

DIRECTORS' REPORT

The Directors present their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2006.

Principal Activities

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

Results

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 55. The directors now recommend the payment of a final dividend of HK1 cent per share and a special dividend of HK0.2 cent per share to the shareholders on the register of members on 14 May 2007.

Closing of Register of Members

The register of members of the Company will be closed from 10 May 2007 to 14 May 2007, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed dividends, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 9 May 2007.

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 4 of the annual report.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in note 23 to the consolidated financial statements.

Reserves

Details of the movements during the year in the reserves of Group are set out in the consolidated statement of changes in equity on page 57.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Li Shu Fu (*Chairman*)
 Mr. Gui Sheng Yue (*Chief Executive Officer*)
 Mr. Xu Gang
 Mr. Yang Jian
 Mr. Ang Siu Lun, Lawrence
 Mr. Liu Jin Liang
 Mr. Yin Da Qing, Richard
 Mr. Zhao Jie
 Dr. Zhao Fuquan (Appointed on 17 November 2006)

Independent non-executive directors:

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

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs. Yang Jian, Yin Da Qing, Richard, Liu Jin Liang and Dr. Zhao Fuquan shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The independent non-executive directors have no fixed term of office and will be subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Directors' and Chief Executives' Interests and Short Positions in the Securities of the Company and its Associated Corporations

As at 31 December 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 securities in the Company		Shareholding percentage (%)
		Long position	Short position	
Shares				
Mr. Li Shu Fu (Note 1)	Corporate	2,500,087,000	–	60.22%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.05%
Share options				
Mr. Ang Siu Lun, Lawrence	Personal	45,000,000 (Note 2)	–	1.08%
Mr. Gui Sheng Yue	Personal	23,000,000 (Note 2)	–	0.55%
Mr. Xu Gang	Personal	23,000,000 (Note 2)	–	0.55%
Mr. Yang Jian	Personal	23,000,000 (Note 2)	–	0.55%
Mr. Liu Jin Liang	Personal	18,000,000 (Note 2)	–	0.43%
Mr. Zhao Jie	Personal	18,000,000 (Note 2)	–	0.43%

Name of director	Capacity	Number of securities in the Company		Shareholding percentage (%)
		Long position	Short position	
Share options				
Mr. Yin Da Qing, Richard	Personal	16,000,000 (Note 2)	–	0.39%
Dr. Zhao Fuquan	Personal	12,000,000 (Note 2)	–	0.29%
Mr. Song Lin	Personal	1,000,000 (Note 2)	–	0.02%
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 2)	–	0.02%
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 2)	–	0.02%

Note:

- (1) Proper Glory Holding Inc. ("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.

- (2) This share option interest is also referred to in the section headed "Share Options" below. 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 31 December 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)
Mr. Li Shu Fu	Zhejiang Kingkong Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 4)	–	(Note 4)

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.
- (3) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Geely Holding Limited. Geely Holding Limited is incorporated in the PRC and is 55%-owned by Mr. Li.

- (4) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing 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 31 December 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.

Interests and Short Positions in Shares and Underlying Shares of Other Persons

As at 31 December 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
		Long position	Short position	Percentage (%)
Proper Glory Holding Inc. (Note)	Beneficial owner	2,500,000,000	–	60.22
Geely Group Ltd. (Note)	Beneficial owner	87,000	–	0.002
	Corporate	2,500,000,000	–	60.22

Note:

Proper Glory Holding Inc. ("Proper Glory") is a private company incorporated in the British Virgin Islands and is wholly owned by Geely Group Limited ("Geely Group"). Geely Group 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 31 December 2006 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share Options

Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year.

Director	Exercise Period	Exercise price per share HK\$	Outstanding at 1.1.2006	Granted during the year	Outstanding at 31.12.2006
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 Hung, Alex	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
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
			<u>254,500,000</u>	<u>28,000,000</u>	<u>282,500,000</u>

Arrangements to Purchase Shares or Debentures

Other than the share options disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts of Significance

Details of transactions between the Group and other companies under the control of Mr. Li Shu Fu during the year are set out in note 29 to the consolidated financial statements.

Save as disclosed above, no contracts of significance to which the Company, its holding company or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

During the year, the Group entered into certain related party transactions which also constitute connected transactions under the Listing Rules. Details of these transactions are set out in note 29 to the consolidated financial statements. The following transaction between certain connected parties and the Group has been entered into is ongoing for which relevant announcement had been made by the Company in accordance with the requirements of the Listing Rules.

Model Code for Securities Transactions by Directors

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.

Continuing Connected Transactions

On 9 May 2005, Zhejiang Fulin Guorun Automobile Parts & Components Company Limited ("Zhejiang Fulin"), a subsidiary of the Company, entered into a supply agreement with Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), an associated company of the Group. Prior to the entering into of the supply agreement, Zhejiang Fulin had been in its usual and ordinary course of business, selling automobile parts and components on normal commercial terms to an associated company of the Group, Zhejiang Geely and its subsidiaries since December 2003. Mr. Li Shu Fu is the ultimate controlling shareholder of Zhejiang Geely Automobile Company Limited. Also, he has become the ultimate controlling shareholder of the Company since 19 May 2005 and was appointed as the Chairman of the Company on 6 June 2005. Therefore, the transactions between Zhejiang Fulin and Zhejiang Geely under the supply agreement would automatically constitute continuing connected transactions for the Company since 19 May 2005. On 20 March 2006, Zhejiang Fulin entered into the supplemental supply agreement with

Zhejiang Geely to amend the annual caps as stated in the supply agreement. Save for this, other terms of the Supply Agreement would remain unchanged. The consideration payable under the transactions pursuant to the supply agreement and supplemental supply agreement will be determined at arm's length negotiations between the relevant parties with reference to prevailing market price or on no more favorable terms to Zhejiang Geely and its subsidiaries than those offered by Zhejiang Fulin to other independent third parties.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) had been determined to be approximately HK\$127 million which, did not exceed the annual cap of HK\$238 million for the year ended 31 December 2006 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be approximately HK\$127 million which, did not exceed the annual cap of HK\$238 million for the year ended 31 December 2006 as approved by the Stock Exchange and the Independent Shareholders.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Major Customers and Suppliers

The percentage of purchases attributable to the Group's five largest suppliers and the largest supplier are 33.9% and 10.0%, respectively, of the Group's total purchases for the year.

The percentage of sales attributable to the Group's five largest customers and the largest customer are 100% and 99.8% respectively, of the Group's total sales for the year. Zhejiang Geely Automobile Company Limited, an associate of the Group, is the Group's largest customer.

Save as disclosed above, at no time during the year did the directors, their associates, or shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers or suppliers.

Corporate Governance Report

Details of the Corporate Governance Report are set out on pages 37 to 44 of the annual report.

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 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 Audit Committee currently comprises Mr. Lee Cheuk Yin, Dennis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2006.

Sufficiency of Public Float

Rule 8.08 of the Listing Rules requires at least 25% of the issued share capital of the Company to be held in public hands. Based on the information available and within the knowledge of the directors as at the latest practicable date prior to the issue of the annual report, such obligation has been complied with.

Auditors

A resolution will be submitted to the annual general meeting to appoint the auditors of the Company.

On behalf of the Board

Li Shu Fu

Chairman

11 April 2007