



MANAGEMENT DISCUSSION AND ANALYSIS

2006 INTERIM RESULTS

The Board of Directors (the “Board”) of Geely Automobile Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006. These interim results have been reviewed by the Company’s Audit Committee, comprising a majority of independent non-executive directors, one of whom chairs the committee, and the Company’s auditors, Deloitte Touche Tohmatsu.

Overall Performance

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

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

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

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

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



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

Vehicle Manufacturing – Zhejiang Geely and Shanghai Maple

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

In addition to the rapid increase in sales volume, the two associates continued to improve their product mixes towards higher-priced models through the introduction of more higher-priced models like “Free Cruiser” with automatic transmissions and the 1.5L-1.6L “Geely Kingkong”. Sales of higher-priced models like “Mybo”, “Free Cruiser”, “Geely Kingkong” and “Maple” accounted for 56% of their total sales volume in the first half of 2006 compared with only 38% in 2005. In particular, “Free Cruiser”, the Group’s key new product last year, continued to receive very good market response and achieved a tremendous success in the first half of 2006 with a total sales volume of 31,542 units during the period. “Geely Kingkong” – the Group’s latest new mid-end sedan model, was officially launched in April 2006 and has so far received very encouraging response.

In the first half of 2006, Zhejiang Geely and Shanghai Maple recorded total net profit of HK\$294.2 million, up 190% over the same period in 2005, on 60% increase in sales volume to 91,953 units and 69% increase in total revenue to HK\$3,288 million. Average revenue per car improved 5% to HK\$35,759 per car as improved product mix more than offset the 4-10% price reduction by selected low-end models in April 2006. Net profit per car also improved significantly from HK\$1,971 (full year 2005) and HK\$1,768 (1st half 2005) per car to HK\$3,199 per car in the first half of 2006, helped by the improved margins for most of their models and strong demand for higher-priced “Free Cruiser” models, which accounted for 34% of the two associates’ total sales volume during the period.

Despite continued pressure from fierce competition and rising raw material prices in China’s sedan market in the first half of 2006, the two associates still managed to improve their margins through improvement of their product mixes to include more higher-priced and thus higher margin models and reduction of their total unit cost by over 5%, largely offsetting the 4-10% price cut effective from mid April 2006.



Production Plants

The Group's strategy is to continue the upgrading and expansion of its four production facilities in Linhai, Ningbo, Shanghai and Luqiao to further improve quality and reduce costs. In addition, the Group also plans to build new production facilities at less developed provinces in China for the benefit of proximity to new demand, lower costs and access to additional financial and other resources available in other provinces.

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 manufacturing and distribution of sedans in four locations, namely Lanzhou, Xiangtan, Ningbo and Jinan. The potential production and distribution of sedans in these four locations by Geely Holding will constitute competing businesses (the "Competing Businesses") to those currently engaged by the Zhejiang JV and the Shanghai Maple JV, the Company's two associates in the PRC. Mr. Li had granted an unconditional option in favour of the Company (the "Option") that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive Directors, he will, and will procure his associates (other than the Group) to sell to the Group (1) all of the Competing Businesses and related assets, and (2) new projects that might constitute competing businesses to those currently engaged by the Group or the Company's two 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.

The construction of the second Shanghai Maple plant started in November 2005 was the most important expansion project undertaken by the Group in the first half of 2006. Superstructure of the new plant has been completed and installation of machinery and equipment has already started. The first phase of the new plant is scheduled to be completed by early 2007 and will expand Shanghai Maple's annual production capacity from 50,000 units to 110,000 units. Trial production at the new plant is scheduled to start in September 2006. Upon completion, the whole second plant will have an annual production capacity of 250,000 units.

Longer-term, the Group plans to expand its total annual production capacity from 250,000 units by the end of 2005 to 1 million units by end of 2010 through expansion of four existing plants and the planned acquisitions of new plants currently constructed by the Group's parent Geely Holding.

New Products

Major new product launches in the first half of 2006 are summarized below:

1. Geely JL-ZA series automatic gearboxes;
2. Geely "Free Cruiser" family sedan (1.5L with automatic transmissions)
3. Geely "Kingkong" mid-end sedans or LG-1 (1.5L, 1.6L);
4. Maple "Hisoon AB" hatchback sedans (1.8L)



In the second half of 2006, the Company's two associates plan to launch the following new products:

1. Geely "New Haoqing" economy sedans (1.05L, 1.3L);
2. Geely "New Merrie" hatchback sedans (1.1L, 1.3L);
3. Geely "New Ulion" family sedans;
4. Geely "Mybo II" sport cars;
5. Geely "FC-1" mid-end sedans (1.8L);
6. Maple "Marindo MB" mid-end sedans (1.8L);
7. Geely JL4G18 all aluminium CVVT engines

The Group's long-term new product development focus is to develop 15 brand new vehicle models, 8 new engines, 6 new manual transmissions, 6 new automatic transmissions, 3 ECVT (Electronically Controlled Continuously Variable Transmissions) and one hybrid project by 2010. The Group also plans to start the subcontract manufacturing of the right-hand drive versions of the "Free Cruiser" in Malaysia in the 4th quarter of 2006.

Exports

In the first half of 2006, the Company's two associates exported a total of 3,460 units of Geely and Maple sedans, or around 4% of the two associates' total sales volume, to overseas market, ranking the Group number two in terms of export volume amongst China's sedan manufacturers. The Company expects total export volume to be around 10,000 units for the full year 2006.

First Appearance in North American International Auto Show in Detroit

Zhejiang Geely displayed one model - Geely 7151 CK (called "Free Cruiser" in China market) - in the most important auto show in North America in January 2006. The committee of the motor show awarded Zhejiang Geely with a "Silver Diamond Award" for being the first Chinese auto company attending the motor show.

Outlook

We believe the strong growth in demand in China for fuel-efficient and easy-to-maintain affordable economy sedans should be sustainable in the coming decade, helped by China's consistent economic growth, rising household incomes and its still low car ownership at less than 1% of the population owning a car at present.

According to figures compiled by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China grew 47% YoY in the first half of 2006 to 1.8 million, surpassing most market expectations. Although competition in China's sedan market appears to have intensified over the past few months, we expect the growth of China's sedan sales volume to be maintained at around 20% per annum in the coming few years. Total sales volume of sedans should exceed 3.5 million units for full year 2006, up over 25% from previous year. Longer-term, demand for environmental friendly, fuel efficient economy sedans should continue to grow faster than other types of sedans in the foreseeable future due to the continued migration of demand from corporates to individuals, and increased government intervention and incentives to promote economy sedans.



We maintained our year beginning target of raising our market share in China's sedan market from 4.8% in 2005 to over 5% in 2006, thus translating into full year sales volume target of 180,000 units in 2006, up over 35% from 2005. In the first half of 2006, the Group's two associates had sold 91,953 units of vehicles, achieving 51% of their combined full year target, thus putting us on track to achieve our full year sales 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 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. With the long-term objective of a 10% market share in China and exporting two third of output to overseas market by 2015, we are aiming at expanding our production volume to over 2 million units in the coming decade.

In addition, we shall actively seek for ways and opportunities to further rationalize and restructure the Company's structure, aiming at improving the Company's overall transparency and its effectiveness as the ultimate holding company of Geely Holding's auto related businesses. To achieve that, the Company would actively consider to raise its shareholdings in the two associates to over 50% subject to government approval and compliance with relevant regulations.

Looking forwards, China's sedan market in the remainder of 2006 appears to be a tougher market compared with the first half of 2006, due to intensified price competition since the second quarter of 2006, significant increase in the number of new model launches scheduled for the second half 2006, continued high oil prices which could dampen sedan demand, and continued aggressive investments by major international car makers in China. To maintain our competitiveness and thus our profitability levels, major effort and management resources will be allocated to strengthen quality control, brand building, technological upgrading and innovation, and further cost reduction.

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

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 2006, the Group's current ratio (current assets/current liabilities) was 3.58 (As at 31 December 2005: 1.23) and the gearing ratio of the Group was 79.8% (As at 31 December 2005: 2.4%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds) as at 30 June 2006 amounted to approximately HK\$703 million (As at 31 December 2005: approximately HK\$19 million) were mainly the Company's convertible bonds, advances from immediate holding company and amount due to a minority shareholder. For the Company's convertible bonds, please refer to note 9 to the condensed consolidated financial statements. For the latter two, 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 2006, the total number of employees of the Group including associates was about 9,484 (As at 31 December 2005: approximately 7,714). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interest and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:



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

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long Position	Short Position	
<i>Shares</i>				
Mr. Li Shu Fu (<i>Note 1</i>)	Corporate	2,500,087,000	-	60.68%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	-	0.06%
<i>Share options</i>				
Mr. Ang Siu Lun, Lawrence	Personal	35,000,000 (<i>Note 2</i>)	-	0.85%
Mr. Ang Siu Lun, Lawrence	Personal	10,000,000 (<i>Note 3</i>)	-	0.24%
Mr. Gui Sheng Yue	Personal	23,000,000 (<i>Note 3</i>)	-	0.56%
Mr. Xu Gang	Personal	23,000,000 (<i>Note 3</i>)	-	0.56%
Mr. Yang Jian	Personal	23,000,000 (<i>Note 3</i>)	-	0.56%
Mr. Liu Jin Liang	Personal	18,000,000 (<i>Note 3</i>)	-	0.44%
Mr. Zhao Jie	Personal	18,000,000 (<i>Note 3</i>)	-	0.44%
Mr. Yin Da Qing, Richard	Personal	16,000,000 (<i>Note 3</i>)	-	0.39%
Mr. Song Lin	Personal	1,000,000 (<i>Note 4</i>)	-	0.02%
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (<i>Note 4</i>)	-	0.02%
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (<i>Note 4</i>)	-	0.02%



Notes:

- (1) Proper Glory Holding Inc. 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.
- (2) This interest relates to share options granted on 23 February 2004 by the Company to Mr. Ang Siu Lun, Lawrence. The share options are exercisable at a subscription price of HK\$0.95 for each share during the period from 23 February 2004 to 22 February 2009. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2006.
- (3) This interest relates to share options granted on 5 August 2005 by the Company to the executive Directors. The share options are exercisable at a subscription price of HK\$0.70 for each share during the period from 5 August 2005 to 4 August 2010. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2006.
- (4) This interest relates to share options granted on 23 May 2006 by the Company to the independent non-executive Directors. The share options are exercisable at a subscription price of HK\$0.93 for each share during the period from 10 July 2006 to 16 May 2011. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2006.



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

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

Notes:

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

Save as disclosed above, as at 30 June 2006, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.



DIRECTORS' RIGHT TO ACQUIRE SHARES

As at 30 June 2006, the directors and chief executive of the Company have the following options to subscribe for the shares of the Company under the Company's share options scheme approved and adopted on 31 May 2002 (the "Scheme"):

Name of Director	Outstanding Options as at 30 June 2006	Date of grant	Exercise period	Exercise price <i>HK\$</i>
Mr. Ang Siu Lun, Lawrence	35,000,000	23.2.2004	23.2.2004 - 22.2.2009	0.95
Mr. Ang Siu Lun, Lawrence	10,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Gui Sheng Yue	23,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Xu Gang	23,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Yang Jian	23,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Liu Jin Liang	18,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Zhao Jie	18,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Yin Da Qing, Richard	16,000,000	5.8.2005	5.8.2005 - 4.8.2010	0.70
Mr. Song Lin	1,000,000	23.5.2006	10.7.2006 - 16.5.2011	0.93
Mr. Yeung Sau Hung, Alex	1,000,000	23.5.2006	10.7.2006 - 16.5.2011	0.93
Mr. Lee Cheuk Yin, Dannis	1,000,000	23.5.2006	10.7.2006 - 16.5.2011	0.93
	169,000,000			

SHARE OPTION SCHEME

A share option scheme of the Company was approved and adopted on 31 May 2002. The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to inter alia, directors and employees of the Company and its subsidiaries and other participants to subscribe for shares of the Company. Further details of the Scheme were disclosed in the Company's 2005 annual report.

Based on the Company's records as at 30 June 2006, except disclosed in the section headed "Directors' Right to Acquire Shares" above, 98,500,000 share options were granted by the Company to the employees and remain outstanding since its adoption.



INTERIM DIVIDEND

At a meeting of the Board held on 15 September 2006, the Directors resolved not to pay an interim dividend to shareholders (2005: Nil).

CONNECTED TRANSACTIONS

Other than disclosed in note 12 to the condensed consolidated financial statement, the Group had the following material transactions and balances with connected parties during the period.

(A) Transactions

Connected parties	Nature of transactions	Notes	Six months ended 30 June	
			2006 HK\$'000	2005 HK\$'000
Zhejiang Geely Automobile Company Limited	Sales of automobile parts and components to an associate		69,271	1,355
	Purchases of automobile parts and components from an associate		580	-
	Dividend received from an associate		174,489	48,045
Shanghai Maple Guorun Automobile Company Limited	Dividend received from an associate		53,683	457
Zhejiang Haoqing Automobile Manufacturing Company Limited	Sales of automotive parts and components to a related company	(i)	-	34,467
Zhejiang Guo Mei Decoration Materials Company Limited	Rental expense to a related company	(i)	217	226



(B) Balances

Connected parties	Nature of transactions	Notes	30 June	31 December
			2006	2005
			HK\$'000	HK\$'000
Zhejiang Geely Automobile Company Limited	Dividend receivable from an associate		147,018	8,220
Shanghai Maple Guorun Automobile Company Limited	Dividend receivable from an associate		42,216	-
Zhejiang Guo Mei Decoration Materials Company Limited	Rental expense payable to a related company	(i)	1,077	923
Zhejiang Fulin Automobile Parts & Components Company Limited	Advance from a minority shareholder of a subsidiary		5,357	4,588
Proper Glory Holding Inc.	Advance from an immediate holding company		11,220	14,220

Note:

- (i) A controlling shareholder (including his associates) of the Company is also the controlling shareholder of the related companies.



INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF OTHER PERSONS

As at 30 June 2006, the following persons (other than the directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Substantial Shareholders

(as defined in the Listing Rules)

Name	Capacity	Number of shares held		Shareholding Percentage (%)
		Long position	Short position	
Proper Glory Holding Inc. (Note)	Beneficial owner	2,500,000,000	-	60.68
Geely Group Ltd. (Note)	Beneficial owner	87,000	-	0.002
	Corporate	2,500,000,000	-	60.68
Deutsche Bank Aktiengesellschaft	Corporate	297,266,649	12,500,000	6.91
Cheah Cheng Hye	Corporate	208,535,000	-	5.06
Value Partners Limited	Corporate	208,535,000	-	5.06

Note:

Proper Glory Holding Inc. 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, the Company had not been notified of any other person (other than the directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 30 June 2006 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2006.



CORPORATE GOVERNANCE

The Company has applied the principles and complied with the requirements as set out in the Code on Corporate Governance Practices (the “CG Code”) in Appendix 14 of the Listing Rules on the Stock Exchange, with a major deviation from CG Code provision A.4.2 in respect of number and frequency of directors’ retirement by rotation throughout the review period. Details were disclosed in the Company’s 2005 Annual Report.

The Company has 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 review period with the required standards set out in the Model Code and the Code.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the CG Code for the purpose of reviewing and providing supervision over the Group’s financial reporting processes and internal controls. As at 30 June 2006, the audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company.

APPRECIATION

The Board would like to express its gratitude to the management team and staff members for their hard work, dedication and support throughout the period.

ON BEHALF OF THE BOARD

Li Shu Fu

Chairman

Hong Kong

15 September 2006