NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

1. GENERAL

The Company is a public listed limited company incorporated in the Cayman Islands as an exempted limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). Its parent company is Proper Glory Holding Inc. and its ultimate holding company is Geely Group Limited, both incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate Information" to the annual report.

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

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out in note 4 below.

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") 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.

3. EFFECTS OF APPLICATION OF HKFRSs NOT YET EFFECTIVE

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is an entity in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including dividend receivables from associates and trade and other receivables) are initially measured recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Other financial liabilities

Other financial liabilities (including short-term bank borrowings, trade and other payables and amounts due to related parties) are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 income statement and the remaining portion is deducted from the liability component.

The liability component is subsequently measured at amortised cost, using the effective interest 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 with changes in fair value recognised in income statement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of businesses, net of discounts, returns and related sales taxes.

Income from sales of automobile parts and components is recognised when the products are delivered and title has been passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Equity-settled share-based transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in income statement with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify of recognise as assets. Corresponding adjustments have been made to equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme are charged as expenses as they fall due.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include convertible bonds, short-term bank borrowings, trade and other receivables, trade and other payables, amounts due from/to related parties. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has concentration of credit risk with exposure limited to its associates. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debts due from an associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's exposure to bad debts is minimal.

The credit risk on liquid funds and notes receivable is limited because the counterparties are either banks or guaranteed by banks with high credit ratings assigned by credit-rating agencies.

Interest rate risk

The Group's interest rate risk relates primarily to short-term bank borrowings (see note 17(b) for details).

(b) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair value of financial instruments *(Continued)*

(ii) the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes-Merton pricing model).

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidation financial statements approximate their fair values:

	2006	
	Carrying amount	**Fair value**
	HK$'000	**HK$'000**
Financial liabilities		
Convertible bonds	**682,838**	**689,742**

6. TURNOVER/REVENUE

Turnover/revenue represents the consideration from sales, net of discounts, returns and related sales taxes, of automobile parts and components.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

No business segment information has been presented for the years ended 31 December 2006 and 31 December 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 years.

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.

8. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Bank interest income	**13,401**	57
Net exchange gain	**3,929**	–
Sundry income	**894**	624
	18,224	681

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2006 HK$'000	2005 HK$'000
Finance costs		
Effective interest expense on convertible bonds	**32,289**	–
Interest on bank borrowings wholly repayable within one year	**101**	–
	32,390	–
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**13,181**	10,284
Retirement benefit scheme contributions	**481**	297
Recognition of share based payments (included in administrative expenses)	**4,660**	5,538
	18,322	16,119
Other items		
Cost of sales	**110,036**	90,649
Auditors' remuneration	**1,192**	580
Depreciation	**1,403**	811
Operating leases charges on premises	**1,220**	1,478
Share of tax of associates (included in share of results of associates)	**26,770**	28,596

10. TAXATION

	2006 HK$'000	2005 HK$'000
Current tax:		
PRC foreign enterprise income tax, current year	**1,585**	–

Hong Kong Profits Tax has not been provided for the year 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 foreign enterprise income tax for the two years starting from its first profit-making year (i.e. year 2004), followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

The tax charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**215,734**	115,377
Less: Share of results of associates	**(243,230)**	(122,691)
	(27,496)	(7,314)
Tax at the applicable tax rate	**(9,074)**	(2,414)
Tax effect of expenses not deductible in determining taxable profit	**12,709**	5,480
Effect of tax exemption granted to the PRC subsidiary	**(2,050)**	(3,066)
Tax expense for the year	**1,585**	–

The applicable tax rate is the PRC's foreign enterprise income tax rate of 33% (2005: 33%).

11. DIVIDENDS

A final dividend for the year ended 31 December 2005 of HK$0.01 per share amounting to HK$41,203,000 was paid to the shareholders during the year.

A final dividend and a special dividend for the year ended 31 December 2006 of HK$0.01 per share and HK$0.002 per share respectively, amounting to HK$57,327,000, have been proposed by the Board of Directors after the balance sheet date. The proposed dividend will be accounted for as an appropriation of accumulated profits in the year ending 31 December 2007 if it is approved by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$208,752,000 (2005: HK$110,827,000) and weighted average number of ordinary shares of 4,134,231,655 shares (2005: 4,120,264,902 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	2006	2005
Issued ordinary shares at 1 January	**4,120,264,902**	4,120,264,902
Effect of shares issued upon conversion of convertible bonds	**13,966,753**	–
Weighted average number of ordinary shares at 31 December	**4,134,231,655**	4,120,264,902

12. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company of HK$245,783,000 and the weighted average number of ordinary shares of 4,969,511,119 shares, calculated as follows:

(i) Profit attributable to equity holders of the Company (diluted)

	2006 HK$'000
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders)	**208,752**
After tax effect of effective interest on the liability component of convertible bonds	**32,289**
After tax effect of fair value losses on embedded derivative components of convertible bonds	**4,742**
Earnings for the purpose of diluted earnings per share	**245,783**

(ii) Weighted average number of ordinary shares (diluted)

	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,134,231,655**
Effect of deemed conversion of convertible bonds	**802,134,831**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**33,144,633**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,969,511,119**

No diluted earnings per share has been presented for the year ended 31 December 2005 as the exercise price of the share options was higher than the average market price.

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The emoluments paid or payable to each of the twelve (2005: twenty) directors are as follows:

2006

Name of director	Fees	Salaries	Rental allowance	Contribution to retirement benefit scheme	Sub-total	Share based payment (Note)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Gui Sheng Yue	–	1,320	93	12	1,425	332	1,757
Mr. Ang Siu Lun, Lawrence	–	1,400	–	12	1,412	145	1,557
Mr. Zhao Jie	1	596	–	–	597	260	857
Dr. Zhao Fuquan	1	–	–	–	1	548	549
Mr. Li Shu Fu	2	228	–	–	230	–	230
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120	62	182
Mr. Yeung Sau Hung, Alex	120	–	–	–	120	62	182
Mr. Song Lin	102	–	–	–	102	62	164
Mr. Liu Jin Liang	10	–	–	–	10	260	270
Mr. Xu Gang	10	–	–	–	10	332	342
Mr. Yang Jian	10	–	–	–	10	332	342
Mr. Yin Da Qing, Richard	10	–	–	–	10	231	241
	386	3,544	93	24	4,047	2,626	6,673

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' remuneration *(Continued)*

2005

Name of director	Fees	Salaries	Rental allowance	Contribution to retirement benefit scheme	Sub-Total	Share-based payment (Note)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Ang Siu Lun, Lawrence	–	1,300	–	12	1,312	751	2,063
Mr Gui Sheng Yue	–	438	42	7	487	526	1,013
Mr. He Xue Chu	–	342	–	6	348	–	348
Mr. Ku Wai Kwan	–	285	–	6	291	–	291
Mr. Zhou Teng	–	285	–	6	291	–	291
Mr Wong Hing Kwok	–	142	–	6	148	–	148
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120	–	120
Mr. Yeung Sau Hung, Alex	70	–	–	–	70	–	70
Mr. Xu Xing Yao	62	–	–	–	62	–	62
Mr. Liu Ming Hui	21	–	–	–	21	–	21
Mr. Song Lin	10	–	–	–	10	–	10
Mr. Nan Yang	8	–	–	–	8	–	8
Mr. Xu Gang	6	–	–	–	6	526	532
Mr. Yang Jian	6	–	–	–	6	526	532
Mr. Yin Da Qing, Richard	6	–	–	–	6	366	372
Mr. Liu Jin Liang	6	–	–	–	6	411	417
Mr. Zhang Zhe	5	–	–	–	5	–	5
Mr. Li Shu Fu	3	–	–	–	3	–	3
Mr. Zhao Jie	3	–	–	–	3	411	414
Mr. Shim Bong Sup	3	–	–	–	3	–	3
	329	2,792	42	43	3,206	3,517	6,723

No director waived any emoluments during the years ended 31 December 2006 and 2005.

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' remuneration *(Continued)*

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4 and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Options" in the directors' report and in note 28 to these consolidated financial statements.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: five) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining individual for the year ended 31 December 2006 are as follows:

	2006 HK$'000
Basic salaries and allowances	605
Retirement benefits scheme contributions	12
Share-based payment expense	15
	632

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture and fixtures, office equipment and motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2005	5,685	76	720	6,481
Exchange adjustments	120	–	11	131
Additions	1,702	366	224	2,292
At 31 December 2005	7,507	442	955	8,904
Exchange adjustments	300	–	27	327
Additions	5,714	19	317	6,050
Disposals	(61)	–	(43)	(104)
At 31 December 2006	**13,460**	**461**	**1,256**	**15,177**
DEPRECIATION				
At 1 January 2005	444	56	150	650
Exchange adjustments	10	–	–	10
Charges for the year	624	27	160	811
At 31 December 2005	1,078	83	310	1,471
Exchange adjustments	44	–	5	49
Charges for the year	1,100	131	172	1,403
Eliminated upon disposal	(14)	–	(14)	(28)
At 31 December 2006	**2,208**	**214**	**473**	**2,895**
NET BOOK VALUE				
At 31 December 2006	**11,252**	**247**	**783**	**12,282**
At 31 December 2005	6,429	359	645	7,433

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10%
Leasehold improvements	33.3%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

15. INTEREST IN ASSOCIATES

	2006 **HK$'000**	2005 HK$'000
Share of net assets	**1,666,999**	786,996

At 31 December 2006, the Group had interest in the following associates:

Name of company	**Place of establishments and operations**	**Paid-up capital**	**Attributable equity interest indirectly held by the Group**	**Principal activities**
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited *	PRC	USD231,008,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited *	PRC	USD99,763,600	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江美人豹汽車銷售有限公司 Zhejiang Mybo Automobile Sales Company Limited #	PRC	RMB10,000,000	42.1%	Marketing and sales of sedans in the PRC

15. INTEREST IN ASSOCIATES *(Continued)*

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited #	PRC	RMB15,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited #	PRC	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation #	PRC	RMB20,000,000	39.3%	Export of sedans outside the PRC
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited #	PRC	RMB30,000,000	42.1%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited #	PRC	RMB10,000,000	42.1%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited #	PRC	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江陸虎汽車有限公司 Zhejiang Ruhoo Automobile Company Limited *	PRC	RMB151,677,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC

15. INTEREST IN ASSOCIATES *(Continued)*

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江金剛汽車有限公司 Zhejiang Kingkong Automobile Company Limited *	PRC	RMB235,000,000	46.8%	Research, development, production and sales of sedans and related automobile components in the PRC
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited #	PRC	RMB10,000,000	42.1%	Production of automobile components in the PRC
上海國邦汽車配件有限公司 Shanghai Guobang Automobile Parts Company Limited #	PRC	RMB1,000,000	39.3%	Marketing and sales automobile components in the PRC

* These associates are sino-foreign equity joint ventures established in the PRC for a period of 30 to 50 years.

\# Translation of registered name in Chinese for identification purpose

15. INTEREST IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2006 HK$'000	2005 HK$'000
Total assets	**6,949,568**	6,064,557
Total liabilities	**(3,388,365)**	(4,382,943)
Net assets	**3,561,203**	1,681,614
Group's share of net assets of associates	**1,666,999**	786,996
Revenue	**6,588,845**	4,970,570
Profit for the year attributable to equity holders of the associates	**519,611**	262,161
Group's share of results of associates for the year	**243,230**	122,691

16. INVENTORIES

	2006 HK$'000	2005 HK$'000
At costs:		
Raw materials	**5,656**	2,366
Work in progress	**1,000**	1,288
Finished goods	**3,254**	2,049
	9,910	5,703

17. TRADE AND OTHER RECEIVABLES

	Note	2006 HK$'000	2005 HK$'000
Trade and notes receivables			
Trade receivables	(a)	**20,538**	43,966
Notes receivables	(b)	**37,405**	–
		57,943	43,966
Other receivables			
Deposits, prepayments and other receivables		**1,122**	874
		59,065	44,840

(a) Trade receivables

The trade receivables comprise:

	2006 HK$'000	2005 HK$'000
Trade receivables from an associate	**20,538**	24,925
Trade receivables from a related company of an associate	**–**	19,041
	20,538	43,966

The Group allows a credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	2006 HK$'000	2005 HK$'000
0 – 60 days	**20,503**	43,489
61 – 90 days	**35**	67
Over 90 days	**–**	410
	20,538	43,966

17. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Notes receivables

All notes receivables are denominated in Renminbi ("RMB") and are primarily notes received from an associate for settlement of trade receivable balances. At 31 December 2006, all notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from 31 December 2006.

During the year, the Group has discounted notes receivables to banks in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of notes receivables and has recognised the cash received as secured short-term bank borrowings, which is wholly repayable within one year, as reported in the consolidated balance sheet. At the balance sheet date, the carrying amount of discounted notes receivables and the associated financial liabilities was HK$22,250,000 (2005: nil). The effective interest rate for the short-term bank borrowings on discounting notes receivables is 3.72% per annum.

18. 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 are convertible into fully paid ordinary shares of HK$0.02 each of the Company at an initial conversion price of HK$0.90 per share, subject to adjustment in certain events, at any time on or after 10 May 2006 and up to the close of business on 10 March 2011, unless previously redeemed, converted or purchased and cancelled.

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.

18. CONVERTIBLE BONDS *(Continued)*

Conversion price reset

If the average of the closing prices (the "Average Market Price") of the shares for the period of 20 consecutive trading days immediately prior to 10 April 2007 and 10 April 2008 (each a reset date) is less than the conversion price on the reset date (after taking into account any adjustments in certain events which may have occurred prior to the reset date), the conversion price shall be adjusted on the relevant reset date so that the Average Market Price will become the adjusted conversion price with effect from the relevant reset date, provided that:

(i) any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than 80% of the conversion price prevailing on the relevant reset date (after taking into account any adjustments as in certain events which may have occurred prior to the reset date); and

(ii) the conversion price shall not be reduced below the then par value (currently HK$0.02 per share) of the shares unless under applicable law then in effect the CB 2011 could be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

Redemption

On or at any time after 10 April 2008 and prior to 10 March 2011, the Company may redeem all, but not some only, of the bonds at the early redemption amount if:

(i) the closing price of the Company's shares on the SEHK shall have been at least 130% of the applicable early redemption amount divided by the conversion ratio 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.

On 10 April 2009, the holder of each bond will have the right at such holder's option, to require the Company to redeem all or some of the bonds at 115.123% of their principal amount.

Unless previously converted, redeemed or purchased and cancelled, the CB 2011 will be redeemed at 126.456% of their outstanding principal amount on 10 April 2011.

18. CONVERTIBLE BONDS *(Continued)*

The convertible bonds contain a liability component and the embedded derivatives (comprising a put option, a call option and conversion option), which are required to be accounted for separately. The movements of the convertible bonds for the year are set out below:

	2006 HK$'000
Liability component	
Fair value at inception	689,917
Issuing costs	(13,632)
Conversion during the year	(25,736)
Accrued effective interest charges	32,289
	682,838
Fair value of embedded derivative financial assets	
Fair value at inception	141,126
Conversion during the year	(8,252)
Changes in fair value	(16,980)
	115,894
Fair value of embedded derivative financial liabilities	
Fair value at inception	192,714
Conversion during the year	(10,694)
Changes in fair value	(12,238)
	169,782
	736,726

The principal amount of the convertible bonds converted during the year was HK$27.7 million and the principal amount outstanding at 31 December 2006 is HK$713.9 million.

18. CONVERTIBLE BONDS *(Continued)*

At initial recognition, the liability component was measured at fair value by using the discounted cash flow method. Subsequently, interest on the liability component is calculated using the effective interest method by applying the effective interest rate of 6.76% per annum.

The derivatives embedded in the convertible bonds are measured at fair value at both issuance date and 31 December 2006 by an independent professional valuer, BMI Appraisal Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method.

19. TRADE AND OTHER PAYABLES

	2006	2005
	HK$'000	HK$'000
Trade payables		
To third parties	**19,498**	27,047
Other payables		
Accrued charges and other creditors	**4,155**	7,770
	23,653	34,817

The following is an aged analysis of trade payables at the balance sheet dates:

	2006	2005
	HK$'000	HK$'000
0 – 60 days	**16,379**	24,576
61 – 90 days	**1,407**	1,989
Over 90 days	**1,712**	482
	19,498	27,047

20. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies which have the same common substantial shareholder of the Company were unsecured, interest-free and repayable on demand.

21. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder was unsecured, interest-free and repayable on demand.

22. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company was unsecured, interest-free and repayable on demand.

23. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Authorised:		
Ordinary shares of HK$0.02 each		
At 1 January 2005, 31 December 2005 and **2006**	**8,000,000,000**	**160,000**
Issued and fully paid:		
Ordinary shares of HK$0.02 each		
Balance at 1 January 2005, 31 December 2005 and 1 January 2006	4,120,264,902	82,405
Shares issued upon conversion of convertible bonds *(Note)*	31,123,594	623
Balance at 31 December 2006	**4,151,388,496**	**83,028**

Note: During the year ended 31 December 2006, convertible bonds of principal amount of HK$27.7 million have been converted into 31,123,594 ordinary shares of the Company at conversion price of HK$0.89 per share.

24. CASH USED IN OPERATIONS

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**215,734**	115,377
Depreciation	**1,403**	811
Interest income	**(13,401)**	(57)
Finance costs	**32,390**	–
Share of results of associates	**(243,230)**	(122,691)
Loss on disposal of property, plant and equipment	**30**	–
Net exchange gain	**(3,929)**	–
Fair value loss on embedded derivative components of convertible bonds	**4,742**	–
Share-based payment expense	**4,660**	5,538
Changes in working capital		
Inventories	**(3,979)**	3,112
Trade and other receivables	**(12,458)**	(32,919)
Amount due from an associate	**–**	338
Amounts due from related companies	**–**	613
Trade and other payables	**(12,528)**	22,242
Short-term bank borrowings raised, net	**22,250**	–
Cash used in operations	**(8,316)**	(7,636)

25. MAJOR NON-CASH TRANSACTION

During the year, 31,123,594 ordinary shares were issued upon conversion of convertible bonds and were satisfied by transferring HK$28,178,000 from respective liability and embedded derivative components of the convertible bonds to share capital and share premium accordingly.

26. COMMITMENTS

Capital expenditure commitments

During the year, the Company had entered into a contract with a related party to establish a sino-foreign equity joint venture in the PRC in which the Company will invest approximately HK$418,580,000.

26. COMMITMENTS *(Continued)*

Operating lease commitments

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:

	2006	2005
	HK$'000	HK$'000
Within one year	**926**	1,706
In the second to fifth year inclusive	**–**	1,212
	926	2,918

Leases are negotiated and rentals are fixed for an average term of two years.

27. RETIREMENT BENEFITS SCHEME

The Group participates in 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 employee. 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 17% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect of the retirement benefit scheme is to make the specified contributions.

For the year ended 31 December 2006, the aggregate employer's contributions made by the Group and charged to the income statement are HK$481,000 (2005: HK$297,000).

28. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31 May 2002, a share option scheme (the "Scheme") was adopted by the Company.

The Scheme was adopted for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the Scheme.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option schemes adopted by the Company in any twelve month period must not exceed 1% of the issued share capital of the Company.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 5 business days from the date of offer, the offer is delivered to that participant and the amount payable on acceptance of options is HK$1.00.

Approximately 33% of the options will be automatically vested at the date of grant and the remaining 67% will be vested one year from the date of grant.

The subscription price for the shares under the Scheme shall be a price determined by the directors, but not less than the highest of (i) the closing price of shares as stated on the Stock Exchange on the date of the offer grant; (ii) the average closing price of the shares as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

No options may be granted under the Scheme after the date of the tenth anniversary of its adoption.

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses details of the Company's share options under the Scheme held by directors and senior employees and movements in such holdings:

2006

Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
Directors					
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 Hang, Alex	10.7.2006 – 16.5.2011	0.93	–	1,000,000	1,000,000
			166,000,000	15,000,000	181,000,000

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
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
			254,500,000	28,000,000	282,500,000

	HK$	HK$	HK$
Weighted average exercise price per share	**0.73**	**0.91**	**0.75**

Weighted average remaining contractual life of options outstanding at 31 December 2006	**3.52 years**
Number of options exercisable at 31 December 2006	**263,820,000**

	HK$
Weighted average exercise price per share of options exercisable at 31 December 2006	**0.74**

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

2005

Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Cancelled during the year	Outstanding at 31 December
Directors						
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. Nan Yang (resigned as director on 18 October 2005)	5.8.2005 – 4.8.2010	0.70	–	15,000,000	(15,000,000)	–
Mr. Zhao Jie	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
			35,000,000	146,000,000	(15,000,000)	166,000,000
Employees	5.8.2005 – 4.8.2010	0.70	–	93,500,000	(5,000,000)	88,500,000
			35,000,000	239,500,000	(20,000,000)	254,500,000

	HK$	HK$	HK$	HK$
Weighted average exercise price per share	0.95	0.70	0.70	0.73

Weighted average remaining contractual life of options outstanding at 31 December 2005	4.40 years
Number of options exercisable at 31 December 2005	108,170,000
	HK$
Weighted average exercise price per share of options exercisable at 31 December 2005	0.78

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

One-third of options vested immediately upon grant and the remaining options granted will vest after one year.

No options were exercised to subscribe for shares in the Company during the year.

During the year ended 31 December 2006, options were granted on 23 May 2006 and 28 November 2006. During the year ended 31 December 2005, options were granted on 5 August 2005. The estimated total fair values of the options granted in 2006 and 2005 are approximately HK$3,644,000 and HK$8,186,000 respectively.

These fair values were calculated using The Black-Scholes-Merton Option pricing model. The inputs into the model were as follows:

	2006				2005
Grant date	28 November 2006		23 May 2006		5 August 2005
	(Lot 1)	(Lot 2)	(Lot 1)	(Lot 2)	
Exercise price	HK$0.89	HK$0.89	HK$0.93	HK$0.93	HK$0.7
Expected volatility	47.65%	58.30%	38%	38%	40.2%
Expected life	0.5 year	1 year	1 year	3 years	2 years
Risk-free rate	3.595%	3.663%	4.213%	4.432%	3.589%
Expected dividend yield	2.81%	1.40%	0.75%	2.00%	0.98%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expense of HK$4,660,000 for the year ended 31 December 2006 (2005: HK$5,538,000) in relation to share options granted by the Company.

29. CONNECTED AND RELATED PARTY TRANSACTIONS

Certain transactions fell under the definition of continuing connected transactions under the Listing Rules are disclosed in Directors' Report.

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties:

(a) Transactions

Name of related parties	Nature of transactions	2006 HK$'000	2005 HK$'000
Associates			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of automobile parts and components	**126,796**	27,478
	Dividend income	**241,096**	56,262
Shanghai Maple Guorun Automobile Company Limited (上海華普國潤汽車有限公司)	Dividend income	**53,683**	457
Related companies *(Note)*			
Zhejiang Haoqing Automobile Manufacturing Company Limited (浙江豪情汽車製造有限公司)	Sales of automobile parts and components	**–**	73,774
Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	**326**	462

Note: The Group and the related companies are under the same common substantial shareholder.

29. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2006	2005
	HK$'000	HK$'000
Short-term benefit	**5,090**	4,375
Retirement benefits scheme contribution	**48**	75
Share-based payments	**4,660**	5,538
	9,798	9,988

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

30. POST BALANCE SHEET EVENTS

a) Placing of existing shares and subscription for new shares

On 15 February 2007, the Company, its immediate holding company, Proper Glory Holding Inc. ("PGH") and an independent financial institution ("the Placing Agent") entered into an placing and subscription agreement, pursuant to which the Placing Agent, on a fully underwritten basis, procured third party purchasers to acquire, and PGH sold 600,000,000 existing shares at the placing price of HK$1.06 per Share. PGH subscribed 600,000,000 new shares of the Company (the "Subscription") at the placing price.

The net proceeds from the Subscription were approximately HK$609 million and were applied by the Company as to approximately HK$418.58 million to fund the capital contribution of a newly established subsidiary, Shanghai Geely Maple Automobile Components Company Limited (the "SGM"), on 7 March 2007 and the remaining balance as general working capital of the Group.

30. POST BALANCE SHEET EVENTS *(Continued)*

b) Proposed disposal of interest in the SGM

On 22 March 2007, the Company and Manganese Bronze Holdings plc. (the "MBH"), whose shares are listed on the London Stock Exchange, entered into an equity transfer agreement and other related agreements, pursuant to which but subject to the approval of shareholders of the Company, the Company will transfer 48% interest in the equity of the SGM to the MBH in return for approximately 23% interest in the enlarged issued share capital of the MBH.

Details of the equity transfer agreement and other related agreements and the transactions contemplated thereunder are set out in the Company's announcement dated 22 March 2007 and circular dated 2 April 2007.

c) The establishment of two sino-foreign equity joint venture companies

On 26 March 2007, Centurion Industries Limited, a wholly-owned subsidiary of the Company, entered into joint venture agreements to jointly establish two sino-foreign equity joint venture companies, namely Hunan Geely Automobile Components Company Limited and the Lanzhou Geely Automobile Components Company Limited, with two related companies Zhejiang Haoqing Automobile Manufacturing Company Limited in Hunan Province and Zhejiang Geely Merrie Automobile Company Limited in Gansu Province respectively, to engage in the research and development, production, marketing and sales of sedan related components in the PRC.

31. BALANCE SHEET OF THE COMPANY

	As at 31 December	
	2006	2005
	HK$'000	HK$'000
Non-current assts		
Property, plant and equipment	**315**	452
Investments in subsidiaries	**1**	1
	316	453
Current assets		
Other receivables	**715**	676
Amount due from subsidiaries	**1,126,871**	445,464
Convertible bonds – embedded derivatives	**115,894**	–
Bank balances and cash	**8,234**	6,991
	1,251,714	453,131
Current liabilities		
Other payables	**2,148**	672
Amount due to immediate holding company	**11,220**	14,220
Convertible bonds – embedded derivatives	**169,782**	–
	183,150	14,892
Net current assets	**1,068,564**	438,239
Total assets less current liabilities	**1,068,880**	438,692
Capital and reserves		
Share capital	**83,028**	82,405
Reserves	**303,014**	356,287
Total equity	**386,042**	438,692
Non-current liabilities		
Convertible bonds	**682,838**	–
	1,068,880	438,692

32. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interest held Directly	Percentage of equity interest held Indirectly	Principal activities
Centurion Industries Limited	British Virgin Islands	USD1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
吉利國際貿易有限公司 Geely International Limited	Hong Kong	HK$2	100%	–	Inactive
浙江省福林國潤汽車零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD2,459,200	–	100%	Research, production, marketing and sales of automobile parts and related components

* The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30 years expiring in 2033.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.