



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

Convertible bonds

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

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

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



3. SEGMENT INFORMATION

Business Segments

No business segment information has been presented for the six months period ended 30 June 2006 and 30 June 2005 as the directors considered that the Group is principally engaged in manufacturing and trading of automobile parts and related automobile components which accounts for the total turnover and trading profits of the Group for the periods.

Geographical segments

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

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2006 <i>HK\$'000</i> (Unaudited)	2005 <i>HK\$'000</i> (Unaudited)
PRC income tax	842	-

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

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

5. PROFIT FOR THE PERIOD

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



6. DIVIDEND

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

7. EARNINGS PER SHARE

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

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

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

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

8. PLANT AND EQUIPMENT

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



9. CONVERTIBLE BONDS

On 10 April 2006, the Company issued HK\$741.6 million zero coupon convertible bonds due 2011 (“CB 2011”). The CB 2011 are listed on the Singapore Stock Exchange. The CB 2011 does not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2011 will be redeemed by the Company at 126.456 per cent of their principal amount on 10 April 2011. All of these bonds may be redeemed and converted at the option of the Company, in whole or in part, from time to time, (i) on or after 10 April 2008 when the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) shall have been at least 130 per cent of the conversion price for each of the 30 consecutive trading day period or (ii) at any time providing at least 90% of the principal amount of the CB 2011 has been converted, redeemed or purchased and cancelled and (iii) the Company may, at its option, satisfy its obligation to deliver shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to relevant holder a cash amount which equal to the number of shares deliverable upon exercise of the conversion right and average closing price of the shares. The conversion price is subject to a “reset feature” which include (a) a reset on 10 April 2007 and 10 April 2008 by reference to the average market price of the Company’s shares in the past 20 trading days prior to the respective reset dates and (b) reset price shall not be less than 80% of the conversion price at the reset dates and shall not be reduced below the par value of the shares.

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

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

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

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

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



10. INTERESTS IN ASSOCIATES

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

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

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



11. INVENTORIES

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

12. TRADE AND OTHER RECEIVABLES

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

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

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

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
0 - 60 days	35,261	43,489
61 - 90 days	-	67
Over 90 days	-	410
	35,261	43,966
The trade and bills receivables comprise:		
Trade and bills receivables from associates	35,261	24,925
Trade and bills receivables from group companies of an associate	-	19,041
	35,261	43,966

13. TIME DEPOSITS, BANK BALANCES AND CASH

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



14. **TRADE AND OTHER PAYABLES**

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

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

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

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

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

16. **SHARE CAPITAL**

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



17. OPERATING LEASE COMMITMENTS

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

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

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

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

18. RETIREMENT BENEFIT SCHEME

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

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

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



19. SHARE OPTIONS

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

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

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

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

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

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



20. RELATED PARTY TRANSACTIONS

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

(A) Transactions

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

(B) Balances

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

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



(C) Compensation of key management personnel

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

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

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

21. POST BALANCE SHEET EVENTS

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

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

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



FINANCIAL HIGHLIGHT

MAJOR ASSOCIATES

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

Combined results - Major associates (Unaudited)

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Turnover	3,288,163	1,951,217
Cost of sales	(2,728,357)	(1,647,478)
Sales tax	(3,763)	(46,086)
Gross profit	556,043	257,653
Other net operating income	70,136	112,103
Distribution and selling expenses	(144,172)	(129,519)
Administration expenses	(148,073)	(99,136)
Profit from operations	333,934	141,101
Finance costs	(17,578)	(23,435)
	316,356	117,666
Non-operating income	-	464
Non-operating expenses	-	(2,622)
Profit before tax	316,356	115,508
Income tax	(23,872)	(13,934)
Profit for the period	292,484	101,574
Attributable to:		
Shareholders of the parent company	294,189	101,380
Minority interests	(1,705)	194
Profit for the period	292,484	101,574
Gross profit margin	16.9%	13.2%
Profit margin	8.9%	5.2%



Combined assets and liabilities - Major associates (Unaudited)

	As at 30 June 2006 <i>HK\$'000</i>	As at 31 December 2005 <i>HK\$'000</i> (restated)
Non-current assets		
Property, plant and equipment	1,311,127	1,214,957
Other long-term assets	206,111	221,665
Prepaid lease payments	144,715	147,454
Goodwill	46,727	46,727
Long term investment	1,923	1,923
	1,710,603	1,632,726
Current assets		
Inventories	514,403	395,635
Prepaid lease payments	5,478	5,478
Bills receivables	799,640	1,120,815
Trade and other receivables	203,593	189,108
Amounts due from related companies	631,319	1,588,440
Short term investment	7,534	7,692
Bank balances and cash	1,057,089	1,124,663
	3,219,056	4,431,831
Current liabilities		
Bank borrowing	(830,872)	(985,095)
Bills payables	(769,231)	(1,201,923)
Trade and other payables	(844,488)	(1,733,094)
Amounts due to related companies	(779,693)	(409,210)
Taxation	(17,179)	(23,805)
Provision	(3,544)	(6,594)
Dividend payables	(189,347)	(14,673)
	(3,434,354)	(4,374,394)
Net current (liabilities)/assets	(215,298)	57,437
Total assets less current liabilities	1,495,305	1,690,163
Net assets	1,495,305	1,690,163
Equity		
Share capital	1,069,706	1,069,706
Reserves	418,755	611,908
Equity attributable to shareholders of the parent company	1,488,461	1,681,614
Minority interests	6,844	8,549
Total equity	1,495,305	1,690,163