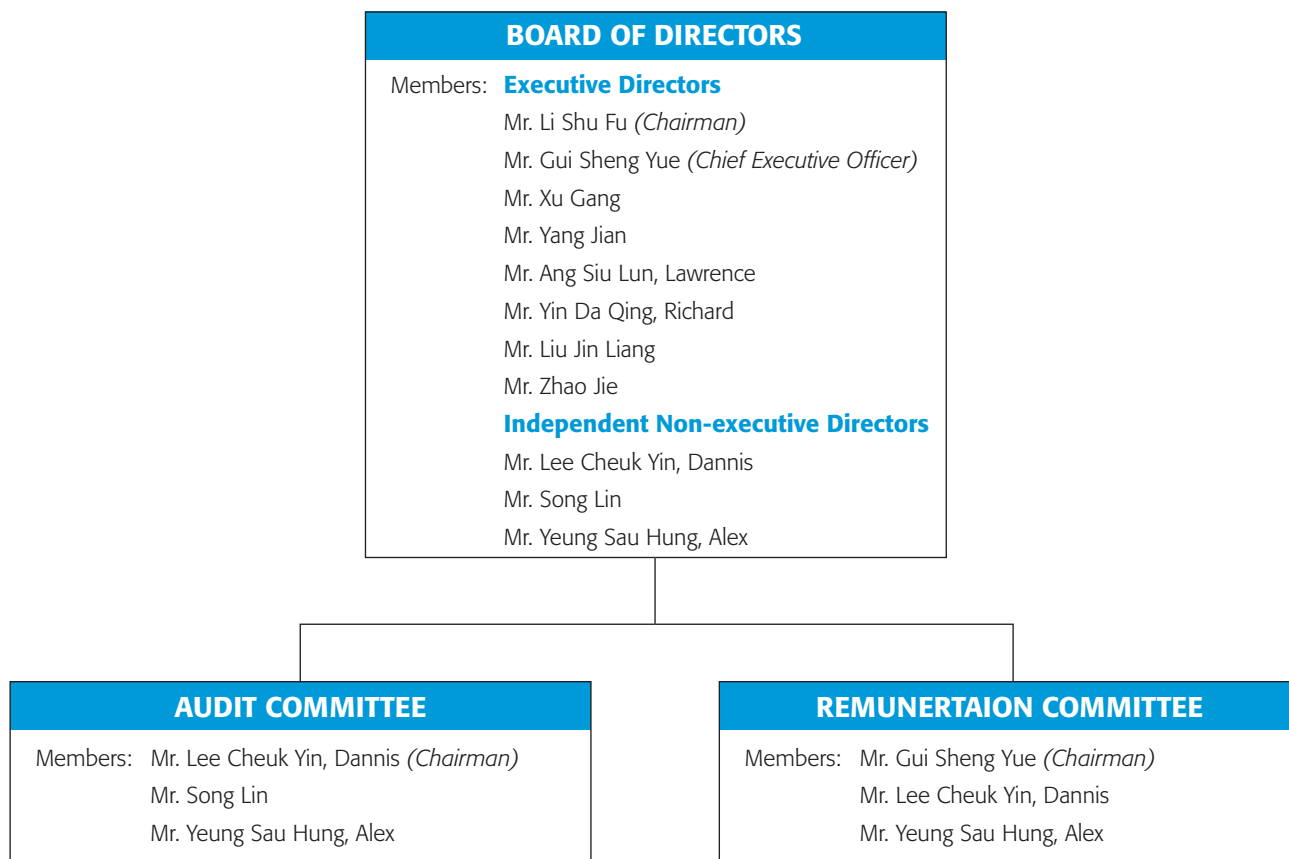


CORPORATE GOVERNANCE REPORT

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

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

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



CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

Board Composition

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

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

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

RESPONSIBILITY OF DIRECTORS

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

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

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

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

RESPONSIBILITIES OF COMPANY SECRETARY

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

DIRECTORS AND OFFICERS POLICY

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

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

REMUNERATION COMMITTEE AND REMUNERATION OF DIRECTORS

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

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

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

INVESTOR RELATIONS

General Meetings

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

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

CORPORATE GOVERNANCE REPORT

Communication Channels

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

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

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

Other Information

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

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

CORPORATE GOVERNANCE REPORT

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

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

*: These directors resigned during the year.

"N/A": Not applicable