

CORPORATE GOVERNANCE REPORT

The Company remains firmly committed to achieving a high standard of corporate governance with an emphasis on a strong and balanced board, and transparency and accountability to all shareholders of the Company.

The Company has complied with 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") throughout the year ended 31 December 2006, 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 paragraphs below describe how the principles and code provisions are applied by the Company.

The Board

The Board of Directors is responsible for overall management of the business and strategic orientations.

Board Composition

As at 31 December 2006, the Board of Directors of the Company (the "Board") comprised nine 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, one third of the directors for the time being or, if their number

is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that each director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting.

On 17 November 2006, Dr. Zhao Fuquan was appointed by the Company as an executive director. His appointment will be subject to re-election by shareholders at the coming AGM.

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 directors. Further, as the whole Board is jointly responsible for selection and approval of candidates for appointment as directors to the Board, the Company does not operate a Nomination Committee. For directors' biographical information, please refer to pages 33 to 35 of this annual report.

The following illustrates the membership and structure of the Company's Board of Directors and the two specialized committees of the Board, as at 31 December 2006:

Executive Directors

Mr. Li Shu Fu (*Chairman*)
Mr. Gui Sheng Yue (*Chief Executive Officer or CEO*)
Mr. Xu Gang
Mr. Yang Jian
Mr. Ang Siu Lun, Lawrence
Mr. Yin Da Qing, Richard
Mr. Liu Jin Liang
Mr. Zhao Jie
Dr. Zhao Fuquan

Independent Non-executive Directors

Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Audit Committee

Mr. Lee Cheuk Yin, Dannis (*Chairman*)
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Remuneration Committee

Mr. Gui Sheng Yue (*Chairman*)
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex

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. With effect from 23 February 2006, Mr. Gui Sheng Yue, an executive director, was appointed as the Chief Executive Officer of the Company and Mr. Li Shu Fu resigned from the Chief Executive Officer. Mr. Li Shu Fu, the founder of the Group, remains the role of Chairman of the Board.

Independent Non-executive Directors

As at 31 December 2006, there were three 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 31 December 2006 pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive directors have been 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 given sufficient time and attention 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, clear and understandable assessment of the Group's financial and operational performance, position and prospects. The Group has adopted the Hong Kong Financial Reporting Standards ("HKFRSs") 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 may 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.

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 the Officers (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 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 four regular board meetings and twenty-two ad-hoc board meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 44 of this report.

For regular board meetings, 14-day notices are given to directors beforehand. For other type of board meetings, reasonable notices are given to directors as well. Board papers (including the board meeting agenda) are circulated before the board meetings to enable the directors to make informed decisions on matters to be raised. The directors are provided with opportunities to include matters in the agenda for board meetings. The Company Secretary and Qualified Accountant shall attend all 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, the Codes on Takeovers and Mergers and Share Repurchases, the Companies Ordinance, the Securities and Futures Ordinance and the other applicable laws, rules and regulations.

Internal Control

The Board assumes the responsibilities of 1) the effectiveness of the system of internal control and risk management and 2) reviewing the effectiveness of such internal control system at least annually and more frequently should the need arise.

In the past, the Board had considered the need for an internal audit function to conduct such internal control review of the Group periodically, but had decided that, because of the scale and focus of the Company and its subsidiaries (collectively known as the "Group"), it was not justified. But having re-considered the following factors, the Board decided in November 2006 that it is necessary, appropriate and crucial to set up an internal control function for the Group soon:

- The Group's 46.8%-owned associates still remain the key earnings contributors to the Group's earnings and these associates have been expanding fast since their dates of incorporation; and
- The Group still actively considers raising its shareholding in the associates to over 50%, aiming at improving the Group's overall transparency and its effectiveness as the ultimate holding company of Geely Holding's auto-related businesses, subject to government approval and compliance with relevant regulations. If successful, the existing associates will become subsidiaries of the Group and their financial results and position will be consolidated at each balance sheet date.

A plan to systematically review the Group's system of internal control is being developed and will be reviewed and discussed with the members of the Audit Committee in due course. But the key procedures within the Group's system of internal control will include at least the following:

- There will be a comprehensive budgeting system with the annual budget being approved by the Board. Actual results and updated forecasts are prepared regularly and compared against the budget;
- The annual capital investment budget will be approved by the Board together with significant individual items prior to commitment;

- Each operating unit will be required to comply with defined policies and procedures, and authorization levels will be clearly defined and communicated. Regular internal financial control reviews and investigations will be carried out by the Group staff and followed up by the management;
- Control procedures will be set up and put in place to ensure the compliance with the relevant laws and regulations; and
- Periodic review of the key risks facing the Group and its businesses and key mitigating actions.

The Group's internal control system will be designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system will include a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

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 31 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.

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 44 of this report.

On 10 November 2006, Deloitte Touche Tohmatsu has resigned as the auditors of the Company and its subsidiaries (together, the "Group") due to the fact that the Company and Deloitte Touche Tohmatsu could not reach a consensus in relation to the audit fees for the financial year ended 31 December 2006. On the same day, Moores Rowland Mazars has been appointed as the auditors of the Group to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu and to hold office until the next annual general meeting of the Company. For further details, please refer to the Company's announcement dated 13 November 2006.

The Audit Committee has reviewed with the management of the Company and 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 31 December 2006.

For the year ended 31 December 2006, the auditors of the Company received approximately HK\$1.2 million for the Group's audit service, approximately HK\$1.4 million for due diligence services and approximately HK\$0.6 million for works relating to the issue of comfort letter on the convertible bonds issued in April 2006.

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 31 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 six meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 44 of this report.

Investor Relations General Meetings

Five general meetings were held during the year. The first general meeting was an extraordinary general meeting held on Thursday, 4 May 2006 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 4 May 2006 (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 the 2006 annual general meeting held on Friday, 19 May 2006 at 10:00 a.m.

The third general meeting was an extraordinary general meeting held on Thursday, 31 August 2006 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 31 August 2006 (which can be downloaded from the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>)).

The fourth and fifth general meetings were extraordinary general meetings held on Wednesday, 20 December 2006. For detailed voting results of the extraordinary general meetings, please refer to the Company's

announcement dated 20 December 2006 (which can be downloaded from the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>)).

Communication Channels

It is the Company's aim to maintain open and effective communication with the shareholders. 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) critical information regarding the Company's operations and/or deals goes out to shareholders and investors in the form of announcements and/or circulars in line with Stock Exchange's requirement,
- (iii) 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
- (iv) the Company's website publicizes contact details of the Company Secretary, an Executive Director and senior management staff.

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 Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, 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.

Attendance record at the meetings of the Board of Directors and specialized board committees held during the year ended 31 December 2006

Name and designation	No. of regular meetings	Board		Audit Committee		Remuneration Committee		
		Attendance	No. of ad-hoc meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
Executive Director								
Mr. Li Shu Fu (ex CEO)	4	4	22	1	N/A	N/A	N/A	N/A
Mr. Xu Gang	4	3	22	0	N/A	N/A	N/A	N/A
Mr. Yang Jian	4	3	22	0	N/A	N/A	N/A	N/A
Mr. Ang Siu Lun, Lawrence**	4	4	22	21	N/A	N/A	6	1
Mr. Gui Sheng Yue (CEO)	4	4	22	20	N/A	N/A	6	6
Mr. Yin Da Qing, Richard	4	3	22	1	N/A	N/A	N/A	N/A
Mr. Liu Jin Liang	4	3	22	0	N/A	N/A	N/A	N/A
Mr. Zhao Jie	4	3	22	0	N/A	N/A	N/A	N/A
Dr. Zhao Fuquan*	4	0	22	0	N/A	N/A	N/A	N/A
Independent Non-executive Director								
Mr. Lee Cheuk Yin, Dannis	4	3	22	5	3	3	6	6
Mr. Song Lin	4	3	22	0	3	0	N/A	N/A
Mr. Yeung Sau Hung, Alex	4	4	22	4	3	3	6	6

*: Joined the Board during the year.

** : Resigned from the chairman of Remuneration Committee during the year.

"N/A": Not applicable