



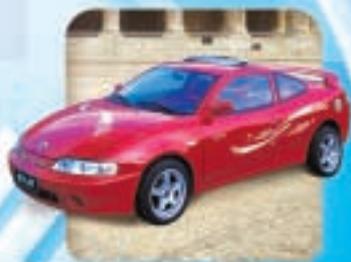
# 吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)  
Formerly known as Guorun Holdings Limited



*interim report 2004*



## CORPORATE INFORMATION

### Executive Directors:

Mr. He Xuechu (*Chairman*)  
Mr. Xu Xing Yao (*Vice-chairman*)  
Mr. Ang Siu Lun, Lawrence  
Mr. Ku Wai Kwan  
Mr. Zhou Teng  
Mr. Nan Yang  
Mr. Zhang Zhe  
Mr. Wong Hing Kwok

### Independent Non-executive Directors:

Mr. Lee Cheuk Yin, Dannis, *AICPA, HKSA*  
Mr. Liu Ming Hui

### Audit Committee:

Mr. Lee Cheuk Yin, Dannis, *AICPA, HKSA*  
Mr. Liu Ming Hui  
Ms. Tse Wun Ying, Aster, *MA, FCCA, HKSA*

### Company Secretary:

Ms. Tse Wun Ying, Aster, *MA, FCCA, HKSA*

### Auditors:

Deloitte Touche Tohmatsu

### Legal Advisors:

Sidley Austin Brown & Wood  
Maples and Calder

### Principal Bankers:

Standard Chartered Bank  
The HongKong and Shanghai Banking  
Corporation Ltd.

### Principal Office:

Room 2301, 23rd Floor  
Great Eagle Center  
23 Harbour Road  
Wanchai  
Hong Kong  
Telephone: (852) 2598 3333  
Facsimile: (852) 2598 3399  
Email: [general@geelyauto.com.hk](mailto:general@geelyauto.com.hk)

### Registered Office:

P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Share Registrars:

Standard Registrars Ltd.

### Investor & Media Relations:

Jovian Financial Communications Ltd.

### Design & Production:

HeterMedia Services Limited

### Listing Information:

The Stock Exchange of Hong Kong Limited  
Stock Code: 0175

### Website:

[www.geelyauto.com.hk](http://www.geelyauto.com.hk)

## RESULTS

The Board of Directors (the "Board") of Geely Automobile Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004 (the "period") and present the results together with the comparative figures for the corresponding period in 2003. The interim financial statements as set out in this report have been reviewed by the Audit Committee of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004

		Unaudited	
		2004	2003
	Notes	HK\$'000	HK\$'000
<b>TURNOVER</b>		<b>23,883</b>	15,619
Cost of Sales		<b>(22,159)</b>	(13,670)
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		<b>1,724</b>	1,949
Other operating income		<b>410</b>	55
Distribution and selling expenses		<b>(369)</b>	(360)
Administrative expenses		<b>(8,127)</b>	(7,785)
		<hr/>	<hr/>
<b>LOSS FROM OPERATIONS</b>	3	<b>(6,362)</b>	(6,141)
Finance Costs		<b>(53)</b>	(56)
Share of profits of associates		<b>57,924</b>	5,400
Gain on disposal of subsidiaries		<b>3,189</b>	–
		<hr/>	<hr/>
<b>PROFIT (LOSS) BEFORE TAXATION</b>		<b>54,698</b>	(797)
Income tax expense	4	<b>(524)</b>	–
		<hr/>	<hr/>
<b>PROFIT (LOSS) BEFORE MINORITY INTERESTS</b>		<b>54,174</b>	(797)
Minority interests		<b>257</b>	1,700
		<hr/>	<hr/>
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>54,431</b>	903
		<hr/>	<hr/>
<b>EARNINGS PER SHARE</b>			
Basic	5	<b>HK1.32 cents</b>	HK0.03 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2004

		Unaudited 30th June, 2004 HK\$'000	Audited 31st December, 2003 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		4,863	8,589
Interests in associates	6	615,751	558,836
		<u>620,614</u>	<u>567,425</u>
<b>CURRENT ASSETS</b>			
Inventories	7	6,739	7,358
Trade and other receivables	8	9,929	11,114
Amounts due from minority shareholders		–	1,130
Amounts due from an associate		500	338
Amount due from a related company		522	–
Tax payable		312	–
Bank balances and cash		2,636	15,823
		<u>20,638</u>	<u>35,763</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	12,645	10,535
Amounts due to minority shareholders		316	8,010
Bank borrowings		–	2,537
		<u>12,961</u>	<u>21,082</u>
<b>NET CURRENT ASSETS</b>			
		<u>7,677</u>	<u>14,681</u>
		<u>628,291</u>	<u>582,106</u>

## CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30th June, 2004

	<i>Notes</i>	<b>Unaudited 30th June, 2004 HK\$'000</b>	Audited 31st December, 2003 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	10	<b>82,405</b>	82,405
Reserves		<b>541,198</b>	486,641
		<b>623,603</b>	569,046
<b>MINORITY INTERESTS</b>			
		<b>4,688</b>	2,389
<b>NON-CURRENT LIABILITIES</b>			
Advances from minority shareholders		–	9,646
Bank borrowings		–	1,025
		–	10,671
		<b>628,291</b>	582,106

## CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	From 1st January, 2003 to 30th June, 2003					
	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated surplus /(deficit) HK\$'000	Total HK\$'000
At 1st January, 2003	66,805	33,772	–	(7)	(105,981)	(5,411)
Issue of Placement Shares	2,000	51,421	–	–	–	53,421
Net profit for the period	–	–	–	–	903	903
At 30th June, 2003	68,805	85,193	–	(7)	(105,078)	48,913

	From 1st January, 2004 to 30th June, 2004					
	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Cumulative translation adjustments HK\$'000	Accumulated surplus /(deficit) HK\$'000	Total HK\$'000
At 1st January, 2004	82,405	533,964	–	1,172	(48,495)	569,046
Exchange difference on translation of operations outside Hong Kong and gain not recognised in the consolidated income statement	–	–	–	126	–	126
Net profit for the period	–	–	–	–	54,431	54,431
At 30th June, 2004	82,405	533,964	–	1,298	5,936	623,603

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	Unaudited	
	2004 HK\$'000	2003 HK\$'000
Net cash outflow from operating activities	(10,797)	(3,712)
Net cash outflow from investing activities	(3,748)	(47,982)
Net cash inflow from financing activities	<u>1,358</u>	<u>55,607</u>
Increase/(Decrease) in cash and cash equivalents	(13,187)	3,913
Cash and cash equivalents at beginning of period	<u>15,823</u>	<u>2,523</u>
Cash and cash equivalents at end of period	<u>2,636</u>	<u>6,436</u>

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The unaudited condensed financial statements have been prepared under the historical cost convention.

The unaudited condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31st December, 2003.

### 2. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is organised into three operating divisions which are the basis for the Group reporting its primary segment information as follows:

Automobile – manufacturing and trading of automobile parts and related automobile components

Information technology – information technology and related business

Investment holding – investment holding and others

On 30th March 2004, the Group disposes its entire 51% interest in Deep Treasure Investments Limited and its subsidiaries ("Deep Treasure Group").

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Thus, the operations of information technology was discontinued accordingly.

For the period ended 30th June, 2004

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Automobile HK\$'000	Investment holding HK\$'000	Information technology HK\$'000	
<b>REVENUE</b>				
External sales	<u>14,663</u>	<u>–</u>	<u>9,220</u>	<u>23,883</u>
<b>RESULT</b>				
Segment result	<u>189</u>	<u>(1)</u>	<u>(787)</u>	<u>(599)</u>
Unallocated corporate expenses				<u>(5,763)</u>
Loss from operations				(6,362)
Finance costs	–	–	(53)	(53)
Share of profits of associates	57,877	–	47	57,924
Gain on disposal of subsidiaries	–	–	3,189	<u>3,189</u>
Profit before taxation				54,698
Income tax expenses	(524)	–	–	<u>(524)</u>
Profit before minority interests				<u>54,174</u>

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the period ended 30th June, 2003

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Automobile HK\$'000	Investment holding HK\$'000	Information technology HK\$'000	
REVENUE				
External sales	—	—	15,619	15,619
RESULT				
Segment result	—	(8)	(1,644)	(1,652)
Unallocated corporate expenses				(4,489)
Loss from operations				(6,141)
Finance costs	—	—	(56)	(56)
Share of profits of associates	5,400	—	—	5,400
Profit before taxation				(797)
Income tax expenses				—
Profit before minority interests				(797)

### Geographical segments

The Group's activities and operations are based in the People's Republic of China (the "PRC"), including Hong Kong. Accordingly, a geographical analysis is not presented.

## 3. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities for the period has been arrived at after charging the depreciation of approximately HK\$220,000 (2003: HK\$295,000).

**4. INCOME TAX EXPENSE**

	<b>2004</b> <i>HK'000</i>	2003 <i>HK'000</i>
Share of taxation attributable to an associate	<u>524</u>	<u>–</u>

Hong Kong Profits Tax has not been provided for the period 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 subsidiaries and associates are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The charge for the period ended 30th June 2004 represents the underprovided tax by an associate in PRC for last year.

**5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of approximately HK\$54,431,000 (2003: HK\$903,000) and on the weighted average number of 4,120,264,902 ordinary shares (2003: 3,392,751,091) in issue during the period.

Diluted earnings per share has not been shown as there is no dilution effect for both periods.

**6. INTERESTS IN ASSOCIATES**

	<b>Unaudited</b> <b>30th June,</b> <b>2004</b> <i>HK\$'000</i>	Audited 31st December, 2003 <i>HK\$'000</i>
Share of net assets	<b>615,751</b>	559,213
Less: Negative goodwill	<u>–</u>	<u>(377)</u>
	<u><b>615,751</b></u>	<u>558,836</u>

The following details have been extracted from the unaudited financial statements of the Group's significant associates, Zhejiang Geely Automobile Limited ("Zhejiang Geely"), formerly called Zhejiang Geely Guorun Automobile Limited and Shanghai Maple Guorun Automobile Limited ("Maple Guorun").

## 6. INTERESTS IN ASSOCIATES (Continued)

### Results for the period ended 30th June, 2004

	Zhejiang Geely HK\$'000	Maple Guorun HK\$'000
Turnover	732,942	210,758
Profit after taxation	115,055	7,297
Profit after taxation attributable to the Group	53,857	3,496

### Financial position as at 30th June, 2004

Non-current assets	922,252	356,487
Current assets	701,332	204,019
Current liabilities	(302,179)	(56,908)
Non-current liabilities	(417,457)	(92,121)
Net assets	903,948	411,477
Net assets attributable to the Group	423,138	192,613

## 7. INVENTORIES

	Unaudited 30th June, 2004 HK\$'000	Audited 31st December, 2003 HK\$'000
At costs		
Raw materials	2,126	2,770
Work in progress	882	4,588
Finished Goods	3,731	—
	6,739	7,358

## 8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$9,450,000 (31st December, 2003: HK\$5,612,000)

The following is an aging analysis of trade receivables at 30th June, 2004.

	<b>Unaudited</b> <b>30th June,</b> <b>2004</b> <i>HK\$'000</i>	Audited 31st December, 2003 <i>HK\$'000</i>
0 – 60 days	8,559	4,480
61 – 90 days	891	170
Over 90 days	–	962
	<hr/> <b>9,450</b> <hr/>	<hr/> 5,612 <hr/>

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$10,312,000 (31st December, 2003: HK\$5,273,000).

The following is an aging analysis of trade payables at 30th June, 2004.

	<b>Unaudited</b> <b>30th June,</b> <b>2004</b> <i>HK\$'000</i>	Audited 31st December, 2003 <i>HK\$'000</i>
0 – 60 days	7,738	3,826
61 – 90 days	1,751	254
Over 90 days	823	1,193
	<hr/> <b>10,312</b> <hr/>	<hr/> 5,273 <hr/>

## 10. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2004	5,000,000,000	100,000
– Capital addition passed at 18th May, 2004, Annual General Meeting	<u>3,000,000,000</u>	<u>60,000</u>
– Balance at 30th June, 2004	<u>8,000,000,000</u>	<u>160,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.02 each		
– Balance at 31st December, 2003 and 30th June, 2004	<u>4,120,264,902</u>	<u>82,405</u>

## 11. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) Pursuant to the announcement dated 2nd May, 2002 and the circular dated 7th June, 2002, the Group entered into the Subscription Agreement between the company, South China Industries Limited and Proper Glory Holding Inc. ("Proper Glory") on 22nd April, 2002 in respect of the Financial Restructuring. On 30th March, 2004, the Company exercised the put option under the Subscription Agreement by entering into an agreement to dispose of its entire 51% equity interest in Deep Treasure Group to Fook Cheung Developments Limited ("Disposal Agreement") at a total consideration of HK\$5,500,000. Deep Treasure Group is engaged in the system integration and software development businesses ("SI-IT Business"). The completion of the Disposal Agreement took place simultaneously upon the signing of the Disposal Agreement. The Company ceased to hold any equity interests in the SI-IT Business upon completion.

## 11. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

- (b) The Group had the following material transactions with related parties during the period.

Name of related parties	Nature of transactions	Note	Unaudited	Audited
			30th June 2004 HK'000	31st December 2003 HK'000
South China Industries Limited	Management fee charged by a minority shareholder of a subsidiary	(i)	335	1330
Zhejiang Geely Automobile Company Limited	Sales of automotive parts and components	(ii)	628	—
	Amounts due from related parties	(iii)	735	—
Zhejiang Haoqing Automobile Manufacturing Company Limited	Sales of automotive parts and components	(ii)	6,754	—
	Amounts due from related parties	(iii)	5,194	—
Zhejiang Geely Automobile Purchasing Company Limited	Sales of automotive parts and components	(ii)	7,281	—
	Amounts due from related parties	(iii)	3,521	—
Geely Group Zhejiang Motorola Company Limited	Advances to related company	(iv)	522	—
Zhejiang Fulin Automobile Parts & Components Company Limited	Advances from a minority shareholder of a subsidiary	(v)	312	—

## 11. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

*Notes:*

- (i) These transactions were carried out on terms determined and agreed by both parties. The subsidiary, Deep Treasure Group, has been disposed on 30th March, 2004. Please see part (a) above.
- (ii) The prices were determined with reference to the prevailing market prices/rates and the price charged to third parties.
- (iii) Amounts due from related companies are of trading nature, unsecured, non-interest bearing and 90 days credit terms.
- (iv) Advances to a related company are unsecured, non-interest bearing and have no fixed repayment terms.
- (v) Advances from a related company are unsecured, non-interest bearing and have no fixed repayment terms.

## 12. POST BALANCE SHEET EVENTS

On 27th May, 2004, (1) Zhejiang Geely has entered into an agreement with Zhejiang Geely Holding Group Limited ("Geely Holding") pursuant to which Zhejiang Geely will acquire the interests held by Geely Holding in Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing"); (2) Maple Guorun has entered into two agreements with Geely Holding pursuant to which Maple Guorun will acquire the interests held by Geely Holding in (a) Zhejiang Geely Automobile Research Institute Limited ("Automobile Research") and (b) Ningbo Geely Engine Research Institute Limited ("Ningbo Engine"); and (3) Zhejiang Geely has entered an agreement with Zhejiang Geely Merrie Automobile Company Limited ("Merrie") pursuant to which Zhejiang Geely will acquire from Merrie the rights in the design for the CK-1 model of sedan. On 6th July, 2004, all the necessary procedures for these acquisitions of automobile related assets with the relevant PRC government authorities have been completed. At completion of the acquisitions, Zhejiang Geely will be interested in 90% of the registered capital of Zhejiang Haoqing and the production and marketing rights of the CK-1 model of sedan, and Maple Guorun will be interested in 90% of the registered capital of Automobile Research and Ningbo Engine respectively. All the share transfer procedures were completed on 6th July, 2004.

## INTERIM DIVIDEND

At a meeting of the Board held on 30th August, 2004, the Directors resolved not to pay an interim dividend to shareholders (2003: Nil).

## MANAGEMENT DISCUSSION & ANALYSIS

### Financial Performance

For the six months period ended 30th June, 2004, the Group recorded turnover of HK\$23,883,000, representing an increase of approximately 53% compared with approximately HK\$15,619,000 for the corresponding period 2003. Profits attributable to shareholders amounted to approximately HK\$54,431,000, compared with the unaudited profit attributable to shareholders of HK\$903,000 for the corresponding period last year. Basic earnings per share was approximately HK\$1.32 cents (2003: HK0.03 cents).

The Board does not recommend any payment of dividend for the period ended 30th June 2004 (2003: nil).

### Business Overview

Over the last one year, the Group laid the foundation for the automobile industry investment and accomplished the business transformation of the Group. Automobile has become the core business and the major future income and earnings stream of the Group. The Group and Geely Holdings Group Limited ("Geely Group") have also established an even closer relationship. Following the joining of Mr. Zhang Zhe and Mr. Nan Yang, both Vice President of Geely Holdings, to the Board of the Group, Mr. Li Shufu, the founder and Chairman of the Geely Holdings has also become one of the largest shareholders of Geely Automobile Holdings Limited effective from 5th January, 2004.

To reflect the core business of the Group of the automobile business, the Group held an Extraordinary General Meeting on 1st March 2004, and resolved to change the Company's name from "Guorun Holdings Limited" to "Geely Automobile Holdings Limited" ("Geely Auto").

To Benefit from the huge growth potential of the automobile market in the PRC, the Group would continue to seize opportunities to actively expand its automobile business. In May 2004, through the two associated companies under the Group, namely Zhejiang Geely Automobile Co. Limited (Zhejiang Geely) and Shanghai Maple Guorun Automobile Co. Limited, (Maple Guorun) the Group agreed to acquire 90% interests in Zhejiang Haoqing Automobile Manufacturing Company Limited (Zhejiang Haoqing), Zhejiang Geely Automobile Research Institute Limited and Ningbo Geely Engine Research Institute Limited respectively with a total consideration of RMB723,000,000 from the Geely Holdings Group Limited and its subsidiary company Zhejiang Geely Merrie Automobile Co., Limited. The acquisition was completed on 6 July 2004. After the completion of the acquisition, the automobile business of Geely Holdings Group Limited, was already included in the joint venture company that was formed by the Group, including the automobile research and development institute, production plants, car models, corresponding engines and gearboxes being launched or to-be-launched, etc. The designed annual production capacity (single shift) would rise to 200,000 sedans.

## MANAGEMENT DISCUSSION & ANALYSIS *(Continued)*

### **Business Overview** *(Continued)*

In the first half of the year, the sales performance of the Geely Auto was encouraging. The two brands, i.e. Geely and Maple, recorded a total sale of 55,330 units of sedans with the sales revenue reached RMB2,200,000,000, representing an increase of 66% and 54% respectively when compared with the same period last year, which the growth rate is significantly higher than that of the automobile industry in the PRC market. Geely Merrie, Geely Ulion, Mybo (Beauty Leopard) and Maple, from the joint ventured companies reached a total sales of 24,692 units, while the Haoqing series, which were excluded from the joint ventured company at that time achieved a sales of 30,638 units.

### **Prospects**

With the significant improvement in the average income and living standards of the PRC citizens, the sales and production of automobile should continue to grow fast, particularly in the sedan market. The PRC has become the 4th largest automobile manufacturing country in 2003 with a total sales volume of 4,390,000 units of automobiles, representing approximately 34% increase over previous year, of which 1,970,000 units of them were sedans. Most market commentators anticipated that, the demand for automobiles in the PRC would continue to attain sustainable and steady growth for a long period of time. With the increasing home ownership, as well as the rising popularity of budget and holiday travel, the automobile consumption in the PRC should continue to expand quickly, with affordable family sedans as the principal driving force of the growth.

As a result of the implementation of the austerity programme and the tightening of automobile loans, the sales volume of automobiles in the PRC has slowed since May and June this year. Yet, the Group remains optimistic that the automobile market in the PRC could continue to grow rapidly in the near future, given that there is no change so far in the strong fundamentals of long term economic growth in the PRC. The accumulated purchasing power resulted from this short term tightening measures would likely be released again in September this year. In response to the recent cost pressure caused by the rising cost of raw materials, the Group managed to reduce the cost of the outsourced automobile parts by approximately 7% in the first half of 2004, helping to alleviate the impact from rising raw material prices. Based on the new automobile parts supply contracts effective from 1 July 2004, the procurement cost of the parts could be reduced further by more than 6%. Regarding the sales target set in early this year of 100,000 units of sedans in 2004 for the two associated companies, the management agrees that the sales target now looks aggressive taking into account the weakening sales trend over the past few months. The management, however, decided to adjust the 2004 sales target slightly downwards to 90,000 units, in view of the scheduled launches of a number of new and upgraded car models by the Group in the second half of 2004 and the inclusion of the sales volume of Haoqing series of sedans in the two associated companies after the completion of the acquisition of Zhejiang Haoqing in July 2004.

## MANAGEMENT DISCUSSION & ANALYSIS *(Continued)*

### **Prospects** *(Continued)*

The acquisition of the joint-venture companies announced in May 2004 should have greatly enhanced the overall productivity and production scale of the Group. In view of the weakening sales growth in China's car market over the past few months, the Group has adopted a number of measures in a bid to further improve its competitiveness. These include a completed restructuring of its production facilities and distribution system, a large scale cost reduction programme and further upgrading of production and product technologies. These should help to achieve full preparation for the launch of new features and new car models in the second half of 2004, like the introduction of the automatic gear boxes, electronic power assist system, and the ABS+EBD system, the launches of new models like MR203, MR303, CK-1 Series, M303, and Mybo (Beauty Leopard) 1.6L and 1.8L versions. The Board believes that, the automobile products under the Geely and Maple brands are offering good value for money and they should achieve great success and exceptional performance not only in the domestic market but also in the international market.

Looking forwards, the Group believes that, the automobile industry in the PRC has great potential. To seize the huge business opportunities in China's automobile market, the Group would focus on the operation and expansion of its economic class automobile business. As the company's products increasingly approaching the international standards, Geely Auto has gradually gained more attention from automobile distributors all over the world, and 1,628 units of automobiles were exported in the first half of this year. Learning from the experience of Japanese and Korean automakers in entering into the international market, there are increasingly apparent signs that Geely Auto, through its competitive advantage of low production costs, should be able to successfully penetrate into the international market. Although the Group has plan to sell to all the major markets in the World, the Group, however, would first target at developing countries with low import tariff, less trade protection and those without a significant domestic automobile industry. With the accumulated experience, the Group would then expand to the major automobile consumption markets. The Group believes that, the sales performance in the international market would in return promote the company's sales locally.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2004, the Group had net current assets of about HK\$7,677,000 (31st December, 2003: HK\$14,681,000). The current assets included inventories of about HK\$6,739,000 (31st December, 2003: HK\$7,358,000), cash and bank balance of about HK\$2,636,000 (31st December, 2003: HK\$15,823,000) and receivables and other current assets of about HK\$11,263,000 (31st December, 2003: HK\$12,582,000).

Current liabilities incurred no bank borrowings (31st December, 2003: HK\$2,537,000), payables and other current liabilities of about HK\$12,961,000 (31st December, 2003: HK\$18,545,000).

In the opinions of the Directors, financial position of the Group had remained steady as compared to 2003.

As at 30th June, 2004, the current ratio (current asset/current liabilities) slightly decreased from 1.7 to 1.6.

## EMPLOYEES' REMUNERATION POLICY

As at 30th June, 2004, the total number of employees of the Group including associates was about 3855. 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 condition. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

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

As at 30th June, 2004, 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 pursuant to Part XV of the SFO, including interest and short positions which they were deemed or take 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 Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long position	Short position	
Mr. He Xuechu ( <i>Note 1</i> )	Corporate	2,500,000,000	–	60.68%
Mr. Ku Wai Kwan ( <i>Note 1</i> )	Corporate	2,500,000,000	–	60.68%
Mr. Zhou Teng ( <i>Note 1</i> )	Corporate	2,500,000,000	–	60.68%
Mr. Ang Siu Lun, Lawrence ( <i>Note 2</i> )	Personal	35,000,000	–	0.85%
Mr. Wong Hing Kwok				
Mr. Xu Xing Yao				
Mr. Zhang Zhe				
Mr. Nan Yang				

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

*Note:*

- (1) Proper Glory is a private company incorporated in the British Virgin Islands and is beneficially owned as to 32% by Geely Group Limited, as to 32% by Mr. He Xuechu, as to 28% by Fortune Door Investment Limited and as to 8% by Venture Link Assets Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands with limited liability and the entire issued share capital is beneficially owned by Mr. Li Shu Fu. Fortune Door Investment Limited is a private company incorporated in the British Virgin Islands with limited liability and the entire issued share capital is beneficially owned by Mr. Ku Wai Kwan. Venture Link Assets Limited is a private company incorporated in the British Virgin Islands with limited liability and the entire issued capital is beneficially owned by Mr. Zhou Teng. Mr. He Xuechu is the chairman of the Company and a director of the Company, and Messrs. Ku Wai Kwan and Zhou Teng are directors of the Company. Mr. Li Shu Fu is the founder and controlling shareholder of Geely Holding which held 53.2% of Zhejiang Geely and 90% of Shanghai Maple Automobile Company Limited which held 53.2% of Maple Guorun.
- (2) This interest relates to options granted on 23rd February, 2004 by the Company to Mr. Ang Siu Lun, Lawrence. This interest is also referred to in the section headed "Directors' Right to Acquire Shares" below. The share options are exercisable at a subscription price of HK\$0.95 for each share during the period from 23rd February, 2004 to 22nd February, 2009. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that as 30th June 2004.

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

## DIRECTORS' RIGHT TO ACQUIRE SHARES

As at 30th June, 2004, the directors and chief executive of the Company have the following options to subscribe for the shares of the Company under the Company's share options scheme approved and adopted on 31st May, 2002 (the "Scheme"):

Director	Outstanding Options as at 30th June, 2004	Date of grant	Exercise period	Exercise price HK\$
Mr. Ang Siu Lun, Lawrence	35,000,000	23rd February, 2004	23rd February, 2004 to 22nd February, 2009	0.95

## SHARE OPTION SCHEME

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

Pursuant to the Scheme, the Company may grant options to inter alia, directors and employees of the Company and other participants to subscribe for shares of the Company. Further details of the Scheme were disclosed in the Company's 2003 annual report.

Based on the Company's records as at 30th June, 2004, except disclosed in the section headed "Directors' Right to Acquire Shares" above, no other options were granted by the Company since its adoption.

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

As at 30th June, 2004, 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	–	60.68
Geely Group Ltd. (Note)	Corporate	2,500,000,000	–	60.68
Mr. Li Shu Fu (Note)	Corporate	2,500,000,000	–	60.68

*Note:* Proper Glory is a private company incorporated in the British Virgin Islands and is beneficially owned as to 32% by Geely Group Limited, as to 32% by Mr. He Xuechu, as to 28% by Fortune Door Investment Limited and as to 8% by Venture Link Assets Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands with limited liability and the entire issued share capital is beneficially owned by Mr. Li Shu Fu. Fortune Door Investment Limited is a private company incorporated in the British Virgin Islands with limited liability and the entire issued share capital is beneficially owned by Mr. Ku Wai Kwan. Venture Link Assets Limited is a private company incorporated in the British Virgin Islands with limited liability and the entire issued capital is beneficially owned by Mr. Zhou Teng. Mr. He Xuechu is the chairman of the Company and a director of the Company, and Messrs. Ku Wai Kwan and Zhou Teng are directors of the Company. Mr. Li Shu Fu is the founder and controlling shareholder of Geely Holding which held 53.2% of Zhejiang Geely and 90% of Shanghai Maple Automobile Company Limited which held 53.2% of Maple Guorun.

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 30th June, 2004 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## 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 period ended 30th June, 2004.

## CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30th June, 2004 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code 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 and Liu Ming Hui, who are the independent non-executive directors of the Company.

ON BEHALF OF THE BOARD

**He Xuechu**

*Chairman*

Hong Kong  
30th August, 2004

## FINANCIAL HIGHLIGHT

The combined results of joint ventures, namely Zhejiang Geely Automobile Company Limited and Shanghai Maple Guorun Automobile Company Limited, mainly for the manufacturing of automobile business are as follows:

## INCOME STATEMENT

*For the six months ended 30th June, 2004*

	<b>Unaudited six months ended 30th June, 2003 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Turnover	<b>943,701</b>	1,032,004
Cost of sales	<b>(792,332)</b>	(872,938)
Sales Tax	<b>(871)</b>	(553)
<b>Gross Profit</b>	<b>150,498</b>	158,513
Other operation income	<b>3,876</b>	19
Distribution and selling expenses	<b>(86)</b>	(58)
Administrative expenses	<b>(30,381)</b>	(9,299)
<b>Profit from operations</b>	<b>123,907</b>	149,175
Finance costs	<b>159</b>	(2,868)
	<b>124,066</b>	146,307
Non-operating income	<b>83</b>	31
Non-operating expenses	<b>(572)</b>	(474)
<b>Profit before tax</b>	<b>123,577</b>	145,864
Income tax	<b>(1,054)</b>	(507)
<b>Net profit for the year</b>	<b>122,523</b>	145,357
<b>Gross Profit Margin</b>	<b>15.9%</b>	15.4%
<b>Net Profit Margin</b>	<b>13.0%</b>	14.1%

## BALANCE SHEET

At 30th June, 2004

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Non-current assets		
Property, plant and equipment	<b>801,154</b>	821,408
Construction in progress	<b>255,442</b>	824
Other intangible assets	<b>222,144</b>	233,380
	<b>1,278,740</b>	1,055,612
Current assets		
Cash	<b>393,609</b>	567,687
Trade receivables	<b>166,922</b>	268,733
Other receivables	<b>156,550</b>	67,182
Inventory	<b>188,270</b>	96,438
	<b>905,351</b>	1,000,040
Current liabilities		
Trade payables	<b>276,333</b>	230,268
Other payables	<b>76,147</b>	118,579
Tax payables	<b>6,607</b>	4,324
	<b>359,087</b>	353,171
Net current assets	<b>546,264</b>	646,869
	<b>1,825,004</b>	1,702,481
Capital and reserves		
Share capital	<b>1,047,547</b>	1,047,547
Retained earnings	<b>145,356</b>	–
Profit for the period	<b>122,523</b>	145,356
	<b>1,315,426</b>	1,192,903
Non-current liabilities		
Shareholder's loan	<b>509,578</b>	509,578
	<b>1,825,004</b>	1,702,481