吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Stock Code : 0175)

Annual Report 2007

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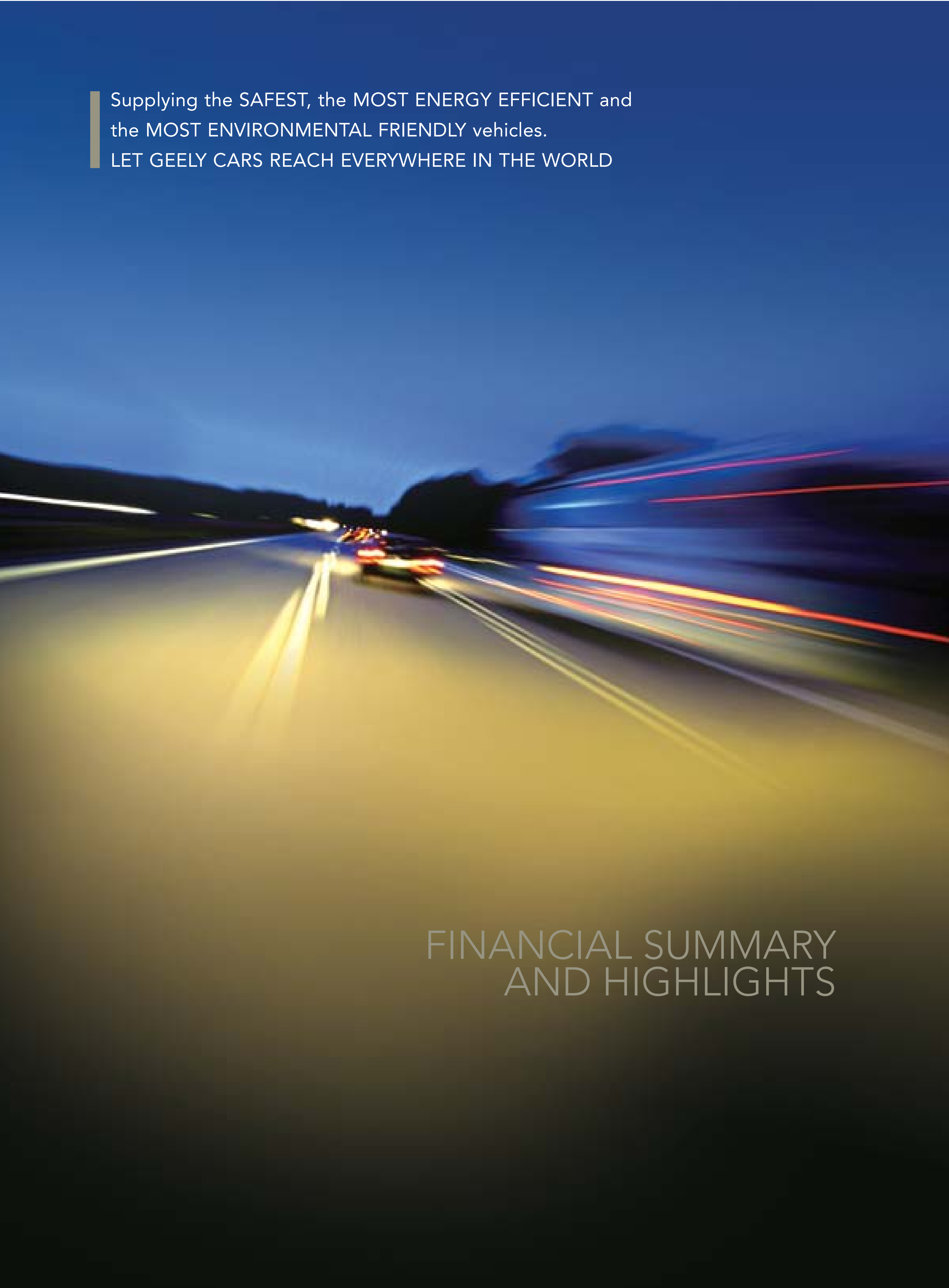


Supplying the SAFEST, the MOST ENERGY EFFICIENT and the MOST ENVIRONMENTAL FRIENDLY vehicles.
LET GEELY CARS REACH EVERYWHERE IN THE WORLD

FINANCIAL SUMMARY AND HIGHLIGHTS

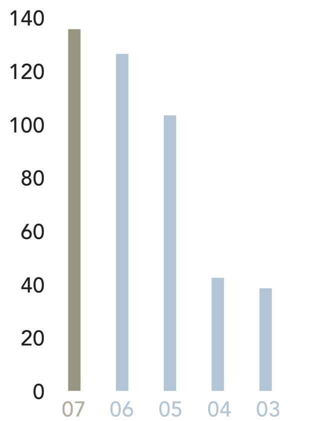
Financial Summary and Highlights

Five Year Financial Summary

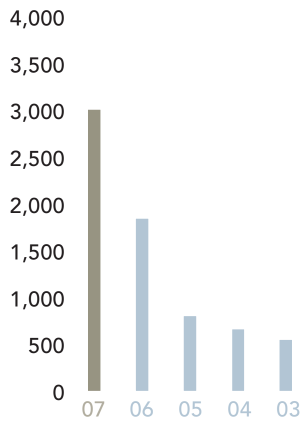
A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

The Group

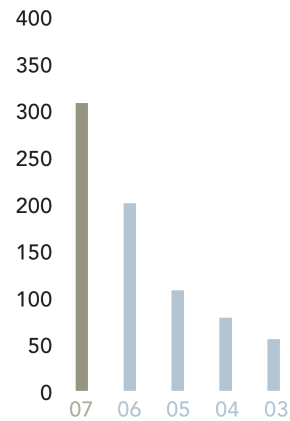
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000 (restated)	2003 HK$'000
Turnover	137,209	127,006	101,411	41,123	39,872
Profit before taxation	319,773	215,734	115,377	80,834	55,620
Taxation	(1,673)	(1,585)	–	–	(237)
Profit for the year	318,100	214,149	115,377	80,834	55,383
Attributable to:					
Equity holders of the Company	314,658	208,752	110,827	81,305	57,486
Minority interests	3,442	5,397	4,550	(471)	(2,103)
	318,100	214,149	115,377	80,834	55,383
Assets and Liabilities - Group					
Total assets	3,042,033	1,844,068	861,641	680,767	603,188
Total liabilities	(388,833)	(794,142)	(54,548)	(22,854)	(31,753)
Total equity	2,653,200	1,049,926	807,093	657,913	571,435
Represented by:					
Equity attributable to equity holders of the Company	2,441,440	1,030,157	798,080	653,447	569,046
Minority interests	211,760	19,769	9,013	4,466	2,389
	2,653,200	1,049,926	807,093	657,913	571,435



Turnover
(HK$'Million)



Total assets
(HK$'Million)



Profit attributable to equity holders of the Company
(HK$'Million)

Financial Highlights

A. The Group

	2007	2006	Change in Percentage Increase/ (Decrease)
For the year			
Turnover (HK$'000)	137,209	127,006	8
Profit attributable to equity holders of the Company (HK$'000)	314,658	208,752	51
Per share			
Basic earning per share (HK Cents)	6.38	5.05	26
Diluted earning per share (HK Cents)	6.28	4.95	27
Dividend per share (HK Cents)	1.3	1.2	8
NAV per share (HK$)	0.51	0.25	104
At year end			
Shareholders' funds (HK$'000)	2,441,440	1,030,157	137
Total assets (HK$'000)	3,042,033	1,959,962	55
Number of shares in issue	5,201,083,450	4,151,388,496	25
Share price during the year			
– High (HK$)	1.46	1.03	42
– Low (HK$)	0.76	0.32	138
Financial ratios			
Gearing ratio = (Borrowings / Shareholders' funds) (%)	13.5%	69.5%	(81)
Return on total assets (%)	10.3%	10.7%	(3)
Return on shareholders' funds (%)	12.9%	20.3%	(36)

B. Major PRC Associates

A summary of the combined results and the assets and liabilities of the Group's Major PRC Associates, namely Zhejiang Geely Automobile Company Limited, Shanghai Maple Guorun Automobile Company Limited, Zhejiang Ruhoo Automobile Company Limited, Zhejiang Kingkong Automobile Company Limited and Hunan Geely Automobile Components Company Limited, is set out below:

Combined Results - Major PRC Associates

	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000
Turnover	11,350,367	6,588,845
Costs of sales	(9,924,893)	(5,551,963)
Sales Tax	(9,168)	(6,421)
Gross profit	1,416,306	1,030,461
Other net operating income	214,997	236,455
Distribution and selling expenses	(486,823)	(357,025)
Administration expenses	(298,483)	(299,422)
Finance costs	(61,818)	(30,664)
Profit before taxation	784,179	579,805
Taxation	(26,340)	(57,188)
Profit for the year	757,839	522,617
Attributable to:		
Equity holders of the Major PRC Associates	754,593	519,611
Minority interests	3,246	3,006
	757,839	522,617
Gross profit margin (%)	12.5%	15.6%
Net profit margin (%)	6.6%	7.9%
Return on shareholders' funds (%)	18.3%	14.6%
Return on total assets (%)	8.4%	7.5%
Gearing ratio = (Borrowings / Shareholders' funds) (%)	20.1%	28.9%
Sales Volume (unit)	181,517	164,495

Combined Assets and Liabilities - Major PRC Associates

	31 December 2007 HK$'000	31 December 2006 HK$'000
Non-current assets		
Property, plant and equipment	2,936,434	2,096,881
Intangible assets	177,457	145,501
Prepaid lease payments	1,069,513	623,425
Goodwill	42,544	42,549
Long-term deferred expenses	3,712	2,009
Long-term investment	1,875	2,000
	4,231,535	2,912,365
Current assets		
Inventories	646,882	574,082
Prepaid lease payments	25,967	20,819
Bills receivables	900,657	1,246,402
Trade and other receivables	559,658	301,773
Amounts due from related companies	1,648,901	902,038
Short-term investment	12,341	7,737
Tax recoverable	7,007	–
Pledged deposit	–	242,760
Bank balances and cash	985,157	741,592
	4,786,570	4,037,203
Current liabilities		
Bank borrowings	585,769	960,000
Bills payables	767,500	390,000
Trade and other payables	1,480,671	1,018,670
Amounts due to related companies	1,803,005	754,007
Taxation	16,473	24,376
Provision	–	2,632
Dividend payables	484	149,506
	4,653,902	3,299,191
Net current assets	132,668	738,012
	4,364,203	3,650,377
Capital and reserves		
Paid-up capital	2,999,708	2,959,700
Reserves	1,115,616	601,503
Equity attributable to equity holders of the Major PRC Associates	4,115,324	3,561,203
Minority interests	7,067	18,605
Total equity	4,122,391	3,579,808
Non-current liabilities		
Other long-term liabilities	241,812	70,000
Shareholder's loan	–	569
	241,812	70,569
	4,364,203	3,650,377

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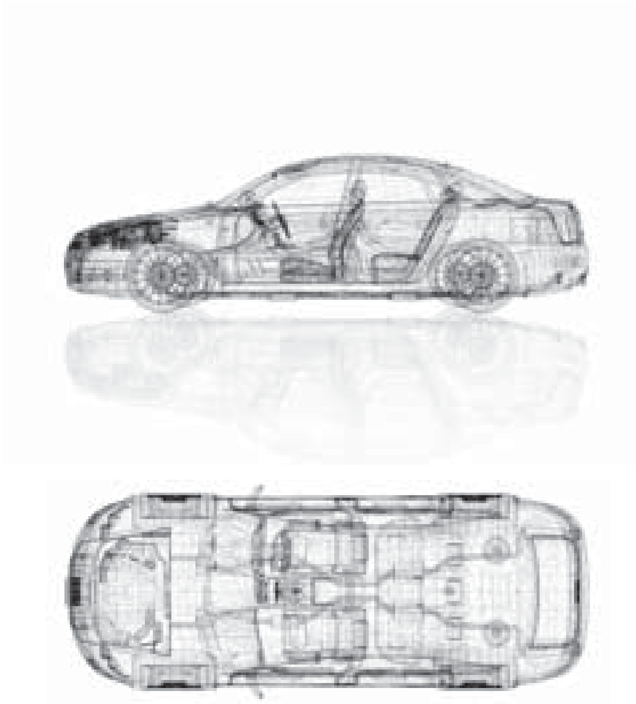
CHAIRMAN'S STATEMENT

Chairman's Statement



Li Shu Fu,
Chairman

On behalf of the Board of Directors of Geely Automobile Holdings Limited (the "Company"), I have the pleasure of presenting to you the 2007 results of the Company and its subsidiaries (the "Group").

Financial Review

The Group's turnover amounted to HK$137 million for the year ended 31 December 2007, up 8% from the previous year. Profit attributable to the equity holders of the Company amounted to HK$315 million, representing an increase of 51% over 2006. The large increase in net profit was attributable to the strong growth in profit contributions from the Group's four operating associates – Zhejiang Geely Automobile Company Limited ("Zheijang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") – (collectively referred as the "operating associates"). Their strong earnings growth, particularly in the second half of 2007, was mainly due to the initial success achieved by the operating associates' strategic transformation into higher value-added products, as evidenced by the strong performance of the three higher-end models launched over the last two years including the 2008 version of "Free Cruiser" economy sedans, the "Vision" mid-end sedans, and the "Geely Kingkong" family sedans. Significant achievements by the operating associates in improving customer satisfactions, and product reliability and quality also contributed to the improved profitability during the later part of the year.

Dividend

The Board recommends the payment of final dividend of HK1.3 cents (2006: HK1 cent plus HK0.2 cent special final dividend) per share for 2007.

Business Overview

The demand for sedans in China market continued to register strong growth in 2007 despite intensified price pressure. In particular, the economy car segment experienced amongst the most difficult period in recent years with a few major players adopting aggressive pricing strategy to cut product prices repeatedly, hoping to regain market shares in China, resulting in heavy price pressure on most economy car manufacturers in China. Moreover, demand for smaller sized economy sedans experienced a cyclical decline during the year with the sales volume of economy sedans with engine size of 1.3L or below falling almost 25% in 2007 from previous year.

In response, the Group's operating associates reduced the retail prices for most of their models by 5-10% during 2007. Despite the severe challenges and difficulties, and thus a less than exciting sales and earnings performance in the first half of 2007, the Group still managed to achieve respectable results for the full year period in 2007, helped by the significant effort by the Group's operating associates to improve customer satisfactions, production quality and reliability and to enhance their brand images during 2007 and the tremendous success of two strategic new product launches in the second half of 2007, including the 2008 version of "Free Cruiser" and the operating associates' first mid-end sedan model "Vision". The significant improvement in product mix towards higher-priced models had more than offset the price cuts by existing models and rising costs due to higher raw material prices and increasingly stringent environmental and safety requirements in China. These three higher priced models including "Free Cruiser", "Geely Kingkong" and "Vision" accounted for 63% of the operating associates' total sales volume in 2007, a significant improvement from less than 40% in 2006, putting the operating associates in a much better position to cushion the pressure from rising costs.

During 2007, the Group's operating associates – Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo, Hunan Geely and Zhejiang Kingkong – sold 181,517 units of Geely and Maple sedans, up 10% over 2006, achieving combined market share of around 4% in China's passenger car market in 2007.

Performance at the Group's parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin") was satisfactory and was in line with the management expectations in 2007 with an 8% increase in revenues during the year. The dramatic fall in the sales volume of low-end models by the Company's operating associates has resulted in slower demand for Zhejiang Fulin's products. This, coupled with rising raw material costs and disruption to production due to the relocation of manufacturing facilities to new location in 2007, resulted in lower margin achieved by Zhejiang Fulin in 2007. Net profit at Zhejiang Fulin was therefore only flat at around HK$12 million in 2007. Despite continued pressure from higher raw material costs, I however believe Zhejiang Fulin's earnings growth could improve towards the later part of 2008, helped by the commencement of large scale production of new generation of EPS and braking system for the operating associates' new higher end products like "Free Cruiser", "Geely Kingkong" and "Vision" models.

A key milestone for the Group in 2007 was the Group's investment in a 51% stake in Shanghai LTI Automobile Components Company Limited ("Shanghai LTI"), a newly created specialty manufacturer of taxies, limousine vehicles and luxury saloon cars in Shanghai, and a related investment in a 22.83% stake in UK-listed Manganese Bronze Holdings plc ("MBH"), the other major shareholder of Shanghai LTI and the manufacturer of the iconic "London Taxi" vehicles. The transaction marked an important step by the Group to further broaden its product line to higher value-added products and to expand internationally, utilizing existing expertise, products, technologies and brand and other resources, which are amply available in the global auto industry. The cooperation also represents an interesting and competitive combination of a

long established and well-known English brand with the associates' proven advantages in power-train technology and cost effective manufacturing.

Shanghai LTI started operation in June 2007 and is on track to start trial production of TX4 model of London taxies in Shanghai in the second half of 2008. Shanghai LTI recorded a net loss of HK$5 million in 2007 due to start up costs of the joint-venture and exchange losses. As part of the deal related to the establishment of Shanghai LTI, the Group also invested in 22.83% stake in UK-listed Manganese Bronze Holdings plc in mid-2007. MBH's performance during the final five months of 2007 was in line with expectations. MBH sold a total of 4,199 vehicles during the 17-month period to 31 December 2007, mainly in the UK market and recorded revenue of GBP144.5 million and pre-tax profit of GBP4.9 million during the 17-month period. With the scheduled commencement of the production of localized version of the TX4 models of London taxi at Shanghai LTI in the later part of 2008, I believe the performance of MBH should improve further in the near future.

Prospects

2007 was a challenging, eventful and strategically important year in the Group's history. During the year, the Group embarked on a major strategic transformation, through expansion into higher-end vehicles and major investments to enhance the Group's technology competence and product branding, aiming at transforming Geely brand's competitive advantages from price competitive to technology and performance competent. The strategic transformation has so far yielded very positive results, as evidenced by the tremendous success of the higher-end products launched in 2007 and the significant improvement in brand recognition and customer satisfaction for Geely's products as indicated by the recent results of major industry surveys in China's sedan market. We believe that the strategic transformation, if successful, could significantly enhance the Group's competitive advantages within a short period of time, thereby to enhance the returns to the Company's shareholders.

The Group and its operating associates will continue to focus on the operation and expansion of its automobile business, to actively seek for ways and opportunities to further broaden its product line to include higher value-added products, and to gradually expand its operations into the global market, with an aim to become a leading supplier for the safest, the most environmental friendly and the most energy efficient vehicles in the global market. To achieve this, the Group and its operating associates will continue to invest heavily in the research and development of new platforms, new technologies and new models in a bid to narrow the Group's technology gap compared with major international automobile companies. Major changes have also been implemented in the areas of quality control, technology development and innovation, parts and component procurement, marketing and distribution and management mentality to further strengthen the Group's overall competitiveness.

With the successful launches of "Vision" sedans at the end of 2007, the improvement in customer satisfaction achieved in most major customer surveys, and the significant efforts spent in the exploration of export markets over the past few years, we believe the Group is well positioned to expand its market shares in both China and oversea markets in 2008. We are therefore forecasting a total sales volume of 230,000 units for the Group's operating associates in 2008, representing a YoY growth of 27%.

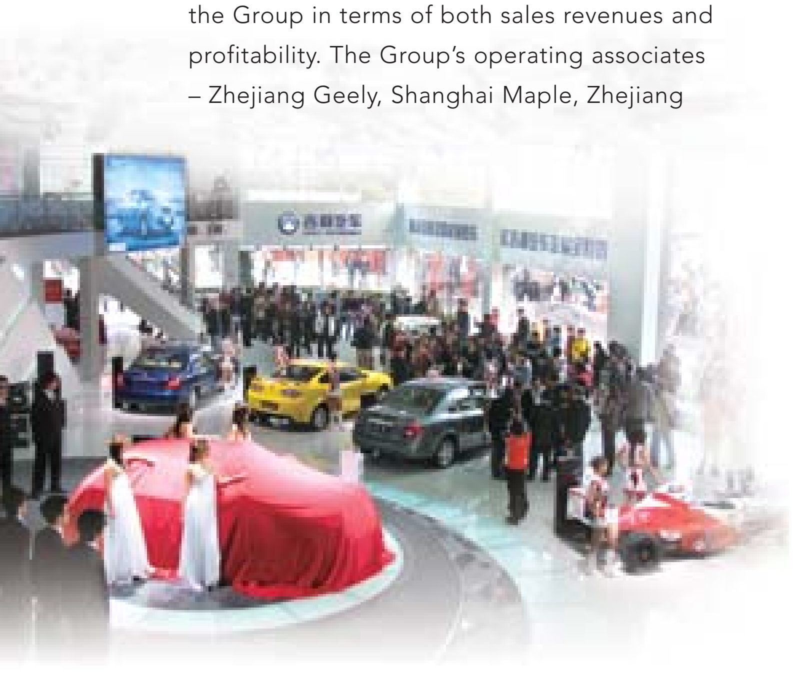
Li Shu Fu
Chairman
16 April 2008

Management Discussion and Analysis

Overall Performance

Despite a difficult start at the beginning of the year, featured by intensified competition in China's sedan market and a slow down in the demand for economy sedans, 2007 remains a fruitful year for the Group in terms of progress in structural changes and profitability. Despite the short-term negative impact on their sales volume at the beginning of the year, when the implementation of the Group's strategic transformation caused dramatic fall in the sales volume of lower-end models and thus a 3% decline in their total sales volume in the first half of 2007, the Group's operating associates still managed to make up the shortfall in the second half and recorded a 10% growth in total sales volume in the full year of 2007, mainly helped by the success of the two higher-end models – the "2008 Free Cruiser" and "Vision" – launched in the second half of the year.

As a result, 2007 was again a record year for the Group in terms of both sales revenues and profitability. The Group's operating associates – Zhejiang Geely, Shanghai Maple, Zhejiang



Kingkong, Hunan Geely and Zhejiang Ruhoo – sold a record number of 181,517 units of vehicles in 2007, up 10% from previous year, and achieved net profit of HK$755 million, up 45% from previous year, despite the initial costs of the associates' strategic transformation and their substantial investments in capacity expansion, technological upgrading, and research and development of core technologies and new products during the period. The remarkable financial performance of the operating associates had enabled the Group to report another record profitability with net profit after minority interests increasing by 51% to HK$315 million in 2007. The good results were despite inclusion of non-cash charges including the accrued interest expenses of around HK$35 million incurred by the Company's outstanding 5-year zero coupon Convertible Bonds due 2011.

The Group's turnover, which principally came from its auto parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Co. Ltd. ("Zhejiang Fulin"), was up 8% to HK$137 million in 2007, mainly driven by increased sales of auto parts and components by Zhejiang Fulin to the Group's operating associates. Net profit at Zhejiang Fulin,

however, was only maintained at previous year's level at around HK$12 million as higher sales during the year were offset by higher raw material prices during the period.

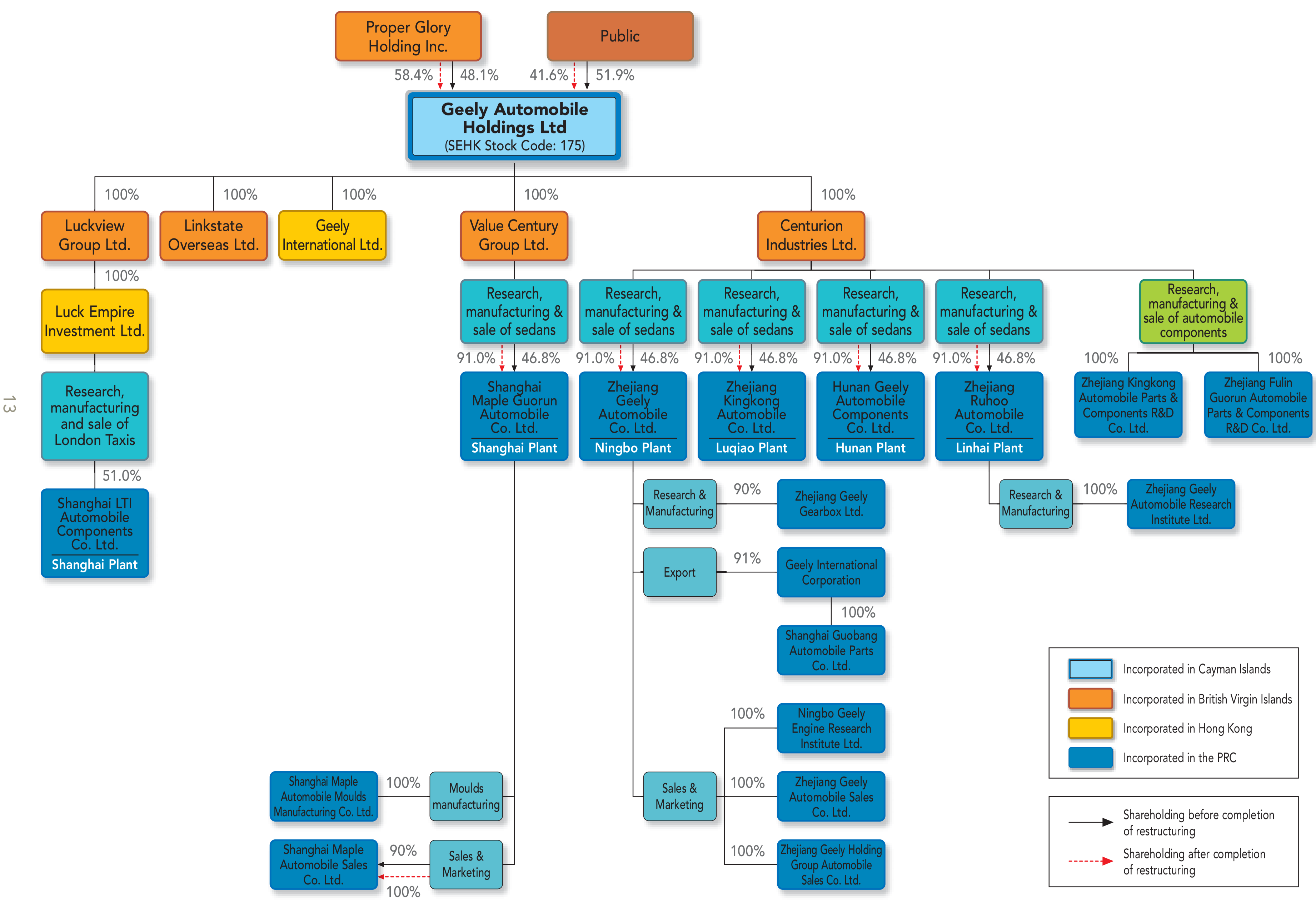
51%-owned Shanghai LTI was officially set up in June 2007 and its net loss during 2007 was well controlled at below HK$5 million level. The Group started to equity account for 23%-owned MBH's financial results in its financial statements from 1 July 2007. Performance by MBH, where its revenues and profit in 2007 mainly came from manufactures and sales of TX4 taxi vehicles in the UK market, was in line with expectations during the second half of 2007.

Reorganization and Acquisitions

During the year, the Group continued its on-going restructuring to further rationalize its corporate structure, aiming at improving the Group's overall transparency and its operating efficiency. In addition to taking additional stakes in its existing businesses, the Group also set up new businesses and joint ventures to expand its revenue and earnings bases in order to achieve better economies of scale and business synergy, through the sharing of operational knowledge, technologies, marketing and distribution channels with its new partners.

Organisation Chart

(as of 31 December 2007)



Formation of 51%-owned Shanghai LTI.

In March 2007, the Group set up a new production joint-venture, named Shanghai LTI Automobile Components Company Limited, with Manganese Bronze Holdings Plc to manufacture the iconic London Taxies and other limousine and taxi vehicles in a leased plant from Shanghai Maple starting from the end of 2008. The Group invested US$53.8 million for a 51% stake in Shanghai LTI, plus a 22.83% stake or 5.7 million new shares in MBH, which in turn owns 48% stake in the joint venture. Total investment of Shanghai LTI is estimated to be around US$99.5 million, which is funded by shareholders' capital contribution and subsequent bank borrowings. Estimated production capacity at Shanghai LTI is 40,000 units per annum per shift.

Formation of 46.8%-owned Hunan Geely Automobile Components Company Limited ("Hunan Geely").

The Group set up 46.8%-owned Hunan Geely on 20 April 2007 to invest in a new plant under construction in Xiangtan of Hunan province. The Xiangtan plant will have an initial production capacity of 50,000 units per annum per shift and is scheduled to start mass production in the first half of 2008. The initial models to be produced in Xiangtan plant include "Geely Kingkong" and "Vision". Total capital contribution from the Group for the initial 46.8% stake in Hunan Geely in 2007 amounted to US$11.7 million, which was funded by the Group's internal financial resources.

Acquisition of Additional Stakes in Major Operating Associates.

The Group announced on 13 July 2007 that it had signed an agreement with its controlling shareholder to acquire 44.19% stakes in each of the Group's five operating associates: Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely Automobile Components Company Limited ("Hunan Geely") – an associate established in April 2007 to invest in a new plant under construction in Xiangtan of Hunan province, raising its equity interests in these operating associates to 91%, for a total consideration of HK$1,611 million to be satisfied by the issue of 1,289 million new shares of the Company at HK$1.25 per share. The consideration of HK$1,611 million has been determined with reference to the unaudited net asset value of the operating associates on 30 June 2007. The acquisitions had been approved by the independent shareholders of the Company. However, as at the issue date of this annual report, the approvals from the relevant government bodies have yet to be obtained.

By virtue of the acquisitions, the Group's five operating associates – the key earnings contributors to the Group – have become subsidiaries of the Group, thus allowing the Group to fully consolidate their financial results into the Company's consolidated financial statements upon completion.

Acquisitions of the Remaining Stake in Zhejiang Fulin.

The Group completed the acquisition of the remaining 49% stake in Zhejiang Fulin on 20 December 2007, raising its equity interests to 100%, for a total consideration of HK$23.3 million in cash. The consideration is based on the 49% attributable interest in unaudited net asset value of Zhejiang Fulin on 30 June 2007. Immediately after the completion of the acquisition, the Group decided to further expand the registered capital of Zhejiang Fulin by injecting RMB100 million cash into the company, increasing its registered capital from RMB20 million to RMB120 million, mainly to fund Zhejiang Fulin's capital investment in the development of the new generation of Electric Power Steering ("EPS") for the new launched higher-end models by the Group's operating associates.

Establishment of 100%-owned Zhejiang Kingkong Automobile Parts and Components R&D Company Limited ("Zhejiang Kingkong Auto Parts R&D").

Building on the Group's previous success in the investment in Zhejiang Fulin, the Group set up a wholly owned subsidiary, Zhejiang Kingkong Auto Parts R&D, in December 2007 to invest in automobile parts related projects, focusing on investment in automobile components manufacturers and R&D projects, tailored to the need of the Group's operating associates. Total capital contribution amounted to US$14.9 million, which was financed by the Group's internal financial resources.

Financial Resources

The Company issued 600 million new shares at HK$1.06 per share in February 2007, raising net proceeds of HK$609 million, mainly used to fund the Group's capital contribution to Shanghai LTI, the Group's new joint-venture with MBH. The Group invested a total of US$53.8 million for a 51% stake in Shanghai LTI and a 23% stake in MBH.

Other than the proceeds from the above capital raising exercise, the Group's cash inflow during the year mainly came from dividend distribution from its two associates: Zhejiang Geely and Shanghai Maple, and its auto parts subsidiary Zhejiang Fulin, which totaled HK$291 million. Virtually all of which were reapplied to fund the Group's capital expansion for Zhejiang Fulin and capital contributions to Hunan Geely and Zhejiang Kingkong Auto Parts R&D, which totaled HK$318 million.

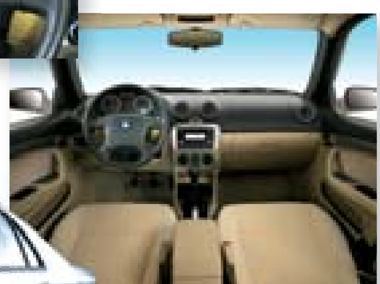
With the significant increase in dividend distribution from Zhejiang Geely and Shanghai Maple and the proceeds from the top-up new equity issue in February 2007, the Group's cash inflow increased significantly in 2007. Although the majority of the cash inflow were applied to fund the capital contribution to both Shanghai LTI and Zhejiang Kingkong Auto Parts R&D, most of the capital contribution made by the Group remained in cash in both companies' accounts at the end of 2007. As a result, total level of cash and bank balances increased significantly from HK$21 million at the end of 2006 to HK$793 million at the end of 2007. Total borrowings, including bank borrowings and convertible bonds outstanding, however, decreased significantly from HK$716 million at the end of 2006 to HK$330 million at the end of 2007 due to the conversion of over half of the Company's HK$742 million five-year zero-coupon convertible bonds due 2011 during 2007. By the end of 2007, the outstanding nominal amount of the convertible bonds amounted to HK$318 million.

Budgeted capital expenditures of the Group's operating associates amount to about RMB1 billion in 2008, including the funding for the research and development of new vehicle models, new engines and gearboxes, the expansion of Ningbo plant and Linhai plant, the construction of Linhai engine plant, and the upgrading of Phase 1 of Shanghai plant for the production of taxi vehicles by Shanghai LTI. The Group plans to fund the capital expenditures with the operational cashflow from the operating associates and bank borrowings.

Automobile parts manufacturing – Zhejiang Fulin Guorun Automobile Parts & Components Co. Ltd.

Zhejiang Fulin is principally engaged in the manufacturing and sales of brake system and electric power steering ("EPS") for sedans. The majority of the Zhejiang Fulin's sales go to the Group's operating associates, which source brake system and EPS from Zhejiang Fulin to be used on their lower-end models. Zhejiang Fulin recorded a 8% growth in revenues to HK$137 million in 2007 helped by increased sales of both brake system and EPS to the Group's operating associates. In particular, the electric power steering specifically designed for the "Free Cruiser" models experienced significant increase in demand helped by the strong growth in the sales of "Free Cruiser". Profit margin, however, was affected by rising prices of key raw materials like pig iron. As a result, Zhejiang Fulin's net profit was only maintained at previous year's level at HK$12 million.

In order to alleviate the impact on rising raw material prices, which have a more severe impact on low-end products like the brake system than EPS, Zhejiang Fulin plans to further expand the sales of EPS by launching a new generation of EPS designed for the "Geely Kingkong" models in 2008. Zhejiang Fulin also plans to start the production of other higher-end products like Burst Monitoring and Braking System ("BMBS") in 2008, hoping to further improve its profitability. To support the development of these new products and to prepare for the subsequent investment in new production facilities for these new products, the Group decided to expand the registered capital of Zhejiang Fulin from RMB20 million to RMB120 million by injecting RMB100 million of new capital into Zhejiang Fulin at the end of 2007. The Board believes that Zhejiang Fulin will be in a much better position to grow with a bigger capital base and the new products in the pipeline.



Taxi vehicle manufacturing – Shanghai LTI

51%-owned Shanghai LTI was officially established in June 2007 and is on track to start production of the localized TX4 models by the end of 2008. To speed up the commencement of production and to save costs, Shanghai LTI decided to rent an existing manufacturing plant from Shanghai Maple. The factory modification was started in March 2008 and is scheduled to be completed by mid-2008. Redesign and reengineering of the TX4 models for subsequent production in the Shanghai facilities is progressing on schedule. Key suppliers have been identified and contracted to supply major body tooling and key engineered components. Selling and marketing activities had already started in China, Asia and other international markets to develop the potential markets for the TX4 models to be produced by Shanghai LTI. Encouraging responses have so far been received from a wide spectrum of potential customers. Discussion also started recently on the opportunity for sharing of branding, technologies, operational knowledge, marketing strategy and service expertise amongst MBH, Shanghai LTI and the Company. Without revenues during the period, Shanghai LTI recorded a net loss of HK$5 million in 2007, mainly due to the exchange loss incurred by the company's large cash balance of HK$375 million at the end of 2007 as a result of the continuous appreciation of RMB against US$ and HK$.

Manganese Bronze Holdings plc

The Group owns 5.7 million shares, representing 22.83% stake in Manganese Bronze Holdings plc ("MBH"), the leading manufacturer of the distinctive London taxies in UK. MBH's shares are listed on the London Stock Exchange. The Group's stake in MBH was obtained in June 2007 by swapping a 48% stake in Shanghai LTI for the 5.7 million new shares in MBH at a valuation of GBP2.5 per share. With its 22.83% stake in MBH, the Group is one of the largest single shareholders of MBH and has been given two board seats in MBH's board of directors. The Group intends to hold the 5.7 million shares in MBH for long-term investment purpose and will actively seek opportunity to strengthen the cooperation between the two companies.

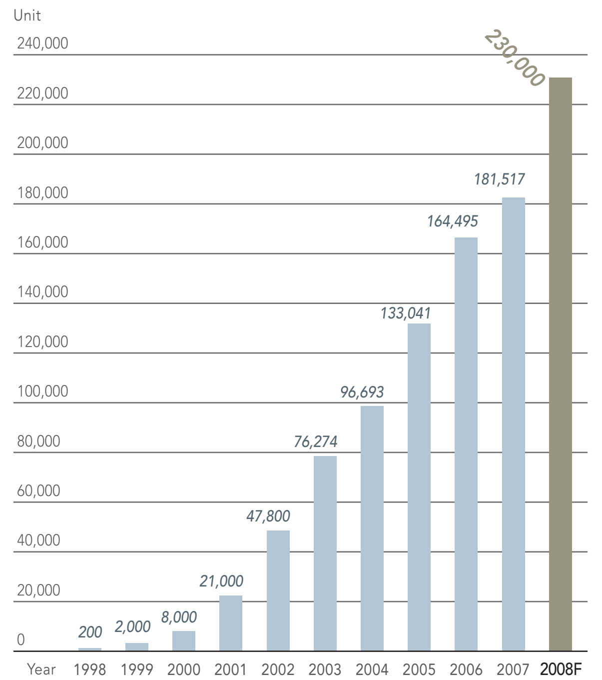
In addition to its 48% stake in Shanghai LTI, MBH derives most of its revenues and profit from manufactures and sales of London taxies in the UK market. MBH's results for the 17-month period ended 31 December 2007 were in line with expectations. Sales volumes in the final five months of 2007 were maintained at similar levels to the equivalent period of 2006 even though sales were abnormally high that year due to the dual effects of the run out of the TXII model and the initial launch surge of the new TX4 model. MBH reported sales revenues of GBP144.5 million and pre-tax profit of GBP4.9 million in the 17-month period to 31 December 2007. Net profit attributable to shareholders was GBP3.4 million during the period.

The Group started to equity account for MBH's financial results in its consolidated financial statements from 1 July 2007. Total dividend payment from MBH to the Group amounted to HK$3.1 million during 2007.

In MBH's 2007 final results statements, the Board of MBH expressed its confidence over MBH's prospects for 2008, believing that the continuing appeal of the TX4, the effect of the Euro 4 emission regulations change in London in mid 2008 and the strength of the demand for TX4 outside London will all have positive impacts in 2008.

Vehicle manufacturing – Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Hunan Geely and Zhejiang Ruhoo

Annual sales volume of Geely and Maple sedans



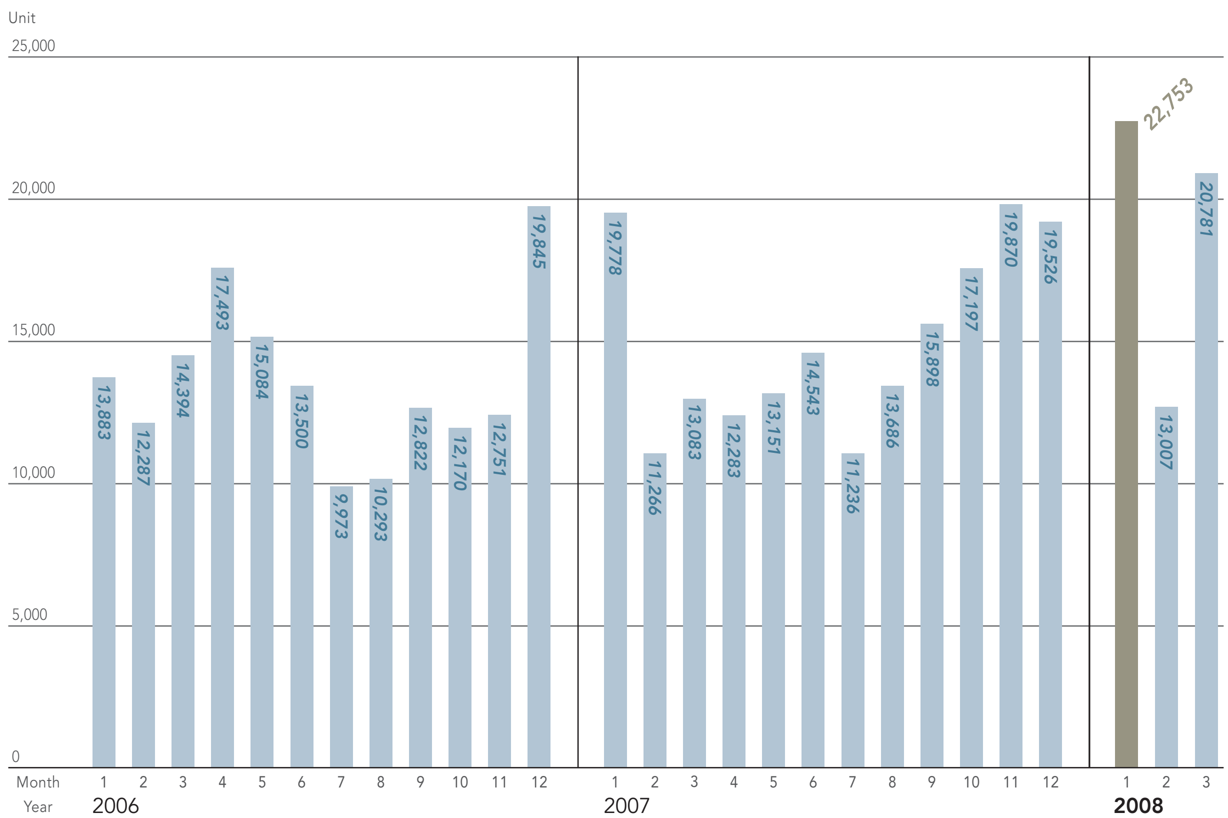
46.8%-owned Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Hunan Geely and Zhejiang Ruhoo ("operating associates") remained the key earnings contributors to the Group, accounting for the bulk of the Group's earnings in 2007. The operating associates sold a total of 181,517 units of Geely and Maple sedans in 2007, up 10% over 2006. Despite increased sales of new and higher-priced models like the "2008 version of Free Cruiser", "Geely Kingkong" and "Vision" during the period, this was partly offset by the dramatic drop in the sales volume of the low-priced models as the operating associates gradually ceased production of some of their low-end models.

Despite this, the continued improvement in their product mixes towards higher-priced models had enabled the operating associates to record significantly faster revenue and earning growth during the period. In particular, "Geely Kingkong", the Group's key new product last year, has received very good market response and achieved a tremendous success in 2007 with a total sales volume of 34,337 units, up 220% from the previous year, and become the second best selling models of the operating associates during the period. "Free Cruiser" remained the associates' best selling models during 2007, achieving 31% YoY increase in sales volume to 68,258 units, or 38% of the operating associates' total sales volume during the year, helped by the successful launch of 2008 version of "Free Cruiser" in October 2007. Although "Vision", the associates' most strategic new product in 2007, was only officially launched in May 2007, the market response has been encouraging so far with a total of 11,540 units sold in 2007. Monthly sales volume of "Vision" averaged over 2,200 units in the last quarter of 2007, suggesting strong growth momentum in the year of 2008.

The Group's operating associates recorded total net profit of HK$755 million in 2007, up 45% over 2006, on 10% increase in sales volume to 181,517 units and 72% increase in total revenues to HK$11,350 million. Net profit per unit of vehicle sold increased significantly by 32% to HK$4,157, due to improved product mix, the associates' success in controlling distribution and selling expenses, and lower effective tax rates helped by better tax planning.

During 2007, the operating associates managed to reduce the cost of outsourced automobile parts by around 5-8%, partly offsetting the average 5-10% cut in the sales prices of their products. The retail prices for most Geely and Maple sedan models, experienced relatively large pressure during the year due to aggressive price competition from other car manufacturers in China.

Monthly sales volume of Geely and Maple sedans



Breakdown of sales volume of Geely and Maple sedans by models in 2007

Models	Sales volume (Unit)
Free Cruiser	68,258
Geely Kingkong	34,337
Maple	31,196
Ulion	20,890
Vision	11,540
Merrie	9,751
Haoqing	4,075
Mybo	1,470
Total	**181,517**

Production Plants/Capital Expenditures

The Group's four associates – Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong – own production facilities in Ningbo, Shanghai, Linhai and Luqiao respectively. A new 46.8%-owned associate Hunan Geely was formed in April 2007 to invest in a new production plant located in Xiangtan of Hunan province. The five production plants' combined annual production capacity amounted to 430,000 units of sedans per shift. The five production plants are all fully-integrated plants, comprising stamping, welding, painting and assembly facilities, with supporting production facilities including three engines plants located in Shanghai, Ningbo and Linhai with a total annual production capacity of 350,000 units of engines and a gearbox plant in Ningbo with annual production capacity of 300,000 units of gearboxes by the end of 2007.

The associates' strategy is to continue the expansion and upgrading of its five production plants to further improve quality and reduce costs. In addition, the associates also plan to build new production facilities at less developed provinces in China for the benefit of proximity to new demand, lower costs and access to additional financial and other resources available in other provinces. To minimize the financial burdens and the investment risks for the five associates and in order to allow the new plants to become eligible for more investment incentives offered by the respective local governments, the construction of the new plants in new locations will be initially undertaken by the Group's parent Geely Holding, which has agreed to transfer its interests in these new plants to the Group when mass production started.

Location of new and existing plants

The associates' plan is to expand their combined annual production capacity to 500,000 units by end of 2008 and further to 1 million units by end of 2010. In addition to the expansion of existing plants, the capacity expansion target would be achieved through the planned construction of satellite plants in China's less developed areas including Lanzhou of Gansu province, Jinan of Shandong province and Cixi of Zhejiang province, and the setting up of SKD/CKD assembly arrangements with local partners in oversea countries.

The Group's operating associates have so far set up three SKD/CKD manufacturing arrangements in Russia, Ukraine and Indonesia. Details about the Group's five existing production plants are summarized below:

Existing Production Plants of the Associates

Name	Interests	Annual production capacity (single shift)	Models
Linhai Plant	46.8%	80,000	Merrie (1.0L, 1.05L) Ulion (1.0L, 1.05L) Mybo (1.5L) LC-1 (1.0L)
Luqiao Plant	46.8%	100,000	Kingkong (1.5L, 1.8L)
Ningbo Plant	46.8%	100,000	Free Cruiser (1.3L, 1.5L) Vision (1.8L)
Shanghai Plant (Phase II)	46.8%	60,000	Maple series (1.3L, 1.5L, 1.8L)
Shanghai Plant (Phase I) *(leased to Shanghai LTI)*	51.0%	40,000	TX4 (2.4L, 2.5L diesel)
Xiangtan Plant	46.8%	50,000	Kingkong (1.5L, 1.8L) Vision (1.8L)
	Total	**430,000**	

Total capital expenditures by the Group's operating associates amounted to approximately RMB1 billion in 2007, mainly for the funding of the expansion and upgrading of the five existing plants, the development of new products and new auto-related technologies. The capital expenditures were mainly funded by the operational cash flow generated by the five associates and bank borrowings by these associates. Major investment projects completed in 2007 included:

1. The expansion and upgrading of Ningbo plant to facilitate larger scale production of "Vision" mid-end sedan model was completed towards the end of 2007. Total annual capacity at Ningbo plant was expanded from 50,000 units per shift to 100,000 units per shift.

2. The installation of machinery and equipment in the Phase II of Shanghai plant and the relocation of the production of Maple sedans to the Phase II plant was completed in mid 2007. The annual capacity at Phase II plant is 60,000 units per shift.

3. Technological upgrading and expansion at Linhai plant to prepare for the production of a new platform of economy sedans in 2008 was completed by the end of 2007. A new engine plant with an annual capacity of 50,000 units for the production of a new series of small size CVVT engines was completed by the end of 2007. Production of engines is scheduled to start in the first quarter of 2008.

Total budgeted capital expenditures for the operating associates in 2008 amounted to approximately RMB1 billion, which will mainly be financed by the operational cashflow of the operating associates, capital expansion at Zhejiang Fulin, initial capital contributions to Hunan Geely, Shanghai LTI and Zhejiang Kingkong Auto R&D. The balance will be funded by bank borrowings. Major investment projects planned for 2008 include:

1. A major renovation and plant modifications at the Phase I of Shanghai Plant to prepare for the production of a localized version of TX4 "London Taxi" by the Group's 51%-owned Shanghai LTI starting from the end of 2008. Total annual production capacity at Phase I Shanghai plant will be 40,000 units per shift.

2. The construction of Phase II Ningbo plant to expand the production capacity of "Vision" model. Annual production capacity of the Phase II Ningbo plant will be 50,000 units per shift.

3. The upgrading and expansion at Xiangtan plant to facilitate the production of "Vision" model at Xiangtan plant starting from mid 2008. After that, Xiangtan plant will be able to produce both "Geely Kingkong" and "Vision" models.

In an undertaking agreed between Geely Holding, which is ultimately controlled by the Company's Chairman Mr. Li Shufu, and the Group, Geely Holding has undertaken to sell to the Group all its interests in three new production plants to avoid engaging in competing businesses with the Company, subject to compliance with applicable requirements of the Listing Rules and applicable laws and regulations upon terms to be mutually agreed as fair and reasonable, and at time determined and agreed by the majority of the Company's independent non-executive Directors. These three plants are currently constructed by Geely Holding for the manufacturing and distribution of Geely sedans in three locations including Lanzhou of Gansu province, Jinan of Shandong province and Cixi of Zhejiang province.

Quality Control

The Group's five associates have set up a quality control system satisfying the ISO9000 quality certifications. In August 2007, the Ningbo plant, the associates' most important production base, was awarded the official certifications in accordance with the requirements of ISO/TS16949:2002. The key focus of the associates in the area of quality control in 2008 is to prepare for the certification of their remaining production facilities in Linhai, Luqiao and Shanghai in accordance with the requirements of ISO/TS16949:2002 standards.

Compliance with Government Regulations

To prepare for the Chinese government's increasingly stringent requirements on emission control and to prepare for large scale exports in the coming years, the Group's associates started to upgrade their products to comply with the Guo IV and Euro IV emission standards, which are now required in Beijing and very soon in other major cities in China, in 2008. By 1 March 2008, all the associates' key models like: "Free Cruiser", "Geely Kingkong", "Vision", "Maple" series, "China Dragon" had passed the Guo IV emission standards.

New Products

Major new product launches by the associates in 2007 are summarized below:

1. "Merrie Star" 2007 facelift (1.05L)
2. "Geely Kingkong" power version (1.8L)
3. "Vision" mid-end sedan (1.8L)
4. "Free Cruiser" 2008 version (1.3L, 1.5L)
5. "Maple Marindo" economy version (1.3L)
6. "Maple Hysoon" sedan (1.5L, 1.8L)
7. "Maple Haifeng" sedan (1.5L, 1.8L)
8. "JL-Z142" 4-speed automatic gearboxes
9. "JL-S148" manual gearboxes

In 2008, the Group's operating associates plan to launch the following new products:

1. "LC-1" economy hatchback (1.0L)
2. "China Dragon" sport car (1.8L)
3. "Geely Kingkong" hatchback (1.5L)
4. "TX-4" taxi vehicle (2.4L, 2.5L diesel)

Longer-terms, the Group's product development focus called for the development of fifteen brand new models, eight new engines, six types of new manual transmission, six types of new automatic transmission, three types of ECVT (Electronically controlled Continuously Variable Transmission) and one hybrid project by 2010.

Exports

The Group's operating associates exported over 20,000 units of Geely and Maple sedans in 2007, up from 10,000 units in 2006, accounted for over 11% of the associates' combined sales volume and over 10% of China's total sedan/SKD exports during the year. "Free Cruiser" is the most popular models amongst the export models and accounted for over 70% of the total export volume in 2007. The operating associates' products were sold to over 30 countries and regions, most of which are located in Eastern Europe, Middle East, Africa and Central America.

During 2007, the Group's operating associates had made substantial investment to enhance the after sales and maintenance services in the oversea market. By the end of 2007, both "Free Cruiser" and "Geely Kingkong" had successfully passed 40 product certifications in Europe, thus allowing both products to be able to sell in major Eastern Europe markets. In November 2007, the Group's key export arm – Geely International Corporation – signed an agreement with the Rolf Group of Russia to import and sell Geely sedans in the Russian market. The agreement covers the five-year period from November 2007 to December 2012 with the overall value of the agreement making up to US$1.5 billion, paving the way for the Group's large scale entry into the Russian sedan market. These, coupled with the commencement of the operations of the three SKD/CKD production bases in Russia, Ukraine and Indonesia last year, should ensure substantial growth in export sales volume in the years ahead. The Group expects total exports sales volume of the operating associates to more than double to 50,000 units in 2008, or over 20% of the Group's total projected sales volume in the year.

The Group considers exports a very important part of its businesses and has set an ambitious target of exporting two third of its output to oversea countries by 2015.

Marketing and Promotions

To promote the "Geely" brands and enhance market recognition of the associates' engine and car design and manufacturing technologies, the Group and its operating associates participated and sponsored a number of promotional events during 2007, including:

- The Group's operating associates were the key sponsors and sole engine and formula car suppliers of the 2007 season of Asian Geely Formula International Open Competition ("AGF"). Four AGF races were held in 2007 in Beijing, Chengdu, Zhuhai and Shanghai with a total of 9 sponsored teams comprising 18 cars participating in the races. The Group will continue to be the key sponsors and sole engine and formula car supplier for the new 2008 season of the AGF race. There will be a total of seven races in Zhuhai, Malaysia, Chengdu, Shanghai, Beijing, and Macau, to be held from April to December 2008.

- The Group's operating associates were one of the key product sponsors of "The Drive of Life", a joint drama series produced

by TVB and CCTV to celebrate the 10th Anniversary of the return of Hong Kong back to mainland China. "The Drive of Life", which was produced in the operating associates' factory premises and employing a lot of the associates' products in the drama series, was broadcasted on CCTV Channel 8, TVB Jade Channel and Hunan Satellite TV from June to October 2007, attracting significant attention from the public. Tremendous success and results had been achieved in enhancing Geely's corporate image and product profile after the programme was introduced to audience in China and Hong Kong. The drama series had also been shown in Chinese channels in other countries, including Malaysia, Australia, Singapore and Korea, which should allow the "Geely" brand to gain more publicity outside China.

Sales and Distribution

By the end of 2007, the Group's associates had established a comprehensive distribution and service networks in China and foreign countries, comprising over 159 4S independent franchisee stores, 318 exclusive stores and 600 independent service stations in China, and 26 agents and 128 sales and service spots in 40 foreign countries.

To cope with an increasingly competitive market in China, characterized by fierce price competition and flurry of new sedan models, the Group and its associates have adopted a more pro-active approach towards the management and supervision of their distribution and service networks in China, aiming at further improving customer satisfaction, rationalization of distribution network and improving market coverage. In August 2007, a 24-hour national customer call center has been set up to enhance the communications with the customers. The call center was recently awarded the "China Contact Center Standard for Operation Performance" or "CCCS-OP-2003" 4-star certifications by the Ministry of Information Industry, making the call center the only 4-star grade call center in the auto industry in China.

Research and Development

The major focus of the Group's Research and Development function includes new car model design, development of engine, gearbox, electronic and electric components. With its extensive investment in research and development, the Group's R&D team is capable of launching two to three brand new models every year, reflecting its leading position in R&D and technology innovation capabilities in China's automobile sector.

In addition to the development of new vehicle models, the Group's R&D focus also includes emission control, quality certifications, collision test, automobile electronics, vibration control, noise reduction, weight reduction, and alternate power like hybrid and ethanol.

To further improve the Group's technological advantages, a restructuring of the Group's R&D function was implemented in early 2007, aiming to further streamline the Group's R&D organizations through centralization of management, resources allocation and project planning, and through division of responsibilities and assignment of focuses amongst different R&D organizations.

In addition to the R&D centre in Linhai of Zhejiang province, which is the key location for new model design and the Group's major testing centre, the Group has set up several R&D centres in different locations: including a R&D centre in Shanghai focusing on new energy, green and clean fuels, hybrid and electric power and the design and development of classic vehicles, and a R&D centre in Ningbo emphasizing on power-train development and research. A new R&D centre in Luqiao has started construction and will house the Group's R&D capability in the development of automobile electronic and electrical components. In addition, the Group has set up a new internet-based portal for attracting auto-related innovation achievements from individuals and independent research institutes and engineering companies all over the World.

By the end of 2007, the Group's operating associates own a total of 417 technology patents. The number of the associates' R&D staff exceeded 1,100 peoples, representing over 12% of the total number of staff of the Group and its associates, reflecting the Group's emphasis on R&D capabilities.

Outlook

Although competition in China's sedan market continues to intensify, we expect the growth of China's sedan sales volume to be maintained at around 20% per annum in the coming few years. According to the figures compiled by the China Association of Automobile Manufacturers, total sales volume of sedans in China amounted to 4.73 million units in 2007, up 23% from the previous year. However, sales of smaller sized cars have slowed down significantly since the end of 2006. In particular, sales volume of sedans with engine size of 1.3L or less was down almost 25% YoY in 2007, reflecting an interesting shift in preference for larger size cars by Chinese consumers, probably a result of the increasing need for longer distance intra city travel and a strong domestic stock market during 2007, which is reported to have prompted potential car buyers to delay their car purchase plans to spare more funds for investment in the local stock market. As a result of the dramatic slow down in the demand for smaller cars, most small car manufacturers have decided to adopt a more aggressive pricing strategy, resulting in several rounds of competitive price cuts since the beginning of 2007, resulting in tremendous price pressures in the economy car segment during the year. In addition, the rapidly rising raw material prices in China and the Chinese government's introduction of more stringent environmental and safety requirements have put substantial cost pressure on car manufacturers in China. Despite these, the very difficult market condition, which has resulted in dramatic fall in sales volume and major deterioration in profitability amongst most economy car manufacturers in China, has so far only limited impact on the Group's performance, thanks to the Group's well timed transformation to broaden its product range to include more higher priced models over the past few years.

To cope with the rapid changes in market environment, the Group has reduced the retail prices of its products by 5-10% in 2007. In addition, more resources have been allocated to improve the Group's brand images, product mix, customer services and the quality and technology standards of its products, aiming to enhance the Group's pricing power through differentiating the Group's products from the products offered by other Chinese sedan manufacturers. Additional efforts were also spent to promote exports sales in order to compensate for the shortfall in the domestic demand. Major restructuring in various business areas including the research and development department, the auto parts procurement system, and the suppliers' system have been implemented to further reduce cost and improve product quality. A management reshuffle also happened in Shanghai Maple, aiming to revive the profitability of the Maple sedans. Major restructuring of the Group's dealers and distribution network has also started to improve the effectiveness of the Geely sedans' market penetration. With the considerable effort spent in 2007, we believe the Group's profitability and its shareholders' returns should continue to improve in the coming years. We expect the operating associates to sell a total of 230,000 units of vehicles in 2008, up 27% from 2007.

In the medium to longer term, the Group will continue to upgrade and expand our production facilities to improve quality and reduce costs, to build new production facilities in less developed provinces to develop new markets and generate additional demand for Geely and Maple sedans, to invest in product and technology innovation in order to differentiate our products from the rest of the market, and to establish strategic alliances with major suppliers to reduce volatility of raw material and component costs, with an aim to develop the Group into an internationally competitive sedan manufacturer.

The Group's major achievements in 2007, including the successful launch of Geely's first mid-end sedan model: "Vision" and the significant improvement in product mix to include more higher-priced products, should pave way for the Group's operating associates to achieve its sales target in 2008, and the substantial effort devoted to restructure the associates' parts procurement system and dealers' network, should have built up a good foundation for the Group's sustained long-term growth in the future.

CAPITAL STRUCTURE AND TREASURY POLICIES

The business activities of the Group are mainly financed by the share capital, dividends received from the Group's two major associates, net proceeds from the top-up placement of 600 million shares issued by the Company in February 2007. As at 31 December 2007, the Group's shareholders' funds amounted to approximately HK$2,441 million (As at 31 December 2006: approximately HK$1,030 million). Save for the 600 million shares issued for the top-up placement in February 2007 and 449,694,954 shares issued upon conversion of convertible bonds, no further shares were issued by the Group during the period.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group considers that fluctuations in exchange rate do not impose a significant risk to the Group since the Group's operations are principally in the Mainland China and Hong Kong and all assets and liabilities are denominated either in Renminbi or Hong Kong dollars.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's current ratio (current assets/current liabilities) was 11.12 (As at 31 December 2006: 1.48 (restated)) and the gearing ratio of the Group was 14% (As at 31 December 2006: 70%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 31 December 2007 amounted to approximately HK$330 million (As at 31 December 2006: approximately HK$716 million) were mainly the Company's convertible bonds and short-term bank borrowings (secured). For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity. For the bank borrowings, they were secured by notes receivables, interest-bearing and repaid on maturity. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

EMPLOYEES' REMUNERATION POLICY

As at 31 December 2007, the total number of employees of the Group including associates was about 8,813 (As at 31 December 2006: 9,498). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Li Shu Fu, aged 44, joined the Group on 9 June 2005 as the chairman and executive director, and is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Li holds a master degree in engineering from Yan Shan University. Presently, Mr. Li is the controlling shareholder, founder, chairman of the board of Zhejiang Geely Holding Group Company Limited (a company incorporated in the PRC, and is ultimately owned by Mr. Li and his associates). Zhejiang Geely Holding Group Company Limited and its subsidiaries are principally engaged in manufacturing and sales of automobile in the PRC. Mr. Li is also the chairman of the two associated companies of the Group namely, Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") and Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"). Mr. Li has over 20 years of experience in the investment and management of the automobile manufacturing business and educational business in the PRC. Mr. Li is a member of the Chinese People's Political Consultative Conference. Mr. Li was accredited as one of the "50 Most Influential Persons in China's Automotive Industry in the 50 Years" by a pertinent organization in China.

Mr. Gui Sheng Yue, aged 44, joined the Group on 9 June 2005 as the Executive Director and is responsible for the administration of the Company. Mr. Gui has over 20 years experience in administration and project management. Mr. Gui had also worked with China Resources (Holdings) Company Limited. Mr. Gui holds a Bachelor of Science degree in mechanical engineering from Xian Jiaotong University and a Master degree in business administration from University of San Francisco. Mr. Gui was appointed as the Chief Executive Officer of the Company with effect from 23 February 2006.

Mr. Yang Jian, aged 46, joined the Group on 9 June 2005 as the executive director, and is responsible for the overall administration of the Zhejiang Geely Holding Group Company Limited. Mr. Yang is also the First Vice President of Zhejiang Geely Holding Group Company Limited and Head of Zhejiang Geely Automobile Research Institute Ltd., which is wholly-owned by Zhejiang Ruhoo. Mr. Yang is also the chairman of the two associated companies of the Group, namely Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo"). Mr. Yang graduated from Zhejiang Radio and Television University with focus on production management. Mr. Yang currently gets a senior economist designation, a senior engineer certificate and graduation certificate of EMBA program in the Advanced Research Class of China Europe International Business School. Since joining Zhejiang Geely Holding Group Company Limited in 1995, Mr. Yang was involved in a number of different job functions within the group including production management, quality control, general administration, research and development and project management.

Directors and Senior Management Profiles

Mr. Ang Siu Lun, Lawrence, aged 47, joined the Group on 23 February 2004 as the Executive Director and is mainly responsible for the international business development, capital market and investors' relationship of the Group. He holds a Bachelor of Science degree in Physics and Computer Science and a Master of Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, he worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business.

Mr. Yin Da Qing, Richard, aged 58, joined the Group on 9 June 2005 as the Executive Director. Mr. Yin is the Vice President and Chief Financial Officer of Zhejiang Geely Holding Group Company Limited. Mr. Yin has 35 years of experience in Accounting and Finance and held key executive positions in various Chinese and multinational companies in China including Dupont Textile, Dupont Agricultural Chemicals, Brilliance Holding and Shenyang Jinbei Passenger Vehicle Manufacturing Co. Ltd. Mr. Yin was accredited as one of "The 10 Most Outstanding Chief Financial Offers" in year 2006.

Mr. Liu Jin Liang, aged 41, joined the Group on 9 June 2005 as the Executive Director and was previously responsible for all the sales functions of Zhejiang Geely in China. Mr. Liu is now responsible for the overall operations of Shanghai Maple and Zhejiang Geely Automobile Sales Company Limited. Mr. Liu is the Vice President of Zhejiang Geely Holding Group Company Limited and General Manager of Zhejiang Geely Automobile Sales Co. Ltd., which is wholly-owned by Zhejiang Geely. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial management. Prior to joining Zhejiang Geely Holding Group Company Limited in 1995, Mr. Liu held a number of management positions in several major grand hotels in China. Mr. Liu has about 10 years experience in the marketing and sales of motor vehicles in China.

Mr. Zhao Jie, aged 41, joined the Group on 15 September 2005 as the Executive Director and is responsible for the export business of the Group. Mr. Zhao is the Vice President of Zhejiang Geely Holding Group Company Limited and founder of Geely International Corporation. Mr. Zhao has over 8 years of experience in exploitation and marketing management of the International Automotive Market. Mr. Zhao gets a graduation certificate of EMBA program in the Enterprise Research Centre of Peking University and has 10 years of experience in the management of various government departments.

Dr. Zhao Fuquan, aged 44, joined the Group on 17 November 2006 as the Executive Director. Dr. Zhao is the Vice President of Zhejiang Geely Holding Group Company Limited ("Geely Holding") and Dean of Zhejiang Geely Automobile Research Institute Limited. Dr. Zhao got a doctorate degree in Engineering Science of Hiroshima University in Japan and has years of on-the-job work experience in Japan, United Kingdom and United States of America. Prior to joining Geely Holding, Dr. Zhao was the Research Executive of Technical Affairs of DaimlerChrysler and Vice President of Shenyang Brilliance JinBei Automobile Company Limited and General Manager of its Research & Development (R&D) Centre. Dr. Zhao, one of the main authors in international automobile magazines, has written 5 English books and has published more than 100 academic dissertation papers on automobile technology. Dr. Zhao was awarded 2 patents in United States of America and has won many prizes and awards, including the Forest R. McFarland Award in year 2001 by the Society of Automotive Engineers (SAE). Dr. Zhao was accredited as a Fellow by the SAE in April 2006. Dr. Zhao is currently a part-time professor in Jilin University, Tongji University, Tianjin University, Huazhong University of Science & Technology, Dalian University of Technology, Hunan University and Northeastern University.

NON-EXECUTIVE DIRECTOR

Mr. Xu Gang, aged 46, joined the Group on 9 June 2005 as the Executive Director but was subsequently re-designated as the Non-executive Director with effect from 1 September 2007. Mr. Xu was previously responsible for the business development and administration of the Shanghai Maple Guorun Automobile Company Limited. Besides, Mr. Xu was the Vice Chairman of Zhejiang Geely Holding Group Company Limited and the Chairman of Shanghai Maple Automobile Company Limited. Until recently, Mr. Xu stands down the aforementioned posts and now acts as a professional advisor to Zhejiang Geely Holding Group Company Limited. Mr. Xu graduated from the Guanghua Management School of Beijing University and holds an EMBA degree. Mr. Xu is a professional expert in business management and has 23 years of experience in the management and leadership of various government departments, including Zhejiang Provincial Finance Bureau and Zhejiang Local Taxation Bureau. Mr. Xu was accredited as "The 10 Best Chinese Management Talents", "The Best CEO/President of Private Automobile Enterprises in 2003" and "The 10 Best Economic Youths in Shanghai in 2005" by pertinent organizations in China. Mr. Xu is currently a president of Suning Universal Company Ltd (Shenzhen A-share Stock Code 000718).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Lin, aged 45, joined the Group as Independent Non-executive Director on 27 September 2004. He holds a Bachelor's degree in Solid Mechanics from the University of Tong Ji in Shanghai, China. He is concurrently Vice Chairman and President of China Resources (Holdings) Company Limited and China Resources National Corporation, Chairman of China Resources Enterprise, Limited (HK Stock Code 291), China Resources Power Holdings Company Limited (HK Stock Code 836), China Resources Land Limited (HK Stock Code 1109) as well as China Resources Microelectronics Limited (HK Stock Code 597). Mr. Song is the Deputy Chairman of China Vanke Co., Ltd., which is a listed company in China. He is also an Independent Non-Executive Director of The Bank of East Asia (China) Limited.

Mr. Lee Cheuk Yin, Dannis, aged 37, joined the Group as Independent Non-executive Director on 28 June 2002. He graduated from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He possesses over 10 years of experience in accounting and auditing field. Mr. Lee is the Executive Director of AMVIG Holdings Limited (HK Stock Code 2300) and the Non-executive Director of Norstar Founders Group Limited (HK Stock Code 2339).

Mr. Yeung Sau Hung, Alex, aged 58, is the Chief Executive Officer of DBS Vickers Hong Kong since 1 September 2002. Mr. Yeung is a MBA graduate from the University of Southern California, brings with him more than 20 years' experience in the financial services industry. His experience includes investment research, securities operations, equity sales, primary equities origination and syndication and general management. Prior to joining DBS Vickers Securities, Mr. Yeung was the Deputy Chairman of the management committee of a listed consumer electronics company for four years. Before that, he was the Country Head of Greater China Equities and the Managing Director of Deutsche Securities Hong Kong.

SENIOR MANAGEMENT

Mr. Shim Bong Sup who is a Korean aged 62, joined the Geely Group as the Vice President and Technical Consultant on 10 April 2004. He holds the B.S. Degree in metallurgical engineering and has extensive experience in Korean automotive industry for more than 36 years especially in new car development, automotive technology and quality assurance. Mr. Shim was once the vice president of Daewoo Motor and the chairman of Korean Automobile Engineering Association.

Mr. Zhang Peng, Peter, aged 41, joined the Group on 26 February 2007 as the Vice President and is responsible for Group's internal control and international business development. He holds a bachelor's degree in mechanical engineering, a master's degree in economics and a PhD in economics from leading Chinese universities. Mr. Zhang has rich experience in types of jobs ranging from business development, project management, operational management, strategy and planning to corporate governance and internal controls. He has got more than 10 years working history with major multinational companies. In his most recent roles in BP plc, he was an advisor for Group Internal Control after he returned from BP's North Sea strategy team in Aberdeen.

Mr. Cheung Chung Yan, David, aged 32, joined the Group as the Financial Controller and Company Secretary on 17 May 2005. Mr. Cheung holds a bachelor degree in Business Administration in Accounting from the Hong Kong University of Science and Technology in 1997. He is a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 10 years of experience in auditing, accounting and financial management.

Corporate Governance Report

The Company and its subsidiaries (collectively known as the "Group") continue the strive toward 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 2007, except for the deviation from CG Code E.1.2. Explanation for such deviation is 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 2007, the Board of Directors of the Company (the "Board") comprised eight executive directors, one non-executive director 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 1 September 2007, Mr. Xu Gang was re-designated by the Company as a non-executive director from previous executive director. Mr. Xu Gang, the non-executive director, is appointed for a specific term of 3 years, subject to retirement by rotation at least once every three years at the annual general meeting pursuant to the Company's Articles of Association. His re-appointment will be subject to re-election by shareholders at the coming annual general meeting.

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 32 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 2007:

Executive Directors

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

Non-executive Director

Mr. Xu Gang

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 to ensure a balance of power and authority. Throughout the entire 2007, the roles of Chairman and Chief Executive Officer of the Company were taken by Mr. Li Shu Fu and Mr. Gui Sheng Yue respectively. The Chairman of the Group is primarily responsible for the management of the Board, whereas the Chief Executive Officer is primarily responsible for the daily operations of the Group with the assistance from other executive directors and senior management.

Relationship of the Board Members

There is no family relationship between any of the Directors, nor are there any financial, business or other material or relevant relationships among the members of the Board.

Independent Non-executive Directors

As at 31 December 2007, 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 2007 pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive directors as independent during the year. No independent non-executive director has served the Group for more than nine years.

Each of the independent non-executive directors is appointed for a specific term of 3 years, subject to retirement by rotation at least once every three years at the annual general meeting pursuant to the Company's Articles of Association.

All independent non-executive directors are identified as such in all corporate communications containing the names of the Directors.

Responsibility of Directors

The Board is responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate financial and managerial resources to implement the business strategies adopted, adequacy of systems of 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 Company and its shareholders as a whole.

The Executive Directors and senior management are delegated with respective levels of authorities for them to discharge their responsibilities. 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 in order to provide a true and fair view of the financial status of the Group. The Directors aim to present a balanced, clear and understandable assessment of the Group's financial and operational performance, position and prospects in the interim and annual financial statements, and relevant announcements to shareholders. 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 where appropriate. The release of key operational information and the publication of financial statements of the Group were organized 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 Officers (the "Code"). All directors of the Company have confirmed their compliance during the period with the required standards set out in the Model 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 twelve regular board meetings and twenty-nine ad-hoc board meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 46 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. Draft and finalized minutes of board meetings are circulated to all Directors for their comments and records respectively as soon as practicable after each meeting. All minutes are open for inspection at any reasonable time on request by any Director.

Before each board meeting, the Directors have to declare for their interests in the subject matter to be considered in the relevant board meeting. Any director or his associates has/have any material interest in any proposed board resolutions will not be counted as a quorum in the relevant board meeting nor vote for the board resolutions. The independent non-executive Directors who have no material interest in the matter will attend the meeting to deal with the matter if it is considered appropriate.

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) ensuring 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.

The Directors of the Company conducted a review of the internal control system of the Group with the assistance of the Internal Control Department of the Company during the year and were satisfied with the effectiveness of the internal control system. No material internal control weaknesses were identified thereupon. However, the Board acknowledged the increasing need of a comprehensive internal control system in view of the coming Group's restructuring and future business expansion.

The Group's internal control system is designed to provide reasonable assurance of the reliability of financial reporting, the effectiveness of operations, and compliance with applicable laws and regulations. In these separate but overlapping areas, material control risks need to be addressed and mitigated to ensure the achievement of overall business objectives of the Group.

The Company set up an internal control function by the end of 2006 with the aim to enhance the internal control system of the Group. In July 2007, the Company announced the restructuring plan to increase its shareholding of its major operating associates in mainland China from 46.8% to 91%. In anticipation of the growing need of management integration and better internal controls post restructuring, the Company established the Guidelines of Internal Control for Subsidiaries and started the trial run in Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd. in October, following the delivery of a tailor-made internal control training to the management team of the subsidiary.

In the above-mentioned Guidelines of Internal Control, the generic COSO framework was referred to as the design basis of internal control system for the Group. A set of fundamental requirements with regard to financial, operational and compliance risks control were laid out and defined. Proposed action plans have been developed alongside the key elements of internal control framework, i.e., control environment, risk analysis, control measures, monitoring, information and communication.

The Guidelines of Internal Control for Subsidiaries will be made applicable to other Group companies progressively.

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 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 are available 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 equipped with adequate resources to enable it to fully discharge its duties.

During the year, the Audit Committee held two meetings and the external auditors were in attendance in all these meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 46 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.

With effect from 1 June 2007, the Company's auditors, Moores Rowland Mazars have combined their business with Grant Thornton. Accordingly, the Company has appointed Grant Thornton as its auditors until the conclusion of the next annual general meeting. Both the Board and the Audit Committee of the Company confirmed that there were no circumstances connected with the appointment of Grant Thornton which the Board and the Audit Committee of the Company considered should be brought to the attention of the shareholders of the Company.

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 2007.

For the year ended 31 December 2007, the auditors of the Company received approximately HK$1.6 million for the Group's audit service, approximately HK$3.0 million for the professional services in relation to the Group's restructuring as announced on 13 July 2007 and approximately HK$1.6 million for the professional services in relation to the very substantial acquisition of 5.7 million shares of Manganese Bronze Holdings Plc..

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 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 are available on the Company's website (http://www.geelyauto.com.hk).

During the year, the Remuneration Committee held one meeting. The attendance record, on a named basis, at the meeting is set out in the table on page 46 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 Wednesday, 18 April 2007 at 10:00 a.m.. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 18 April 2007 (which can be downloaded from the websites of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Company (http://www.geelyauto.com.hk)).

The second general meeting was an extraordinary general meeting held on Monday, 30 April 2007 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 30 April 2007 (which can be downloaded from the websites of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Company (http://www.geelyauto.com.hk)).

The third general meeting was the 2007 annual general meeting held on Monday, 14 May 2007 at 10:00 a.m.. The CG Code E.1.2 provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to other commitment in the PRC, Mr. Li Shu Fu ("Mr. Li"), the Chairman of the Board, was unable to attend physically at the annual general meeting of the Company held on 14 May 2007 in Hong Kong. This constitutes a deviation from the CG Code E.1.2.

The fourth general meeting was an extraordinary general meeting held on Tuesday, 31 July 2007 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 31 July 2007 (which can be downloaded from the websites of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Company (http://www.geelyauto.com.hk)).

The fifth general meeting was an extraordinary general meeting held on Thursday, 22 November 2007 at 10:00 a.m. For detailed voting results of the extraordinary general meeting, please refer to the Company's announcement dated 22 November 2007 (which can be downloaded from the websites of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Company (http://www.geelyauto.com.hk)).

Communication Channels

It is the Company's aim to maintain open and effective communication with the shareholders. To this end, the Company insists on full, honest, equal and timely disclosure of all essential information regarding its business to the investor community. The Company has established various channels to facilitate and enhance communication:

(i) the general meetings provide a platform for shareholders of the Company to raise their comments and exchange their 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 requirements and other applicable regulatory requirements,

(iii) up-to-date 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 Executive Director and other senior management staff.

As the Group's continuous commitment to transparent communications, the Company receives wide coverage amongst the institutional investor community, with key local and international research houses regularly publishing reports on the Group and its activities. The Group strives to develop closer ties with the investor community, and our senior management team regularly attends investor conferences organized by securities houses in Hong Kong, China and overseas.

The directors are also available at the general meetings 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 Rooms 1901-2, 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 2007

	Board Meeting				Audit Committee		Remuneration Committee	
Name and designation	No. of regular meetings	Attendance	No. of ad-hoc meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
Executive Director								
Mr. Li Shu Fu	12	12	29	0	N/A	N/A	N/A	N/A
Mr. Gui Sheng Yue	12	12	29	29	N/A	N/A	1	1
Mr. Ang Siu Lun, Lawrence	12	12	29	28	N/A	N/A	N/A	N/A
Mr. Yang Jian	12	12	29	0	N/A	N/A	N/A	N/A
Mr. Yin Da Qing, Richard	12	12	29	0	N/A	N/A	N/A	N/A
Mr. Liu Jin Liang	12	10	29	0	N/A	N/A	N/A	N/A
Mr. Zhao Jie	12	8	29	0	N/A	N/A	N/A	N/A
Dr. Zhao Fuquan	12	10	29	0	N/A	N/A	N/A	N/A
Non-executive Director								
Mr. Xu Gang	12	6	29	0	N/A	N/A	N/A	N/A
Independent Non-executive Director								
Mr. Lee Cheuk Yin, Dannis	12	10	29	2	2	2	1	1
Mr. Song Lin	12	2	29	0	2	0	N/A	N/A
Mr. Yeung Sau Hung, Alex	12	7	29	1	2	2	1	1

"N/A": Not applicable

Directors' Report

The Directors present their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2007.

Principal Activities

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 33 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 58. The directors now recommend the payment of a final dividend of HK1.3 cent per share to the shareholders on the register of members on 22 May 2008, amounting to HK$67,614,000.

Closing of Register of Members

The register of members of the Company will be closed from 20 May 2008 to 22 May 2008, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final 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 Rooms 1901-02, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 19 May 2008.

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 3 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 60 and in note 24 to the consolidated financial statements.

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. Yang Jian
Mr. Ang Siu Lun, Lawrence
Mr. Liu Jin Liang
Mr. Yin Da Qing, Richard
Mr. Zhao Jie
Dr. Zhao Fuquan

Non-executive director:

Mr. Xu Gang
(Re-designated on 1 September 2007)

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. Li Shu Fu, Gui Sheng Yue, Xu Gang, Song Lin and Lee Cheuk Yin, Dannis shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The independent non-executive directors all have a fixed term of 3-year service 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 2007, 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 (%)
Shares				
		Long position	*Short position*	
Mr. Li Shu Fu *(Note 1)*	Corporate	2,500,087,000	–	48.07%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.04%
Share options				
		Long position	*Short position*	
Mr. Ang Siu Lun, Lawrence	Personal	45,000,000 *(Note 2)*	–	0.86%
Mr. Gui Sheng Yue	Personal	23,000,000 *(Note 2)*	–	0.44%
Mr. Xu Gang	Personal	23,000,000 *(Note 2)*	–	0.44%
Mr. Yang Jian	Personal	23,000,000 *(Note 2)*	–	0.44%
Mr. Liu Jin Liang	Personal	18,000,000 *(Note 2)*	–	0.35%
Mr. Zhao Jie	Personal	18,000,000 *(Note 2)*	–	0.35%
Mr. Yin Da Qing, Richard	Personal	16,000,000 *(Note 2)*	–	0.31%
Dr. Zhao Fuquan	Personal	12,000,000 *(Note 2)*	–	0.23%
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 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 31 December 2007.

(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)*
Mr. Li Shu Fu	Hunan Geely Automobile Components Company Limited	*(Note 5)*	–	*(Note 5)*

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 100%-owned by Mr. Li and his associate.

(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 100%-owned by Mr. Li and his associate.

(3) Zhejiang Kingkong 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 100%-owned by Mr. Li and his associate.

(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 100%-owned by Mr. Li and his associate.

(5) Hunan Geely Automobile Components 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 100%-owned by Mr. Li and his associate.

Save as disclosed above, as at 31 December 2007, 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 2007, the following persons (other than the directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Substantial Shareholders
(as defined in the Listing Rules)

Name	Capacity	Number of shares held		Shareholding Percentage (%)
		Long position	*Short position*	
Proper Glory *(Note)*	Beneficial owner	2,500,000,000	–	48.07
Geely Group Ltd. *(Note)*	Beneficial owner	87,000	–	0.002
	Corporate	2,500,000,000	–	48.07
TOSCAFUND Asset Management LLP	Beneficial owner	991,890,000	–	19.07
Morgan Stanley	Beneficial owner	354,090,178	354,090,178	–
UBS AG	Beneficial owner	786,923,769	6,974,000	15.00
Och-Ziff Capital Management L.L.C.	Corporate	275,894,888	–	5.30
Och Daniel Saul	Beneficial owner	275,894,888	–	5.30

Note: 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.

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 2007 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' 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 1.1.2007	Granted during the year	Cancelled during the year	Outstanding at 31.12.2007
Mr. Ang Siu Lun, Lawrence	23.2.2004 – 22.2.2009	0.95	35,000,000	–	–	35,000,000
	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
Continuous contract employees	5.8.2005 – 4.8.2010	0.70	88,500,000	–	(1,900,000)	86,600,000
	10.7.2006 – 16.5.2011	0.93	10,000,000	–	(580,000)	9,420,000
	28.11.2006 – 27.11.2011	0.89	3,000,000	–	–	3,000,000
	18.9.2007 – 17.9.2012	1.06	–	28,500,000	–	28,500,000
			282,500,000	28,500,000	(2,480,000)	308,520,000

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 JV"), an associated company of the Company. 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 Company, Zhejiang JV 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 9 June 2005. Therefore, the transactions between Zhejiang Fulin and Zhejiang JV 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 JV 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 JV 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 HK$137 million which, did not exceed the annual cap of HK$359 million for the year ended 31 December 2007 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 HK$137 million which, did not exceed the annual cap of HK$359 million for the year ended 31 December 2007 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 2007.

Emolument Policy

The emolument policy of the employees of the Group is set up by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the directors of the Company is decided by the Remuneration Committee, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 28 to the consolidated financial statements.

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 40.0% and 12.1%, 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 99.6% respectively, of the Group's total sales for the year. Zhejiang Geely Automobile Company Limited, an associate of the Company, is the Company'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 46 of the annual report.

Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Corporate Governance Code as defined in the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex who are the independent non-executive directors of the Company.

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 date of issue of the annual report, such obligation has been complied with.

Competing Businesses

The Group is principally engaged in the research, production, marketing and sales of sedans and related automobile components in the PRC. Zhejiang Geely Holding Group Company Limited, which is ultimately owned by Mr. Li Shu Fu ("Mr. Li"), the Company's Chairman, and his associates, has signed agreements or been in negotiations with local governments in the PRC to set up production plants for the manufacturing and distribution of Geely sedans in three locations, namely Lanzhou, Cixi and Jinan. The potential production and distribution of Geely sedans in these three locations by Zhejiang Geely Holding Group Company Limited will constitute competing businesses (the "Competing Businesses") to those currently engaged by the Company's associates. Mr. Li has undertaken to the Company (the "Undertaking") that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive Directors, he will, and will procure his associates (other than the Group) to sell to the Group all of the Competing Businesses and related assets, subject to compliance with applicable requirements of the Listing Rules and other applicable laws and regulations upon terms to be mutually agreed as fair and reasonable.

Auditors

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Grant Thornton as the auditors of the Company.

On behalf of the Board

Li Shu Fu
Chairman
16 April 2008

Independent Auditors' Report

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Member of Grant Thornton International Ltd

To the members of
Geely Automobile Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 111, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not

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for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

16 April 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover/Revenue	6	**137,209**	127,006
Cost of sales		**(121,251)**	(110,036)
Gross profit		**15,958**	16,970
Other income	8	**31,899**	18,224
Distribution and selling expenses		**(3,182)**	(3,016)
Administrative expenses		**(47,285)**	(22,542)
Finance costs	9	**(35,103)**	(32,390)
Fair value gain/(loss) on embedded derivative components of convertible bonds		**5,654**	(4,742)
Share of results of associates	15	**351,832**	243,230
Profit before taxation		**319,773**	215,734
Taxation	10	**(1,673)**	(1,585)
Profit for the year	9	**318,100**	214,149
Attributable to:			
Equity holders of the Company		**314,658**	208,752
Minority interests		**3,442**	5,397
		318,100	214,149
Dividends	11	**67,614**	57,327
Earnings per share			
Basic	12	**HK6.38 cents**	HK5.05 cents
Diluted	12	**HK6.28 cents**	HK4.95 cents

Consolidated balance sheet

as at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	14	**32,246**	12,282
Interest in associates	15	**2,125,456**	1,666,999
		2,157,702	1,679,281
Current assets			
Inventories	16	**14,498**	9,910
Trade and other receivables	17	**68,171**	59,065
Dividend receivables from associates		**3,560**	74,840
Financial assets at fair value through profit or loss	18	**4,681**	–
Bank balances and cash		**793,421**	20,972
		884,331	164,787
Current liabilities			
Trade and other payables	20	**38,725**	23,653
Amount due to an associate	21	**127**	–
Amount due to immediate holding company	22	**–**	11,220
Taxation		**731**	293
Convertible bonds – embedded derivatives	19	**19,460**	53,888
Short-term bank borrowings (secured)	17(b)	**20,516**	22,250
		79,559	111,304
Net current assets		**804,772**	53,483
Total assets less current liabilities		**2,962,474**	1,732,764
Capital and reserves			
Share capital	23	**104,022**	83,028
Reserves	24	**2,337,418**	947,129
Equity attributable to equity holders of the Company		**2,441,440**	1,030,157
Minority interests		**211,760**	19,769
Total equity		**2,653,200**	1,049,926
Non-current liabilities			
Convertible bonds	19	**309,274**	682,838
		2,962,474	1,732,764

The consolidated financial statements on pages 58 to 111 were approved and authorised for issue by the Board of Directors on 16 April 2008 and are signed on its behalf by:

Li Shu Fu
Director

Gui Sheng Yue
Director

Consolidated statement of changes in equity

for the year ended 31 December 2007

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	82,405	533,964	56,694	–	13,956	8,627	102,434	798,080	9,013	807,093
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	31,690	–	–	31,690	459	32,149
Profit for the year	–	–	–	–	–	–	208,752	208,752	5,397	214,149
Total recognised income for the year	–	–	–	–	31,690	–	208,752	240,442	5,856	246,298
Shares issued upon conversion of convertible bonds	623	27,555	–	–	–	–	–	28,178	–	28,178
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	4,900	4,900
Recognition of share based payments	–	–	–	–	–	4,660	–	4,660	–	4,660
Dividend paid	–	–	–	–	–	–	(41,203)	(41,203)	–	(41,203)
At 31 December 2006	83,028	561,519	56,694	–	45,646	13,287	269,983	1,030,157	19,769	1,049,926
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	70,578	–	–	70,578	6,675	77,253
Profit for the year	–	–	–	–	–	–	314,658	314,658	3,442	318,100
Total recognised income for the year	–	–	–	–	70,578	–	314,658	385,236	10,117	395,353
Transfers	–	–	–	1,277	–	–	(1,277)	–	–	–
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	4,284	4,284
Disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	–	203,732	203,732
Acquisition of partial interest in a subsidiary	–	–	–	–	–	–	–	–	(26,142)	(26,142)
Issue of shares	12,000	597,867	–	–	–	–	–	609,867	–	609,867
Shares issued upon conversion of convertible bonds	8,994	428,447	–	–	–	–	–	437,441	–	437,441
Recognition of share based payments	–	–	–	–	–	5,460	–	5,460	–	5,460
Transfer upon cancellation of share options	–	–	–	–	–	(126)	126	–	–	–
Dividend paid	–	–	–	–	–	–	(57,327)	(57,327)	–	(57,327)
Deemed contribution from shareholders (Note)	–	–	30,606	–	–	–	–	30,606	–	30,606
At 31 December 2007	**104,022**	**1,587,833**	**87,300**	**1,277**	**116,224**	**18,621**	**526,163**	**2,441,440**	**211,760**	**2,653,200**

Note: Deemed contribution from shareholders mainly represented difference between the consideration paid/received and the fair value of net assets acquired/disposed of by the associates of the Group from/to Zhejiang Geely Holding Group Company Limited and its subsidiaries (collectively referred to as "Zhejiang Geely Holding Group"). Zhejiang Geely Holding Group is beneficially owned by the substantial shareholder of the Company.

Consolidated cash flow statement

for the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from operating activities		
Profit for the year before taxation	**319,773**	215,734
Adjustments for:		
Depreciation	**2,282**	1,403
Interest income	**(20,334)**	(13,401)
Finance costs	**35,103**	32,390
Share of results of associates	**(351,832)**	(243,230)
Loss on disposal of property, plant and equipment	**157**	30
Net exchange loss (gain)	**2,326**	(3,929)
Fair value (gain) loss on embedded derivative components of convertible bonds	**(5,654)**	4,742
Net gain on forward foreign exchange contracts not used for hedging	**(4,681)**	–
Share-based payment expense	**5,460**	4,660
Excess of fair value of identifiable net assets acquired over cost	**(2,553)**	–
Operating loss before working capital changes	**(19,953)**	(1,601)
Inventories	**(4,175)**	(3,979)
Trade and other receivables	**(6,675)**	(12,458)
Amount due to an associate	**127**	–
Trade and other payables	**14,176**	(12,528)
Cash used in operations	**(16,500)**	(30,566)
Income taxes paid	**(1,247)**	(1,292)
Net cash used in operating activities	**(17,747)**	(31,858)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(21,904)**	(6,050)
Proceeds from disposal of property, plant and equipment	**–**	46
Acquisition of additional interests in a subsidiary	**(23,589)**	–
Investment in associates	**(18,724)**	(896,362)
Dividend received from associates	**290,962**	228,159
Interest received	**20,334**	13,401
Net cash from (used in) investing activities	**247,079**	(660,806)

Consolidated cash flow statement

for the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from financing activities		
Dividend paid	**(57,327)**	(41,203)
Net proceeds from the issuance of convertible bonds	–	727,873
Repayment to immediate holding company	**(11,220)**	(3,000)
Proceeds from issuance of shares	**636,000**	–
Cost of issuance of shares	**(26,133)**	–
Capital contribution from a minority shareholder	**4,284**	4,900
Short-term bank borrowings, net	**(2,661)**	22,250
Interest paid	–	(101)
Repayment to related companies	–	(960)
Repayment to a minority shareholder	–	(4,771)
Net cash from financing activities	**542,943**	704,988
Increase in cash and cash equivalents	**772,275**	12,324
Cash and cash equivalents at beginning of year	**20,972**	8,449
Effect of foreign exchange rate changes	**174**	199
Cash and cash equivalents at end of year, represented by		
Bank balances and cash	**793,421**	20,972

Notes to the consolidated financial statements

for the year ended 31 December 2007

1. GENERAL INFORMATION

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"). 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 33.

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, the following new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. STATEMENT OF COMPLIANCE *(Continued)*

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 in effect at that time has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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. HKAS 1 (revised) (effective from 1 January 2009) affect the presentation of owner changes in equity and introduces a statement of comprehensive income. This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. 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.

(a) 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)*

(b) Goodwill

Goodwill represents the excess of cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement. Any excess of the Group's interest in the attributable net carrying amount in the identifiable assets, liabilities and contingent liabilities in respect of the acquisition of additional interests in the subsidiary over the cost of the additional investment is recognised immediately in the income statement.

On disposal of a cash-generating unit or an associate, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(c) Interests 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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 weighted average 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.

(e) 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, except for exchange difference arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case such exchange differences are recognised in equity in the consolidated financial statements. 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 of the Company (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)*

(f) 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 recognised 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 assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at financial assets at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated as financial assets at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as financial assets at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in the income statement includes any dividend or interest earned on the financial assets.

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 amount due to related parties) are initially recognised at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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 the 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.

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, if any, is recognised in income statement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

Derecognition (Continued)

For financial liabilities, they are removed from the Group's balance sheet 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.

(g) 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.

Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10%
Leasehold improvements	Over the shorter of the lease terms and 33.3%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) 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.

(i) 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.

(j) 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 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.

(k) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Taxation *(Continued)*

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. 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.

(l) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Equity-settled share-based transactions *(Continued)*

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 recognition as assets. Corresponding adjustments have been made to equity (share options reserve).

(m) Retirement benefit costs

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

(n) 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.

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.

(o) 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);

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Related parties *(Continued)*

(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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Fair value of derivatives and other financial instruments

As described in notes 19 and 31, the valuation techniques applied by the external valuers for financial instruments not quoted in an active market have been agreed with the directors. The directors use their judgement to determine whether valuation techniques applied are appropriate to the circumstances of the Group.

6. TURNOVER/REVENUE

Turnover/revenue represents the consideration received and receivable 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 2007 and 31 December 2006 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

	2007 HK$'000	2006 HK$'000
Bank interest income	20,334	13,401
Net exchange gain	–	3,929
Net gain on financial instruments at fair value through profit and loss that are classified as held for trading (forward foreign exchange contracts not used for hedging)	4,681	–
Net claims income on defected materials purchased	1,276	–
Excess of fair value of identifiable net assets acquired over cost in respect of acquisition of additional interests in a subsidiary	2,553	–
Sundry income	3,055	894
	31,899	18,224

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2007 HK$'000	2006 HK$'000
Finance costs		
Effective interest expense on convertible bonds	**35,103**	32,289
Interest on bank borrowings wholly repayable within one year	**–**	101
	35,103	32,390
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**17,699**	13,181
Retirement benefit scheme contributions	**974**	481
Recognition of share based payments (included in administrative expenses)	**5,460**	4,660
	24,133	18,322
Other items		
Cost of inventories recognised as expense	**121,251**	110,036
Auditors' remuneration	**1,596**	1,192
Depreciation	**2,282**	1,403
Net exchange loss	**9,881**	–
Operating leases charges on premises	**1,289**	1,220

10. TAXATION

	2007 HK$'000	2006 HK$'000
Current tax:		
PRC foreign enterprise income tax, current year	**1,673**	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, 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:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**319,773**	215,734
Tax at the PRC enterprise income tax rate of 33%	**105,525**	71,192
Tax effect of expenses not deductible in determining taxable profit	**10,379**	5,885
Tax effect of non-taxable income	**(118,092)**	(80,266)
Tax effect of different tax rates of entities operating in other jurisdictions	**6,600**	6,824
Effect of tax exemption granted to PRC subsidiaries	**(2,739)**	(2,050)
Tax expense for the year	**1,673**	1,585

The applicable tax rate is the PRC's foreign enterprise income tax rate of 33% (2006: 33%). On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008. In respect of tax holidays, for those enterprises which have already started their tax holidays before 2008, they are able to enjoy the remaining tax holidays until expiry whereas for those enterprises which have not yet started their tax holidays before 2008, the tax holidays will be deemed to start from 1 January 2008 and they are able to enjoy the remaining tax holidays until expiry.

11. DIVIDENDS

A final dividend for the year ended 31 December 2005 of HK$0.01 per share amounting to approximately HK$41,203,000 was paid to the shareholders during the year ended 31 December 2006.

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 approximately HK$57,327,000 were paid to the shareholders during the year.

A final dividend for the year ended 31 December 2007 of HK$0.013 per share amounting to approximately HK$67,614,000 has 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 2008 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$314,658,000 (2006: HK$208,752,000) and weighted average number of ordinary shares of 4,930,320,263 shares (2006: 4,134,231,655 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	2007	2006
Issued ordinary shares at 1 January	**4,151,388,496**	4,120,264,902
Effect of new shares issued	**526,027,397**	–
Effect of shares issued upon conversion of convertible bonds	**252,904,370**	13,966,753
Weighted average number of ordinary shares at 31 December	**4,930,320,263**	4,134,231,655

12. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company of HK$314,658,000 (2006: HK$245,783,000) and the weighted average number of ordinary shares of 5,011,783,093 shares (2006: 4,969,511,119 shares), calculated as follows:

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

	2007 HK$'000	2006 HK$'000
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders)	**314,658**	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 the derivative embedded in convertible bonds	–	4,742
Earnings for the purpose of diluted earnings per share	**314,658**	245,783

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

	2007	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,930,320,263**	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	**81,462,830**	33,144,633
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,011,783,093**	4,969,511,119

The effect of deemed conversion of convertible bonds is anti-dilutive for the current year. Details of the convertible bonds outstanding as at 31 December 2007 have been set out in note 19 and these outstanding convertible bonds may have a dilutive effect on the earnings per share in future years.

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The emoluments paid or payable to each of the twelve (2006: twelve) directors are as follows:

2007

Name of director	Fees HK$'000	Salaries HK$'000	Rental allowance HK$'000	Contribution to retirement benefit scheme HK$'000	Sub-total HK$'000	Share based payment (Note) HK$'000	Total HK$'000
Mr. Gui Sheng Yue	–	1,459	189	12	1,660	–	1,660
Mr. Ang Siu Lun, Lawrence	–	1,459	–	12	1,471	–	1,471
Mr. Zhao Jie	–	710	–	14	724	–	724
Dr. Zhao Fuquan	10	–	–	–	10	1,379	1,389
Mr. Li Shu Fu	–	426	–	3	429	–	429
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120	33	153
Mr. Yeung Sau Hung, Alex	120	–	–	–	120	33	153
Mr. Song Lin	120	–	–	–	120	33	153
Mr. Liu Jin Liang	10	–	–	–	10	–	10
Mr. Xu Gang	10	–	–	–	10	–	10
Mr. Yang Jian	10	–	–	–	10	–	10
Mr. Yin Da Qing, Richard	10	–	–	–	10	–	10
	410	4,054	189	41	4,694	1,478	6,172

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

(a) Directors' remuneration *(Continued)*

2006

Name of director	Fees HK$'000	Salaries HK$'000	Rental allowance HK$'000	Contribution to retirement benefit scheme HK$'000	Sub-total HK$'000	Share based payment (Note) HK$'000	Total 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

No director waived any emoluments during the years ended 31 December 2007 and 2006.

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(l) 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.

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: four) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining individuals for the year ended 31 December 2007 are as follows:

	2007 **HK$'000**	2006 HK$'000
Basic salaries and allowances	**1,971**	605
Retirement benefits scheme contributions	**12**	12
Share-based payment expense	**693**	15
	2,676	632

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	**Plant and machinery** HK$'000	**Leasehold improvements** HK$'000	**Furniture and fixtures, office equipment and motor vehicles** HK$'000	**Total** HK$'000
COST					
At 1 January 2006	–	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
Exchange adjustments	–	561	–	40	601
Additions	7,165	9,721	2,705	2,313	21,904
Disposals	–	(94)	–	(120)	(214)
At 31 December 2007	**7,165**	**23,648**	**3,166**	**3,489**	**37,468**

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

	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture and fixtures, office equipment and motor vehicles HK$'000	Total HK$'000
DEPRECIATION					
At 1 January 2006	–	1,078	83	310	1,471
Exchange adjustments	–	44	–	5	49
Charge for the year	–	1,100	131	172	1,403
Disposals	–	(14)	–	(14)	(28)
At 31 December 2006	–	2,208	214	473	2,895
Exchange adjustments	–	92	–	10	102
Charge for the year	–	1,536	349	397	2,282
Disposals	–	(3)	–	(54)	(57)
At 31 December 2007	**–**	**3,833**	**563**	**826**	**5,222**
NET BOOK VALUE					
At 31 December 2007	**7,165**	**19,815**	**2,603**	**2,663**	**32,246**
At 31 December 2006	–	11,252	247	783	12,282

15. INTEREST IN ASSOCIATES

	2007 HK$'000	2006 HK$'000
Share of net assets	**2,106,516**	1,666,999
Goodwill	**18,940**	–
	2,125,456	1,666,999
Represented by:		
Cost of investments in associates		
Unlisted	**846,642**	1,033,937
Listed in overseas	**203,732**	–
Share of post-acquisition profits and reserves	**1,056,142**	633,062
Goodwill	**18,940**	–
	2,125,456	1,666,999
Fair value of listed investments	**495,378**	–

During the year, the Group, a related party and Manganese Bronze Holdings plc ("MBH"), a company which shares are listed on the London Stock Exchange, jointly set up a sino-foreign equity joint venture, Shanghai LTI Automobile Components Company Limited ("Shanghai LTI") in which the Group, the related party and MBH own 51%, 1% and 48% respectively. MBH raised the funds required for satisfying its share of the capital contribution to Shanghai LTI by issuing 5,700,000 ordinary shares to the Group. As a result, the Group becomes the holder of 22.83% of the equity shares of MBH and MBH becomes an associate of the Group. Details of the incorporation of Shanghai LTI and the acquisition of interest in MBH are set out in the Company's circular dated 2 April 2007.

At 31 December 2007, 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

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
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
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited#	PRC	RMB15,000,000	46.8%	Marketing and sales of sedans in the PRC
浙江吉利控股集團汽車銷售有限公司 Zheijiang Geely Holding Group Automobile Sales Company Limited#	PRC	RMB20,000,000	46.8%	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	42.6%	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	46.8%	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	46.8%	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
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	42.6%	Marketing and sales of automobile components in the PRC
湖南吉利汽車部件有限公司 Hunan Geely Automobile Components Company Limited*	PRC	USD25,000,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普汽車模具製造有限公司 Shanghai Maple Automobile Moulds Manufacturing Company Limited#	PRC	RMB40,000,000	46.8%	Production of moulds for automobile parts and components in the PRC
Manganese Bronze Holdings plc	United Kingdom	£6,241,000	22.83%	UK-based speciality automotive and taxi services group

15. INTEREST IN ASSOCIATES *(Continued)*

* The Company's 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

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

	2007 HK$'000	2006 HK$'000
Total assets	10,310,038	6,949,568
Total liabilities	(5,402,959)	(3,388,365)
Net assets	4,907,079	3,561,203
Group's share of net assets of associates	2,106,516	1,666,999
Revenue	12,054,701	6,588,845
Profit for the year attributable to equity holders of the associates	757,811	519,611
Group's share of results of associates for the year	351,832	243,230

16. INVENTORIES

	2007 HK$'000	2006 HK$'000
At costs:		
Raw materials	9,127	5,656
Work in progress	1,147	1,000
Finished goods	4,224	3,254
	14,498	9,910

17. TRADE AND OTHER RECEIVABLES

	Note	2007 HK$'000	2006 HK$'000
Trade and notes receivables			
Trade receivables from an associate	(a)	**18,310**	20,538
Notes receivables	(b)	**43,397**	37,405
		61,707	57,943
Other receivables			
Deposits, prepayments and other receivables		**6,464**	1,122
		68,171	59,065

(a) Trade receivables

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:

	2007 HK$'000	2006 HK$'000
0 – 60 days	**18,310**	20,503
61 – 90 days	**–**	35
	18,310	20,538

All the trade receivables as at the balance sheet dates have not been past due and not provided for impairment loss. The Group does not hold any collateral over these balances.

(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 2007 and 2006, all notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from 31 December.

17. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Notes receivables *(Continued)*

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$20,516,000 (2006: HK$22,250,000). The effective interest rate for the short-term bank borrowings on discounting notes receivables is approximately 3.18% (2006: 3.72%) per annum.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss represented forward foreign exchange contracts not used for hedging.

The fair value of the forward foreign exchange contracts is estimated based on difference between the contract rate and spot forward rate.

19. 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.

19. 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.

The conversion price has not been reset for each reset date.

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.

19. 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:

	2007 HK$'000	2006 HK$'000
Liability component		
Carrying amount brought forward/Fair value at inception	682,838	689,917
Issuing costs	–	(13,632)
Conversion during the year	(408,667)	(25,736)
Accrued effective interest charges	35,103	32,289
	309,274	682,838
Fair value of embedded derivative in respect of the put option and conversion option		
Carrying amount brought forward/Fair value at inception	169,782	192,714
Conversion during the year	(90,658)	(10,694)
Changes in fair value	(22,345)	(12,238)
	56,779	169,782
Less: Fair value of embedded derivative in respect of the call option		
Carrying amount brought forward/Fair value at inception	115,894	141,126
Conversion during the year	(61,884)	(8,252)
Changes in fair value	(16,691)	(16,980)
	37,319	115,894
	19,460	53,888

19. CONVERTIBLE BONDS *(Continued)*

The principal amount of the convertible bonds converted during the year was HK$395,990,000 (2006: HK$27.7 million) and the principal amount outstanding at 31 December 2007 is HK$317,910,000 (2006: HK$713.9 million).

At initial recognition, the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. 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 the balance sheet date by an independent professional valuer, BMI Appraisals Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method.

20. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	HK$'000
Trade payables		
To third parties	**31,047**	19,498
Other payables		
Accrued charges and other creditors	**7,678**	4,155
	38,725	23,653

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

	2007	2006
	HK$'000	HK$'000
0 – 60 days	**24,872**	16,379
61 – 90 days	**4,143**	1,407
Over 90 days	**2,032**	1,712
	31,047	19,498

21. AMOUNT DUE TO AN ASSOCIATE

The amount due is unsecured, interest-free and repayable on demand.

22. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due was unsecured, interest-free and fully repaid during the year.

23. SHARE CAPITAL

	Note	Number of shares	Nominal value HK$'000
Authorised:			
Ordinary shares of HK$0.02 each			
At 1 January 2006 and 31 December 2006		8,000,000,000	160,000
Creation of additional shares	(a)	4,000,000,000	80,000
At 31 December 2007		12,000,000,000	240,000
Issued and fully paid:			
Ordinary shares of HK$0.02 each			
At 1 January 2006		4,120,264,902	82,405
Shares issued upon conversion of convertible bonds		31,123,594	623
At 31 December 2006		4,151,388,496	83,028
Issue of shares for cash	(b)	600,000,000	12,000
Share issued upon conversion of convertible bonds	(c)	449,694,954	8,994
At 31 December 2007		5,201,083,450	104,022

Note:

(a) By a special resolution passed at an extraordinary general meeting held on 22 November 2007, the authorised share capital of the Company was increased to HK$240,000,000 by the creation of additional 4,000,000,000 ordinary shares of HK$0.02 each.

(b) During the year, the Company issued 600,000,000 ordinary shares (2006: Nil) of HK$0.02 each at a subscription price of HK$1.06 per share for cash to provide for additional working capital of the Group and to finance the investment in Shanghai LTI. These shares rank pari passu with the existing shares in all respects.

23. SHARE CAPITAL *(Continued)*

Note: (Continued)

(c) During the year, convertible bonds of principal amount of HK$395,990,000 (2006: HK$27,700,000) have been converted into 449,694,954 ordinary shares (2006: 31,123,594) of the Company at a conversion price HK$0.89 per share and HK$0.88 per share before and after the distribution of 2006 final dividends and special dividends, respectively. These shares rank pari passu with the existing shares in all respects.

24. RESERVES

(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value.

(b) Statutory reserve

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries incorporated in the PRC are required to maintain certain statutory reserves.

(c) Capital reserve

Capital reserve represents differences between the consideration paid/received and the fair value of net assets acquired/disposed of by the associates of the Group from/to Zhejiang Geely Holding Group.

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(e).

(e) Share option reserve

Share option reserve represents the fair value of share options granted to employees recognised and is dealt with in accordance with the accounting policies set out in note 4(l).

(f) Reserves of the Company

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$1,205,806,000 (2006: HK$289,726,000).

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK$53,033,000 (2006: HK$44,287,000) which has been dealt with in the financial statements of the Company.

25. MAJOR NON-CASH TRANSACTION

During the year, 449,694,954 (2006: 31,123,594) ordinary shares were issued upon conversion of convertible bonds and were satisfied by transferring HK$437,441,000 (2006: 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 Group entered into agreements with various connected persons to acquire 44.19% of the remaining interests in each of the PRC associates from its respective controlling shareholder and its associates at the total consideration of approximately HK$1,611 million to be satisfied fully by the issue of 1,288,672,000 ordinary shares of the Company of nominal value of HK$0.02 each at HK$1.25 per share. The acquisitions have been approved by the independent shareholders of the Company and at the date of issue of these consolidated financial statements, the acquisitions have not yet been completed. In addition, capital commitments contracted for but not provided for, net of deposits paid, in respect of plant and machinery outstanding as at 31 December 2007 amounted to HK$70,679,000 (2006: Nil).

During the year ended 31 December 2006, the Company entered into a contract with a related party to establish a sino-foreign equity joint venture in the PRC in which the Company would invest approximately HK$418,580,000.

Operating lease commitments

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

	2007	2006
	HK$'000	HK$'000
Within one year	**2,101**	926
In the second to fifth year inclusive	**2,815**	–
	4,916	926

Leases are negotiated and rental 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 in respect of the retirement benefit scheme is to make the specified contributions.

For the year ended 31 December 2007, the aggregate employer's contributions made by the Group and charged to the income statement are HK$974,000 (2006: HK$481,000).

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.

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

Equity-settled share option scheme *(Continued)*

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.

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 of 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)*

Equity-settled share option scheme *(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:

2007

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted/ (Cancelled) during the year	Outstanding at 31 December
Directors					
Mr. Ang Siu Lun, Lawrence	23 February 2004 to 22 February 2009	0.95	35,000,000	–	35,000,000
	5 August 2005 to 4 August 2010	0.70	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Nr. Xu Gang	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Yang Jian	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5 August 2005 to 4 August 2010	0.70	16,000,000	–	16,000,000
Mr. Zhao Jie	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
Dr. Zhao Fuquan	28 November 2006 to 27 November 2011	0.89	12,000,000	–	12,000,000
Mr. Song Lin	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
Mr. Lee Cheuk Yin, Dannis	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
Mr. Yeung Sau Hang, Alex	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
			181,000,000	–	181,000,000
Employees	5 August 2005 to 4 August 2010	0.70	88,500,000	(1,900,000)	86,600,000
	10 July 2006 to 16 May 2011	0.93	10,000,000	(580,000)	9,420,000
	28 November 2006 to 27 November 2011	0.89	3,000,000	–	3,000,000
	18 September 2007 to 17 September 2012	1.06	–	28,500,000	28,500,000
			282,500,000	26,020,000	308,520,000

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

Equity-settled share option scheme *(Continued)*

2007 *(Continued)*

	HK$	HK$	HK$
Weighted average exercise price per share	0.75	1.06	0.78

Weighted average remaining contractual life of options outstanding at 31 December 2007	2.72 years
Number of options exercisable at 31 December 2007	282,122,170

	HK$
Weighted average exercise price per share of options exercisable at 31 December 2007	0.75

2006

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
Directors					
Mr. Ang Siu Lun, Lawrence	23 February 2004 to 22 February 2009	0.95	35,000,000	–	35,000,000
	5 August 2005 to 4 August 2010	0.70	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Nr. Xu Gang	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Yang Jian	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5 August 2005 to 4 August 2010	0.70	16,000,000	–	16,000,000
Mr. Zhao Jie	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
Dr. Zhao Fuquan	28 November 2006 to 27 November 2011	0.89	–	12,000,000	12,000,000

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

Equity-settled share option scheme *(Continued)*

2006 *(Continued)*

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
Directors					
Mr. Song Lin	10 July 2006 to 16 May 2011	0.93	–	1,000,000	1,000,000
Mr. Lee Cheuk Yin, Dannis	10 July 2006 to 16 May 2011	0.93	–	1,000,000	1,000,000
Mr. Yeung Sau Hang, Alex	10 July 2006 to 16 May 2011	0.93	–	1,000,000	1,000,000
			166,000,000	15,000,000	181,000,000
Employees	5 August 2005 to 4 August 2010	0.70	88,500,000	–	88,500,000
	10 July 2006 to 16 May 2011	0.93	–	10,000,000	10,000,000
	28 November 2006 to 27 November 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

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

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

Equity-settled share option scheme *(Continued)*

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

During the year ended 31 December 2007, options were granted on 18 September 2007. During the year ended 31 December 2006, options were granted on 23 May 2006 and 28 November 2006. The estimated total fair values of the options granted in 2007 and 2006 are approximately HK$6,305,000 and HK$3,644,000 respectively.

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

	2007		2006			
Grant date	**18 September 2007**		28 November 2006		23 May 2006	
	(Lot 1)	**(Lot 2)**	(Lot 1)	(Lot 2)	(Lot 1)	(Lot 2)
Exercise price	**HK$1.06**	**HK$1.06**	HK$0.89	HK$0.89	HK$0.93	HK$0.93
Expected volatility	**47.11%**	**47.11%**	47.65%	58.30%	38%	38%
Expected life	**1.2 year**	**1.2 year**	0.5 year	1 year	1 year	3 years
Risk-free rate	**3.873%**	**3.873%**	3.595%	3.663%	4.213%	4.432%
Expected dividend yield	**0.97%**	**0.97%**	2.81%	1.40%	0.75%	2.00%

Expected volatility was determined by using 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 behavioural considerations.

The Group recognised total expense of HK$5,460,000 for the year ended 31 December 2007 (2006: HK$4,660,000) in relation to share options granted by the Company.

During the year ended 31 December 2007, 280,020,000 share options carried forward from 31 December 2006 have been cancelled and re-issued under the same terms because the original share options issued have exceeded the mandate limit of the Scheme and therefore requiring independent shareholders' approval to refresh the Scheme mandate limit. Details of the cancellation and re-issue of share options have been set out in the Company's circular dated 13 July 2007.

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	2007 HK$'000	2006 HK$'000
Associates			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of automobile parts and components	**136,678**	126,796
	Dividend income	**183,463**	241,096
Shanghai Maple Guorun Automobile Company Limited (上海華普國潤汽車有限公司)	Dividend income	**22,556**	53,683
Zhejiang Kingkong Automobile Company Limited (浙江金剛汽車有限公司)	Rental expense	**240**	–
Manganese Bronze Holdings plc	Dividend income	**3,086**	–
Related company *(Note)* Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	**83**	326

Note: The Group and the related company 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:

	2007 HK$'000	2006 HK$'000
Short-term benefit	**7,118**	5,090
Retirement benefits scheme contribution	**65**	48
Share-based payments	**5,460**	4,660
	12,643	9,798

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

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt (which includes borrowings, convertible bonds and amount due to immediate holding company) and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

Gearing ratio

The Group's Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital. The Group does not have a specific target gearing ratio determined as the proportion of debt to equity but closely monitors the fluctuations of the gearing ratio.

30. CAPITAL RISK MANAGEMENT *(Continued)*

Gearing ratio *(Continued)*

The gearing ratio at the balance sheet date was as follows:

	2007	2006
	HK$'000	HK$'000
Debt *(i)*	**329,790**	716,308
Equity *(ii)*	**2,441,440**	1,030,157
Debt to equity ratio	**14%**	70%

(i) Debt comprising borrowings, convertible bonds and amount due to immediate holding company as detailed in notes 17(b), 19 and 22 respectively.

(ii) Equity includes all capital and reserves attributable to equity holders of the Company.

The significant improvement in the gearing ratio is mainly due to issue of ordinary shares for cash and conversion of convertible bonds to ordinary shares during the year.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to market risk (including interest rate risk and currency risk), credit and liquidity risks arises in the normal course of the Group's business. Market risk exposures are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

These risks are limited by the Group's financial management policies and practices described below.

Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic and business environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, all the trade receivables were due from the Group's associate.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Financial assets at fair value through profit or loss represented forward foreign exchange contracts not used for hedging. The forward foreign exchange contracts are with counterparties of sound credit standing (established banks). Given their high credit standing, the management does not expect any investment counterparty to fail to meet its obligations.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including financial assets at fair value through profit or loss, in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial assets and financial liabilities, which are based on contractual undiscounted cash flows including interest and the contractual maturities.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	0 to 60 days	61 to 90 days	91 days to 1 year	1 to 2 years	Over 2 years	Total undiscounted cash flows	Total carrying amount as at 31 December
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007								
Loans and receivables								
Trade receivables	–	18,310	–	–	–	–	18,310	18,310
Notes receivables	–	1,042	10,194	32,161	–	–	43,397	43,397
Dividend receivables from associates	–	3,560	–	–	–	–	3,560	3,560
Bank balances and cash	0.05	793,843	–	–	–	–	793,843	793,421
Financial assets at fair value through profit or loss *(Note 1)*	–	421	4,260	–	–	–	4,681	4,681
		817,176	14,454	32,161	–	–	863,791	863,369
Financial liabilities at amortised cost								
Trade payables	–	24,872	4,143	2,032	–	–	31,047	31,047
Amount due to an associate	–	127	–	–	–	–	127	127
Short-term bank borrowings	3.18	21,168	–	–	–	–	21,168	20,516
Convertible bonds	6.76	–	–	–	–	317,910	317,910	309,274
Financial liabilities at fair value through profit or loss								
Convertible bonds – embedded derivatives *(Note 2)*	–	–	–	–	–	–	–	19,460
		46,167	4,143	2,032	–	317,910	370,252	380,424

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	0 to 60 days	61 to 90 days	91 days to 1 year	1 to 2 years	Over 2 years	Total undiscounted cash flows	Total carrying amount as at 31 December
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006								
Loans and receivables								
Trade receivables	–	20,503	35	–	–	–	20,538	20,538
Notes receivables	–	15,000	13,950	8,455	–	–	37,405	37,405
Dividend receivables from associates	–	74,840	–	–	–	–	74,840	74,840
Bank balances and cash	0.4	21,056	–	–	–	–	21,056	20,972
		131,399	13,985	8,455	–	–	153,839	153,755
Financial liabilities at amortised cost								
Trade payables	–	16,379	1,407	1,712	–	–	19,498	19,498
Amount due to immediate holding company	–	11,220	–	–	–	–	11,220	11,220
Short-term bank borrowings	3.72	23,078	–	–	–	–	23,078	22,250
Convertible bonds	6.76	–	–	–	–	713,900	713,900	682,838
Financial liabilities at fair value through profit or loss								
Convertible bonds – embedded derivatives *(Note 2)*	–	–	–	–	–	–	–	53,888
		50,677	1,407	1,712	–	713,900	767,696	789,694

Note 1: The financial assets at fair value through profit or loss in respect of forward foreign exchange contracts have been presented as net settlement.

Note 2: Convertible bonds – embedded derivatives do not incur net cash flows and its accounting policy has been set out in note 4(f).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group's fair value interest rate risk relates primarily to convertible bonds (see note 19 for details of the convertible bonds). The Group does not apply any derivatives to hedge the fair value interest rate risk.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings in respect of discounting notes receivables (see note 17(b) for details).

The interest rate profile of the Group as at the balance sheet date has been set out in the liquidity risk section of this note.

Since the Group only has minimal variable-rate borrowings during the years, sensitivity analysis on the exposure to interest rates has not been presented.

Currency risk

The Group does not have sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. At 31 December 2007, the Group had forward foreign exchange contracts not used for hedging with a net fair value of HK$4,681,000 (2006: Nil) recognised as derivative financial instruments.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2007		2006	
	United States dollars HK$'000	**British pounds HK$'000**	United States dollars HK$'000	British pounds HK$'000
Bank balances and cash	**282,091**	**44**	–	–
Notional amounts of foreign exchange contracts not used for hedging	**135,626**	**–**	–	–

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Currency risk *(Continued)*

As the Group is mainly exposed to the effects of fluctuation in United States dollars, the following table indicates the approximate change in the Group's profit after tax and retained earnings. The sensitivity analysis includes outstanding foreign currency denominated monetary items and foreign currency forward contracts not used for hedging, and adjusts their translation at the period end for a 5% change in foreign currency rate. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the below table represent an aggregation of the effects on each of the group entities' profit after tax and retained earnings measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

	Impact of United States dollars	
	2007	2006
	HK$'000	HK$'000
Profit after tax/Retained earnings	**10,084**	–

Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments and convertible bonds) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value of financial instruments *(Continued)*

Except as detailed in the following table, the directors consider that the carrying amounts of financial asses and financial liabilities recorded in the consolidated financial statements approximate their fair values:

	2007		2006	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Convertible bonds	**309,274**	**342,231**	682,838	703,374

32. BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Non-current assets		
Property, plant and equipment	**567**	315
Investments in subsidiaries	**1**	1
Investments in associates	**200,645**	–
	201,213	316
Current assets		
Other receivables	**1,054**	715
Amount due from subsidiaries	**1,426,212**	1,126,871
Dividend receivables from associates	**3,086**	–
Bank balances and cash	**26,624**	8,234
	1,456,976	1,135,820

32. BALANCE SHEET OF THE COMPANY *(Continued)*

	2007 HK$'000	2006 HK$'000
Current liabilities		
Other payables	1,006	2,148
Amount due to immediate holding company	–	11,220
Convertible bonds – embedded derivatives	19,460	53,888
	20,466	67,256
Net current assets	1,436,510	1,068,564
Total assets less current liabilities	1,637,723	1,068,880
Capital and reserves		
Share capital	104,022	83,028
Reserves	1,224,427	303,014
Total equity	1,328,449	386,042
Non-current liabilities		
Convertible bonds	309,274	682,838
	1,637,723	1,068,880

33. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/ registered capital	Percentage of equity interests held Directly	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

33. SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/ registered capital	Percentage of equity interests held Directly	Indirectly	Principal activities
浙江福林國潤汽車零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD15,959,200	–	100%	Research, production, marketing and sales of automobile parts and related components in the PRC
Linkstate Overseas Limited	British Virgin Islands	USD1	100%	–	Inactive
Luckview Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
Luck Empire Investment Limited 帝福投資有限公司	Hong Kong	HK$1	–	100%	Investment holding
上海英倫帝華汽車部件有限公司 Shanghai LTI Automobile Components Company Limited#	PRC	USD54,297,150	–	51%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江金剛汽車零部件研究開發有限公司 Zhejiang Kingkong Automobile Parts & Components R&D Company Limited^	PRC	USD14,900,000	–	100%	Research and development of automobile parts and components in the PRC

* The Company's subsidiary in the PRC is wholly foreign-owned enterprise established for a period of 30 years expiring in 2033.

\# The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 50 years expiring in 2057.

^ The Company's subsidiary in the PRC is wholly foreign-owned enterprise established for a period of 50 years expiring in 2057.

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

34. COMPARATIVE AMOUNTS

Certain comparative figures on the consolidated balance sheet in respect of convertible bonds – embedded derivatives and on the consolidated cash flow statement in respect of short-term bank borrowings have been reclassified to conform with current year's presentation.

Corporate Information

Executive Directors:

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

Non-executive Director:

Mr. Xu Gang *(Re-designated on 1 September 2007)*

Independent Non-executive Directors:

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

Audit Committee:

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

Remuneration Committee:

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

Company Secretary:

Mr. Cheung Chung Yan, David

Qualified Accountant:

Mr. Cheung Chung Yan, David

Auditors:

Grant Thornton

Legal Advisors in Hong Kong:

Sidley Austin
Preston Gates Ellis

Legal Advisor on Cayman Islands Law:

Maples and Calder

Principal Bankers:

Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

Head Office and Principal Place of Business:

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Registered Office:

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British West Indies

Hong Kong Branch Share Registrars & Transfer Office:

Union Registrars Limited
Rooms 1901-02
Fook Lee Commercial Centre Town Place,
33 Lockhart Road, Wanchai, Hong Kong.

Investor & Media Relations:

Prime International Consultants Ltd.

Design & Production:

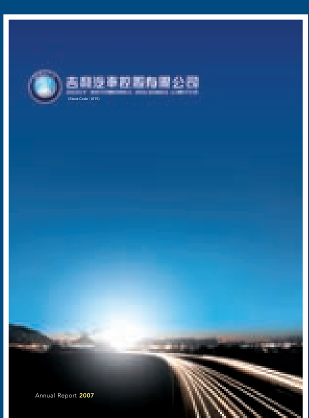
HeterMedia Services Limited

Listing information:

The Stock Exchange of Hong Kong Limited
Stock Code: 0175

Company's Website:

http://www.geelyauto.com.hk



Geely Automobile Holdings Limited

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