase in cash and cash equivalents	921	20,766
Cash and cash equivalents at beginning of period	–	921
Cash and cash equivalents at end of period, represented by bank balances and cash	921	21,687

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Zhejiang Ruhoo JV is a limited liability company established in the PRC under laws and regulations applicable to sino-foreign joint ventures. The address of the registered office and principal place of business is located at Geely Automobile City, Dingjiayang Village, Dayang Street, Linhai, Zhejiang Province, PRC. The principal activities of Zhejiang Ruhoo JV are research, production, marketing and sales of sedan related components as well as the provision of related after-sales services in the PRC. The parent of Zhejiang Ruhoo JV is Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing") (English translation of registered name of 浙江豪情汽車制造有限公司 for identification purpose only). In the opinion of the directors, the ultimate parent of Zhejiang Ruhoo JV is Zhejiang Geely Holding Group Company Limited (English translation of registered name of 浙江吉利控股集團有限公司 for identification purpose only), which is established in the PRC.

This Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment (i.e. functional currency) in which Zhejiang Ruhoo JV operates.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

The principal accounting policies applied in the preparation of the Financial Information which are in conformity with all HKFRSs issued by the HKICPA and are effective for the accounting periods beginning on or after 1 January 2007. For the purpose of presenting the Financial Information, these policies have been consistently applied to all the periods presented, unless otherwise stated.

Zhejiang Ruhoo JV has not early adopted the following new and revised standards and interpretations issued by the HKICPA that are not yet effective for the accounting periods beginning on or after 1 January 2007.

HKFRS 8	Operating segments[1]
HKAS 23 (revised)	Borrowing costs[1]
HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[2]
HK (IFRIC) – INT 12	Service concession arrangements[3]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for accounting periods beginning on or after 1 January 2009.
[2] Effective for accounting periods beginning on or after 1 March 2007.
[3] Effective for accounting periods beginning on or after 1 January 2008.
[4] Effective for accounting periods beginning on or after 1 July 2008.

The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of Zhejiang Ruhoo JV.

The Financial Information has been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the excess of current liabilities over current assets. The shareholders have confirmed their intention to make available adequate funds to Zhejiang Ruhoo JV as and when required to maintain Zhejiang Ruhoo JV as a going concern.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Buildings	10-20 years
Machinery and equipment	5-10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5-10 years
Moulds	7-10 years

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Land lease prepayments

Land lease prepayments represent amounts paid for land use rights. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

Impairment of tangible and intangible assets

At each balance sheet date, Zhejiang Ruhoo JV reviews internal and external sources of information to determine whether its tangible and intangible asset with finite useful lives have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, Zhejiang Ruhoo JV estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Zhejiang Ruhoo JV becomes a party to the contractual provisions of the instrument and on a trade date basis. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured 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 the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Zhejiang Ruhoo JV 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 the income statement.

For financial liabilities, they are removed from Zhejiang Ruhoo JV's balance sheet 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 the income statement.

Inventories

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the entity and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods, including scrap materials, is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed. Sale of scrap materials is presented net of cost of scrap materials.

Rental income is recognised when the properties are let out and on the straight-line basis over the lease terms.

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.

Training income is recognised when the service is rendered.

Net claims income on defected materials purchased is recognised when a valid claim is established, net of related expenses on defected materials claimed by customer, if any.

Foreign currencies

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise.

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 periods and it further excludes items that are never taxable or deductible. Zhejiang Ruhoo JV'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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

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.

Retirement benefit costs

Payments to the state-managed retirement benefit scheme in the PRC are charged as expenses as they fall due. Further information is set out in note 18.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Provisions

Provisions are recognised when Zhejiang Ruhoo JV has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where Zhejiang Ruhoo JV expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Cash equivalents

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

Related parties

A party is related to Zhejiang Ruhoo JV if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Zhejiang Ruhoo JV; or has an interest in Zhejiang Ruhoo JV that gives it significant influence over Zhejiang Ruhoo JV; or has joint control over Zhejiang Ruhoo JV;

(ii) the party is an associate of Zhejiang Ruhoo JV;

(iii) the party is a joint venture in which Zhejiang Ruhoo JV is a venturer;

(iv) the party is a member of the key management personnel of Zhejiang Ruhoo JV or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Zhejiang Ruhoo JV, or any entity that is a related party of Zhejiang Ruhoo JV.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key source of estimation uncertainty at the balance sheet dates, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period, are also discussed below.

Depreciation and amortisation

Zhejiang Ruhoo JV depreciates and amortises its property, plant and equipment and intangible assets on a straight-line basis, after taking into account their estimated residual value, over their estimated useful lives, commencing from the date the equipment is available for use. The estimated useful life reflects the directors' estimate of the periods that Zhejiang Ruhoo JV intends to derive future economic benefits from the use of the asset.

Impairment of assets

Zhejiang Ruhoo JV determines whether an asset is impaired at least on annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires Zhejiang Ruhoo JV to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Allowances for inventories

Zhejiang Ruhoo JV's management reviews the conditions of its inventories at each balance sheet date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production or for sale. The management estimates the net realisable value of inventories based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Allowances for bad and doubtful debts

The policy for allowance for Zhejiang Ruhoo JV's bad and doubtful debts is based on the evaluation of collectability of accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of Zhejiang Ruhoo JV were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Zhejiang Ruhoo JV's major financial instruments include trade and other receivables, cash and cash equivalents and trade and other payables. Details of the policies on how to mitigate the risks from these financial instruments are set out below. Zhejiang Ruhoo JV's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Zhejiang Ruhoo JV's fair value interest rate risk relates primarily to certain fixed-rate interest charged on trade payables (see Note 15 for details). Zhejiang Ruhoo JV has not used any derivative contracts to hedge its exposure to interest rate risk.

Zhejiang Ruhoo JV's cash flow interest rate risk primarily relates to variable-rate bank balances. Zhejiang Ruhoo JV has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Funds not required by Zhejiang Ruhoo JV in the short-term are kept as temporary demand or time deposits in commercial banks and Zhejiang Ruhoo JV does not hold any market risk-sensitive instruments for speculative purposes.

Credit risk

The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. Zhejiang Ruhoo JV's credit risk primarily consists of trade and other receivables. Zhejiang Ruhoo JV has concentration of credit risk with exposure limited to its group companies as detailed in Note 14.

In order to minimise credit risk, credit history and background of new third party customers are checked and securities deposits are usually obtained from major customers. Credit limits with credit terms of 60 days to 90 days are set for customers and designated staff monitors accounts receivable and follow up collection with customers. Customers considered to be high risk are traded on cash basis (or bank guaranteed notes). Zhejiang Ruhoo JV reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be irrecoverable.

Zhejiang Ruhoo JV's bank balances are deposited with a number of banks and Zhejiang Ruhoo JV has limited exposure to any single financial institution.

Categories of financial instruments

Categories of financial instruments of Zhejiang Ruhoo JV are as follows:

	At 31 December 2006	**At 30 June 2007**
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables:		
Trade and other receivables	15	108,421
Bank balances and cash	921	21,687
	936	130,108
Financial liabilities		
Trade and other payables, at amortised cost	405,056	644,640

Liquidity risk

As at 30 June 2007, Zhejiang Ruhoo JV had net current liabilities of approximately RMB457 million. The shareholders have confirmed to provide funding to Zhejiang Ruhoo JV as and when required to maintain its liquidity.

Zhejiang Ruhoo JV's liquidity position is monitored on a daily basis by the management. The following tables detail Zhejiang Ruhoo JV's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Zhejiang Ruhoo JV can be required to pay. The table includes both interest, if any, and principal cash flows.

	0-180 days	**181-360 days**	**Over 360 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006				
Non-interest bearing	402,087	–	–	402,087
	402,087	–	–	402,087

	0-180 days	**181-360 days**	**Over 360 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2007				
Non-interest bearing	475,499	–	–	457,499
	475,499	–	–	457,499

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates and interest rates. Zhejiang Ruhoo JV is exposed to market risk (interest rate risk) primarily through its interest-bearing borrowings and bank balances and cash which has been set out above. Risk management techniques, such as value-at-risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control interest rate risk. VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices such as interest rates and foreign exchange rates reflect possible future changes. Since Zhejiang Ruhoo JV's interest-bearing borrowings have maturity of less than one year and the historical fluctuations of interest rates in the PRC is not significant, VaR for interest rate risk and sensitivity analysis for market risk is not presented.

(b) Capital risk management

Zhejiang Ruhoo JV's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Zhejiang Ruhoo JV may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, Zhejiang Ruhoo JV monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to related companies and fellow subsidiaries and trade and other payables, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

During the Relevant Periods, Zhejiang Ruhoo JV's strategy was to maintain a gearing ratio within 70% to 80%. The gearing ratios at 31 December 2006 and 30 June 2007 were as follows:

	At 31 December 2006	**At 30 June 2007**
	RMB'000	*RMB'000*
Total borrowings	405,056	644,640
Less : bank balances and cash	(921)	(21,687)
Net debt	404,135	622,953
Total equity	151,443	202,070
Total capital	555,578	825,023
Gearing ratio	73%	76%

(c) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Zhejiang Ruhoo JV consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

5. TURNOVER

Turnover represented the proceeds from sales, net of discounts, returns and related sales taxes, of goods.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

No business segment information has been presented for the Relevant Periods as the directors considered that Zhejiang Ruhoo JV is principally engaged in research, production, marketing and sales of sedan related components as well as the provision of related after-sales services well as the provision of related after-sales service which accounts for the total revenue and trading profits of Zhejiang Ruhoo JV for the periods.

Geographical segments

Zhejiang Ruhoo JV's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

7. OTHER INCOME

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	**Six months ended 30 June 2007**
	RMB'000	*RMB'000*
Bank interest income	–	62
Gain on disposal of scrap materials	–	9,043
Net claims income on defected materials purchased	–	6,042
Sales of tools and consumables	–	1,228
Rental income	–	4,941
Training income	–	7,682
	–	28,998

8. PROFIT (LOSS) FOR THE PERIOD

Profit (loss) for the period has been arrived at after charging:

(a) Finance costs

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Interest on trade payables	–	2,158
Others	–	4
	–	2,162

(b) Staff costs

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Wages and salaries	–	26,754
Social security costs	–	2,787
	–	29,541

(c) Other items

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Cost of inventories	–	559,436
Auditors' remuneration	–	–
Depreciation of property, plant and equipment	–	25,557
Amortisation on:		
– Intangible assets (included in administrative expenses)	–	1,163
– Land lease prepayments	170	1,231
Loss on disposal of property, plant and equipment	–	853

9. TAXATION

Pursuant to the relevant laws and regulations in the PRC, Zhejiang Ruhoo JV is entitled to an exemption from PRC enterprise income tax of 24% and 2.4% for the two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

No taxation has been provided as the six months ended 30 June 2007 is Zhejiang Ruhoo JV's first profit-making period since incorporation.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from 1 January 2008. Pursuant to the new CIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of Zhejiang Ruhoo JV. As Zhejiang Ruhoo JV does not recognise any deferred tax assets and deferred tax liabilities at the balance sheet dates, it has no impact on the financial position or results. Zhejiang Ruhoo JV will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

The charge for the Relevant Periods can be reconciled to the profit/(loss) per income statement as follows:

	Period from 21 December 2006 (date of incorporation) to 31 December 2006	**Six months ended 30 June 2007**
	RMB'000	*RMB'000*
Profit/(loss) before taxation	(234)	40,589
Tax at applicable tax rate	(62)	10,716
Effect of tax incentive granted	–	(10,716)
Unrecognised tax losses	62	–
Tax charge for period	–	–

The applicable tax rate is the PRC enterprise income tax rate of 26.4%.

At the balance sheet dates, there was no material unprovided deferred taxation.

10. INTANGIBLE ASSETS

	Design rights
	RMB'000
Cost:	
Additions during six months ended 30 June 2007 and at 30 June 2007	60,081
Accumulated amortisation:	
Charge for the six months ended 30 June 2007 and at 30 June 2007	1,163
Carrying amount:	
At 30 June 2007	58,918

Design rights represent acquired rights, titles and interest in certain design and engineering agreements and technical assistant agreements in relation to the production of automobiles. They are amortised on a straight-line basis over the expected life of the products to which they relate, normally about ten years.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC under medium-term leases	Machinery and equipment	Moulds	Furniture, fixtures & office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
Additions during the period and at 31 December 2006 *(note)*	272,431	167,353	26,941	1,532	–	6,153	474,410
Additions	10,038	31,346	546	344	426	12,649	55,349
Disposals	–	(592)	(404)	–	–	–	(996)
Transfers upon completion	346	–	–	–	–	(346)	–
Transfer to construction in progress	(17,362)	(27,940)	–	–	–	45,302	–
At 30 June 2007	265,453	170,167	27,083	1,876	426	63,758	528,763
Accumulated depreciation:							
Charge for the six months ended 30 June 2007	8,077	12,545	4,679	242	14	–	25,557
Written back on disposals	–	(45)	(6)	–	–	–	(51)
Transfer to construction in progress	(428)	(1,024)	–	–	–	1,452	–
At 30 June 2007	7,649	11,476	4,673	242	14	1,452	25,506

	Buildings in the PRC under medium-term leases	Machinery and equipment	Moulds	Furniture, Fixtures & Office equipment	Motor Vehicles	Construction In progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount:							
At 31 December 2006	272,431	167,353	26,941	1,532	–	6,153	474,410
At 30 June 2007	257,804	158,691	22,410	1,634	412	62,306	503,257

Note: The property, plant and equipment were acquired at the end of year 2006. As a result, no depreciation was provided for the period ended 31 December 2006.

12. LAND LEASE PREPAYMENTS

Land lease prepayments represent cost paid for land use right. The cost is amortised over the lease period.

	At 31 December 2006	At 30 June 2007
	RMB'000	*RMB'000*
Land use rights in the PRC		
Medium term lease	81,153	99,927
Analysis for reporting purpose:		
Current asset	2,033	2,533
Non-current asset	79,120	97,394
	81,153	99,927

13. INVENTORIES

	At 31 December 2006	At 30 June 2007
	RMB'000	*RMB'000*
Raw materials	–	34,812
Work in progress	–	19,688
	–	54,500

14. TRADE AND OTHER RECEIVABLES

	Note	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
Trade and notes receivables			
Trade receivables	*(a)*	–	6,993
Notes receivables	*(b)*	–	85,062
		–	92,055
Other receivables			
Deposit, prepayments and other receivables		15	16,366
		15	108,421

(a) Trade receivables

	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
From third parties	–	126
From fellow subsidiaries	–	6,867
	–	6,993

The Company allows a credit period of 60 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
0 – 60 days	–	6,912
61 – 90 days	–	64
91 – 120 days	–	6
121 – 365 days	–	11
	–	6,993

Except for a trade receivable of RMB11,000 from a related company as at 30 June 2007, all other trade receivables with age more than 90 days were past due but not impaired. The Company does not hold any collateral over these balances.

(b) Notes receivables

All notes receivables are denominated in RMB and are primarily notes received from trade debtors for settlement of trade receivable balances. All notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from the balance sheet dates.

15. TRADE AND OTHER PAYABLES

	Note	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
Trade payables			
To third parties		–	8,151
To fellow subsidiaries		–	477,631
		–	485,782
Other payables			
Accrued charges and other payables		–	5,573
Receipts in advance from immediate holding company		–	11,861
Deposit received		–	2,375
Other tax payables		–	2,418
Due to fellow subsidiaries	*(a)*	312,322	136,631
Due to immediate holding company	*(a)*	92,734	–
		405,056	158,858
		405,056	644,640

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

	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
0 – 60 days	–	474,054
61 – 90 days	–	433
91 – 120 days	–	2,717
121– 365 days	–	8,578
	–	485,782

(a) Due to fellow subsidiaries/immediate holding company

The amounts due are unsecured, interest free and have no fixed repayment term.

16. PAID-UP CAPITAL

	US$'000	RMB'000
Registered and paid-up capital:		
Issued during the period ended 31 December 2006 and at 31 December 2006 and 30 June 2007	19,389	151,677

The registered capital of RMB151,677,000 were satisfied by injecting cash of RMB71,000,000 and other assets of RMB318,323,000 (note 22).

17. RESERVES

The Company's reserves comprise:

	Note	At 31 December 2006 RMB'000	At 30 June 2007 RMB'000
Capital reserve	(b)	–	10,038
Retained earnings (accumulated losses)	(c)	(234)	40,355
		(234)	50,393

(a) Statutory reserves

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, Zhejiang Ruhoo JV is required to maintain certain statutory reserves, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The statutory reserves are to be appropriated from statutory net profit as calculated in accordance with the PRC GAAP with percentages determined by the board of directors and recorded as a component of shareholders equity which are restricted as to use. No appropriation has been made during the Relevant Periods.

(b) Capital reserve

Capital reserve represented difference between the consideration paid and the fair value of net assets acquired by Zhejiang Ruhoo JV from the immediate holding company, Zhejiang Haoqing (note 22).

(c) Retained earnings (accumulated losses)

For dividend distribution purposes, Zhejiang Ruhoo JV's distributable profit is determined based on its after-tax profit as reported in its statutory financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the Financial Information, which are prepared in accordance with HKFRSs.

18. RETIREMENT BENEFIT OBLIGATIONS

The employees of Zhejiang Ruhoo JV in the PRC are members of state-managed retirement benefit schemes operated by the respective local government of the PRC. Zhejiang Ruhoo JV is required to contribute a specified percentage of the employee's basic salary to the retirement benefit schemes to fund the benefits. The only obligation of Zhejiang Ruhoo JV with respect to the retirement benefit schemes is to make the specified contributions.

For the Relevant Periods, the aggregate employer's contributions made by Zhejiang Ruhoo JV and charged to the income statement are disclosed in note 8(b).

19. COMMITMENTS

(a) Capital expenditure commitments

	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
Contracted but not provided net of deposit paid	–	54,720

(b) Commitments under operating leases

Zhejiang Ruhoo JV leases out part of its properties under operating leases with a lease terms of a year and with options to renew the leases upon expiry at new terms. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
Within one year	14,627	7,313

20. PLEDGE OF ASSETS

Assets with the following carrying amount have been pledged:

	At 31 December 2006 *RMB'000*	At 30 June 2007 *RMB'000*
For banking facilities granted to the immediate holding company/fellow subsidiaries		
Land use rights	81,153	99,927
Buildings	255,735	265,123
	336,888	365,050

21. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these Financial Information, during the Relevant Periods, Zhejiang Ruhoo JV had the following material transactions with related parties:

(a) Transactions

With immediate holding company

Nature of transactions	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Acquisition of land use right	81,323	–
Acquisition of construction in progress	1,938	–
Acquisition of intangible assets	–	46,507
Acquisition of property, plant and equipment	36,963	426
Acquisition of buildings	272,431	10,038
Sales of sedans, automobile parts and components	–	565,941
Purchase of automobile parts and components	–	12,947
Interest income received	–	213
Reimbursement of warranty costs received	–	1,202

With fellow subsidiaries (*)

Nature of transactions	Period from 21 December 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	RMB'000	*RMB'000*
Acquisition of construction in progress	4,215	–
Acquisition of intangible assets	–	13,575
Acquisition of property, plant and equipment	158,863	–
Sales of sedans, automobile parts and components	–	29,096
Purchase of automobile parts and components	–	498,457
Reimbursement of warranty costs received	–	20,904

In addition, during the six months ended 30 June 2007, utilities charges incurred by Zhejiang Ruhoo JV of RMB1,412,000 on behalf of the fellow subsidiaries were fully reimbursed by these fellow subsidiaries.

(*) *Under Geely Automobile Holdings Limited, the above transactions also represented the associated companies' transactions.*

With companies controlled by the ultimate controlling shareholder

Nature of transactions	**Period from 21 December 2006 (date of incorporation) to 31 December 2006**	**Six months ended 30 June 2007**
	RMB'000	*RMB'000*
Rental income	–	4,941
Training income	–	7,682

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the Relevant Periods have been absorbed and borne by Zhejiang Ruhoo JV's equity holders for which no reimbursement would be sought from Zhejiang Ruhoo JV.

22. MAJOR NON-CASH TRANSACTIONS

During the period ended 31 December 2006, additions to property, plant and equipment of RMB237,000,000 and land lease prepayments of RMB81,323,000 were transferred by the immediate holding company, Zhejiang Haoqing, as its capital contribution to Zhejiang Ruhoo JV of RMB80,677 with the remaining balance as current account due.

During the six months ended 30 June 2007, the immediate holding company, Zhejiang Haoqing, transferred to Zhejiang Ruhoo JV buildings located in the PRC at nil consideration. The cost of RMB10,038,000 have been arrived at on the basis of a valuation carried out on 26 June 2007 by an independent professional valuer in the PRC. The transfer is treated as contribution by the immediate holding company and accordingly, the valuation has been credited to the capital reserve.

23. SUBSEQUENT EVENT

On 13 July 2007, Centurion, the shareholder of the company and Zhejiang Haoqing entered into the Zhejiang Ruhoo JV Equity Transfer Agreement pursuant to which Centurion agreed to acquire the remaining 44.19% interest in the registered capital of Zhejiang Ruhoo JV from Zhejiang Haoqing for a total consideration of RMB 90.21 million. The consideration of RMB 90.21 million for the Zhejiang Ruhoo JV Transfer was determined after the arm's length negotiation between Centurion and Zhejiang Haoqing with reference to the 44.19% attributable interest in the unaudited net asset value of Zhejiang Ruhoo JV as at 30 June 2007. Also, on 1 July 2007, Zhejiang Ruhoo JV acquired 90% equity interest in Zhejiang Geely Engine Research Institute Limited from Shanghai Maple Guorun Automobile at a consideration of RMB30 million. The results and financial position of Zhejiang Geely Engine Research Institute Limited are not significant.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Zhejiang Ruhoo JV have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF ZHEJIANG RUHOO JV

For the period from 21 December 2006 (date of incorporation) to 31 December 2006

(a) Results of operation

The Zhejiang Ruhoo JV had an audited net assets of approximately RMB151.4 million as at 31 December 2006 and an audited net loss after tax of approximately RMB234,000 for the period. During the period, no turnover was derived as the Zhejiang Ruhoo JV has not yet commenced its operations.

(b) Segmental information

No segmental information has been presented for the period as the Zhejiang Ruhoo JV has not yet commenced its operations and all its assets and liabilities are located in the PRC.

(c) Liquidity and financial resources

As at 31 December 2006, the major assets of the Zhejiang Ruhoo JV were primarily property, plant and equipment of approximately RMB474.4 million, land lease prepayments of approximately RMB81.2 million and cash and bank balances of approximately RMB0.9 million.

Capital structure and liquidity

As at 31 December 2006, liabilities of the Zhejiang Ruhoo JV were solely amounts due to related companies of approximately RMB405.1 million. During the period, the business activities of the Zhejiang Ruhoo JV were solely financed by its registered capital. As at 31 December 2006, the shareholders' fund of the Zhejiang Ruhoo JV amounted to approximately RMB151.4 million. Apart from an initial capital contribution, no further capital increase arrangement was made during the period.

Since the Zhejiang Ruhoo JV has not yet commenced its operations, the ratio analysis is not presented as its inclusion is not considered meaningful.

Borrowings and pledge of assets

As at 31 December 2006, land use rights of approximately RMB81.2 million and buildings of approximately RMB255.7 million were pledged for banking facilities granted to the related companies.

(d) Foreign currency management

The management of the Zhejiang Ruhoo JV considered fluctuations in exchange rate did not impose a significant risk to the Zhejiang Ruhoo JV as its operations would be principally in the PRC.

(e) Contingent liabilities

As at 31 December 2006, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by Zhejiang Ruhoo JV during the period.

(g) Future plans for material investments or capital assets

As at 31 December 2006, there were no future plans for material investments or capital assets.

(h) Employees and remuneration policies

As at 31 December 2006, the total number of employees of the Zhejiang Ruhoo JV was nil. 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 Zhejiang Ruhoo JV also participates in state-managed retirement benefit scheme in the PRC.

For the period from 1 January 2007 to 30 June 2007

(a) Results of operation

The Zhejiang Ruhoo JV had an audited net assets of approximately RMB202.1 million as at 30 June 2007 and an audited net profit after tax of approximately RMB40.6 million for the period. During the period, turnover of RMB594.7 million represented the sales of sedan related components, which contributed a gross profit of approximately RMB35.3 million. Other income amounted to approximately RMB29.0 million comprising mainly gain on disposal of scrap materials of approximately RMB9.0 million, training income of approximately RMB7.7 million and net claims income of approximately RMB6.0 million during the period.

Operating expenses were mainly administrative expenses of RMB21.5 million incurred for the manufacture and sales of sedan related components which represented mainly staff costs and depreciation of property, plant and equipment during the period.

(b) Segmental information

Business Segments

No business segment information has been presented for the period as the management considered that Zhejiang Ruhoo JV is principally engaged in research, production, marketing and sales of sedan related components as well as the provision of related after-sales services which accounts for the total revenue and trading profits of Zhejiang Ruhoo JV for the period.

Geographical segments

Zhejiang Ruhoo JV's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 30 June 2007, the major assets of the Zhejiang Ruhoo JV were primarily property, plant and equipment of approximately RMB503.3 million, land lease prepayments of approximately RMB99.9 million, trade and other receivables of approximately RMB108.4 million, inventories of approximately RMB54.5 million and cash and bank balances of approximately RMB11.7 million.

Capital structure and liquidity

As at 30 June 2007, liabilities of the Zhejiang Ruhoo JV were solely trade and other payables of approximately RMB644.6 million. During the period, the business activities of the Zhejiang Ruhoo JV were solely financed by its registered capital and amounts due to related companies (as included in trade and other payables). As at 30 June 2007, the shareholders' fund of the Zhejiang Ruhoo JV amounted to approximately RMB202.1 million. No capital increase arrangement was made during the period.

As at 30 June 2007, the current ratio (current assets/current liabilities) of Zhejiang Ruhoo JV was 0.29 and the gearing ratio of Zhejiang Ruhoo JV was 75.5% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including solely the trade and other payables, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt. As at 30 June 2007, Zhejiang Ruhoo JV had net current liabilities of approximately 457.5 million. The shareholders have confirmed to provide funding to Zhejiang Ruhoo JV as and when required to maintain its liquidity.

Borrowings and pledge of assets

As at 30 June 2007, land use rights of approximately RMB99.9 million and buildings of approximately RMB265.1 million were pledged for banking facilities granted to the related companies.

(d) Foreign currency management

The management of the Zhejiang Ruhoo JV considered fluctuations in exchange rate did not impose a significant risk to the Zhejiang Ruhoo JV as its operations are principally in the PRC.

(e) Contingent liabilities

As at 30 June 2007, there were no contingent liabilities.

(f) Material acquisitions and disposals

On 1 July 2007, Zhejiang Ruhoo JV acquired 90% of equity interest in Zhejiang Geely Automobile Research Institute Limited from Shanghai Maple JV.

(g) Future plans for material investments or capital assets

As at 30 June 2007, there were future plans for investments in developing a new sedan model ("LC-1"). As such, capital commitments of approximately RMB54.7 million had been contracted but not provided net of deposit paid as at 30 June 2007.

(h) Employees and remuneration policies

As at 30 June 2007, the total number of employees of the Zhejiang Ruhoo JV was 2,285. 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 Zhejiang Ruhoo JV also participates in state-managed retirement benefit scheme in the PRC.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

31 October 2007

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

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding Hunan Geely Automobile Components Company Limited ("Hunan Geely JV") (English translation of 湖南吉利汽車部件有限公司 for identification purpose) for the period from 20 April 2007 (date of incorporation) to 31 July 2007 (the "Relevant Period") for inclusion in a circular issued by Geely Automobile Holdings Limited (the "Company") dated 31 October 2007 (the "Circular") in connection with the proposed acquisition of 44.19% additional interest in Hunan Geely JV.

Hunan Geely JV is a sino-foreign equity joint venture established in the People's Republic of China ("PRC") with limited liability on 20 April 2007. The principal activities of Hunan Geely JV are research, production, marketing and sales of sedan related components in the PRC.

No statutory audited accounts have been prepared since its the incorporation.

For the purpose of this report, the directors of Hunan Geely JV have prepared the financial statements of Hunan Geely JV for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The accompanying Financial Information has been prepared based on the Underlying Financial Statements of Hunan Geely JV and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of Hunan Geely JV and carried out such additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Hunan Geely JV are responsible for the preparation of the Underlying Financial Statements which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, 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 Hunan Geely JV as at 31 July 2007 and of the results and cash flows of Hunan Geely JV for the Relevant Period.

(A) FINANCIAL INFORMATION

Income Statement

	Note	**Period from 20 April 2007 (date of incorporation) to 31 July 2007** *RMB'000*
Turnover	*4*	–
Administrative expenses		(44)
Loss before taxation		(44)
Taxation	*7*	–
Loss for the period	*6*	(44)

Balance Sheet

	Note	At 31 July 2007 *RMB'000*
Current assets		
Bank balances and cash		39,471
Current liabilities		
Other payables		(45)
Net assets		39,426
Capital and reserves		
Paid-up capital	*8*	39,470
Reserves	*9*	(44)
Total equity		39,426

Statement of Changes in Equity

	Paid-up capital *RMB'000*	**Accumulated loss** *RMB'000*	**Total** *RMB'000*
Capital contribution	39,470	–	39,470
Loss for the period	–	(44)	(44)
At 31 July 2007	39,470	(44)	39,426

Cash Flow Statement

	Period from 20 April 2007 (date of incorporation) to 31 July 2007
	RMB'000
OPERATING ACTIVITIES	
Loss before taxation	(44)
Changes in working capital:	
Other payables	45
Net cash from operating activities	1
FINANCING ACTIVITIES	
New capital raised	39,470
Net cash from financing activities	39,470
Net increase in cash and cash equivalents and cash and cash equivalents at end of period, represented by bank balances and cash	39,471

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Hunan Geely JV is a limited liability company established in the PRC under laws and regulations applicable to sino-foreign joint ventures. The address of the registered office and principal place of business is located at Jiang Nan Da Dao, Feng Guang Lu, Xian Xiang Shui Xiang, Xiangtan, Hunan Province, the PRC. The principal activities of Hunan Geely JV are research, production, marketing and sales of sedan related components in the PRC. The parent of Hunan Geely JV is Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing") (English translation of registered name of 浙江豪情汽車制造有限公司 for identification purpose only). In the opinion of the directors, the ultimate parent of Hunan Geely JV is Zhejiang Geely Holding Group Company Limited (English translation of registered name of 浙江吉利控股集團有限公司 for identification purpose only), which is established in the PRC.

This Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment (i.e. functional currency) in which Hunan Geely JV operates.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

The principal accounting policies applied in the preparation of the Financial Information which are in conformity with all HKFRSs issued by the HKICPA.

Hunan Geely JV has not early adopted the following new and revised standards and interpretations issued by the HKICPA that are not yet effective for the accounting periods beginning on or after 1 January 2007.

HKFRS 8	Operating segments[1]
HKAS 23 (revised)	Borrowing costs[1]
HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[2]
HK (IFRIC) – INT 12	Service concession arrangements[3]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for accounting periods beginning on or after 1 January 2009.
2 Effective for accounting periods beginning on or after 1 March 2007.
3 Effective for accounting periods beginning on or after 1 January 2008.
4 Effective for accounting periods beginning on or after 1 July 2008.

The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of Hunan Geely JV.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Hunan Geely JV becomes a party to the contractual provisions of the instrument and on a trade date basis. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured 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 the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Hunan Geely JV 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 the income statement.

For financial liabilities, they are removed from Hunan Geely JV's balance sheet 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 the income statement.

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 periods and it further excludes items that are never taxable or deductible. Hunan Geely JV'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 assets and liabilities in a transaction affects neither the taxable profit nor the accounting profit.

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.

Foreign currencies

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise.

Cash equivalents

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

Related parties

A party is related to Hunan Geely JV if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Hunan Geely JV; or has an interest in Hunan Geely JV that gives it significant influence over Hunan Geely JV; or has joint control over Hunan Geely JV;

(ii) the party is an associate of Hunan Geely JV;

(iii) the party is a joint venture in which Hunan Geely JV is a venturer;

(iv) the party is a member of the key management personnel of Hunan Geely JV or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Hunan Geely JV, or any entity that is a related party of Hunan Geely JV.

3. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Hunan Geely JV's major financial instruments include cash and cash equivalents and other payables. Since Hunan Geely JV has not yet started its operations during the Relevant Period, formal policy on mitigating risks arising from financial instruments has not yet been implemented. The directors of Hunan Geely JV do not consider there was any significant risk arising from financial instruments during the Relevant Period.

Categories of financial instruments

Categories of financial instruments of Hunan Geely JV are as follows:

	At 31 July 2007
	RMB'000
Financial assets	
Bank balances and cash	39,471
Financial liabilities	
Other payables	45

(b) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Hunan Geely JV consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

4. TURNOVER

Hunan Geely JV has not yet started its operations. Therefore, no revenue was earned during the Relevant Period.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

No segment information has been presented for the Relevant Period as Hunan Geely JV has not yet started operations and all its assets are located in the PRC.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Period from 20 April 2007 (date of incorporation) to 31 July 2007
	RMB'000
Auditors' remuneration	–
Directors' emoluments	–

Members of key management during the Relevant Period comprised only the directors whose remuneration have been absorbed and borne by Hunan Geely JV's equity holders for which no reimbursement would be sought from Hunan Geely JV.

7. TAXATION

Pursuant to the relevant laws and regulations in the PRC, Hunan Geely JV is entitled to an exemption from PRC enterprise income tax of 33% for the two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

No taxation has been provided during the Relevant Period as Hunan Geely JV has not yet started its operations since incorporation.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from 1 January 2008. Pursuant to the new CIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of Hunan Geely JV. As Hunan Geely JV does not recognise any deferred tax assets and deferred tax liabilities at the balance sheet date, there is no impact on financial position or results. Hunan Geely JV will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

The charge for the Relevant Period can be reconciled to the loss per income statement as follows:

	Period from 20 April 2007 (date of incorporation) to 31 July 2007 *RMB'000*
Loss before taxation	(44)
Tax at applicable tax rate	(15)
Unrecognised tax losses	15
Tax charge for period	–

The applicable tax rate is the PRC enterprise income tax rate of 33%.

At the balance sheet date, there was no material unprovided deferred taxation.

8. PAID-UP CAPITAL

	US$'000	*RMB'000*
Paid-up capital:		
Capital contribution by equity holders during the period and at 31 July 2007	5,057	39,470

Hunan Geely JV's total registered capital is US$25,000,000. At 31 July 2007, approximately US$5,057,000 capital contribution was received in cash.

9. RESERVES

(a) Statutory reserves

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, Hunan Geely JV is required to maintain certain statutory reserves, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The statutory reserves are to be appropriated from statutory net profit as calculated in accordance with the PRC GAAP with percentages determined by the board of directors and recorded as a component of shareholders equity which are restricted as to use. No appropriation has been made during the Relevant Period as Hunan Geely JV incurred a loss for the period.

(b) Accumulated loss

For dividend distribution purposes, Hunan Geely JV's distributable profit is determined based on its after-tax profit as reported in its statutory financial statements prepared in accordance with the PRC GAAP. Hunan Geely JV does not have any distributable reserves at 31 July 2007.

10. SUBSEQUENT EVENT

There are no significant events occurring after 31 July 2007.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Hunan Geely JV have been prepared in respect of any period subsequent to 31 July 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF HUNAN GEELY JV

For the period from 20 April 2007 (date of incorporation) to 31 July 2007

(a) Results of operation

The Hunan Geely JV had an audited net assets of approximately RMB39.4 million as at 31 July 2007 and an audited net loss after tax of approximately RMB44,000 for the period. During the period, no turnover was derived as the Hunan Geely JV has not yet commenced its operations.

The Hunan Geely JV suffered a small loss during the period due to preliminary expenses incurred in the course of its formation.

(b) Segmental information

No segmental information has been presented for the period as the Hunan Geely JV has not yet commenced its operations and all its assets are located in the PRC.

(c) Liquidity and financial resources

As at 31 July 2007, the major asset of the Hunan Geely JV were solely cash and bank balances of approximately RMB39.5 million.

Capital structure and liquidity

As at 31 July 2007, liabilities of the Hunan Geely JV were solely other payables of approximately RMB45,000. During the period, the business activities of the Hunan Geely JV were solely financed by its registered capital. As at 31 July 2007, the shareholders' fund of the Hunan Geely JV amounted to approximately RMB39.4 million. Apart from an initial capital contribution, no further capital increase arrangement was made during the period.

Since the Hunan Geely JV has not yet commenced its operations, the ratio analysis is not presented as its inclusion is not considered meaningful.

Borrowings and pledge of assets

As at 31 July 2007, there were no borrowings or pledge of assets.

(d) Foreign currency management

The management of the Hunan Geely JV considered fluctuations in exchange rate did not impose a significant risk to the Hunan Geely JV as its operations would be principally in the PRC.

(e) Contingent liabilities

As at 31 July 2007, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by the Hunan Geely JV during the period.

(g) Future plans for material investments or capital assets

As at 31 July 2007, there were no future plans for material investments or capital assets.

(h) Employees and remuneration policies

As at 31 July 2007, Hunan Geely JV has no employees.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

31 October 2007

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

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin Guorun") (English translation of 浙江福林國潤汽車零部件有限公司 for identification purpose) for each of the three years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in a circular issued by Geely Automobile Holdings Limited (the "Group") dated 31 October 2007 (the "Circular") in connection with the proposed acquisition of 49% additional interest in Zhejiang Fulin Guorun.

Zhejiang Fulin Guorun was established in the People's Republic of China ("PRC") with limited liability on 22 December 2003. The principal activities of Zhejiang Fulin Guorun are research, production, marketing and sales of automobile parts and related components in the PRC.

Zhejiang Fulin Guorun has adopted 31 December as its financial year end date. The statutory financial statements of Zhejiang Fulin Guorun for the three years ended 31 December 2004, 2005 and 2006 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP") which were audited by Deloitte Touche Tohmatsu CPA Ltd. ("德勤華永會計師事務所有限公司"), Taizhou Zhongtian Certified Public Accountants ("台州中天會計師事務所") and Moores Rowland CEC Certified Public Accountants ("東健中永信會計師事務所"), respectively. There is no statutory audit requirement of Zhejiang Fulin Guorun.

For the purpose of this report, the directors of Zhejiang Fulin Guorun have prepared the financial statements of Zhejiang Fulin Guorun for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The accompanying Financial Information has been prepared based on the Underlying Financial Statements of Zhejiang Fulin Guorun and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of Zhejiang Fulin and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustment were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The directors of Zhejiang Fulin Guorun are responsible for the preparation of the Financial Information and the Underlying Financial Statements which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion 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 Zhejiang Fulin Guorun as at 31 December 2004, 2005 and 2006 and 30 June 2007 and of the results and cash flows of Zhejiang Fulin Guorun for each of the Relevant Periods.

The comparative income statement, statement of changes in equity and cash flow statement of Zhejiang Fulin Guorun for the six months ended 30 June 2006 together with the notes thereon (the "30 June 2006 Financial Information") have been extracted from Zhejiang Fulin Guorun's financial information for the same period which was prepared by the directors of Zhejiang Fulin Guorun solely for the purpose of this report.

We have reviewed the 30 June 2006 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 30 June 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 30 June 2006 Financial Information.

(A) FINANCIAL INFORMATION

Income Statements

		Year ended 31 December			Six months ended 30 June	
		2004	**2005**	**2006**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover	*5*	33,881	105,467	127,006	72,104	64,325
Cost of sales		(32,300)	(94,275)	(110,035)	(62,385)	(56,386)
Gross profit		1,581	11,192	16,971	9,719	7,939
Other income	*7*	95	649	1,312	995	1,553
Distribution and selling expenses		(194)	(394)	(3,016)	(2,028)	(1,636)
Administrative expenses		(1,787)	(1,784)	(2,668)	(1,590)	(1,902)
Profit (loss) before taxation		(305)	9,663	12,599	7,096	5,954
Taxation	*9*	–	–	(1,585)	(875)	(716)
Profit (loss) for the year/period	*8*	(305)	9,663	11,014	6,221	5,238

Balance Sheets

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*10*	6,076	7,261	11,968	12,400
Total non-current assets		6,076	7,261	11,968	12,400
Current assets					
Inventories	*11*	9,362	5,931	9,910	11,530
Trade and other receivables	*12*	12,896	58,725	58,348	62,837
Tax recoverable		–	–	–	693
Bank balances and cash		1,150	1,452	4,175	7,350
Total current assets		23,408	66,108	72,433	82,410
Current liabilities					
Trade and other payables	*13*	19,809	41,235	21,507	30,590
Taxation		–	–	292	–
Unsecured short-term bank borrowings		–	12,796	22,250	18,630
Total current liabilities		19,809	54,031	44,049	49,220
Net current assets		3,599	12,077	28,384	33,190
Total assets less current liabilities		9,675	19,338	40,352	45,590
Equity					
Paid-up capital	*14*	10,000	10,000	20,000	20,000
Reserves	*15*	(325)	9,338	20,352	25,590
Total equity		9,675	19,338	40,352	45,590

Cash Flow Statements

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
OPERATING ACTIVITIES					
(Loss) Profit before taxation	(305)	9,663	12,599	7,096	5,954
Depreciation	499	753	1,214	553	751
Amortisation of Government grant	–	(330)	(18)	(154)	(98)
Loss (Gain) on disposal of property, plant and equipment	–	–	31	8	(24)
Interest income	(6)	–	(6)	(518)	(11)
Changes in working capital					
Inventories	(8,178)	3,431	(3,979)	(10,014)	(1,620)
Trade and other receivables	(11,434)	(45,829)	377	(17,989)	(4,489)
Trade and other payables	18,133	21,426	(19,728)	3,466	9,083
Cash (used in) generated from operations	(1,291)	(10,886)	(9,510)	(17,552)	9,546
Interest received	6	–	6	518	11
Tax paid	–	–	(1,293)	(600)	(1,701)
Net cash from (used in) operating activities	(1,285)	(10,886)	(10,797)	(17,634)	7,856
INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	(2,661)	(1,938)	(5,998)	(3,728)	(1,228)
Proceeds from disposal of property, plant and equipment	–	–	46	22	69
Net cash used in investing activities	(2,661)	(1,938)	(5,952)	(3,706)	(1,159)

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
FINANCING ACTIVITIES					
Government grant received	–	330	18	154	98
New short-term bank loan raised	–	12,796	22,250	40,787	18,630
New capital raised	–	–	10,000	–	–
Repayment of short-term bank loan	–	–	(12,796)	(12,796)	(22,250)
Net cash from (used in) financing activities	–	13,126	19,472	28,145	(3,522)
Net increase (decrease) in cash and cash equivalents	(3,946)	302	2,723	6,805	3,175
Cash and cash equivalents at beginning of year/period	5,096	1,150	1,452	1,452	4,175
Cash and cash equivalents at end of year/period, represented by bank balances and cash	1,150	1,452	4,175	8,257	7,350

Statements of Changes in Equity

	Paid-up capital	Retained earnings (accumulated deficit)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004	10,000	(20)	9,980
Loss for the year	–	(305)	(305)
At 31 December 2004	10,000	(325)	9,675
Profit for the year	–	9,663	9,663
At 31 December 2005	10,000	9,338	19,338
Capital Contribution	10,000	–	10,000
Profit for the year	–	11,014	11,014
At 31 December 2006	20,000	20,352	40,352
(Unaudited)			
At 1 January 2006	10,000	9,338	19,338
Profit for the period	–	6,221	6,221
At 30 June 2006	10,000	15,559	25,559
At 1 January 2007	20,000	20,352	40,352
Profit for the period	–	5,238	5,238
At 30 June 2007	20,000	25,590	45,590

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Zhejiang Fulin Guorun is a limited liability company established in the PRC under laws and regulations applicable to sino-foreign joint ventures. The address of the registered office and principal place of business is located at Geely Industrial Park, Luoyang Street, Luqiao District, Taizhou City, Zhejiang, the PRC. The principal activities of Zhejiang Fulin Guorun are research, development, production, marketing and related automobile parts and components in the PRC.

This Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment (i.e. functional currency) in which Zhejiang Fulin Guorun operates.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

The principal accounting policies applied in the preparation of the Financial Information which are in conformity with all HKFRSs issued by the HKICPA and are effective for the accounting periods beginning on or after 1 January 2007. For the purpose of presenting the Financial Information, these policies have been consistently applied to all the periods presented, unless otherwise stated.

Zhejiang Fulin Guorun has not early adopted the following new and revised standards and interpretations issued by the HKICPA that are not yet effective for the accounting periods beginning on or after 1 January 2007.

HKFRS 8	Operating segments[1]
HKAS 23 (revised)	Borrowing costs[1]
HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[2]
HK (IFRIC) – INT 12	Service concession arrangements[3]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for accounting periods beginning on or after 1 January 2009.
[2] Effective for accounting periods beginning on or after 1 March 2007.
[3] Effective for accounting periods beginning on or after 1 January 2008.
[4] Effective for accounting periods beginning on or after 1 July 2008.

The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of Zhejiang Fulin Guorun.

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Machinery and equipment	5-10 years
Furniture, fixtures, office equipment and motor vehicles	5 years

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when an entity becomes a party to the contractual provisions of the instrument and on a trade date basis. 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured 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 the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Zhejiang Fulin Guorun 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 the income statement.

For financial liabilities, they are removed from Zhejiang Fulin Guorun's balance sheet 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 the income statement.

Inventories

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the entity and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is 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.

Foreign currencies

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

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 periods and it further excludes items that are never taxable or deductible. Zhejiang Fulin Guorun'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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affects neither the taxable profit nor the accounting profit.

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

Leases

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

Retirement benefit costs

Payments to the state-managed retirement benefit scheme in the PRC are charged as expenses as they fall due. Further information is set out in Note 17.

Provisions

Provisions are recognised when Zhejiang Fulin Guorun has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where Zhejiang Fulin Guorun expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Cash equivalents

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

Related parties

A party is related to Zhejiang Fulin Guorun if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Zhejiang Fulin Guorun or has an interest in Zhejiang Fulin Guorun that gives it significant influence over Zhejiang Fulin Guorun; or has joint control over Zhejiang Fulin Guorun;

(ii) the party is an associate of Zhejiang Fulin Guorun;

(iii) the party is a joint venture in which Zhejiang Fulin Guorun is a venturer;

(iv) the party is a member of the key management personnel of Zhejiang Fulin Guorun or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Zhejiang Fulin Guorun, or any entity that is a related party of Zhejiang Fulin Guorun.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key source of estimation uncertainty at the balance sheet dates, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period, are also discussed below.

Depreciation and amortisation

Zhejiang Fulin Guorun depreciates and amortises its property, plant and equipment on a straight-line basis, after taking into account their estimated residual value, over their estimated useful lives, commencing from the date the equipment is available for use. The estimated useful life reflects the directors' estimate of the periods that Zhejiang Fulin Guorun intends to derive future economic benefits from the use of Zhejiang Fulin Guorun's property, plant and equipment.

Impairment of assets

Zhejiang Fulin Guorun determines whether an asset is impaired at least on annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires Zhejiang Fulin Guorun to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Allowances for inventories

Zhejiang Fulin Guorun's management reviews the conditions of its inventories at each balance sheet date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production or for sale. The management estimates the net realisable value of inventories based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Allowances for bad and doubtful debts

The policy for allowance for the Zhejiang Fulin Guorun's bad and doubtful debts is based on the evaluation of collectability of accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of Zhejiang Fulin Guorun were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Zhejiang Fulin Guorun's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables. Details of the policies on how to mitigate the risks from these financial instruments are set out below. Zhejiang Fulin Guorun's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Zhejiang Fulin Guorun's business operation all located in the PRC and the financial assets are wholly denominated in Renminbi. Zhejiang Fulin Guorun has limited exposure with currency risk.

Interest rate risk

Zhejiang Fulin Guorun's exposure to market risk for changes in interest rates relate primarily to its discounted bank guaranteed notes.

Interest rate risk

Zhejiang Fulin Guorun's cash flow interest rate risk primarily relates to variable-rate bank balances. Zhejiang Fulin Guorun has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

Funds not required by the Zhejiang Fulin Guorun in the short-term are kept as temporary demand or time deposits in commercial banks and Zhejiang Fulin Guorun does not hold any market risk-sensitive instruments for speculative purposes.

Credit risk

Zhejiang Fulin Guorun's credit risk primarily consists of trade and other receivables from related parties. Zhejiang Fulin Guorun has concentration of credit risk with exposure limited to Zhejiang Fulin Guorun.

In order to minimise credit risk, credit history and background of new third party customers are checked and securities deposits are usually obtained from major customers. Credit limits with credit terms of 60 days to 90 days are set for customers and designated staff monitors accounts receivable and follow up collection with customers. Customers considered to be high risk are traded on cash basis (or bank guaranteed notes). Zhejiang Fulin Guorun reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be irrecoverable.

Zhejiang Fulin Guorun's bank balances are deposited with a number of banks and Zhejiang Fulin Guorun has limited exposure to any single financial institution.

Liquidity risk

Zhejiang Fulin Guorun has net current assets and no other bank borrowings apart from short-term bank borrowings on discounted notes receivables. The directors consider that there is no liquidity risk existed.

(b) Capital risk management

Zhejiang Fulin Guorun's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Zhejiang Fulin Guorun may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, Zhejiang Fulin Guorun monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including amount due to related companies and fellow subsidiaries and trade and other payables, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

During the Relevant Periods, Zhejiang Fulin Guorun's strategy was to maintain a gearing ratio within 48% to 50%. The gearing ratios at 31 December 2006 and 30 June 2007 were as follows:

	At 31 December 2006	**At 30 June 2007**
	RMB'000	*RMB'000*
Total borrowings	44,049	49,220
Less : bank balances and cash	(4,175)	(7,350)
Net debt	39,874	41,870
Total equity	40,352	45,590
Total capital	80,226	87,460
Gearing ratio	50%	48%

(c) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Zhejiang Fulin Guorun consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

5. TURNOVER

Turnover represented the proceeds from sales, net of discounts, returns and related sales taxes, of goods and is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sales of automobile parts and components	33,881	105,467	127,006	72,104	64,325

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

No business segment information has been presented for the Relevant Periods as the directors considered that Zhejiang Fulin Guorun is principally engaged in research, production, marketing and sales of automobile parts and related components which accounts for the total revenue and trading profits of Zhejiang Fulin Guorun for these years/periods.

Geographical segments

Zhejiang Fulin Guorun's activities and operations are based solely in the PRC. Accordingly, no geographical segment analysis is presented.

7. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Bank interest income	6	–	6	518	11
Government grant received	–	330	18	154	98
Sundry income	89	319	1,288	323	1,444
	95	649	1,312	995	1,553

8. PROFIT (LOSS) FOR THE YEAR/PERIOD

Profit (loss) for the year/period has been arrived at after charging:

(a) Staff costs

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages and salaries	2,349	4,970	7,550	4,140	3,826
Social security costs	220	274	421	59	64
Staff welfare	47	356	323	172	70
	2,616	5,600	8,294	4,371	3,960

(b) Other items

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of inventories	32,300	94,275	110,035	62,385	56,386
Auditors' remuneration	2	66	–	127	20
Depreciation of property, plant and equipment	499	753	1,214	553	751
Operating lease charges on premises	480	48	33	20	8

9. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current tax:					
PRC enterprise income tax for current periods	–	–	1,585	875	716

Pursuant to the relevant laws and regulations in the PRC, Zhejiang Fulin Guorun is entitled to an exemption from PRC foreign enterprise income tax of 26.4% for the two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year/period based on existing legislation, interpretations and practices in respect thereof.

Zhejiang Fulin Guorun in the PRC are subject to state and local income taxes in the PRC at standard rates of 24% and 2.4% respectively, based on the respective taxable income reported in its statutory financial statement with the relevant state and local income tax laws applicable.

The charge for the Relevant Periods can be reconciled to the profit/(loss) per income statement as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit (loss) before taxation	(305)	9,663	12,599	7,096	5,954
Tax at applicable tax rate	(81)	2,551	3,326	1,873	1,572
Effect of tax incentive granted	–	(2,470)	(1,663)	(937)	(786)
Unrecognised temporary differences	–	–	(78)	(61)	(70)
Unrecognised tax losses	81	–	–	–	–
Utilisation of previously unrecognised tax losses	–	(81)	–	–	–
Tax charge for year/period	–	–	1,585	875	716

The applicable tax rate is the PRC's enterprise/foreign enterprise income tax rate of 26.4%.

10. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment *RMB'000*	Furniture, fixtures, office equipment and motor vehicles *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2004	3,805	95	3,900
Additions	2,185	490	2,675
At 31 December 2004	5,990	585	6,575
Additions	1,801	137	1,938
At 31 December 2005	7,791	722	8,513
Additions	5,731	267	5,998
Disposals	(62)	(43)	(105)
At 31 December 2006	13,460	946	14,406
Additions	730	498	1,228
Disposals	(20)	(50)	(70)
At 30 June 2007	14,170	1,394	15,564
Depreciation:			
At 1 January 2004	–	–	–
Charge for the year	447	52	499
At 31 December 2004	447	52	499
Charge for the year	680	73	753
At 31 December 2005	1,127	125	1,252
Charge for the year	1,093	121	1,214
Disposals	(14)	(14)	(28)
At 31 December 2006	2,206	232	2,438
Charge for the period	661	90	751
Disposals	(3)	(22)	(25)
At 30 June 2007	2,864	300	3,164
Carrying amount:			
At 31 December 2004	5,543	533	6,076
At 31 December 2005	6,664	597	7,261
At 31 December 2006	11,254	714	11,968
At 30 June 2007	11,306	1,094	12,400

11. INVENTORIES

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	3,681	3,068	5,656	6,716
Work in progress/ semi-finished goods	497	732	1,000	902
Finished goods	5,184	2,131	3,254	3,912
	9,362	5,931	9,910	11,530

At inventories, excluding those fully provided with nil carrying value, are stated at cost.

12. TRADE AND OTHER RECEIVABLES

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables					
Trade receivables	*(a)*	12,128	45,725	20,539	29,916
Notes receivables	*(b)*	220	12,846	37,405	27,930
		12,348	58,571	57,944	57,846
Other receivables					
Deposit, prepayments and other receivables		548	154	404	4,991
		12,896	58,725	58,348	62,837

(a) Trade receivables

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
From third parties	6	–	–	–
From related companies	5	32,461	–	–
From related companies (fellow subsidiaries since 30 June 2007)	12,117	13,264	20,539	29,916
	12,128	45,725	20,539	29,916

Zhejiang Fulin Guorun allows a credit period of 60 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	At 31 December 2004	2005	2006	At 30 June 2007
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 60 days	8,364	45,228	20,504	29,916
61 – 90 days	3,330	70	35	–
91 – 120 days	–	–	–	–
121– 365 days	434	427	–	–
	12,128	45,725	20,539	29,916

All other trade receivables with age more than 90 days were past due but not impaired. Zhejiang Fulin Guorun does not hold any collateral over these balances.

(b) Notes receivables

All notes receivables are denominated in RMB and are primarily notes received from trade debtors for settlement of trade receivable balances. All notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from the balance sheet dates.

13. TRADE AND OTHER PAYABLES

	Note	At 31 December 2004	2005	2006	At 30 June 2007
		RMB'000	RMB'000	RMB'000	RMB'000
Trade payables					
To third parties		11,833	28,128	19,498	26,405
To fellow subsidiaries		–	1	–	–
		11,833	28,129	19,498	26,405
Other payables					
Accrued charges		180	1,719	984	1,449
Sundry creditors		480	1,561	331	166
Other tax payables		3	3,165	694	2,570
Due to related companies	*(a)*	7,313	6,661	–	–
		7,976	13,106	2,009	4,185
		19,809	41,235	21,507	30,590

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

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 60 days	8,243	25,559	16,379	20,664
61 – 90 days	884	2,069	1,407	3,777
91 – 120 days	385	108	761	926
121– 365 days	2,321	61	864	1,038
Over 365 days	–	332	87	–
	11,833	28,129	19,498	26,405

(a) Due to related companies

The amounts due are unsecured, interest free and have no fixed repayment term.

14. PAID-UP CAPITAL

	USD'000	*RMB'000*
Registered and paid-up capital:		
At 1 January 2004, 31 December 2004 and 31 December 2005	1,209	10,000
Capital injected by equity holders	1,250	10,000
At 31 December 2006 and 30 June 2007	2,459	20,000

On 25 July 2006, the registered and paid-up capital of Zhejiang Fulin Guorun was increased to USD2,459,000 by the injection of USD1,250,000 in cash from its equity holders to provide for additional working capital.

15. RESERVES

Zhejiang Fulin Guorun's reserves comprise:

		At 31 December			At 30 June
		2004	**2005**	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Retained earnings (accumulated deficit)	*(b)*	(325)	9,338	20,352	25,590

For the movements of above reserves, please refer to statement of changes in equity.

(a) Statutory reserves

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, Zhejiang Fulin Guorun is required to maintain certain statutory reserves, which includes a general reserve fund, an enterprise expansion fund and staff welfare and incentive bonus fund. The statutory reserves are to be appropriated from statutory net profit as calculated in accordance with the PRC GAAP with percentages determined by the board of directors and recorded as a component of shareholders equity which are restricted as to use. No appropriation has been made during the Relevant Periods.

(b) Retained earnings (accumulated loss)

For dividend distribution purposes, Zhejiang Fulin Guorun's distributable profit is determined based on its after-tax profit as reported in its statutory financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the Financial Information, which are prepared in accordance with HKFRSs.

16. DEFERRED TAXATION

Unrecongized deferred tax assets arising from

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible temporary differences	–	–	593	(271)
Tax losses	325	–	–	–
At the balance sheet date	325	–	593	(271)

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which Zhejiang Fulin Guorun can utilise the benefits therefrom. Deferred tax liabilities has not been recognised in respect of deductible temporary difference as the amount involved is not material.

The unrecognised temporary differences do not expire under current legislation, but the unrecognised tax losses will be expired in 2009.

17. RETIREMENT BENEFIT OBLIGATIONS

The employees of Zhejiang Fulin Guorun in the PRC are members of state-managed retirement benefit schemes operated by the respective local government of the PRC. Zhejiang Fulin Guorun is required to contribute a specified percentage of the employee's basic salary to the retirement benefit schemes to fund the benefits. The only obligation of Zhejiang Fulin Guorun with respect to the retirement benefit schemes is to make the specified contributions.

For the Relevant Periods, the aggregate employer's contributions made by Zhejiang Fulin Guorun and charged to the income statement are disclosed in note 8(a).

18. COMMITMENTS UNDER OPERATING LEASES

Zhejiang Fulin Guorun leased a number of properties under operating leases, which typically run for an initial period of 2 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the balance sheet date, Zhejiang Fulin Guorun had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	160	480	83	480
In the second to fifth years inclusive	–	480	–	960
	160	960	83	1,440

19. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these Financial Information, Zhejiang Fulin Guorun had the following material transactions with related parties during the Relevant Periods:

(a) Transactions

*With related companies (Fellow subsidiaries since 30 June 2007)**

	Year ended 31 December			Six months ended 30 June	
Nature of transactions	**2004**	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sales of automobile parts and components	3,188	20,722	123,570	68,816	64,027
Purchase of automobile parts and components	–	–	628	–	7
Warranty expenses	4	67	4,032	887	1,240

* *Under Geely Automobile Holdings Limited, the above transactions also represented the associated companies' transactions.*

(b) Transactions

With related company

	Year ended 31 December			Six months ended 30 June	
Nature of transactions	**2004**	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sales of automobile parts and components	28,797	62,091	–	–	–
Purchase of automobile parts and components	–	183	–	–	–
Warranty expenses	19	70	–	–	–

(c) Compensation of key management personnel

The remunerations of directors and other members of key management during the Relevant Periods have been absorbed and borne by the Zhejiang Fulin Guorun's equity holders for which no reimbursement would be sought from the Zhejiang Fulin Guorun.

20. SUBSEQUENT EVENT

On 13 July 2007, Centurion, the shareholder of Zhejiang Fulin Guorun and Zhejiang Fulin Automobile entered into the Zhejiang Fulin Guorun Equity Transfer Agreement pursuant to which Centurion agreed to acquire the remaining 49% interest in the registered capital of Zhejiang Fulin Guorun from Zhejiang Fulin Automobile for a total consideration of RMB22.48 million, which is payable in cash by primarily applying the dividends to be distributed from Zhejiang Fulin Guorun. The consideration of RMB22.48 million for the Zhejiang Fulin Guorun Transfer was determined after the arm's length negotiation between Centurion and Zhejiang Fulin Automobile with reference to the 49% attributable interest in the unaudited net asset value of Zhejiang Fulin Guorun as at 30 June 2007.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Zhejiang Fulin Guorun have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF ZHEJIANG FULIN GUORUN

For the financial year ended 31 December 2004

(a) Results of operation

Zhejiang Fulin Guorun had an audited net asset of approximately RMB9.7 million as at 31 December 2004 and an audited net loss after tax of approximately RMB0.3 million for the year. During the year, turnover of RMB33.9 million represented the sales of brake slices and electric power steering ("EPS") for sedans and the Group's 46.81%-owned associates like Zhejiang JV and Shanghai Maple JV accounted for the bulk of revenues of Zhejiang Fulin Guorun.

Zhejiang Fulin Guorun suffered a small loss during the year due to continuous pressure on product prices as a result of the deterioration of China's sedan market conditions since the second quarter of 2004. To improve its profitability, Zhejiang Fulin Guorun ventured into high value added automobile component market in 2004, through the successful development and launch of a new electric power steering system in October 2004. The EPS is a purely electronic control system, replacing the mechanical connection used in the convention hydraulic power steering with a number of electronic sensors, which generate output signals about the speed of the vehicle and torque pressure of the steering column to control a motorized steering system. When compared with conventional hydraulic power steering, the EPS system has the advantages of easier control, simple structure, light weight, compact size, lower power and fuel wastage, high flexibility for installation and easy maintenance. The EPS system had already been installed in the Group's newest models like the advanced version of Haoqing HQ203A and would-be launch "Free Cruiser" family sedans. As Zhejiang Fulin Guorun was currently the only local producer capable of producing EPS system in China and given the increasing popularity of EPS system amongst new models launched by other major international car makers, the management of Zhejiang Fulin Guorun believed the new EPS system should help enhance its profitability in the future.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Zhejiang Fulin Guorun is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading loss of Zhejiang Fulin Guorun for the year.

Geographical segments

Zhejiang Fulin Guorun's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2004, the major assets of Zhejiang Fulin Guorun were primarily fixed assets of approximately RMB6.1 million, trade and other receivables of approximately RMB12.9 million, inventories of approximately RMB9.4 million and cash and bank balances of approximately RMB1.2 million.

Capital structure and liquidity

As at 31 December 2004, liabilities of the Zhejiang Fulin Guorun were trade and other payables of approximately RMB19.8 million. During the year, the business activities of Zhejiang Fulin Guorun were mainly financed by the registered capital and advances from related companies (as included in trade and other payables). As at 31 December 2004, the shareholders' fund of Zhejiang Fulin Guorun amounted to approximately RMB9.7 million. No capital increase arrangement was made during the year.

As at 31 December 2004, the current ratio (current assets/current liabilities) of Zhejiang Fulin Guorun was 1.18 and the gearing ratio of Zhejiang Fulin Guorun was 65.9% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including the trade and other payables and short-term bank borrowings, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

During the year, Zhejiang Fulin Guorun has discounted notes receivables to banks in exchange for cash with recourse in the ordinary course of business. Specifically, Zhejiang Fulin Guorun recognized the full carrying amount of notes receivables and meanwhile recognized the cash received as secured short-term bank borrowings, which was wholly repayable within one year.

(d) Foreign currency management

The management of Zhejiang Fulin Guorun considered fluctuations in exchange rate did not impose a significant risk to Zhejiang Fulin Guorun as its operations are principally in the PRC.

(e) Contingent liabilities

As at 31 December 2004, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by Zhejiang Fulin Guorun during the year.

(g) Future plans for material investments or capital assets

As at 31 December 2004, there were no future plans for material investments or capital assets.

(h) Employees and remuneration policies

As at 31 December 2004, the total number of employees of Zhejiang Fulin Guorun was about 188. 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. Zhejiang Fulin Guorun also participates in state-managed retirement benefit scheme in the PRC.

For the financial year ended 31 December 2005

(a) Results of operation

Zhejiang Fulin Guorun had an audited net asset of approximately RMB19.3 million as at 31 December 2005 and an audited net profit after tax of approximately RMB9.7 million for the year. During the year, turnover of RMB105.5 million represented the sales of brake slices and electric power steering ("EPS") for sedans and the Group's 46.81%-owned associates like Zhejiang JV and Shanghai Maple JV accounted for the bulk of revenues of Zhejiang Fulin Guorun.

Zhejiang Fulin Guorun recorded a significant improvement in profitability in 2005 due to the full year contribution of the new Electric Power Steering ("EPS") launched in October 2004, and the strong demand for the company's braking system helped by the good sales volume growth enjoyed by Geely sedans, which utilize the company's braking and steering products. As a result, Zhejiang Fulin Guorun's turnover grew significantly by over 200% to RMB105.5 million in 2005, helping itself return to profitability during the period. Net profit after tax amounted to RMB9.7 million as compared with a small loss in 2004. The management of Zhejiang Fulin Guorun believes that Zhejiang Fulin Guorun's earnings performance should continue to improve in 2006, helped by continued strong growth in sales volume projected by Zhejiang JV and Shanghai Maple JV in 2006, both are major customers of Zhejiang Fulin Guorun's products.

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Zhejiang Fulin Guorun is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang Fulin Guorun for the year.

Geographical segments

Zhejiang Fulin Guorun's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2005, the major assets of Zhejiang Fulin Guorun were primarily fixed assets of approximately RMB7.3 million, trade and other receivables of approximately RMB58.7 million, inventories of approximately RMB5.9 million and cash and bank balances of approximately RMB1.5 million.

Capital structure and liquidity

As at 31 December 2005, liabilities of the Zhejiang Fulin Guorun were trade and other payables of approximately RMB41.2 million and short-term bank borrowings of approximately RMB12.8 million. During the year, the business activities of Zhejiang Fulin Guorun were mainly financed by the registered capital, advances from related companies (as included in trade and other payables) and bank borrowings. As at 31 December 2005, the shareholders' fund of Zhejiang Fulin Guorun amounted to approximately RMB19.3 million. No capital increase arrangement was made during the year.

As at 31 December 2005, the current ratio (current assets/current liabilities) of Zhejiang Fulin Guorun was 1.22 and the gearing ratio of Zhejiang Fulin Guorun was 73.1% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including the trade and other payables and short-term bank borrowings, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

During the year, Zhejiang Fulin Guorun has discounted notes receivables to banks in exchange for cash with recourse in the ordinary course of business. Specifically, Zhejiang Fulin Guorun recognized the full carrying amount of notes receivables and meanwhile recognized the cash received as secured short-term bank borrowings, which was wholly repayable within one year.

(d) Foreign currency management

The management of Zhejiang Fulin Guorun considered fluctuations in exchange rate did not impose a significant risk to Zhejiang Fulin Guorun as its operations are principally in the PRC.

(e) Contingent liabilities

As at 31 December 2005, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by Zhejiang Fulin Guorun during the year.

(g) Future plans for material investments or capital assets

As at 31 December 2005, there were no future plans for material investments or capital assets.

(h) Employees and remuneration policies

As at 31 December 2005, the total number of employees of Zhejiang Fulin Guorun was about 204. 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. Zhejiang Fulin Guorun also participates in state-managed retirement benefit scheme in the PRC.

For the financial year ended 31 December 2006

(a) Results of operation

Zhejiang Fulin Guorun had an audited net asset of approximately RMB40.4 million as at 31 December 2006 and an audited net profit after tax of approximately RMB11.0 million for the year. During the year, turnover of RMB127.0 million represented the sales of brake slices and electric power steering ("EPS") for sedans and the Group's 46.81%-owned associates like Zhejiang JV and Shanghai Maple JV accounted for the bulk of revenues of Zhejiang Fulin Guorun.

Zhejiang Fulin Guorun recorded a 20% growth in revenues to RMB127.0 million in 2006 helped by the launch of new models of electric power steering ("EPS") and new braking system specifically designed for Geely Holding's "Free Cruiser" models. Despite significant improvement in gross margin from around 11% in 2005 to over 13% in 2006, net margin declined slightly from 9.2% in 2005 to 8.7% in 2006 due to significant increase in selling and administrative expenses as a result of the preparation work for the relocation of the plant to new facilities in 2007 and higher taxation expenses following the expiry of income tax exemption in 2006. Despite this, Zhejiang Fulin Guorun still managed to record 14% increase in net profit to RMB11.0 million.

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

(b) Segmental information

Business Segments

No business segment information has been presented for the year as the directors considered that Zhejiang Fulin Guorun is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang Fulin Guorun for the year.

Geographical segments

Zhejiang Fulin Guorun's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 31 December 2006, the major assets of Zhejiang Fulin Guorun were primarily fixed assets of approximately RMB12.0 million, trade and other receivables of approximately RMB58.3 million, inventories of approximately RMB9.9 million and cash and bank balances of approximately RMB4.2 million.

Capital structure and liquidity

As at 31 December 2006, liabilities of the Zhejiang Fulin Guorun were mainly trade and other payables of approximately RMB21.5 million and short-term bank borrowings of approximately RMB22.3 million. During the year, the business activities of Zhejiang Fulin Guorun were mainly financed by the registered capital and bank borrowings. As at 31 December 2006, the shareholders' fund of Zhejiang Fulin Guorun amounted to approximately RMB40.4 million. In August 2006, Zhejiang Fulin Guorun proposed to increase its registered capital by way of pro rata subscription by their respective shareholders to support the construction of new plant and production facilities. As a result, Zhejiang Fulin Guorun's total registered capital was increased from RMB10 million to RMB20 million.

As at 31 December 2006, the current ratio (current assets/current liabilities) of Zhejiang Fulin Guorun was 1.64 and the gearing ratio of Zhejiang Fulin Guorun was 49.5% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including the trade and other payables and short-term bank borrowings, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

During the year, Zhejiang Fulin Guorun has continued to discount notes receivables to banks in exchange for cash with recourse in the ordinary course of business. Specifically, Zhejiang Fulin Guorun recognized the full carrying amount of notes receivables and meanwhile recognized the cash received as secured short-term bank borrowings, which was wholly repayable within one year.

(d) Foreign currency management

The management of Zhejiang Fulin Guorun considered fluctuations in exchange rate did not impose a significant risk to Zhejiang Fulin Guorun as its operations are principally in the PRC.

(e) Contingent liabilities

As at 31 December 2006, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by Zhejiang Fulin Guorun during the year.

(g) Future plans for material investments or capital assets

As at 31 December 2006, there were no future plans for material investments or capital assets.

(h) Employees and remuneration policies

As at 31 December 2006, the total number of employees of Zhejiang Fulin Guorun was about 363. 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. Zhejiang Fulin Guorun also participates in state-managed retirement benefit scheme in the PRC.

For the period from 1 January 2007 to 30 June 2007

(a) Results of operation

Zhejiang Fulin Guorun had an audited net asset of approximately RMB45.6 million as at 30 June 2007 and an audited net profit after tax of approximately RMB5.20 million for the six months ended 30 June 2007. During the period, turnover of RMB64.3 million represented the sales of brake slices and electric power steering ("EPS") for sedans and the Group's 46.81%-owned associates like Zhejiang JV and Shanghai Maple JV accounted for the bulk of revenues of Zhejiang Fulin Guorun.

Demand for Zhejiang Fulin Guorun's products in the first half of 2007 was affected by the slower sales volume growth achieved by Geely's and Maple's lower-end sedans, which utilized Zhejiang Fulin Guorun's braking and steering products. As a result, Zhejiang Fulin Guorun's turnover declined by 11% to RMB64.3 million. Net profit was down by 16% to RMB5.20 million in the first half of 2007. Zhejiang Fulin Guorun had started to supply new generation of Electric Power Steering ("EPS") for higher-end Geely sedans in the first half of 2007. This, coupled with the relocation of production to new facilities completed in mid-2007, should help to improve Zhejiang Fulin Guorun's production efficiency and further reduce its production costs. Based on the existing production plan and the progress of new product launches, the management of Zhejiang Fulin Guorun is still confident that Zhejiang Fulin Guorun's performance should improve in the second half of 2007.

(b) Segmental information

Business Segments

No business segment information has been presented for the period as the directors considered that Zhejiang Fulin Guorun is principally engaged in research, development, production, marketing and sales of sedans and related automobile parts and components which accounts for the total revenue and trading profit of Zhejiang Fulin Guorun for the period.

Geographical segments

Zhejiang Fulin Guorun's activities and operations are based in the PRC. Accordingly, no geographical analysis is presented.

(c) Liquidity and financial resources

As at 30 June 2007, the major assets of Zhejiang Fulin Guorun were primarily fixed assets of approximately RMB12.4 million, trade receivables of approximately RMB62.8 million, inventory of approximately RMB11.5 million and cash and bank balances of approximately RMB7.4 million.

Capital structure and liquidity

As at 30 June 2007, liabilities of the Zhejiang Fulin Guorun were mainly trade and other payables of approximately RMB30.60 million and short-term bank borrowings of approximately RMB45.60 million. During the period, the business activities of Zhejiang Fulin Guorun were mainly financed by the registered capital and bank borrowings. As at 30 June 2007, the shareholders' fund of Zhejiang Fulin Guorun amounted to approximately RMB45.6 million. No capital increase arrangement was made during the six months ended 30 June 2007.

As at 30 June 2007, the current ratio (current assets/current liabilities) of Zhejiang Fulin Guorun was 1.67 and the gearing ratio of Zhejiang Fulin Guorun was 47.90% which was calculated as the net debt divided by total capital. Net debt is calculated as total borrowings (including the trade and other payables and short-term bank borrowings, as shown in the balance sheet) less bank balances and cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Borrowings and pledge of assets

During the six-month period under review, Zhejiang Fulin Guorun has continued to discount notes receivables to banks in exchange for cash with recourse in the ordinary course of business. Specifically, Zhejiang Fulin Guorun recognized the full carrying amount of notes receivables and meanwhile recognized the cash received as secured short-term bank borrowings, which was wholly repayable within one year.

(d) Foreign currency management

The management of Zhejiang Fulin Guorun considered fluctuations in exchange rate did not impose a significant risk to Zhejiang Fulin Guorun as its operations are principally in the PRC.

(e) Contingent liabilities

As at 30 June 2007, there were no contingent liabilities.

(f) Material acquisitions and disposals

There were no significant acquisitions or disposals by Zhejiang Fulin Guorun during the six-month period under review.

(g) Future plans for material investments or capital assets

As at 30 June 2007, there were no future plans for material investments or capital assets.

(h) Employees and remuneration policies

As at 30 June 2007, the total number of employees of Zhejiang Fulin Guorun was about 368. 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. Zhejiang Fulin Guorun also participates in state-managed retirement benefit scheme in the PRC.

BACKGROUND

On 22 March 2007, the Company entered into an equity transfer agreement with Manganese Bronze for the transfer of a 48% interest in the equity of Shanghai Geely Maple Automobile Components Company Limited (上海帝華汽車部件有限公司) to Manganese Bronze for a total consideration of approximately GBP29.24 million. Such consideration was satisfied by the issue of 5.7 million new Manganese Bronze's shares, representing approximately 23% of Manganese Bronze's enlarged issued ordinary share capital, by Manganese Bronze to Linkstate Overseas Limited, a wholly-owned subsidiary of the Company. The acquisition of the interest in Manganese Bronze was completed on 22 June 2007.

FINANCIAL INFORMATION

Set out below are summary of the audited financial information, together with the relevant notes to the accounts, as extracted from the accountants' report on Manganese Bronze for each of the three years ended 31 July 2006 and the six months ended 31 January 2007 as set out in Appendix II of the circular of the Company dated 2 April 2007 and the pro forma financial information of the Group as enlarged by the acquisition of the interest in Manganese Bronze extracted from Appendix III of the circular of the Company dated 2 April 2007. Terms used in this appendix shall have the same meanings as those defined in the circular of the Company dated 2 April 2007 unless otherwise stated herein.

1. FINANCIAL INFORMATION OF MANGANESE BRONZE

(A) FINANCIAL INFORMATION

Consolidated Income Statements

		Year ended 31 July			Six months ended 31 January	
		2004	**2005**	**2006**	**2006**	**2007**
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
					(Unaudited)	
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* (Unaudited)	*£'000*
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)**			
	At 31 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* (Unaudited)	*Number*
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* (Unaudited)	*£'000*
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))*	**Licences** *(note (iv))*	**Total**
	£'000	*£'000*	*£'000*
Carrying amount:			
At 31 July 2004	322	–	322
At 31 July 2005	600	–	600
At 31 July 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	Long-leasehold buildings	Short-leasehold buildings	Plant and equipment *(notes (i) & (ii))*	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'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	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
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	1,911	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 31 July		At 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	Retained earnings	Other reserves (see below)	Minority interest	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'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	134.5	168.0	197.3	–
Weighted average exercise price	134.5	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
			At 31 July		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	At 31 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.

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AS ENLARGED BY THE ACQUISITION OF THE INTEREST IN MANGANESE BRONZE

Set out below is the pro forma financial information of the Group as enlarged by the acquisition of the interest in Manganese Bronze and the report on such pro forma financial information prepared by Moores Rowland Mazars as extracted from Appendix III to the circular of the Company dated 2 April 2007. The term "Enlarged Group" used in this appendix refer to the Group as enlarged after the completion of the acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze. Terms used in this appendix shall have the same meanings as those defined in the circular of the Company dated 2 April 2007 unless otherwise stated herein.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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 to the circular of the Company dated 2 April 2007 and the audited historical financial information of Manganese Bronze as set out in Appendix II to the circular of the Company dated 2 April 2007 after incorporating the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the disposal of a 48% interest in the equity of Shanghai Geely Maple Automobile Components Company Limited and the acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze 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 Automobile and Manganese Bronze upon the completion of the acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze as set out in the section of the Other Project Documents in the circular of the Company dated 2 April 2007 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 to the circular of the Company dated 2 April 2007, the financial information of Manganese Bronze as set out in Appendix II to the circular of the Company dated 2 April 2007 and other financial information included elsewhere in the circular of the Company dated 2 April 2007.

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 the circular of the Company dated 2 April 2007) 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 the circular of the Company dated 2 April 2007) and with adjustments to reflect the effect of the disposal of a 48% interest in the equity of Shanghai Geely Maple Automobile Components Company Limited and the acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze.

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 the circular of the Company dated 2 April 2007) 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 the circular of the Company dated 2 April 2007) 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 the circular of the Company dated 2 April 2007) 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 the circular of the Company dated 2 April 2007) 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	**Pro forma adjustment**	**Pro Forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	
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 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

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuations as at 31 July 2007 of the property interests of the Enlarged Group.

Sallmanns

Corporate valuation and consultancy

www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

31 October 2007

The Board of Directors
Geely Automobile Holdings Limited
Room 2301, 23/F
Great Eagle Centre
No. 23 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

Geely Automobile Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") intends to acquire the 44.19% remaining interests in each of the Associated Companies – Zhejiang Geely Automobile Company Limited ("Zhejiang JV"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong JV"), Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo JV"), Hunan Geely Automobile Components Company Limited ("Hunan Geely JV") and Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple JV") from the respective controlling shareholder and its associates; and intends to acquire the remaining 49% interest in the registered capital of Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin Guorun") from Zhejiang Fulin Automobile Parts and Components Company Limited through Centurion Industries Limited ("Centurion", a wholly-owned subsidiary of the Company) and Value Century Group Limited ("Value Century", a wholly-owned subsidiary of the Company); and intends to acquire the property interests of Hunan Geely Automotive Industry Co., Ltd ("Hunan Industry") through Hunan Geely JV before completion of the Associated Companies' Agreements and the Zhejiang Fulin Guorun Equity Transfer Agreement (the "Completion"). These Associated Companies will become subsidiaries of the Company upon the acquisition. Zhejiang JV, Zhejiang Kingkong JV, Zhejiang Ruhoo JV, Hunan Geely JV, Shanghai Maple JV before completion, Zhejiang Fulin Guorun and the Group are together defined as the "Enlarged Group". In accordance with your instructions to value the property interests in which the Enlarged Group has interests in Hong Kong and the People's Republic of China (the "PRC") and the property interests to be acquired by Hunan Geely JV in the PRC before Completion, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interests as at 31 July 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Where, due to the nature of the buildings and structures of the properties in Groups I and II in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deduction for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deduction for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the remaining property interests in Group I, which is currently under development, we have assumed that it will be developed and completed in accordance with the Group's latest development proposals provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the developments.

We have attributed no commercial value to the property interests in Groups III and IV, which are rented by the Enlarged Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchanges of Hong Kong Limited; Rule 11 to the Takeovers Code; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Enlarged Group and have accepted advices given to us on such matters as tenures, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents provided by the Enlarge Group relating to the properties in the PRC and have carried out searches at the Hong Kong Land Registries in respect of the Hong Kong properties. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's PRC legal advisers – T&C Law Firm, concerning the validity of the Enlarged Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services of the properties. Our valuation is prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Enlarged Group. We have also sought confirmation from the Enlarged Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE ENLARGED GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2007 *RMB*	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 31 July 2007 *RMB*
1.	4 parcels of land, various buildings and structures No. 1528 Hengshan East Road Beilun District Ningbo Zhejiang Province The PRC	519,841,000	91%	473,055,000
2.	2 parcels of land, various buildings and structures located at Dingjiayang Village Dayang Street Linhai Zhejiang Province The PRC	346,158,000	91%	315,004,000
3.	2 parcels of land and various buildings located at Yangmutan Guoqing Village Chengguan Town Linhai Zhejiang Province The PRC	24,847,000	91%	22,611,000

No.	Property		Capital value in existing state as at 31 July 2007	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 31 July 2007
			RMB		*RMB*
4.	20 parcels of land, various buildings and structures located at Geely Automobile City Luoyang Street Luqiao District Taizhou Zhejiang Province The PRC		714,740,000	91%	650,413,000
5.	5 parcels of land, buildings and structures No. 2788 Wanfeng Road Fengjing Town Jinshan District Shanghai The PRC		552,213,000	91%	502,514,000
6.	A parcel of land and a building No. 87 Qianyang Road Putuo District Shanghai The PRC		26,254,000	91%	23,891,000
		Sub-total:	**2,184,053,000**		**1,987,488,000**

GROUP II – PROPERTY INTERESTS TO BE ACQUIRED BY HUNAN GEELY JV IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2007	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 31 July 2007
		RMB		*RMB*
7.	A parcel of land, various buildings and structures located at Jiuhua Economic Zone Xiangtan Hunan Province The PRC	No commercial value	91%	No commercial value
		Sub-total:		**Nil**

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE ENLARGED GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2007 *RMB*
8.	A building No. 438 Zhujiang South Road Beilun District Ningbo Zhejiang Province The PRC	No commercial value
9.	A building located at Geely Automobile City Luoyang Street Luqiao District Taizhou Zhejiang Province The PRC	No commercial value
	Sub-total:	**Nil**

GROUP IV – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE ENLARGED GROUP IN HONG KONG

No.	Property	Capital value in existing state as at 31 July 2007 *RMB*
10.	Office No. 2301 on the 23rd Floor of Great Eagle Centre No. 23 Harbour Road Hong Kong	No commercial value
11.	Flat No. 4 21st Floor Block B Causeway Centre No. 28 Harbour Road Wan Chai Hong Kong	No commercial value
12.	Flat No. 5 18th Floor Block A Causeway Centre No. 28 Harbour Road Wan Chai Hong Kong	No commercial value
	Sub-total:	**Nil**
	Total:	**1,987,488,000**

Note: Pursuant to Rule 11.3 of the Takeovers Code, the potential tax liability which would arise if the property interests held and occupied by the Enlarged Group in the PRC specified in Group I of this report were to be sold at the amount of the valuation is estimated to be approximately RMB182 million. The Directors consider that it is unlikely any such liability will crystallize as the Enlarged Group has no present intention to sell such properties which are currently being used for its operations.

VALUATION CERTIFICATE

GROUP I – PROPERTY INTERESTS HELD AND OCCUPIED BY THE ENLARGED GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
1. 4 parcels of land, various buildings and structures No. 1528 Hengshan East Road Beilun District Ningbo Zhejiang Province The PRC	The property comprises 4 parcels of land with a total site area of approximately 496,696.70 sq.m. and 55 buildings and various ancillary structures erected thereon completed in various stages between 2000 and 2007. The buildings have a total gross floor area of approximately 212,309.77 sq.m. The buildings mainly include workshops, office buildings, dormitory buildings and storehouses. The structures mainly include roads, boundary walls and carports. The land use rights of the property were granted to Zhejiang JV for the terms of 50 years with the expiry dates between 19 June 2049 and 7 December 2054 for industrial use.	The property is currently occupied by Zhejiang JV for production, office, storage and ancillary purposes.	519,841,000 91% interest attributable to the Enlarged Group: RMB 473,055,000

Notes:

1. Zhejiang JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to 4 State-owned Land Use Rights Certificates – Lun Guo Yong (2006) Zi Di Nos. 10648 to 10650 and 10652 all dated 8 September 2006 issued by the Land Resources Bureau of Ningbo, the land use rights of 4 parcels of land with a total site area of approximately 496,696.70 sq.m. were granted to Zhejiang JV for terms of 50 years with the expiry dates between 19 June 2049 and 7 December 2054 for industrial use.

3. Pursuant to 11 Building Ownership Certificates – Yong Fang Quan Zheng Lun (Kai) Zi Di Nos. 2004016046, 2004016737, 2004016738, 2005000089, 2006011920 to 2006011923, 2007800366, 2007801707 and 2007802993 issued by the Real Estate Department of Beilun District, 29 buildings with a total gross floor area of approximately 193,979.29 sq.m. are owned by Zhejiang JV.

4. For the remaining 26 buildings with a total gross floor area of approximately 18,330.48 sq.m. we have not been provided with any proper title certificates.

5. Pursuant to 4 Acquisition Agreements all dated 25 June 2007 entered into between Geely Holding Limited, a connected party of the Company, and Zhejiang JV, 13 parcels of land, various buildings and structures were acquired by Zhejiang JV at a total consideration of RMB477,486,018.33.

6. Pursuant to an equity transfer agreement dated 13 July 2007, Zhejiang Geely Merrie Automobile Company Limited ("Zhejiang Geely Merrie", a connected party of the Company) will transfer 44.19% interest in the registered capital of Zhejiang JV to Centurion at a consideration of RMB936,330,000.

7. In the valuation of this property, we have attributed no commercial value to 26 buildings with a total gross floor area of approximately 18,330.48 sq.m. which have not obtained any proper title certificates. However, for reference purposes, we are of the opinion that the capital value of these buildings (excluding the land) as at the date of valuation would be RMB67,217,000 assuming all relevant title certificates and construction permits have been obtained and the buildings could be freely transferred.

8. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   i) Zhejiang JV has obtained relevant business licence to operate in the PRC;

   ii) The building ownership rights and the land use rights of the property with proper title certificates are legally owned by Zhejiang JV and protected by the PRC law;

   iii) 4 parcels of land of the property with a total site area of approximately 496,696.70 sq.m. and 28 buildings of the property with a total gross floor area of approximately 182,407.68 sq.m. are subject to a mortgage in favour of Ningbo Beilun Sub-branch of Industrial Bank Co., Ltd. The land use rights and building ownership rights could be mortgaged, leased and transferred during the prescribed term of the land use rights in accordance with the PRC law after the maturity of the mortgage; and

   iv) The building ownership rights of a building with a gross floor area of approximately 11,571.61 sq.m. of the property can be used, transferred, leased and mortgaged by Zhejiang JV during the prescribed term of the land use rights in accordance with the PRC law.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
2. 2 parcels of land, various buildings and structures located at Dingjiayang Village Dayang Street Linhai Zhejiang Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 387,251.59 sq.m. and 20 buildings and various ancillary structures erected thereon completed in various stages between 1995 and 2007. The buildings have a total gross floor area of approximately 181,476.51 sq.m. The buildings mainly include an office building and various industrial buildings. The structures mainly include roads and carports. The property also comprises an industrial building which was under construction (the "CIP") as at the date of valuation. The CIP is scheduled to be completed in March 2008. The planned total gross floor area of the building upon completion will be approximately 10,018 sq.m. The total construction cost is estimated to be approximately RMB4,800,000, no construction cost has been paid up to the date of valuation. As at the date of valuation, the foundation work of the CIP had been completed. The land use rights of the property were granted to Zhejiang Ruhoo JV for a term of 40 years both expiring on 27 October 2046 for industrial use.	The property is currently occupied by Zhejiang Ruhoo JV for production and office purposes except for a parcel of land with a site area of approximately 117,652.41 sq.m., a building and various structures erected thereon which are rented to a connected party whilst an industrial building (the "CIP") is under construction.	346,158,000 91% interest attributable to the Enlarged Group: RMB 315,004,000

Notes:

1. Zhejiang Ruhoo JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to 2 State-owned Land Use Rights Certificates – Lin Cheng Guo Yong (2007) Di Nos. 0605 and 0606, the land use rights of 2 parcels of land with a total site area of approximately 387,251.59 sq.m. were granted to Zhejiang Ruhoo JV for a term of 40 years both expiring on 27 October 2046 for industrial use.

3. Pursuant to 6 Building Ownership Certificates – Lin Hai Shi Fang Quan Zheng Cheng Guan Zhen Zi Di Nos. 123324 to 123328 and 125980 dated 9 February 2007 and 26 July 2007, 19 buildings with a total gross floor area of approximately 177,922.51 sq.m. are owned by Zhejiang Ruhoo JV.

4. For the remaining a building with a gross floor area of approximately 3,554 sq.m., we have not been provided with any proper title certificates.

5. Pursuant to 2 Acquisition Agreements dated 25 December 2006 entered into between Zhejiang Haoqing Automobile Manufacturing Company Limited, a connected party of the Company, and Zhejiang Ruhoo JV, the land, various buildings and structures were acquired by Zhejiang Ruhoo JV at a total consideration of RMB353,754,335.95.

6. Pursuant to an equity transfer agreement dated 13 July 2007, Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing", a connected party of the Company) will transfer 44.19% interest in the registered capital of Zhejiang Ruhoo JV to Centurion at a consideration of RMB90,210,000.

7. In the valuation of this property, we have attributed no commercial value to a building with a gross floor area of approximately 3,554 sq.m. which has not obtained any proper title certificates and the CIP without any proper construction permits. However, for reference purposes, we are of the opinion that the capital value of the building (excluding the land) and the CIP (excluding the land) as at the date of valuation would be RMB5,154,000 assuming all relevant title certificates and construction permits have been obtained and the building and the CIP could be freely transferred.

8. Pursuant to a tenancy agreement entered into between Zhejiang Ruhoo JV and 浙江經濟管理專修學院 (Zhejiang Economic Management College) ("Management College", a connected party of Zhejiang Ruhoo JV) , a parcel of land with a site area of approximately 117,652.41 sq.m., a building and various structures erected thereon are rented to Management College for a term of 1 year commencing from 1 January 2007 and expiring on 31 December 2007 at an annual rental of RMB14,626,800 exclusive of water, electricity charges and management fees.

9. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

    i) Zhejiang Ruhoo JV has obtained relevant business licence to operate in the PRC;

    ii) The building ownership rights and the land use rights of the property with proper title certificates are legally owned by Zhejiang Ruhoo JV and protected by the PRC law;

    iii) 2 parcels of land of the property with a total site area of approximately 387,251.59 sq.m. and 15 buildings of the property with a total gross floor area of approximately 150,118.49 sq.m. are subject to a mortgage in favour of Zhejiang Sub-branch of China Construction Bank. The land use rights and building ownership rights could be mortgaged, leased and transferred during the prescribed term of the land use rights in accordance with the PRC law after the maturity of the mortgage;

    iv) The building ownership rights of 4 buildings with a total gross floor area of approximately 27,804.02 sq.m. of the property can be used, transferred, leased and mortgaged by Zhejiang Ruhoo JV during the prescribed term of the land use rights in accordance with the PRC law; and

    v) The tenancy agreement is legal and valid.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
3. 2 parcels of land and various buildings located at Yangmutan Guoqing Village Chengguan Town Linhai Zhejiang Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 36,502.5 sq.m., and 15 buildings erected thereon completed in various stages between 2004 and 2006. The buildings have a total gross floor area of approximately 22,569.09 sq.m. The buildings mainly include office buildings, industrial buildings and ancillary buildings. The property also comprises an office building which was under construction (the "CIP") as at the date of valuation. The CIP is scheduled to be completed in March 2008. The planned total gross floor area of the building upon completion will be approximately 5,300 sq.m. The total construction cost is estimated to be approximately RMB4,900,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB4,982,492. As at the date of valuation, the major construction framework of the CIP has been completed. The land use rights of a parcel of land with a site area of approximately 23,402.5 sq.m. of the property were granted to Zhejiang Geely Automobile Research Institute Ltd. for a term of 50 years expiring on 14 December 2054 for industrial use.	The property is currently occupied by Zhejiang Geely Automobile Research Institute Ltd. for production, office and ancillary purposes except for the CIP which is under construction.	24,847,000 91% interest attributable to the Enlarged Group: RMB 22,611,000

Notes:

1. Zhejiang Geely Automobile Research Institute Ltd. ("Institute") is a wholly-owned subsidiary of Zhejiang Ruhoo JV and Zhejiang Ruhoo JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to a State-owned Land Use Rights Certificate – Lin Cheng Guo Yong (2004) Di No. 4931, the land use rights of a parcel of land with a site area of approximately 23,402.5 sq.m. were granted to Institute for a term of 50 years expiring on 14 December 2054 for industrial use.

   As advised by Institute, the land use rights certificate of the remaining parcel of land with a site area of approximately 13,100 sq.m. is under application.

3. Pursuant to 2 Building Ownership Certificates – Lin Hai Shi Fang Quan Zheng Cheng Guan Zhen Zi Di Nos. 109550 and 109551, 10 buildings with a total gross floor area of approximately 14,599.29 sq.m are owned by Institute.

   As advised by Institute, 4 buildings with a total gross floor area of approximately 1,332.49 sq.m. of the above 10 buildings have been demolished.

   For the remaining 9 buildings with a total gross floor area of approximately 9,302.29 sq.m., we have not been provided with any Building Ownership Certificates.

4. In the valuation of this property, we have attributed no commercial value to the 9 buildings with a total gross floor area of approximately 9,302.29 sq.m. and the land use rights of a parcel of land with a site area of approximately 13,100 sq.m. which have not obtained any proper title certificates and the CIP without any proper construction permits. However, for reference purposes, we are of the opinion that the capital value of these 9 buildings (excluding the land), the land use rights of the parcel of land and the CIP (excluding the land) as at the date of valuation would be RMB21,369,000 assuming all relevant proper title certificates and construction permits have been obtained and the land, buildings and the CIP could be freely transferred.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   i) Zhejiang Ruhoo JV has obtained relevant business licence to operation in the PRC;

   ii) The building ownership rights and the land use rights of the property with proper title certificates are legally owned by Institute and protected by the PRC law; and

   iii) A parcel of land of the property with a site area of approximately 23,402.5 sq.m. and 6 buildings of the property with a total gross floor area of approximately 13,266.8 sq.m. are subject to a mortgage in favour of Finance Bureau of Linhai City. The land use rights and building ownership rights could be mortgaged, leased and transferred during the prescribed term of the land use rights in accordance with the PRC law after the maturity of the mortgage.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
4. 20 parcels of land, various buildings and structures located at Geely Automobile City Luoyang Street Luqiao District Taizhou Zhejiang Province The PRC	The property comprises 20 parcels of conjoining land with a total site area of approximately 807,102 sq.m. and 37 buildings and various ancillary structures erected thereon completed in various stages between 2002 and 2007. The buildings have a total gross floor area of approximately 200,667.65 sq.m. The buildings mainly include industrial buildings, office buildings, dormitories and storehouses. The structures mainly include road, boundary walls, cistern and carport. The property also comprises various office and residential buildings which were under construction (the "CIP") as at the date of valuation. The CIP is scheduled to be completed in December 2007. The planned total gross floor area of the buildings upon completion will be approximately 34,606 sq.m. The total construction cost is estimated to be approximately RMB42,000,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB3,745,855. As at the date of valuation, almost half of the construction work of the CIP had been completed. The land use rights of the property were granted to Zhejiang Kingkong JV for terms of 50 years all expiring on 30 December 2051 for industrial use.	The property is currently occupied by Zhejiang Kingkong JV for production, office and residential purposes except for the CIP which is under construction and a potion of a industrial building of the property with a lease area of approximately 11,956 sq.m. which is currently rented to an independent third party for production use.	714,740,000 91% interest attributable to the Enlarged Group: RMB 650,413,000

Notes:

1. Zhejiang Kingkong JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transactions.

2. Pursuant to 20 State-owned Land Use Rights Certificates – Lu Guo Yong (2007) Zi Di Nos. 00170 to 00182 and 00230 to 00236, dated 30 June 2007 issued by the Luqiao sub-bureau of Taizhou State-owned Land Resource Bureau, 20 parcels of land with a total site area of approximately 807,102 sq.m. were granted to Zhejiang Kingkong JV for terms of 50 years all expiring on 30 December 2051 for industrial use.

3. Pursuant to 11 Building Ownership Certificates – Tai Fang Quan Zheng Lu Zi Di Nos. 338859 to 338869 dated 29 June 2007, 33 buildings with a total gross floor area of approximately 197,506.23 sq.m. are owned by Zhejiang Kingkong JV.

4. For the remaining 4 buildings with a total gross floor area of approximately 3,161.42 sq.m., we have not been provided with any Building Ownership Certificates.

5. Pursuant to an equity transfer agreement dated 13 July 2007, Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing", a connected party of the Company) will transfer 44.19% interest in the registered capital of Zhejiang Kingkong JV to Centurion at a consideration of RMB155,840,000.

6. In the valuation of this property, we have attributed no commercial value to 4 buildings with a total gross floor area of approximately 3,161.42 sq.m. without any proper title certificates and the CIP without any proper construction permits. However, for reference purposes, we are of the opinion that the capital value of the 4 buildings (excluding the land) and the CIP (excluding the land) as at the date of valuation would be RMB10,497,000 assuming all relevant title certificates and construction permits have been obtained and the buildings and the CIP could be freely transferred.

   As advised by the Company, these 4 buildings with a total gross floor area of approximately 3,161.42 sq.m. without building ownership certificate are used as temporary facilities by Zhejiang Kingkong JV and will be demolished.

7. Pursuant to a tenancy agreement dated 1 January 2007 entered into between Zhejiang Kingkong JV and Taizhou Bomai Automobile Manufacture Co., Ltd., ("Bomai Automobile", an independent third party of Zhejiang Kingkong JV), a portion of a building with a lease area of approximately 11,956 sq.m. is rented to Bomai Automobile for a term commencing from 1 January 2007 and expiring on 31 December 2009 at an annual rent of RMB717,360 exclusive of water, electricity charges and management fees.

8. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   i) Zhejiang Kingkong JV has obtained relevant business licence to operate in the PRC;

   ii) The building ownership rights and the land use rights of the property with proper title certificates are legally owned by Zhejiang Kingkong JV and protected by the PRC law;

   iii) 10 parcels of land of the property with a total site area of approximately 420,868 sq.m. and 24 buildings of the property with a total gross floor area of approximately 121,046.24 sq.m. are subject to a mortgage. The land use rights and building ownership rights could be mortgaged, leased and transferred during the prescribed term of the land use rights in accordance with the PRC law after the maturity of the mortgage;

   iv) The building ownership rights of 9 buildings with a total floor area of approximately 76,459.99 sq.m. and the land use rights of 10 parcels of land with a total site area of approximately 386,234 sq.m. of the property can be used, transferred, leased and mortgaged by Zhejiang Kingkong JV during the prescribed term of the land use rights in accordance with the PRC law; and

   v) The Tenancy Agreement is legal and valid.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
5. 5 parcels of land, various buildings and structures No. 2788 Wanfeng Road Fengjing Town Jinshan District Shanghai The PRC	The property comprises 5 parcels of land with a total site area of approximately 1,061,604.20 sq.m. and 75 buildings and various ancillary structures erected thereon completed in various stages between 2000 and 2007. The buildings have a total gross floor area of approximately 281,038.44 sq.m. The buildings mainly include industrial buildings, office buildings, dormitories and storehouses. The structures mainly include road, gates, boundary walls, cistern and carport. The property also comprises a storehouse which was under construction (the "CIP") as at the date of valuation. The CIP is scheduled to be completed in November 2007. The total planned gross floor area of the building upon completion will be approximately 309 sq.m. The total construction cost is estimated to be approximately RMB300,000, no construction cost has been paid up to the date of valuation. As at the date of valuation, the major construction framework of the CIP had been completed. The land use rights of 4 parcels of land with a total site area of approximately 1,036,979 sq.m. of the property were granted to Shanghai Maple JV for the terms of 39 and 40 years with the expiry dates between 2 September 2054 and 30 December 2056 for industrial use.	The property is currently occupied by Shanghai Maple JV for production, office and residential purposes except for the CIP which is under construction.	552,213,000 91% interest attributable to the Enlarged Group: RMB 502,514,000

Notes:

1. Shanghai Maple JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to 4 Real Estate Title Certificates – Hu Fang Di Jin Zi (2005) Di Nos. 009732, Hu Fang Di Jin Zi (2007) Nos. 002007 and 000941 to 000942 issued by the Shanghai Housing and Land Resource Administration Bureau, the land use rights of 4 parcels of land with a total site area of approximately 1,036,979 sq.m. were granted to Shanghai Maple JV for the terms of 39 and 40 years with the expiry dates between 2 September 2054 and 30 December 2056 for industrial use and 10 buildings erected on the above land with a total gross floor area of approximately 66,004.47 sq.m. are owned by Shanghai Maple JV.

   As advised by Shanghai Maple JV, the land use rights certificate of the remaining parcel of land with a site area of approximately 24,625.20 sq.m. and the building ownership certificates of the remaining 65 buildings erected on the 5 parcels of land with a total gross floor area of approximately 215,033.97 sq.m. are under application.

3. Pursuant to an Acquisition Agreement dated 12 December 2006 entered into between Shanghai Maple Automobile Company Limited, a connected party of the Company, and Shanghai Maple JV, 3 parcels of land and the buildings and structures erected on these land were acquired by Shanghai Maple JV at a consideration of RMB369,825,000.

4. Pursuant to an equity transfer agreement dated 13 July 2007, Shanghai Maple Automobile Company Limited ("Shanghai Maple Automobile", a connected party of the Company) will transfer 44.19% interest in the registered capital of the Shanghai Maple JV to Value Century at a consideration of RMB354,530,000.

5. In the valuation of this property, we have attributed no commercial value to the 65 buildings with a total gross floor area of approximately 215,033.97 sq.m. and a parcel of land with a site area of approximately 24,625.20 sq.m. which have not obtained any proper title certificates and the CIP without any proper construction permits. However, for reference purposes, we are of the opinion that the capital value of the 65 buildings (excluding the land), the land use rights of this parcel of land and the CIP as at the date of valuation would be RMB334,351,000 assuming all relevant proper title certificates and construction permits have been obtained and the land, buildings and the CIP could be freely transferred.

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   i) Shanghai Maple JV has obtained relevant business licence to operate in the PRC;

   ii) The building ownership rights and the land use rights of the property with proper title certificates are legally owned by Shanghai Maple JV and protected by the PRC law;

   iii) 2 parcels of land of the property with a total site area of approximately 396,074 sq.m. and 10 buildings of the property with a total gross floor area of approximately 66,004.47 sq.m. are subject to a mortgage. The land use rights and building ownership rights could be mortgaged, leased and transferred during the prescribed term of the land use rights in accordance with the PRC law after the maturity of the mortgage; and

   iv) The land use rights of 2 parcels of land with a total site area of approximately 640,905 sq.m. of the property can be used, transferred, leased and mortgaged by Shanghai Maple JV during the prescribed term of the land use rights in accordance with the PRC law.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
6. A parcel of land and a building No. 87 Qianyang Road Putuo District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 2,438 sq.m. and an office building erected thereon completed in 1998. The building has a gross floor area of approximately 3,090.39 sq.m. The land use rights of the property were granted to Geely International Corporation for a term of 50 years expiring on 11 August 2054 for industrial use.	The property is currently occupied by Geely International Corporation for office purpose.	26,254,000 91% interest attributable to the Enlarged Group: RMB 23,891,000

Notes:

1. Geely International Corporation ("Geely International") is a subsidiary of Zhejiang JV and Zhejiang JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to a Real Estate Title Certificate – Hu Fang Di Pu Zi (2005) Di No. 036583 dated 9 August 2005 issued by the Shanghai Housing and Land Resource Administration Bureau, the land use rights of a parcel of land with a site area of approximately 2,438 sq.m. were granted to Geely International for a term of 50 years expiring on 11 August 2054 for industrial use and a building erected on the above land with a gross floor area of approximately 3,090.39 sq.m. is owned by Geely International.

3. Pursuant to an Acquisition Agreement dated 22 July 2005 entered into between Shanghai Defeng Food Company Limited, an independent third party of the Company, and Geely International, a building with a gross floor area of approximately 3,090.39 sq.m. was acquired by Geely International at a consideration of RMB12,780,000.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   i) The land use rights of the property with proper title certificates are legally owned by Geely International and protected by the PRC law; and

   ii) The land use rights and the building can be used, transferred, leased and mortgaged by Geely International.

VALUATION CERTIFICATE

GROUP II – PROPERTY INTEREST TO BE ACQUIRED BY HUNAN GEELY JV IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
7. A parcel of land, various buildings and structures located at Jiuhua Economic Zone Xiangtan Hunan Province The PRC	The property comprises a parcel of land with a site area of approximately 342,452 sq.m. and 12 buildings and various structures erected thereon completed in June 2007. The buildings have a total gross floor area of approximately 58,826 sq.m. The buildings mainly include industrial buildings, an office building, storehouses, gatehouses and dormitory buildings. The structures mainly include roads, boundary walls, parking lots and sewage treatment facilities. The property also comprises 3 buildings which were under construction (the "CIP") as at the date of valuation. The CIP is scheduled to be completed in November 2007. The planned total gross floor area of the buildings upon completion will be approximately 12,204 sq.m. The total construction cost is estimated to be approximately RMB11,100,000, of which RMB4,515,744 has been paid up to the date of valuation. As at the date of valuation, the major construction framework of the CIP has been completed. The land use rights of the property were granted to Hunan Industry, a connected party of the Company, for a term commencing from 15 June 2006 and expiring on 13 June 2056 for industrial use.	The property is currently occupied by Hunan Industry for production and office purposes except for the CIP which is under construction.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Tan Guo Yong (2006) Di No. A02017 dated 15 June 2006 issued by the People's Government of Xiangtan County, the land use rights of the property were granted to Hunan Industry for a term commencing from 15 June 2006 and expiring on 13 June 2056 for industrial use.

2. Pursuant to a Construction Land Planning Permit – Tan Xian Jiu Gui Zi Di No. 2006001 and a Construction Work Planning Permit – No. 2006001-2 dated 9 June 2006 and 25 September 2006 respectively issued by the Planning Committee of Xiangtan County, Hunan Industry was approved to commence the construction works.

3. Pursuant to a Construction Commencement Permit – No. 06007 dated 20 April 2006 issued by the Construction Bureau of Xiangtan County in favour of the Company, the property was approved for construction.

4. In the valuation of this property, we have attributed no commercial value to the property which have not obtained any proper title certificates under the name of the Enlarged Group. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB236,635,000 assuming all relevant proper title certificates have been obtained and the property could be freely transferred.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   i) The land use rights of the property are legally owned by Hunan Industry and can be used, transferred, leased and mortgaged by Hunan Industry; and

   ii) The relevant construction permits obtained by Hunan Industry are legal and valid.

VALUATION CERTIFICATE

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE ENLARGED GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
8. A building No. 438 Zhujiang South Road Beilun District Ningbo Zhejiang Province The PRC	The property comprises a single-storey industrial building with a lease area of approximately 11,007 sq.m. completed in about 1998. The property is leased to Zhejiang JV for a term of 1 year commencing from 1 May 2007 and expiring on 30 April 2008 at an annual rent of RMB1,386,882 exclusive of water, electricity charges and management fees.	The property is currently occupied by Zhejiang JV for storage purpose.	No commercial value

Notes:

1. Zhejiang JV will be a 91% interest owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to a tenancy agreement entered into between CEL China Co., Ltd (賽力(中國)有限公司), an independent third party of Zhejiang JV, and Zhejiang JV dated 10 April 2007, the property is leased to Zhejiang JV from CEL China Co., Ltd. for a term of 1 year commencing from 1 May 2007 and expiring on 30 April 2008 at an annual rent of RMB1,386,882 exclusive of water, electricity charges and management fees.

3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   i) The tenancy agreement is legal and valid; and

   ii) Zhejiang JV could legally use the property under the leased term.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
9. A building located at Geely Automobile City Luoyang Street Luqiao District Taizhou Zhejiang Province The PRC	The property comprises a single-storey industrial building with a lease area of approximately 11,632.11 sq.m. completed in about 2006. The property is leased to Zhejiang Fulin Guorun for a term of 2 years commencing from 1 July 2007 and expiring on 30 June 2009 at an annual rent of RMB480,000.	The property is currently occupied by Zhejiang Fulin Guorun for production purpose.	No commercial value

Notes:

1. Zhejiang Fulin Guorun will be a wholly-owned subsidiary of the Enlarged Group after the entire transaction.

2. Pursuant to a tenancy agreement entered into between Zhejiang Kingkong JV (a connected party of Zhejiang Fulin Guorun) and Zhejiang Fulin Guorun dated 1 July 2007, the property is leased to Zhejiang Fulin Guorun from Zhejiang Kingkong JV for a term of 2 years at an annual rent of RMB480,000.

3. Pursuant to an equity transfer agreement dated 13 July 2007, Zhejiang Fulin Automobile will transfer 49% interest in the registered capital of Zhejiang Fulin Guorun to Centurion at a consideration of RMB22,480,000.

4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal adviser, which contains, *inter alia*, the following:

   i) The tenancy agreement is legal and valid; and

   ii) Zhejiang Fulin Guorun could legally use the property under the leased term.

VALUATION CERTIFICATE

GROUP IV – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE ENLARGED GROUP IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
10. Office No. 2301 on the 23rd Floor of Great Eagle Centre No. 23 Harbour Road Hong Kong	The property comprises an office unit on the 23rd floor of a 33-storey office building completed in about 1982. The property has a lettable area of approximately 361.67 sq.m. (3,893 sq.ft.). The property is leased to the Company from an independent third party, for a term of 2 years commencing from 15 September 2005 and expiring on 14 September 2007 at a monthly rent of HK$60,000.00, exclusive of air-conditioning charge, service charge and rates. Pursuant to a new tenancy agreement, the property is leased to the Company for a term of 2 years commencing from 16 September 2007 and expiring on 15 September 2007 at a monthly rent of HK$110,000, exclusive of air-conditioning charge, service charge and rates.	The property is currently occupied by the Company for office purpose.	No commercial value

Note:

1. The registered owner of the property is Harbour View 23 Limited, an independent third party of the Company, vide Memorial No. UB8145216 dated 29 July 2000.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
11. Flat No. 4 21st Floor Block B Causeway Centre No. 28 Harbour Road Wan Chai Hong Kong	The property comprises a residential unit on the 21st floor of a 42-storey (plus a 1-storey car parking basement) residential building completed in about 1979. The property has a gross floor area of approximately 46.92 sq.m. (505 sq.ft.). The property is leased to the Company from an independent third party, for a term of 1 year commencing from 1 December 2006 and expiring on 30 November 2007 at a monthly rent of HK$8,000.00, inclusive of rates and management fee but exclusive of electricity, water, gas charges and other miscellaneous charges.	The property is currently occupied by the Company for staff quarter purpose.	No commercial value

Note:

1. The registered owner of the property is Dragon Great Limited, an independent third party of the Company, vide Memorial No. UB6318341 dated 15 June 1995.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
			RMB
12. Flat No. 5 18th Floor Block A Causeway Centre No. 28 Harbour Road Wan Chai Hong Kong	The property comprises a residential unit on the 18th floor of a 42-storey (plus a 1-storey car parking basement) residential building completed in about 1979. The property has a gross floor area of approximately 39.86 sq.m. (429 sq.ft.). The property is leased to the Company from an independent third party, for a term of 1 year commencing from 8 December 2006 and expiring on 7 December 2007 at a monthly rent of HK$15,800.00, inclusive of Government rent, rates, management fee, telephone charges (exclusive of international telephone charges), water, electricity and gas charges.	The property is currently occupied by the Company for director quarter purpose.	No commercial value

Note:

1. The registered owner of the property is China Resources (Holdings) Company Limited, an independent third party of the Company, vide Memorial No. UB2966892 dated 18 January 1986.

A. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Introduction to the unaudited Pro Forma Financial Information of the Enlarged Group

On 13 July 2007, the Group entered into the Associated Companies' Agreements with various connected persons in relation to the proposed restructuring of the Company to acquire 44.19% of the remaining interests in each of the Associated Companies from its respective controlling shareholder and its associates at the total consideration of RMB1,554.12 million (equivalent to approximately HK$1,610.84 million) to be satisfied fully by the issue of 1,288,672,000 Aggregate Consideration Shares at HK$1.25 per share and on the same day, Centurion, a wholly-owned subsidiary of the Company, and Zhejiang Fulin Automobile entered into the Zhejiang Fulin Guorun Equity Transfer Agreement pursuant to which Centurion agreed to acquire the remaining 49% interest in the registered capital of Zhejiang Fulin Guorun from Zhejiang Fulin Automobile for a total consideration of RMB22.48 million (equivalent to approximately HK$23.30 million) (the "Acquisition").

The followings are the unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 December 2006 and the audited income statement and cash flow statement of each of Associated Companies for the year ended 31 December 2006, assuming that the Acquisition had been completed on 1 January 2006.

An unaudited pro forma consolidated balance sheet of the Enlarged Group is also set out below which was prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2007 and the audited balance sheets of Zhejiang JV Group, Shanghai Maple JV Group, Zhejiang Kingkong JV and Zhejiang Ruhoo JV as at 30 June 2007 and of Hunan Geely JV as at 31 July 2007 assuming that the Acquisition had been completed on 30 June 2007.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the results or financial position of the Enlarged Group will be on the completion of Acquisition.

1. Unaudited Pro Forma Income Statement of the Enlarged Group

	The Group for the year ended 31 December 2006 HK$'000 (Audited) *(Note 2)*	Zhejiang JV Group for the year ended 31 December 2006 HK$'000 (Audited) *(Note 3)*	Shanghai Maple JV Group for the year ended 31 December 2006 HK$'000 (Audited) *(Note 3)*	Zhejiang Kingkong JV for the period ended 31 December 2006 HK$'000 (Audited) *(Note 3)*	Zhejiang Ruhoo JV for the period ended 31 December 2006 HK$'000 (Audited) *(Note 3)*	*Notes*	Pro forma adjustments HK$'000	Total HK$'000
Revenue	127,006	5,212,621	1,369,803	–	–	*(4)*	(211,654)	6,497,776
Cost of sales	(110,036)	(4,405,211)	(1,169,921)	–	–	*(4)*	288,897	(5,396,271)
Gross profit	16,970	807,410	199,882	–	–			1,101,505
Other income	18,224	192,738	43,726	–	–	*(4)*	(77,763)	176,925
Distribution and selling expenses	(3,016)	(250,494)	(106,531)	–	–			(360,041)
Administrative expenses	(22,542)	(194,587)	(81,599)	–	(234)			(298,962)
Finance costs	(32,390)	(22,564)	(8,099)	–	–			(63,053)
Fair value loss on embedded derivative components of convertible bonds	(4,742)	–	–	–	–			(4,742)
Share of results of associates	243,230	–	–	–	–	*(4)*	(243,230)	–
Profit before taxation	215,734	532,503	47,379	–	(234)			551,632
Taxation	(1,585)	(45,960)	(11,228)	–	–			(58,773)
Profit for the year	214,149	486,543	36,151	–	(234)			492,859
Attributable to:								
Equity holders of the Company	208,752	483,810	35,869	–	(234)	*(4)*	(285,367)	442,830
Minority interests	5,397	2,733	282	–	–	*(5)*	41,617	50,029
	214,149	486,543	36,151	–	(234)			492,859

Notes:

(1) As Hunan Geely JV was only established on 20 April 2007, the results for Hunan Geely JV have not been included in the pro forma income statement of the Enlarged Group.

(2) The income statement for the year ended 31 December 2006 of Zhejiang Fulin Guorun, being a 51% owned subsidiary of the Company, has been consolidated in the income statement of the Group for the year ended 31 December 2006 as extracted from Appendix I.

(3) For the purposes of this unaudited pro forma consolidated income statement, the audited income statements of Zhejiang JV Group, Shanghai Maple JV Group, Zhejiang Kingkong JV and Zhejiang Ruhoo JV for the year/period ended 31 December 2006, as extracted from Appendices II to V respectively, which are denominated in RMB, have been translated into HK dollars at the prevailing average exchange rate of RMB1 = HK$1 during the year ended 31 December 2006.

(4) This represents pro forma adjustment for elimination of inter-companies transactions between the Group and the Associated Companies; and between the Zhejiang JV Group and the Shanghai Maple JV Group.

(5) This represents pro forma adjustment for share of profit for the year attributable to 9% minority interests of the Associated Companies, as if the Completion had taken place on 1 January 2006; and reversal of the share of profit by the 49% minority interests of Zhejiang Fulin Guorun.

2. Unaudited Pro Forma Balance Sheet of the Enlarged Group

							Pro forma adjustments				
	The Group as at 30 June 2007	Zhejiang JV Group as at 30 June 2007	Shanghai Maple JV Group as at 30 June 2007	Zhejiang Kingkong JV as at 30 June 2007	Zhejiang Ruhoo JV as at 30 June 2007	Hunan Geely JV as at 31 July 2007	Reversal of interest in Associated Companies	Reinstatement of Associated Companies as subsidiaries	Acquisition of remaining 49% interests in Zhejiang Fulin Guorun	Elimination of inter-companies balances	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)					
		(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 1)*	*(Note 1)*	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets											
Goodwill	–	20,404	23,413	–	–	–		30,762	13,203		87,782
Intangible assets	–	87,228	62,474	3,984	60,121	–					213,807
Property, plant and equipment	13,513	844,719	778,180	432,008	513,528	–					2,581,948
Land lease payment	–	127,616	298,536	384,243	99,381	–					909,776
Long term deferred expenses	–	2,081	–	–	–	–					2,081
Long term investment	–	–	2,041	–	–	–				(2,041)	–
Interest in associates	1,858,684	–	–	–	–	–	(1,654,953)				203,731
	1,872,197	1,082,048	1,164,644	820,235	673,030	–					3,999,125
Current assets											
Inventories	11,819	297,175	187,323	64,907	55,612	–				(7,944)	608,892
Tax recoverable	707	–	–	–	–	–					707
Trade and other receivables	68,536	3,370,976	332,745	73,259	110,634	–				(1,219,130)	2,737,020
Land lease prepayment	–	5,021	11,665	8,628	2,585	–					27,899
Bank balances and cash	623,021	756,197	95,005	6,975	22,130	40,277			(23,000)		1,520,605
Short term investment	–	9,687	–	–	–	–					9,687
Dividend receivables from associates	219,628	–	–	–	–	–				(219,628)	–
	923,711	4,439,056	626,738	153,769	190,961	40,277					4,904,810
Current liabilities											
Trade and other payables	32,908	1,799,806	605,405	613,618	657,796	46				(1,438,758)	2,270,821
Provision for warranty	–	1,315	1,197	–	–	–					2,512
Taxation	–	28,076	1,693	–	–	–					29,769
Short term bank borrowings	19,010	1,234,694	316,327	–	–	–					1,570,031
Dividend payables	–	177,972	46,957	–	–	–			12,795		237,724
Amount due to immediate holding company	3,720	–	–	–	–	–					3,720
Convertible bonds – embedded derivatives	51,515	–	–	–	–	–					51,515
	106,446	3,241,863	971,579	613,618	657,796	46					4,166,092
Net current assets/ (liabilities)	**816,558**	**1,197,193**	**(344,841)**	**(459,849)**	**(466,835)**	**40,231**					**738,718**
	2,688,755	**2,279,241**	**819,803**	**360,386**	**206,195**	**40,231**					**4,737,843**

	The Group as at 30 June 2007	Zhejiang JV Group as at 30 June 2007	Shanghai Maple JV Group as at 30 June 2007	Zhejiang Kingkong JV as at 30 June 2007	Zhejiang Ruhoo JV as at 30 June 2007	Hunan Geely JV as at 31 July 2007	Pro forma adjustments: Reversal of interest in Associated Companies	Pro forma adjustments: Reinstatement of Associated Companies as subsidiaries	Pro forma adjustments: Acquisition of remaining 49% interests in Zhejiang Fulin Guorun	Pro forma adjustments: Elimination of inter-companies balances	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)					
		(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 1)*	*(Note 1)*	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Capital and reserves											
Share capital	101,345	1,797,143	775,887	234,993	151,677	40,276	(1,404,289)	(1,569,914)			127,118
Reserves	1,925,932	356,358	40,428	125,393	54,518	(45)	(250,664)	1,259,078		(7,944)	3,503,054
Equity attributable to equity holders of the parent	2,027,277	2,153,501	816,315	360,386	206,195	40,231					3,630,172
Minority interests	230,807	16,413	3,488	–	–	–		341,598	(22,592)	(2,041)	567,673
	2,258,084	2,169,914	819,803	360,386	206,195	40,231					4,197,845
Non-current liabilities											
Convertible bonds	430,671	–	–	–	–	–					430,671
Other long term liabilities	–	109,327	–	–	–	–					109,327
	430,671	109,327	–	–	–	–					539,998
	2,688,755	2,279,241	819,803	360,386	206,195	40,231					4,737,843

Notes:

(1) For the purposes of the unaudited pro forma consolidated balance sheet, the audited balance sheets of Zhejiang JV Group, Shanghai Maple JV Group, Zhejiang Kingkong JV and Zhejiang Ruhoo JV as at 30 June 2007 and Hunan Geely JV as at 31 July 2007, as extracted from Appendices II to VI respectively, which are denominated in RMB, have been translated into Hong Kong dollars at the prevailing exchange rate of RMB1 = HK$1.02 as at 30 June 2007.

(2) This pro forma adjustment represents the reversal of share of net assets regarding the 46.81% interest in the Associated Companies as if the Completion had taken place on 30 June 2007.

(3) For the acquisition of 44.19% interest in each of the registered capital of the Associated Companies satisfied by the issue of the Aggregate Consideration Shares of 1,288,672,000 ordinary shares of HK$0.02 each in the share capital of the Company at HK$1.25 each resulting in a total consideration of HK$1,610,840,000, the Enlarged Group will, upon Completion, own 91% interest in each of the registered capital of the Associated Companies and all the assets and liabilities of the Associated Companies will be consolidated in the consolidated balance sheet of the Enlarged Group. Accordingly, this pro forma adjustment represents the goodwill arose thereof and the recognition of minority interests for their 9% interests in each of the registered capital of the Associated Companies.

(4) For the acquisition of 49% interest in the registered capital of Zhejiang Fulin Guorun satisfied by cash consideration of approximately HK$23,000,000 primarily by applying the dividends to be distributed from Zhejiang Fulin Guorun, the Enlarged Group will, upon Completion, wholly-own Zhejiang Fulin Guorun. Accordingly, this pro forma adjustment represents the goodwill arose thereof, the reversal of the 49% minority interests in the registered capital of the Zhejiang Fulin Guorun and the accrual of dividend payable to minority shareholders of approximately HK$12,795,000 to be distributed from Zhejiang Fulin Guorun.

(5) This pro forma adjustment represents elimination of the inter-companies balances as at 30 June 2007.

3. Unaudited Pro Forma Cash Flow Statement of the Enlarged Group

	The Group for the year ended 31 December 2006 HK$'000 (Audited) (Note 2)	Zhejiang Geely JV Group for the year ended 31 December 2006 HK$'000 (Audited) (Note 3)	Shanghai Maple JV Group for the year ended 31 December 2006 HK$'000 (Audited) (Note 3)	Zhejiang Kingkong JV for the period ended 31 December 2006 HK$'000 (Audited) (Note 3)	Zhejiang Ruhoo JV for the period ended 31 December 2006 HK$'000 (Audited) (Note 3)	Notes	Pro forma adjustments HK$'000	Total HK$'000
OPERATING ACTIVITIES								
Profit before taxation	215,734	532,503	47,379	–	(234)	(4)	(243,750)	551,632
Amortisation of intangible assets	–	23,160	9,323	–	–			32,483
Amortisation of land lease prepayments	–	4,920	2,014	–	170			7,104
Bad debt written off	–	3,035	598	–	–			3,633
Depreciation	1,403	94,647	33,771	–	–			129,821
Loss on disposal of property, plant and equipment	30	1,040	76	–	–			1,146
Loss on disposal of intangible assets	–	962	–	–	–			962
Loss on other investment	–	263	–	–	–			263
Interest income	(13,401)	(16,689)	(1,627)	–	–			(31,717)
Fair value loss on embedded derivative components of convertible bonds	4,742	–	–	–	–			4,742
Finance cost	32,390	22,564	8,099	–	–			63,053
Share-based payment expense	4,660	–	–	–	–			4,660
Share of results of associates	(243,230)	–	–	–	–	(4)	243,230	–
Net exchange gain	(3,929)	–	–	–	–			(3,929)
Impairment of goodwill	–	6,328	–	–	–			6,328
Amortisation of other non-current assets	–	1,403	–	–	–			1,403
Changes in working capital								
Inventories	(3,979)	(37,487)	(121,486)	–	–	(5)	520	(162,432)
Trade and other receivables	(12,458)	198,699	(8,732)	(90,000)	(15)	(5)	534,931	622,425
Trade and other payables	(12,528)	(787,045)	(99,443)	3,219	(70,000)	(5)	(534,931)	(1,500,728)
Short-term bank borrowings raised, net	22,250	–	–	–	–			22,250
Provision for warranty	–	(8,307)	(5,820)	–	–			(14,127)
Cash generated from (used in) operations	(8,316)	39,996	(135,848)	(86,781)	(70,079)			(261,028)
Interest paid	–	(22,564)	(8,099)	–	–			(30,663)
Interest received	–	16,689	1,627	–	–			18,316
Tax paid	(1,292)	(43,945)	(13,624)	–	–			(58,861)
Net cash used in operating activities	(9,608)	(9,824)	(155,944)	(86,781)	(70,079)			(332,236)

	The Group for the year ended 31 December 2006	Zhejiang Geely JV Group for the year ended 31 December 2006	Shanghai Maple JV Group for the year ended 31 December 2006	Zhejiang Kingkong JV for the period ended 31 December 2006	Zhejiang Ruhoo JV for the period ended 31 December 2006		Pro forma adjustments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)			
	(Note 2)	*(Note 3)*	*(Note 3)*	*(Note 3)*	*(Note 3)*			
INVESTING ACTIVITIES								
Acquisition of property, plant and equipment	(6,050)	(338,839)	(370,113)	–	–			(715,002)
Acquisition of subsidiaries	–	83	–	–	–			83
Acquisition of intangible assets	–	(2,210)	(1,151)	–	–			(3,361)
Acquisition of land use rights	–	–	(16,465)	(569)	–			(17,034)
Addition of other non-current assets	–	(594)	–	–	–			(594)
Dividend received from associates	228,159	–	–	–	–	*(6)*	(228,159)	–
Interest received	13,401	–	–	–	–			13,401
Investment in associates	(896,362)	–	–	–	–	*(7)*	896,362	–
Proceeds on disposal of intangible assets	–	52,128	–	–	–			52,128
Pledged deposit	–	421,728	–	–	–			421,728
Proceeds from disposal of property, plant and equipment	46	185,951	29	–	–			186,026
Net cash from (used in) investing activities	(660,806)	318,247	(387,700)	(569)	–			(62,625)

	The Group for the year ended 31 December 2006	Zhejiang Geely JV Group for the year ended 31 December 2006	Shanghai Maple JV Group for the year ended 31 December 2006	Zhejiang Kingkong JV for the period ended 31 December 2006	Zhejiang Ruhoo JV for the period ended 31 December 2006		Pro forma adjustments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)			
	(Note 2)	*(Note 3)*	*(Note 3)*	*(Note 3)*	*(Note 3)*			
FINANCING ACTIVITIES								
Capital contribution from majority shareholder	–	1,171,441	380,474	110,000	71,000	*(7)*	(1,732,915)	–
Capital contribution from minority shareholder	4,900	–	–	–	–	*(7)*	836,553	841,453
Dividends paid	(41,203)	(430,915)	(75,260)	–	–	*(6)*	228,159	(319,219)
Interest paid	(101)	–	–	–	–			(101)
New short-term bank loan raised	–	760,000	200,000	–	–			960,000
New long-term bank borrowings	–	70,000	–	–	–			70,000
Net proceeds from the issuance of convertible bonds	727,873	–	–	–	–			727,873
Repayment to immediate holding company	(3,000)	–	–	–	–			(3,000)
Repayment to related companies	(960)	–	–	–	–			(960)
Repayment to minority shareholder	(4,771)	–	–	–	–			(4,771)
Repayment of short-term bank loan	–	(1,597,659)	(30,000)	–	–			(1,627,659)
Net cash from financing activities	682,738	(27,133)	475,214	110,000	71,000			643,616
Net increase (decrease) in cash and cash equivalents	12,324	281,290	(68,430)	22,650	921			248,755
Cash and cash equivalents at beginning of year	8,449	332,549	172,613	–	–			513,611
Effect of foreign exchange rate changes	199	–	–	–	–			199
Cash and cash equivalents at end of year, represented by bank balances and cash	20,972	613,839	104,183	22,650	921			762,565

Notes:

(1) As Hunan Geely JV was only established on 20 April 2007, the results for Hunan Geely JV have not been included in the pro forma cash flow statement of the Enlarged Group.

(2) The cash flow statement for the year ended 31 December 2006 of Zhejiang Fulin Guorun, being a 51% owned subsidiary of the Company, has been consolidated in the cash flow statement of the Group for the year ended 31 December 2006 as extracted from Appendix I.

(3) For the purposes of this unaudited pro forma consolidated cash flow statement, the audited cash flow statements of Zhejiang JV Group, Shanghai Maple JV Group, Zhejiang Kingkong JV and Zhejiang Ruhoo JV for the year/period ended 31 December 2006, as extracted from Appendices II to V respectively, which are denominated in RMB, have been translated into Hong Kong dollars at the prevailing average exchange rate of RMB1 = HK$1 during the year ended 31 December 2006.

(4) This pro forma adjustment represents the reversal of share of results of associates as if the Completion had taken place on 1 January 2006 and elimination of inter-companies transactions between the Group and the Associated Companies; and between the Zhejiang JV Group and the Shanghai Maple JV Group.

(5) This pro forma adjustment represents the elimination of the inter-companies balances as at 31 December 2006.

(6) This pro forma adjustment represents the elimination of the dividend received from the Associated Companies.

(7) This represents the elimination and reclassification of the investment cost paid by the Group and the minority interests respectively for the increase in paid-up capital of the Associated Companies during the year ended 31 December 2006.

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 Grant Thornton in respect of the pro forma financial information of the Enlarged Group as set out in this appendix:

Grant Thornton
均富會計師行

Certified Public Accountants
Member of Grant Thornton International

31 October 2007

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

Dear Sirs,

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 Associated Companies set out in section A of Appendix X ("the Unaudited Pro Forma Financial Information") to the circular dated 31 October 2007 (the "Circular") in connection with the very substantial acquisitions and connected transactions relating to the proposed acquisition of 44.19% of the remaining interests in each of the Associated Companies and remaining 49% interest in Zhejiang Fulin Guorun (the "Acquisition"), which has been prepared by the directors of the Company, for illustrative purposes solely to provide information about how the Acquisition might have affected the relevant information of the Group.

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 unadjusted financial information with the source documents, 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 Group and that 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.

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 of the Company 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
Grant Thornton
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to Proper Glory and parties acting in concert with it) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained herein, the omission of which would make any statement in this circular misleading.

The information in relation to Proper Glory and parties acting in concert with it contained in this circular has been supplied by Mr. Li, being the sole director of Proper Glory, who accepts full responsibility for the accuracy of the information (other than those in relation to the Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions (other than those in relation to the Group) expressed in this circular have been arrived at after due and careful consideration and there are no other facts (other than those in relation to the Group) not contained in this circular the omission of which would make any statement (other than those in relation to the Group) in this circular misleading.

2. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

(i) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Restructuring (assuming no outstanding Share Options and Convertible Bonds will be exercised between the Latest Practicable Date and the completion of the Restructuring) and increase in authorised share capital becoming effective will be, as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
8,000,000,000	Shares	160,000,000
Issued and fully paid or credited as fully paid:		
5,201,083,450	Shares	104,021,669

Upon completion of the Restructuring and the increase in authorised share capital becoming effective

Authorised:		*HK$*
12,000,000,000	Shares	240,000,000
Issued and fully paid or credited as fully paid:		
5,201,083,450	Shares	104,021,669
1,288,672,000	Aggregate Consideration Shares	25,773,440
6,489,755,450	Shares	129,795,109

1,049,694,954 Shares have been issued since 31 December 2006 (i.e. the end of the last financial year of the Company) up to the Latest Practicable Date.

All the existing Shares in issue and Aggregate Consideration Shares to be issued will rank pari passu in all respects with each other including as regards to rights to dividends, voting and return of capital.

(ii) Share options

The Company adopted a share option scheme on 31 May 2002. Pursuant to such scheme, the maximum number of Shares upon which options may be granted when aggregated with those granted under any other share option scheme of the Company in issue may not exceed 512,124,254 Shares, representing approximately 10% of the issued share capital of the Company on the date of the passing of the resolutions to refresh the mandate to issue Shares under the share option scheme of the Company. As at the Latest Practicable Date, options to subscribe for an aggregate of 308,520,000 Shares have been granted under the share option scheme.

(iii) Convertible bonds

The Company had on 10 April 2006 issued the zero coupon convertible bonds due 2011 in the aggregate principal amount of HK$741.6 million. As at the Latest Practicable Date, the outstanding amount of such convertible bonds was approximately HK$317.9 million which can be converted into a maximum of approximately 361.3 million Shares based on the adjusted conversion price of HK$0.88 per Share.

Save as disclosed in this section, there were no options, warrants or conversion rights affecting the Shares outstanding as at the Latest Practicable Date.

3. 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*	*Short Position*	**Shareholding percentage** *(%)*
Shares				
Mr. Li Shu Fu *(Note 1)*	Corporate	2,500,087,000	–	48.07%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.04%
Share options				
Mr. Ang Siu Lun, Lawrence	Personal	35,000,000 *(Note 2)*	–	0.67%
Mr. Ang Siu Lun, Lawrence	Personal	10,000,000 *(Note 3)*	–	0.19%
Mr. Gui Sheng Yue	Personal	23,000,000 *(Note 3)*	–	0.44%
Mr. Xu Gang	Personal	23,000,000 *(Note 3)*	–	0.44%
Mr. Yang Jian	Personal	23,000,000 *(Note 3)*	–	0.44%
Mr. Liu Jin Liang	Personal	18,000,000 *(Note 3)*	–	0.35%

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage
		Long Position	*Short Position*	*(%)*
Mr. Zhao Jie	Personal	18,000,000 *(Note 3)*	–	0.35%
Mr. Yin Da Qing, Richard	Personal	16,000,000 *(Note 3)*	–	0.31%
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)*	–	0.23%

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 31 July 2007 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 31 July 2007 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 31 July 2007 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 31 July 2007 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 31 July 2007 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 31 July 2007 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 31 July 2007 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 31 July 2007 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)*
Mr. Li Shu Fu	Hunan Geely JV	*(Note 5)*	–	*(Note 5)*

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 100%-owned by Mr. Li and his associate.

(2) Shanghai Maple JV is incorporated in the PRC and is 53.19%-owned by Shanghai Maple Automobile. Shanghai Maple Automobile is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.

(3) Zhejiang Kingkong 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 100%-owned by Mr. Li and his associate.

(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 100%-owned by Mr. Li and his associate.

(5) Hunan Geely 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 100%-owned by Mr. Li and his associate.

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	Capacity	Number of shares held		Shareholding Percentage
		Long position	*Short position*	*(%)*
Proper Glory *(Note)*	Beneficial owner	2,500,000,000	–	48.07
Geely Group Ltd.	Beneficial owner	87,000	–	0.002
(Note)	Corporate	2,500,000,000	–	48.07
TOSCA	Beneficial owner	608,990,000	–	11.71
Morgan Stanley	Beneficial owner	368,615,718	368,615,718	–
UBS AG	Beneficial owner	698,837,769	473,000	13.43
OZ Management L.L.C.	Beneficial owner	264,294,888	–	5.08

Note:

Proper Glory is a private company incorporated in the British Virgin Islands and is wholly owned by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu.

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.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed terms contracts) were entered into or amended within six months before the date of the Restructuring Announcement; (ii) were continuous contracts with a notice period of 12 months or more; or (iii) were fixed term contracts with more than 12 months to run irrespective of the notice period.

5. 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.

6. 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 the Restructuring Announcement and up to the Latest Practicable Date which are or may be material:

1. Centurion, a wholly-owned subsidiary of the Company, entered into the capital increase agreement on 25 July 2006 with Zhejiang Geely Merrie to increase the registered capital of Zhejiang JV from approximately US$82.80 million to approximately US$176.27 million. The increase in the registered capital was contributed as to approximately US$43.75 million by Centurion and as to approximately US$49.71 million by Zhejiang Geely Merrie. Further details are set out in the circular of the Company dated 15 August 2006.

2. Value Century, a wholly-owned subsidiary of the Company, entered into the capital increase agreement on 25 July 2006 with Shanghai Maple Automobile to increase the registered capital of Shanghai Maple JV from approximately US$51.70 million to approximately US$99.76 million. The increase in the registered capital was contributed as to approximately US$22.50 million by Value Century and as to approximately US$25.57 million by Shanghai Maple Automobile. Further details are set out in the circular of the Company dated 15 August 2006.

3. Centurion, a wholly-owned subsidiary of the Company, entered into the second capital increase agreement on 23 August 2006 with Zhejiang Geely Merrie to further increase the registered capital of Zhejiang JV from approximately US$176.27 million to approximately US$231.01 million. The increase in the registered capital was contributed as to approximately US$25.63 million by Centurion and as to approximately US$29.12 million by Zhejiang Geely Merrie. Further details are set out in the circular of the Company dated 15 August 2006.

4. Centurion, a wholly-owned subsidiary of the Company, entered into the joint venture agreement on 25 October 2006 with Geely Holding Limited (as supplemented by the supplemental joint venture agreement dated 27 November 2006) to establish a sino-foreign equity joint venture, the Zhejiang Kingkong JV, which is owned as to 53.19% by Geely Holding Limited and as to 46.81% by Centurion respectively. The registered capital was contributed as to approximately RMB110.00 million by Centurion and as to approximately RMB124.99 million by Geely Holding Limited. Further details are set out in the circular of the Company dated 28 November 2006.

5. Centurion, a wholly-owned subsidiary of the Company, entered into the joint venture agreement on 25 October 2006 with Zhejiang Haoqing (as supplemented by the supplemental joint venture agreement dated 27 November 2006) to establish a sino-foreign equity joint venture, the Zhejiang Ruhoo JV, which is owned as to 53.19% by Zhejiang Haoqing and as to 46.81% by Centurion respectively. The registered capital was contributed as to approximately RMB71.00 million by Centurion and as to approximately RMB80.68 million by Zhejiang Haoqing. Further details are set out in the circular of the Company dated 28 November 2006.

6. The Company entered into the joint venture agreement on 9 November 2006 with Shanghai Maple Automobile to establish a sino-foreign joint venture, Shanghai Geely Maple Automobile Components Company Limited (上海帝華汽車部件有限公司) (the “Shanghai Geely JV”), which was established in the PRC with limited liability and was owned as to 99.0% by the Company and as to 1.0% by Shanghai Maple Automobile respectively. The registered capital was contributed as to approximately US$53.75 million by the Company and as to approximately US$0.54 million by Shanghai Maple Automobile. Further details are set out in the circular of the Company dated 1 December 2006.

7. The Company entered into the master agreement (the "Master Agreement") on 9 November 2006 with Manganese Bronze pursuant to which the Company and Manganese Bronze agreed to enter, and will cause their affiliates which are parties to the relevant documents to enter into, (i) the Equity Transfer Agreement (as defined below); (ii) the Amended and Restated JV Agreement (as defined below); (iii) the Shareholders' Agreement (as defined below); and (iv) a series of agreements (as further explained below), which constituted continued connected transactions of the Company and were related to sale and purchase of components and products, licensing of trademarks and technologies, leasing of properties and contract manufacturing equipment for the operation of a joint venture, the Shanghai LTI JV, which is owned as to 51.00% by the Group, as to 48.00% by Manganese Bronze and as to 1.00% by Shanghai Maple Automobile upon completion of the Equity Transfer Agreement (as defined below) and the Amended and Restated JV Agreement (as defined below). Further details are set out in the circular of the Company dated 1 December 2006.

8. The Company entered into the supplemental agreement (the "Supplemental Agreement") on 23 January 2007 with Manganese Bronze, an additional agreement in relation to the licensing of technologies and intellectual property rights under the scope of the other project documents in relation to facilitating the operation of the Shanghai LTI JV, details of which are set out in the announcement of the Company dated 23 January 2007.

9. The Company entered into the Additional Supplemental Agreement on 22 March 2007 with Manganese Bronze to extend the deadline for the Satisfaction of the conditions to the Master Agreement.

10. Pursuant to the Master Agreement and the Supplemental Agreement, Company entered into the equity transfer agreement (the "Equity Transfer Agreement") on 22 March 2007 with Manganese Bronze to transfer a 48% equity interest in the Shanghai Geely JV to Manganese Bronze at the consideration of approximately GBP29.24 million by issue of 5.7 million new Manganese Bronze's shares (the "MB Consideration Shares"), details of which are set out in the circular of the Company dated 2 April 2007.

11. Pursuant to the Master Agreement and the Supplemental Agreement, the Group entered into the amended and restated joint venture agreement (the "Amended and Restated JV Agreement") on 22 March 2007 with Manganese Bronze and Shanghai Maple Automobile for the establishment of the Shanghai LTI JV 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, details of which are set out in the circular of the Company dated 2 April 2007.

12. Pursuant to the Master Agreement and the Supplemental Agreement, Company entered into the shareholders' agreement (the "Shareholders' Agreement") on 22 March 2007 with Manganese Bronze in relation to the sale restriction for the MB Consideration Shares, takeover restrictions and the right of Manganese Bonze upon completion of the transfer of 48% equity interest in the Shanghai Geely JV to Manganese Bronze, details of which are set out in the circular of the Company dated 2 April 2007.

13. Pursuant to the Master Agreement and the Supplemental Agreement, Shanghai Maple JV entered into the land and facilities contract on 22 March 2007 with the Shanghai LTI JV to govern the leasing arrangements of certain parcel of land, manufacturing plant and equipment located at Fengjing Industry Park, Jinshan District, Shanghai of the PRC, details of which are set out in the circular of the Company dated 2 April 2007.

14. Pursuant to the Master Agreement and the Supplemental Agreement, Shanghai Maple JV entered into the contract manufacturing agreement on 22 March 2007 with the Shanghai LTI JV to govern the supply of the body panels, chasses, brackets, closures, and other body in white structural parts to be manufactured by the Shanghai Maple JV to the Shanghai LTI JV, details of which are set out in the circular of the Company dated 2 April 2007.

15. Pursuant to the Master Agreement and the Supplemental Agreement, Shanghai LTI JV entered into the supply and purchase agreement on 22 March 2007 with LTI Ltd ("LTI"), a subsidiary of Manganese Bronze for parts and components to govern the supply of parts and components by the Shanghai LTI JV to LTI, details of which are set out in the circular of the Company dated 2 April 2007.

16. Pursuant to the Master Agreement and the Supplemental Agreement, Shanghai LTI JV entered into the supply and purchase agreement on 22 March 2007 with Shanghai Maple Automobile for automobile parts, components and sub-assembly to govern the purchase of automobile parts, components and sub-assembly by Shanghai Maple Automobile from the Shanghai LTI JV, details of which are set out in the circular of the Company dated 2 April 2007.

17. Pursuant to the Master Agreement and the Supplemental Agreement, Shanghai LTI JV entered into the trademark licence agreement on 22 March 2007 with LTI to govern the license of LTI's trademarks to the Shanghai LTI JV on a royalty-free basis, details of which are set out in the circular of the Company dated 2 April 2007.

18. Pursuant to the Master Agreement and the Supplemental Agreement, Shanghai LTI JV entered into the technology and IPR license agreement on 22 March 2007 with LTI to govern the grant by LTI to the Shanghai LTI JV a non-assignable license 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, details of which are set out in the circular of the Company dated 2 April 2007.

19. Centurion, a wholly-owned subsidiary of the Company, entered into the joint venture agreement on 26 March 2007 with Zhejiang Haoqing to establish a sino-foreign equity joint venture, the Hunan Geely JV, which is owned as to 53.19% by Zhejiang Haoqing and as to 46.81% by Centurion respectively. The registered capital was contributed as to approximately US$11.70 million by Centurion and as to approximately US$13.30 million by Zhejiang Haoqing. Further details are set out in the circular of the Company dated 13 April 2007.

20. Centurion, a wholly-owned subsidiary of the Company, entered into the joint venture agreement on 26 March 2007 with Zhejiang Geely Merrie to establish a sino-foreign equity joint venture, the Lanzhou Geely JV, which will be owned as to 53.19% by Zhejiang Geely Merrie and as to 46.81% by Centurion respectively. The registered capital will be contributed as to approximately US$11.70 million by Centurion and as to approximately US$13.30 million by Zhejiang Geely Merrie. Further details are set out in the circular of the Company dated 13 April 2007.

21. The Company entered into a 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.

22. The Company entered into a 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 Convertible Bonds to be issued at par by the Company in an aggregate principal amount of HK$741,600,000.

23. The Agreements.

24. The Other Project Documents.

7. SHAREHOLDINGS AND DEALINGS

(a) In relation to Proper Glory

(i) As at the Latest Practicable Date, the Company did not own or control any securities, convertible securities, warrants, options and derivatives of Proper Glory.

(ii) Proper Glory is a private company incorporated in the British Virgin Islands and is wholly-owned by Geely Group, which is ultimately owned by Mr. Li. Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was interested in the securities, convertible securities, warrants, options and derivatives of Proper Glory which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

(iii) During the period starting six months prior to 13 July 2007 (being the date of the Restructuring Announcement) and ending on the Latest Practicable Date (the "Relevant Period"):

(1) the Company had not dealt for value in the securities, convertible securities, warrants, options and derivatives of Proper Glory; and

(2) no Directors had dealt for value in the securities, convertible securities, warrants, options and derivatives of Proper Glory.

(b) In relation to the Company

(i) Save as disclosed in the section headed "Disclosure of Interests" in paragraph 3 of this Appendix, none of Proper Glory, its concert parties and any of their respective directors owned or controlled any securities, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt for value in any such securities during the Relevant Period.

(ii) Save as disclosed in the section headed "Disclosure of Interests" in paragraph 3 of this Appendix, none of the Directors was interested in any securities, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company as at the Latest Practicable Date and none of them had dealt for value in any such securities during the Relevant Period.

(iii) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, Proper Glory or parties acting in concert with it or with any person who is an associate of the Company or of Proper Glory by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(iv) During the period starting six months prior to 13 July 2007 (being the date of the Restructuring Announcement) and ending on the Latest Practicable Date:

(1) none of the subsidiaries of the Company and pension funds of the Company or of a subsidiary of the Company owned or had dealt for value in or owned or controlled any securities, convertible securities, warrants, options and derivatives of the Company or any of its subsidiaries;

(2) no fund managers connected with the Company had owned or managed any securities, convertible securities, warrants, options and derivatives of any member of the Group on a discretionary basis;

(3) save for the dealings in the Shares for the account of non-discretionary clients by the brokerage division of CIMB-GK Securities (HK) Limited, CIMB-GK Securities (HK) Limited, as the financial adviser to the Company, being an associate of the Company as specified in class (2) of the definition of "associate" under the Takeovers Code, had not dealt for value in any securities, convertible securities, warrants, options and derivatives of the Company; and

(4) save as disclosed in paragraph (3) above, none of the professional advisers named under the section headed "Experts and consent" in this Appendix and as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value in any securities, convertible securities, warrants, options and derivatives of the Group.

8. ARRANGEMENT AFFECTING THE DIRECTORS

As at the Latest Practicable Date,

(i) no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Restructuring and the Whitewash Waiver;

(ii) save for the Agreements and the Other Project Documents, no agreement or arrangement was entered into between any Director and any other person which was conditional on or dependent upon the outcome of the Restructuring and the Whitewash Waiver or was otherwise connected with the Restructuring and the Whitewash Waiver; and

(iii) save for the Agreements and the Other Project Documents, no material contract was entered into by Proper Glory in which any Director had a material personal interest.

9. MARKET PRICES

(a) The table below shows the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 11 July 2007, being the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement; (ii) the Last Trading Day; (iii) 11 July 2007, being the date of suspension of trading in the Shares on the Stock Exchange pending the release of the Restructuring Announcement; and (iv) the Latest Practicable Date:

Date	**Closing price** *HK$*
31 January 2007	0.83
28 February 2007	0.99
30 March 2007	1.04
30 April 2007	1.03
31 May 2007	1.31
29 June 2007	1.22
10 July 2007 (being the Last Trading Day)	1.34
11 July 2007	1.46
31 July 2007	1.35
31 August 2007	1.18
28 September 2007	0.93
Latest Practicable Date	0.92

(b) The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period between 13 January 2007 (being the date six months prior to the date of the Restructuring Announcement) and the Latest Practicable Date (both dates inclusive) were HK$1.46 on 11 July 2007 and HK$0.81 on 30 January 2007 respectively.

10. LITIGATION

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.

11. 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 2006, 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.

12. EXPERTS AND CONSENT

Name	Qualification
Grant Thornton	Certified Public Accountants
Quam Capital Limited	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Sallmanns (Far East) Limited	Chartered Valuation Surveyor
T&C Law Firm (浙江天冊律師事務所) ("T&C")	Practising lawyers in the PRC

Grant Thornton, Quam Capital, Sallmanns (Far East) Limited and T&C have 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, Grant Thornton, Quam Capital, Sallmanns (Far East) Limited and T&C were 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, Grant Thornton, Quam Capital, Sallmanns (Far East) Limited and T&C did not have any direct or indirect interest in any asset which had been, since 31 December 2006, 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.

13. GENERAL

(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 Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(f) Principal members of Proper Glory and the parties acting in concert with it are Geely Group and Mr. Li.

(g) The registered address of Proper Glory is P.O. Box 146, Road Town, Tortola, British Virgin Islands. The correspondence address of Proper Glory in Hong Kong is Unit 8, 31/F, Lippo Centre, Tower 1, 89 Queensway, Hong Kong.

(h) The registered address of Geely Group is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of Geely Group is Unit 8, 31/F, Lippo Centre, Tower 1, 89 Queensway, Hong Kong.

(i) As at the Latest Practicable Date, there was no agreement or arrangement existed between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver or otherwise connected therewith.

(j) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Proper Glory or any parties acting in concert with it and any of the Directors or recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Whitewash Waiver.

(k) It is the current intention of Proper Glory to continue to carry on the business of the Company and to continue the employment of the management and employees of the Group. Proper Glory has no current intention to redeploy the fixed assets of the Group. Proper Glory does not intend to introduce any changes to the current business of the Group.

(l) The registered office of the independent financial adviser, Quam Capital is situated at 32/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

(m) The registered office of the financial adviser, CIMB-GK Securities (HK) Limited is situated at 25/F Centre Tower, 28 Queen’s Road Central, Hong Kong.

(n) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

(o) There will not be any change in the composition of the Board as a result of Completion.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the office of the Company at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harhour Road, Wanchai, Hong Kong during normal business hours from 9:00 a.m. to 6:00 p.m. from Monday to Friday (except for public holidays); and on the websites of the Company (www.geelyauto.com.hk) and the SFC (www.sfc.hk) between the period from the date of this circular to 22 November 2007 (both days inclusive):

(a) Agreements;

(b) Other Project Documents;

(c) the memorandum and articles of association of the Company;

(d) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(e) the written consents referred to under the section headed "Experts and Consent" in this appendix;

(f) the annual reports of the Company for years ended 31 December 2004, 31 December 2005 and 31 December 2006, respectively, and the interim report of the Company for the six months ended 30 June 2007;

(g) the letter of recommendation from the Independent Board Committee of the Company to the Independent Shareholders as set out in this circular;

(h) the letter from Quam Capital, the text of which is set out in this circular;

(i) the accountants' reports from Grant Thornton on the financial information of the Associated Companies and Zhejiang Fulin Guorun, the texts of which are set out in Appendices II to VII of this circular;

(j) the letter on unaudited pro forma consolidated financial information of the Enlarged Group issued by Grant Thornton dated 31 October 2007, the text of which is set out in Appendix X to this circular;

(k) the circular of the Company dated 13 April 2007 in relation to the establishment of the Hunan Geely JV and the Lanzhou Geely JV;

(l) the circular of the Company dated 2 April 2007 in relation to the disposal of a 48% interest in the equity of Shanghai Geely Maple Automobile Components Company Limited, the acquisition of an approximately 23% interest in the enlarged issued share capital of Manganese Bronze and the non-exempt continuing connected transactions, the text of which is set out in Appendix VIII to this circular; and

(m) the valuation report prepared by Sallmanns (Far East) Limited, the text of which is set out in Appendix IX to this circular.

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 Thursday, 22 November 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 dated 13 July 2007 (the "**Zhejiang JV Equity Transfer Agreement**") entered into between Centurion Industries Limited ("**Centurion**"), a wholly-owned subsidiary of the Company, and Zhejiang Geely Merrie Automobile Company Limited ("**Zhejiang Geely Merrie**"), a copy of which is tabled at the meeting and marked "**A**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, Zhejiang Geely Merrie will transfer a 44.19% interest in the registered capital of Zhejiang Geely Automobile Company Limited to Centurion for a consideration of RMB936.33 million, which will be satisfied by the issue of 776,408,000 new shares (the "**Zhejiang JV Consideration Shares**") of HK$0.02 each in the share capital of the Company to Zhejiang Geely Merrie at completion, be and is hereby approved, ratified and confirmed;

(b) subject to the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Zhejiang JV Consideration Shares, the issue of the Zhejiang JV Consideration Shares be and is hereby approved, authorized and confirmed; 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Zhejiang JV Equity Transfer Agreement."

(2) "THAT

(a) the conditional agreement dated 13 July 2007 (the "**Shanghai Maple JV Equity Transfer Agreement**") entered into between Value Century Group Limited ("**Value Century**"), a wholly-owned subsidiary of the Company, and Shanghai

Maple Automobile Company Limited ("**Shanghai Maple Automobile**"), a copy of which is tabled at the meeting and marked "**B**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, Shanghai Maple Automobile will transfer a 44.19% interest in the registered capital of Shanghai Maple Guorun Automobile Company Limited to Value Century for a consideration of RMB354.53 million, which will be satisfied by the issue of 293,976,000 new shares (the "**Shanghai Maple JV Consideration Shares**") of HK$0.02 each in the share capital of the Company to Shanghai Maple Automobile at completion, be and is hereby approved, ratified and confirmed;

(b) subject to the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Shanghai Maple JV Consideration Shares, the issue of the Shanghai Maple JV Consideration Shares be and is hereby approved, authorized and confirmed; 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Shanghai Maple JV Equity Transfer Agreement."

(3) "THAT

(a) the conditional agreement dated 13 July 2007 (the "**Zhejiang Kingkong JV Equity Transfer Agreement**") entered into between Centurion Industries Limited ("**Centurion**"), a wholly-owned subsidiary of the Company, and Zhejiang Haoqing Automobile Manufacturing Company Limited ("**Zhejiang Haoqing**"), a copy of which is tabled at the meeting and marked "**C**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, Zhejiang Haoqing will transfer a 44.19% interest in the registered capital of Zhejiang Kingkong Automobile Company Limited to Centurion for a consideration of RMB155.84 million, which will be satisfied by the issue of 129,216,000 new shares (the "**Zhejiang Kingkong JV Consideration Shares**") of HK$0.02 each in the share capital of the Company to Zhejiang Haoqing at completion, be and is hereby approved, ratified and confirmed;

(b) subject to the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Zhejiang Kingkong JV Consideration Shares, the issue of the Zhejiang Kingkong JV Consideration Shares be and is hereby approved, authorized and confirmed; 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Zhejiang Kingkong JV Equity Transfer Agreement."

(4) "THAT

(a) the conditional agreement dated 13 July 2007 (the "**Zhejiang Ruhoo JV Equity Transfer Agreement**") entered into between Centurion Industries Limited ("**Centurion**"), a wholly-owned subsidiary of the Company, and Zhejiang Haoqing Automobile Manufacturing Company Limited ("**Zhejiang Haoqing**"), a copy of which is tabled at the meeting and marked "**D**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, Zhejiang Haoqing will transfer a 44.19% interest in the registered capital of Zhejiang Ruhoo Automobile Company Limited to Centurion for a consideration of RMB90.21 million, which will be satisfied by the issue of 74,800,000 new shares (the "**Zhejiang Ruhoo JV Consideration Shares**") of HK$0.02 each in the share capital of the Company to Zhejiang Haoqing at completion, be and is hereby approved, ratified and confirmed;

(b) subject to the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Zhejiang Ruhoo JV Consideration Shares, the issue of the Zhejiang Ruhoo JV Consideration Shares be and is hereby approved, authorized and confirmed; 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Zhejiang Ruhoo JV Equity Transfer Agreement."

(5) "THAT

(a) the conditional agreement dated 13 July 2007 (the "**Hunan Geely JV Equity Transfer Agreement**") entered into between Centurion Industries Limited ("**Centurion**"), a wholly-owned subsidiary of the Company, and Zhejiang Haoqing Automobile Manufacturing Company Limited ("**Zhejiang Haoqing**"), a copy of which is tabled at the meeting and marked "**E**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, Zhejiang Haoqing will transfer a 44.19% interest in the registered capital of Hunan Geely Automobile Components Company Limited to Centurion for a consideration of RMB17.21

million, which will be satisfied by the issue of 14,272,000 new shares (the "**Hunan Geely JV Consideration Shares**") of HK$0.02 each in the share capital of the Company to Zhejiang Haoqing at completion, be and is hereby approved, ratified and confirmed;

(b) subject to the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Hunan Geely JV Consideration Shares, the issue of the Hunan Geely JV Consideration Shares be and is hereby approved, authorized and confirmed; 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Hunan Geely JV Equity Transfer Agreement."

(6) "THAT

(a) the conditional agreement dated 13 July 2007 (the "**Zhejiang Fulin Guorun Equity Transfer Agreement**") entered into between Centurion Industries Limited ("**Centurion**"), a wholly-owned subsidiary of the Company, and Zhejiang Fulin Automobile Parts and Components Company Limited ("**Zhejiang Fulin Automobile**"), a copy of which is tabled at the meeting and marked "**F**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, Zhejiang Fulin Automobile will transfer a 49% interest in the registered capital of Zhejiang Fulin Guorun Automobile Parts and Components Company Limited to Centurion for a consideration of RMB22.48 million, which will be satisfied in cash, be and is hereby approved, ratified and confirmed; 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Zhejiang Fulin Guorun Equity Transfer Agreement."

(7) "THAT

(a) the conditional agreement dated 17 September 2007 (the "**Services Agreement**") entered into between the Company and Zhejiang Geely Holding Group Company Limited ("**Geely Holding**", together with its subsidiaries, the "**Geely Holding Group**"), a copy of which is tabled at the meeting and marked "**G**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, the

Company will, and will procure its subsidiaries, to supply to Geely Holding Group CKDs and Sedan Tool Kits (as defined in the circular of the Company dated 31 October 2007 (the "**Circular**")) and Geely Holding Group will in turn supply to the Group CBUs (as defined in the Circular), automobile parts and components and process manufacturing services, be and is hereby approved, ratified and confirmed;

(b) the cap amounts in respect of the supply of CKDs and Sedan Tool Kits to Geely Holding Group and the purchase of CBUs, automobile parts and components and process manufacturing services from Geely Holding Group as set out in the circular of the Company dated 31 October 2007 for each of the three financial years ending 31 December 2009 be and are hereby 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Services Agreement."

(8) "THAT

(a) the conditional agreement dated 17 September 2007 (the "**Co-operation Agreement (Beijing)**") entered into between the Company and Beijing Geely University, a copy of which is tabled at the meeting and marked "**H**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company will, and will procure its subsidiaries, to arrange certain personnel of the Group to lecture at the Beijing Geely University and to provide training facilities at the Group's production plants for Beijing Geely University's students (the "**Beijing Geely University Services**"), be and is hereby approved, ratified and confirmed;

(b) the cap amounts in respect of the Beijing Geely University Services as set out in the circular of the Company dated 31 October 2007 for each of the three financial years ending 31 December 2009 be and are hereby 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Co-operation Agreement (Beijing)."

(9) "THAT

(a) the conditional agreement dated 17 September 2007 (the "**Co-operation Agreement (Zhejiang)**") entered into between the Company and Zhejiang Economic Management College, a copy of which is tabled at the meeting and marked "**I**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company will, and will procure its subsidiaries, to arrange certain personnel of the Group to lecture at the Zhejiang Economic Management College and to provide training facilities at the Group's production plants for students of the Zhejiang Economic Management College (the "**Zhejiang College Services**"), be and is hereby approved, ratified and confirmed;

(b) the cap amounts in respect of the Zhejiang College Services as set out in the circular of the Company dated 31 October 2007 for each of the three financial years ending 31 December 2009 be and are hereby 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Co-operation Agreement (Zhejiang)."

(10) "THAT

(a) the conditional agreement dated 17 September 2007 (the "**Loan Guarantee Agreement**") entered into between the Company and Zhejiang Geely Holding Group Company Limited ("**Geely Holding**", together with its subsidiaries, the "**Geely Holding Group**"), a copy of which is tabled at the meeting and marked "**J**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company will, and will procure its subsidiaries, to provide guarantees (including the pledge of certain lands, buildings and facilities of the subsidiaries of the Group) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Group (the "**Guarantees**"), be and is hereby approved, ratified and confirmed;

(b) the cap amounts in respect of the Guarantees as set out in the circular of the Company dated 31 October 2007 for each of the three financial years ending 31 December 2009 be and are hereby 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Loan Guarantee Agreement."

(11) "THAT

(a) the conditional agreement dated 17 September 2007 (the "**Lease Agreement**") entered into between the Company, Zhejiang Geely Holding Group Company Limited and Zhejiang Economic Management College, a copy of which is tabled at the meeting and marked "**K**" and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Group will lease certain properties located in Zhejiang Province to Zhejiang Geely Holding Group Company Limited and Zhejiang Economic Management College (the "**Lease**"), be and is hereby approved, ratified and confirmed;

(b) the cap amounts in respect of the Lease as set out in the circular of the Company dated 31 October 2007 for each of the three financial years ending 31 December 2009 be and are hereby 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/are hereby authorised 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/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Lease Agreement."

(12) "THAT

subject and pursuant to Note 1 to the "Notes on dispensations from Rule 26" of the Hong Kong Code on Takeovers and Mergers, the Whitewash Waiver (as defined and more particularly described in the circular of the Company dated 31 October 2007) be and is hereby approved."

SPECIAL RESOLUTION

(13) "THAT

(a) the increase of the authorized share capital of the Company from HK$160,000,000 to HK$240,000,000 by the creation of an additional 4,000,000,000 shares of HK$0.02 each and the change in the relevant memorandum and articles of association of the Company be and are hereby approved and confirmed; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to do all such other acts and execute all such other documents, deeds or instruments as may be required in connected with and incidental to the above or as such Director may deem necessary or desirable to carry into effect the matters herein resolved."

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

Hong Kong, 31 October 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. Any member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

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 under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. In order to be valid, the instrument appointing a proxy and 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 delivered to the office of the branch share registrars of the Company, Union Registrars Limited, at Rooms 1901-02, 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).

4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

As at the date of this notice, the executive directors of the Company are Mr. Li Shu Fu, Mr. Gui Sheng Yue, Mr. Yang Jian, Mr. Ang Siu Lun, Lawrence, Mr. Yin Da Qing, Richard, Mr. Liu Jin Liang, Mr. Zhao Jie and Dr. Zhao Fuquan, the non-executive director of the Company is Mr. Xu Gang and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex.