



**吉利汽車控股有限公司**  
GEELY AUTOMOBILE HOLDINGS LIMITED

**INTERIM REPORT 2005**

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## CORPORATE INFORMATION

### Executive Directors

Mr. Li Shu Fu (*Chairman*)  
(Appointed on 9 June 2005)  
Mr. Ang Siu Lun, Lawrence  
Mr. Nan Yang  
Mr. Xu Gang (Appointed on 9 June 2005)  
Mr. Yang Jian (Appointed on 9 June 2005)  
Mr. Shim Bong Sup (Appointed on 9 June 2005)  
Mr. Yin Da Qing, Richard  
(Appointed on 9 June 2005)  
Mr. Liu Jin Liang (Appointed on 9 June 2005)  
Mr. Gui Sheng Yue (Appointed on 9 June 2005)  
Mr. He Xuechu  
(Resigned on 21 June 2005 at 4:00 p.m.)  
Mr. Xu Xing Yao  
(Resigned on 21 June 2005 at 4:00 p.m.)  
Mr. Ku Wai Kwan  
(Resigned on 21 June 2005 at 4:00 p.m.)  
Mr. Zhou Teng  
(Resigned on 21 June 2005 at 4:00 p.m.)  
Mr. Zhang Zhe  
(Resigned on 21 June 2005 at 4:00 p.m.)  
Mr. Wong Hing Kwok  
(Resigned on 21 June 2005 at 4:00 p.m.)

### Independent Non-executive Directors

Mr. Lee Cheuk Yin, Dannis  
Mr. Song Lin  
Mr. Yeung Sau Hung, Alex  
(Appointed on 6 June 2005)  
Mr. Liu Ming Hui (Resigned on 7 March 2005)

### Audit Committee

Mr. Lee Cheuk Yin, Dannis (*Chairman*)  
Mr. Song Lin  
Mr. Yeung Sau Hung, Alex  
(Appointed on 6 June 2005)  
Mr. Liu Ming Hui (Resigned on 7 March 2005)

### Remuneration Committee

Mr. Ang Siu Lun, Lawrence (*Chairman*)  
Mr. Lee Cheuk Yin, Dannis  
Mr. Yeung Sau Hung, Alex  
(Appointed on 6 June 2005)  
Mr. Liu Ming Hui (Resigned on 7 March 2005)

### Company Secretary

Mr. Cheung Chung Yan, David  
(Appointed on 17 May 2005)

### Qualified Accountant

Mr. Cheung Chung Yan, David  
(Appointed on 17 May 2005)

### Auditors

Deloitte Touche Tohmatsu

### Legal Advisors

Sidley Austin Brown & Wood  
Preston Gates Ellis

### Principal Bankers

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

### Head Office and Principal Place of Business

Room 2301, 23rd Floor, Great Eagle Centre  
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

### Hong Kong Branch Share Registrars & Transfer Office

Standard Registrars Limited  
Ground Floor,  
Bank of East Asia Harbour View Centre,  
56 Gloucester Road, Wanchai, Hong Kong

### Investor & Media Relations

Jovian Financial Communications 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>



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香港中環干諾道中111號  
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111 Connaught Road Central  
Hong Kong

## INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF GEELY AUTOMOBILE HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have been instructed by Geely Automobile Holdings Limited (the “Company”) to review the interim report set out on pages 4 to 15.

### Directors’ responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 (“SAS 700”) “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, the comparative condensed consolidated cash flow statement and the comparative condensed consolidated statement of changes in equity for the six months ended 30 June 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

### Deloitte Touche Tohmatsu

*Certified Public Accountants*

Hong Kong

13 September 2005

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

	<i>NOTES</i>	<b>Six months ended 30 June</b>	
		<b>2005</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2004 HK\$'000 (Unaudited and restated)
Turnover		<b>35,881</b>	23,883
Cost of sales		<b>(34,094)</b>	(22,159)
Gross profit		<b>1,787</b>	1,724
Other income		<b>201</b>	410
Distribution and selling expenses		<b>(167)</b>	(369)
Administrative expenses		<b>(7,953)</b>	(9,400)
		<b>(6,132)</b>	(7,635)
Finance costs		–	(53)
Share of profits of associates		<b>47,446</b>	57,400
Gain on disposal of subsidiaries		–	3,189
Profit for the period	5	<b>41,314</b>	52,901
Attributable to:			
Equity holders of the parent		<b>40,779</b>	53,158
Minority interests		<b>535</b>	(257)
		<b>41,314</b>	52,901
Dividend	7	<b>41,203</b>	–
Earnings per share	8		
Basic		<b>HK0.99 cents</b>	HK1.29 cents
Diluted		<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2005

	<i>NOTES</i>	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited and restated)
<b>Non-current assets</b>			
Property, plant and equipment	9	6,320	5,831
Interests in associates	10	650,515	651,750
		<b>656,835</b>	657,581
<b>Current assets</b>			
Inventories	11	6,038	8,815
Trade and other receivables	12	23,822	11,921
Amount due from an associate	13	–	338
Amounts due from related companies	13	–	613
Amount due from ultimate holding company	14	75	–
Bank balances and cash		42,363	1,499
		<b>72,298</b>	23,186
<b>Current liabilities</b>			
Trade and other payables	15	22,505	14,375
Amounts due to related companies	16	61	452
Amount due to a minority shareholder	16	4,775	5,027
Amount due to immediate holding company	16	2,220	3,000
Dividend payable		41,203	–
		<b>70,764</b>	22,854
<b>Net current assets</b>		<b>1,534</b>	332
		<b>658,369</b>	657,913
<b>Capital and reserves</b>			
Share capital	17	82,405	82,405
Reserves		570,963	571,042
Equity attributable to equity holders of the parent		653,368	653,447
Minority interests		5,001	4,466
<b>Total equity</b>		<b>658,369</b>	657,913

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

	Attributable to the equity holders of the parent							
	Share capital	Share premium	Cumulative translation adjustments	Share options reserve	Accumulated profits (deficit)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	82,405	533,964	1,172	–	(48,495)	569,046	2,389	571,435
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	–	–	126	–	–	126	–	126
Profit for the period (restated)	–	–	–	–	53,158	53,158	(257)	52,901
Total recognised income and expenses for the period	–	–	126	–	53,158	53,284	(257)	53,027
Realised upon disposal of subsidiaries	–	–	–	–	–	–	2,548	2,548
Recognition of share-based payments	–	–	–	1,273	–	1,273	–	1,273
At 30 June 2004 and 1 July 2004 (restated)	82,405	533,964	1,298	1,273	4,663	623,603	4,680	628,283
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	–	–	(119)	–	–	(119)	–	(119)
Profit for the period (restated)	–	–	–	–	28,147	28,147	(214)	27,933
Total recognised (loss) income for the period	–	–	(119)	–	28,147	28,028	(214)	27,814
Recognition of share-based payments	–	–	–	1,816	–	1,816	–	1,816
At 31 December 2004 and 1 January 2005 (restated)	82,405	533,964	1,179	3,089	32,810	653,447	4,466	657,913
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	–	–	(178)	–	–	(178)	–	(178)
Profit for the period	–	–	–	–	40,779	40,779	535	41,314
Total recognised (loss) income for the period	–	–	(178)	–	40,779	40,601	535	41,136
Recognition of share-based payments	–	–	–	523	–	523	–	523
Dividend	–	–	–	–	(41,203)	(41,203)	–	(41,203)
At 30 June 2005	82,405	533,964	1,001	3,612	32,386	653,368	5,001	658,369

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

	<b>Six months ended 30 June</b>	
	<b>2005</b> <b>HK\$'000</b> <b>(unaudited)</b>	2004 HK\$'000 (unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<b>(5,366)</b>	(10,797)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	<b>47,653</b>	(3,748)
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES	<b>(1,423)</b>	1,358
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>40,864</b>	(13,187)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>1,499</b>	15,823
CASH AND CASH EQUIVALENTS AT END OF PERIOD, representing bank balances and cash	<b>42,363</b>	2,636

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRS(s)”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are presented:

#### Share-based payment

HKFRS 2 “Share-based Payment” requires an expense to be recognised where an entity buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Group determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 (but prior to 1 January 2005) and had vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and which were not yet vested on 1 January 2005. The effect of adoption of this new standard is set out in note 3.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

<p>HKAS 19 (Amendment)</p> <p>HKAS 39 (Amendment)</p> <p>HKAS 39 (Amendment)</p> <p>HKFRS 6</p> <p>HKFRS-Int 4</p> <p>HKFRS-Int 5</p>	<p>Actuarial Gains and Losses, Group Plans and Disclosures</p> <p>Cash Flow Hedge Accounting of Forecast Intragroup Transactions</p> <p>The Fair Value Option</p> <p>Exploration for and Evaluation of Mineral Resources</p> <p>Determining whether an Arrangement Contains a Lease</p> <p>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</p>
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**3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

The effects of the changes in the accounting policies described in note 2 above are as follows:

**(i) On results**

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Adjustments in associates' consolidated financial statements		
– Goodwill no longer amortised	<b>2,506</b>	–
– Excess of acquired interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost recognised directly in income statement	<b>217</b>	–
Increase in share of profits of associates	<b>2,723</b>	–
Recognition of share-based payments	<b>(523)</b>	(1,273)
Increase in profit for the period	<b>2,200</b>	(1,273)

**(ii) On income statement line items**

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Increase in administrative expenses	<b>(523)</b>	(1,273)
Increase (decrease) in share of profits of associates	<b>2,723</b>	(524)
Decrease in taxation	–	524
	<b>2,200</b>	(1,273)

**(iii) On balance sheet items**

	<b>As at</b>	<b>Retrospective adjustments</b>		<b>As at</b>
	<b>31.12.2004</b>	<b>HKAS 27</b>	<b>HKFRS 2</b>	<b>31.12.2004</b>
	<b>(originally stated)</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>and 1.1.2005 (restated)</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Note 2)</i>	<i>(Note 2)</i>	
Accumulated profits	35,899	–	(3,089)	32,810
Share options reserve	–	–	3,089	3,089
Equity holders of the parent	35,899	–	–	35,899
Minority interests	–	(4,466)	–	(4,466)
Total effects on equity	35,899	(4,466)	–	31,433

The application of the new HKFRSs had no effect to the Group's equity at 1 January 2004.

**4. SEGMENT INFORMATION**

**Business Segments**

The Group is principally engaged in the manufacturing and trading of automobile parts and related automobile components. Accordingly, no business segment analysis of financial information is provided.

**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.

**5. PROFIT FOR THE PERIOD**

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000 (restated)
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	<b>4,859</b>	3,293
Retirement benefits scheme contributions	<b>151</b>	101
Total staff costs	<b>5,010</b>	3,394
Depreciation	<b>377</b>	256
Recognition of share based payments (included in administrative expenses)	<b>523</b>	1,273
Share of tax of associates (included in share of profits of associates)	–	524
Interest income from bank deposits	<b>(17)</b>	(2)

**6. TAXATION**

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 subsidiary 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.

**7. DIVIDEND**

A final dividend of HK\$0.01 per share for the year ended 31 December 2004 was declared and approved by the Company's shareholders in the Annual General Meeting held on 25 May 2005. The final dividend, amounting to HK\$41,203,000, was paid on 8 July 2005.

**8. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to the ordinary equity holders of the parent for the six months ended 30 June 2005 is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000 (restated)
Profit for the period attributable to equity holders of the parent and earnings for the purposes of basic earnings per share	<b>40,779</b>	53,158

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>Number of shares</b>	Number of shares
Number of ordinary shares for the purpose of basic earnings per share	<b>4,120,264,902</b>	4,120,264,902

No diluted earnings per share has been presented for the six months ended 30 June 2005 and 2004 because the exercise price of share options was higher than the average market price per share for 2005 and 2004.

The adjustment to comparative basic earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	<b>Basic</b>
	HK cents
Reconciliation of 2004 earnings per share:	
Reported figure before adjustments	1.32
Adjustments arising from the adoption of HKFRS 2	(0.03)
Restated	1.29

**9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2005, the Group acquired property, plant and equipment at a cost of approximately HK\$866,000.

**10. INTERESTS IN ASSOCIATES**

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Share of net assets	<b>650,515</b>	651,750

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

**Results for the period ended 30 June 2005**

	<b>Zhejiang Geely HK\$'000 (Unaudited)</b>	<b>Maple Guorun HK\$'000 (Unaudited)</b>
Turnover	<b>1,356,196</b>	<b>595,021</b>
Profit after taxation	<b>59,409</b>	<b>41,971</b>
Profit after taxation attributable to the Group	<b>27,803</b>	<b>19,643</b>

**Financial position at 30 June 2005**

Non-current assets	<b>1,707,856</b>	<b>485,038</b>
Current assets	<b>2,667,341</b>	<b>556,599</b>
Current liabilities	<b>(2,893,191)</b>	<b>(544,268)</b>
Non-current liabilities	<b>(552,567)</b>	<b>(36,818)</b>
Net assets	<b>929,439</b>	<b>460,551</b>
Net assets attributable to the Group	<b>434,977</b>	<b>215,538</b>

**11. INVENTORIES**

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
At costs:		
Raw materials	<b>3,707</b>	3,466
Work in progress	<b>964</b>	468
Finished goods	<b>1,367</b>	4,881
	<b>6,038</b>	8,815

**12. TRADE AND OTHER RECEIVABLES**

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$23,179,000 (31 December 2004: HK\$11,420,000).

The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
0 – 60 days	21,720	7,874
61 – 90 days	1,318	2,948
Over 90 days	141	598
	<b>23,179</b>	11,420
The trade receivables comprise:		
Trade receivables from associates	1,445	11,219
Trade receivables from group companies of an associate	21,734	201
	<b>23,179</b>	11,420

**13. AMOUNTS DUE FROM AN ASSOCIATE/RELATED COMPANIES**

The amounts were unsecured, interest free and fully settled during the period.

**14. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY**

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

**15. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of approximately HK\$17,315,000 (31 December 2004: HK\$11,143,000).

The following is an aged analysis of trade payables at the balance sheet date.

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
0 – 60 days	14,244	7,763
61 – 90 days	1,559	832
Over 90 days	1,512	2,548
	<b>17,315</b>	11,143

**16. AMOUNTS DUE TO RELATED COMPANIES/A MINORITY SHAREHOLDER/IMMEDIATE HOLDING COMPANY**

The amounts are unsecured, interest free and repayable on demand.

**17. SHARE CAPITAL**

	<b>Number of shares</b>	Nominal value HK\$'000
Ordinary shares of HK\$0.02 each		
Authorised:		
At 31 December 2004 and 30 June 2005	8,000,000,000	160,000
Issued and fully paid:		
At 31 December 2004 and 30 June 2005	4,120,264,902	82,405

**18. RELATED PARTY TRANSACTIONS**

The Group had the following material transactions and balances with related parties during the period.

**(A) Transactions**

Related parties	Nature of transactions	Notes	Six months ended 30 June	
			2005 HK\$'000	2004 HK\$'000
Associates	Sales of automobile parts and components to associates	<i>(i)</i>	1,355	628
	Dividend received from associates		48,502	–
Subsidiary of an associate	Sales of automotive parts and components	<i>(i)</i>	34,467	6,754
Related company	Rental expense to a related company	<i>(i), (iii)</i>	226	226

**(B) Balances**

Related parties	Nature of transactions	Notes	30 June	
			2005 HK\$'000	31 December 2004 HK\$'000
Ultimate holding company	Advance to ultimate holding company	<i>(ii)</i>	75	–
Minority shareholder of a subsidiary	Advance from a minority shareholder of a subsidiary	<i>(ii)</i>	4,775	5,027
Immediate holding company	Advance from an immediate holding company	<i>(ii)</i>	2,220	3,000
Related companies	Amounts payable to related companies	<i>(ii), (iii)</i>	61	452
Related companies	Advances to related companies	<i>(ii), (iv)</i>	–	613
Associate	Advance to an associate	<i>(iv)</i>	–	338

*Notes:*

- (i) The prices were determined with reference to the prevailing market prices and prices charged to third parties.
- (ii) The advances are unsecured, interest free and repayable on demand.
- (iii) Certain directors of the Company are also directors of the related companies.
- (iv) These advances were unsecured, interest free and fully settled during the period.

**19. EVENT AFTER THE BALANCE SHEET DATE**

On 5 August 2005, the Company granted share options to subscribe for a total of 239,500,000 shares of the Company to the directors and employees under the share option scheme approved and adopted on 31 May 2002.

## FINANCIAL HIGHLIGHT

### MAJOR ASSOCIATES

A summary of the combined results and the assets and liabilities of the Group's major associates, namely Zhejiang Geely Automobile Company Limited and Shanghai Maple Guorun Automobile Company Limited is set out below:

#### Combined results - Major associates (unaudited)

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
		(restated)
Turnover	<b>1,951,217</b>	943,701
Cost of sales	<b>(1,647,478)</b>	(792,332)
Sales tax	<b>(46,086)</b>	(871)
Gross profit	<b>257,653</b>	150,498
Other net operating income	<b>112,103</b>	3,876
Distribution and selling expenses	<b>(129,519)</b>	(86)
Administration expenses	<b>(99,136)</b>	(30,381)
Profit from operations	<b>141,101</b>	123,907
Finance costs	<b>(23,435)</b>	159
	<b>117,666</b>	124,066
Non-operating income	<b>464</b>	83
Non-operating expenses	<b>(2,622)</b>	(572)
Profit before tax	<b>115,508</b>	123,577
Income tax	<b>(13,934)</b>	(1,054)
Profit for the period	<b>101,574</b>	122,523
Attributable to:		
Shareholders of the parent company	<b>101,380</b>	122,523
Minority interests	<b>194</b>	-
Profit for the period	<b>101,574</b>	122,523
Gross profit margin	<b>13.2%</b>	15.9%
Profit margin	<b>5.2%</b>	13.1%

Combined assets and liabilities – Major associates (unaudited)

	<b>As at 30 June 2005 HK\$'000</b>	As at 31 December 2004 HK\$'000 (restated)
Non-current assets		
Property, plant and equipment	<b>1,611,542</b>	1,513,250
Other long-term assets	<b>391,409</b>	406,337
Goodwill	<b>189,943</b>	189,942
	<b>2,192,894</b>	2,109,529
Current assets		
Inventories	<b>416,584</b>	421,164
Trade and other receivables	<b>359,034</b>	1,661,225
Amounts due from related companies	<b>1,482,767</b>	–
Short term investment	<b>7,533</b>	–
Bank balances and cash	<b>958,022</b>	426,832
	<b>3,223,940</b>	2,509,221
Current liabilities		
Bank borrowing	<b>(307,910)</b>	(263,654)
Trade and other payables	<b>(2,815,896)</b>	(2,375,120)
Amounts due to related companies	<b>(246,764)</b>	–
Taxation	<b>(11,564)</b>	–
Dividend payables	<b>(55,325)</b>	–
	<b>(3,437,459)</b>	(2,638,774)
Net current liabilities	<b>(213,519)</b>	(129,553)
Total assets less current liabilities	<b>1,979,375</b>	1,979,976
Non-current liabilities		
Shareholder's loan and other long-term liabilities	<b>(552,415)</b>	(551,943)
Net assets	<b>1,426,960</b>	1,428,033
Equity		
Share capital	<b>1,047,546</b>	1,047,546
Reserves	<b>342,444</b>	345,082
Equity attributable to shareholders of the parent company	<b>1,389,990</b>	1,392,628
Minority interests	<b>36,970</b>	35,405
Total equity	<b>1,426,960</b>	1,428,033

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERIM 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 30 June 2005. These interim results have been reviewed by the Company’s Audit Committee, comprising a majority of independent non-executive directors, one of whom chairs the committee, and the Company’s auditors, Deloitte Touche Tohmatsu.

Shareholders should note that these results are the first to be published by the Company subsequent to the adoption of a number of new/revised Hong Kong Accounting Standards with effect from 1 January 2005, as detailed in note 2 to the financial statements.

#### Overall Performance

Despite an obvious pick up in the demand for sedans since the beginning of the year, 2005 remains a difficult year for the sedan industry in China. Rapidly rising steel and other raw material prices continued to put enormous pressure on car manufacturers’ margins. Although their product prices had stabilized and demand for their key products – the affordable economy sedans – remained strong during the period, the Group’s two associates – Zhejiang Geely Automobile Company Limited (“Zhejiang Geely”) and Shanghai Maple Guorun Automobile Company Limited (“Shanghai Maple”) – experienced amongst the most difficult period during the first half of 2005, featured by rapidly rising costs of raw materials and fierce competition. Despite the new contributions from the Linhai plant and Luqiao plant, both were acquired in July 2004, the temporary closure of the Ningbo plant in the first three months of 2005 for technological upgrading had affected the production and sales volume of Zhejiang Geely. As a result, the combined net profit of the two associates was down 17% in the first six months of 2005, more than offsetting the significantly better earnings performance recorded by the Group’s auto part business under its 51%-owned Zhejiang Fulin Guorun Automobile Parts and Components Company Limited (“Zhejiang Fulin”), resulting in a 23% decline in net profit in the first six months of 2005 to HK\$41m.

The Groups’ turnover was up by 50% to HK\$35.9m helped by the substantial growth in the turnover of Zhejiang Fulin, which benefited from the launches of new products like Electric Power Steering (“EPS”) at the end of 2004 and the continued good sales volume growth enjoyed by Geely sedans, which utilize the company’s braking and steering products. As a result, Zhejiang Fulin returned to profitability in the first half of 2005. The withdrawal from information technology businesses in March 2004 also helped to reduce expenses during the period.

#### Vehicle manufacturing – Zhejiang Geely and Shanghai Maple

Zhejiang Geely and Shanghai Maple recorded total net profit of HK\$101.4m in the first six months of 2005, down 17% over the same period in 2004, despite an 132% increase in sales volume to 57,352 units and 107% increase in total revenues to HK\$1,951.2m. The increase in sales volume in the first half of 2005 compared with the same period last year was principally due to the inclusion of the sales volume of Haoqing models following the acquisition of Linhai and Luqiao plants in July 2004. Geely sedans’ market share in China continued its upward trend, rising from 4.2% in 2004 to 4.7% in the first half of 2005, ranking number ten in terms of sales volume amongst sedan manufacturers in China.

Revenues per car decreased 11% to HK\$34,022 per car as inclusion of low price Haoqing models since the second half of 2004 more than offset the increased sales of higher-priced Maple, Mybo and Free Cruiser models. Net profit per car declined 64% to HK\$1,768 per unit – a combined result of the acquisition of 90% stakes in Linhai plant and Luqiao plants by Zhejiang Geely in mid-2004 and the rapid rise in steel and raw material prices during the period. The temporary closure of Ningbo plant from October 2004 to April 2005 for the upgrading of its production facilities and the subsequent relocation of the production of Merrie and Ulion models from Ningbo plant to Linhai plant had also affected the production and sales volume of Merrie and Ulion during the first half of 2005.

#### **Reorganization and Management Team**

As part of the Group's ongoing restructuring to transform itself into a company focusing on manufacturing and sales of automobiles and parts, Mr. Li Shu Fu, the founder and Chairman of Geely Holding Group became the controlling shareholder of the Group in June 2005 after the acquisition of an effective 41.3% stake in the Group, raising his equity stake in the Group to 60.7%.

The members of the Group's Board of Directors had also been changed to reflect the new ownership of the company. Six existing executive directors had resigned and seven new executive directors including Mr. Li Shu Fu, Mr. Xu Gang, Mr. Yang Jian, Mr. Shim Bong Sup, Mr. Yin Da Qing, Richard, Mr. Liu Jin Liang and Mr. Gui Sheng Yue were nominated to join the Board in June 2005. Mr. Li Shu Fu was also appointed as the Chairman of the Group on 9 June 2005. Also, Mr. Yeung Sau Hung, Alex was appointed as an independent non-executive director and a member of the Audit Committee and Remuneration Committee of the Group on 6 June 2005. Mr. Yeung is the Chief Executive Officer of DBS Vickers Hong Kong since 1 September 2002, bringing with him more than 20 years' experience in the financial services industry to the Board.

#### **Automobile Parts Manufacturing – Zhejiang Fulin Guorun Automobile**

51%-owned Zhejiang Fulin recorded a significant improvement in profitability in the first half of 2005, helped by the successful entry in the high valued automobile component market through the launch of a new Electric Power Steering ("EPS") in October 2004, the strong demand for the company's braking system, and its success in containing cost increase. Turnover grew significantly by 145% to RMB38.1m in the first half of 2005, helping the company to return to profitability during the period. Net profit during the period was RMB1.2m versus RMB0.2m net loss during the same period last year. The Board believes the ("EPS") would become increasingly popular amongst new models to be launched in China in the coming few years, and this should help to further enhance the company's profitability in the future.

### New products

The following new products from the Group's two associates had been launched so far in 2005:

1. Geely Free Cruiser 1.6L family sedan in April 2005;
2. Maple Hisoon 205 1.5L hatchback sedan in April 2005;
3. Maple Marindo 303H 1.8L family sedan in June 2005;
4. Geely Ulion 1.0L family sedans in July 2005;
5. Geely Free Cruiser 1.3L family sedan in August 2005;
6. Maple Marindo 205 1.3L hatchback sedan in August 2005;
7. Geely Haoqing SRV 1.0-1.3L sport recreation vehicle in August 2005
8. Geely MR481QA 1.6L petroleum engines;
9. Geely JL481Q 1.8L petroleum engines.

In the remainder of 2005, the Group's two associates plan to launch a large number of new models. The most important new launches include the right-hand drive versions of a number of existing models to facilitate the sales of these vehicles to more overseas markets, the Group's first set of automatic gearboxes, a new line of Merrie models including the hatchback version MR203 and 4-door sedan version MR303, two new models of the Maple series: the Marindo 305 and Hysoul 305 sedans and a new generation of Geely's sport car called Mybo II.

### Exports

In the first half of 2005, the company's two associates exported 3,283 units of Geely and Maple sedans to over 30 overseas countries and regions, accounting for 34% of China's total exports of passenger cars during the period, or close to 6% of the associates' total sales volume during the period. The Group expects total exports sales volume to exceed 10,000 units in 2005.

### CKD manufacturing in Malaysia

The Group's associates Zhejiang Geely and Shanghai Maple entered into an agreement with Information Gateway Corporation Sdn Bhd ("IGC") on 30 May 2005 to export Geely sedans and CKD parts and components for the CK-1, FC-1 and LG-1 models of right-hand drive sedans to IGC for sales and assembly of Geely sedans in Malaysia. Zhejiang Geely and Shanghai Maple will provide the technical assistance at a fee and authorize the rights to use Geely's logo and intellectual property and know-how at costs to IGC. The move marked Geely's first strategic attempt to assemble Geely sedans in overseas locations in an attempt to further expand the sales of Geely sedans in overseas markets.

### First Appearance in 2005 Frankfurt Motor Show

To promote the “Geely” and “Maple” brands and enhance the international market recognition of the group’s engine and car design and manufacturing technologies, the Group’s two associates will participate the 2005 International Motor Show in Frankfurt (“Frankfurt Motor Show”) to be held in mid September 2005. Geely will be the first Chinese car brand attending the Frankfurt Motor Show. A total of five models of Geely sedans will be displayed in the show including:

1. “Free Cruiser” equipped with Geely’s first automatic gearbox;
2. The right-drive version of “Haoqing 203A”, which is Geely’s first right-hand drive vehicle;
3. A new version of Geely’s Mybo sport car called “China Dragon”;
4. The first public appearance of Geely’s most important new mid-end sedans, scheduled to be launched in 2006 called “FC-1”;
5. Maple Marindo 305 family sedans, one of the group’s newest mid-end sedans.

### Collaboration with Hong Kong Productivity Council to develop the first “Made-in-Hong Kong” sedan

The Group signed a Memorandum of Understanding with the Hong Kong Productivity Council (“HKPC”), an organization set up by the Hong Kong government to promote increased productivity in Hong Kong’s industry, on 21 June 2005 to collaborate in the development of a high-end sedan and related components in Hong Kong. The new project, if successfully implemented, would provide the Group an effective way to enter into the high-end sedan market. It would also facilitate a competitive combination of Hong Kong’s strength in product design and development, marketing, logistics, brand management and financial market operations and Geely’s competitive advantages in low cost production, manufacturing know-how in automobile and parts and valuable knowledge in distribution and marketing in China’s sedan market.

### Outlook

We believe demand for fuel-efficient and easy-to-maintain affordable economy sedans in China will continue to register strong growth in the near future, helped by China’s sustainable economic growth and consistently rising household incomes. With less than 1% of the population owning a car at present, there should be substantial growth potential for car demand in China.

According to figures compiled by the China Association of Automobile Manufacturers, total sales volume of passenger cars grew 9.29% YoY in the first half of 2005 to 1.23 million. Although fierce competition in China’s sedan market should remain, we expect the growth of China’s sedan sales volume to be maintained at around 10% in the rest of 2005, reaching 2.5 million units for the full year. However, sales of lower end sedans should continue to grow faster than other types of sedans during the year due to the continued migration of demand from corporates to individuals. We maintain our year beginning target of raising our market share in China’s sedan market from 4.2% in 2004 to 5% in 2005, thus translating into full year sales volume of 120,000 units in 2005, up over 80% from 2004. In the first half of 2005, the Group’s two associates had sold 57,352 units of vehicles, achieving 48% of their combined full year target, thus putting us on track to achieve our full year sales target.

In the short to medium term, the Group will continue to actively seek for ways and opportunities to further rationalize and restructure the Group’s structure, aiming at improving the Group’s overall transparency and its effectiveness as the ultimate holding vehicle of Geely Holding’s auto related businesses. To achieve that, the Group would actively consider to raise its shareholdings in the two associates to over 50% subject to government approval and compliance with relevant regulations.

## CAPITAL STRUCTURE AND TREASURY POLICIES

The business activities of the Group are mainly financed by the share capital and cash generated from the operating activities. As at 30 June 2005, the Group's shareholders' fund amounted to HK\$653 million (As at 31 December 2004: HK\$653 million). No additional share was issued 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 30 June 2005, the Group's current ratio (current assets/current liabilities) was 1.02 (As at 31 December 2004: 1.01 (restated)) and the gearing ratio of the Group was nil (As at 31 December 2004: nil (restated)) which was calculated on the Group's total borrowings to total shareholders' equity. 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 30 June 2005, the total number of employees of the Group including associates was about 6,680 (As at 31 December 2004: 6,941). 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 CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2005, 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 shares In the Company		Shareholding percentage (%)
		Long position	Short position	
Mr. Li Shu Fu ( <i>Note 1</i> )	Corporate	2,500,087,000	–	60.68%
Mr. Ang Siu Lun, Lawrence ( <i>Note 2</i> )	Personal	35,000,000	–	0.85%

*Notes:*

- (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 interest relates to share options granted on 23 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 23 February 2004 to 22 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 30 June 2005.

**(II) Interest 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	<i>(Note 1)</i>	–	<i>(Note 1)</i>
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	<i>(Note 2)</i>	–	<i>(Note 2)</i>

*Note:*

- (1) Zhejiang Geely Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Geely Holding Group Company Limited (equivalent to USD44,043,401 of its registered capital). Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 72.7%-owned by Mr. Li Shu Fu.
- (2) Shanghai Maple Guorun Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Shanghai Maple Automobile Company Limited (equivalent to USD27,497,600 of its registered capital). Shanghai Maple Automobile Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 72.7%-owned by Mr. Li Shu Fu.

Save as disclosed above, as at 30 June 2005, 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.

On 5 August 2005, the Company granted the share options to subscribe a total of 239,500,000 shares of the Company to the following participants under the Company's share options scheme approved and adopted on 31 May 2002 (the "Scheme"):

Name	Date of grant	Exercise period	Exercise price per share HK\$	Options granted
<b>Directors</b>				
Mr. Ang Siu Lun, Lawrence	5 August 2005	5.8.2005 – 4.8.2010	0.70	10,000,000
Mr. Gui Sheng Yue	5 August 2005	5.8.2005 – 4.8.2010	0.70	23,000,000
Mr. Xu Gang	5 August 2005	5.8.2005 – 4.8.2010	0.70	23,000,000
Mr. Yang Jian	5 August 2005	5.8.2005 – 4.8.2010	0.70	23,000,000
Mr. Liu Jin Liang	5 August 2005	5.8.2005 – 4.8.2010	0.70	18,000,000
Mr. Yin Da Qing, Richard	5 August 2005	5.8.2005 – 4.8.2010	0.70	16,000,000
Mr. Nan Yang	5 August 2005	5.8.2005 – 4.8.2010	0.70	15,000,000
				128,000,000
<b>Employees</b>	5 August 2005	5.8.2005 – 4.8.2010	0.70	111,500,000
				239,500,000

### DIRECTORS' RIGHT TO ACQUIRE SHARES

As at 30 June 2005, 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 31 May 2002 (the "Scheme"):

Director	Outstanding Options as at 30 June 2005	Date of grant	Exercise period	Exercise price HK\$
Mr. Ang Siu Lun, Lawrence	35,000,000	23 February 2004	23 February 2004 to 22 February 2009	0.95

## SHARE OPTION SCHEME

A share option scheme of the Company was approved and adopted on 31 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 its subsidiaries and other participants to subscribe for shares of the Company. Further details of the Scheme were disclosed in the Company's 2004 annual report.

Based on the Company's records as at 30 June 2005, except disclosed in the section headed "Directors' Right to Acquire Shares" above, no other options were granted by the Company since its adoption.

## INTERIM DIVIDEND

At a meeting of the Board held on 13 September 2005, the Directors resolved not to pay an interim dividend to shareholders (2004: Nil).

## CONNECTED TRANSACTIONS

The Group had the following material transactions and balances with connected parties during the period.

### (A) Transactions

Connected parties	Nature of transactions	Notes	Six months ended 30 June	
			2005 HK\$'000	2004 HK\$'000
Zhejiang Geely Automobile Company Limited	Sales of automobile parts and components to an associate	(i)	1,355	628
	Dividend received from an associate		48,045	–
Shanghai Maple Guorun Automobile Company Limited	Dividend received from an associate		457	–
Zhejiang Haoqing Automobile Manufacturing Company Limited	Sales of automotive parts and components to subsidiary of an associate	(i)	34,467	6,754
Zhejiang Guo Mei Decorating Materials Company Limited	Rental expense to a related company	(i), (iii)	226	226

**(B) Balances**

Connected parties	Nature of transactions	Notes	30 June	31 December
			2005	2004
			HK\$'000	HK\$'000
Zhejiang Guo Mei Decorating Materials Company Limited	Rental expense payable to a related company	(ii), (iii)	678	452
Geely Group Limited	Advance to an ultimate holding company	(ii)	75	-
Zhejiang Geely Holding Group Company Limited	Advance from (to) a majority shareholder of an associate	(ii)	61	(186)
Proper Glory Holding Inc.	Advance from an immediate holding company	(ii)	2,220	3,000

*Notes:*

- (i) The prices were determined with reference to the prevailing market prices and prices charged to third parties.
- (ii) The advances are unsecured, interest free and repayable on demand.
- (iii) The Company and the related company have a common director.

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

As at 30 June 2005, 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 <i>(Note)</i>	Beneficial owner	2,500,000,000	-	60.68
Geely Group Ltd. <i>(Note)</i>	Beneficial owner	87,000	-	0.00
	Corporate	2,500,000,000	-	60.68
Deutsche Bank Aktiengesellschaft	Corporate	253,269,000	-	6.15

*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 30 June 2005 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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 30 June 2005.

### **CORPORATE GOVERNANCE**

The Code of Best Practice set out in Appendix 14 to the Listing Rules was replaced by the Code on Corporate Governance Practices ("CG Code") which has come into effect for accounting periods commencing on or after 1 January 2005. In the opinion of the Directors, the Company has applied the principles and complied with the requirements as set out in the CG Code, with a major deviation from CG Code provision A.2.1 in respect of the separation of roles of the Chairman and Chief Executive Officer throughout the review period. Details are described as follows:

The Board, headed by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all crucial and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with other Executive Directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

The role of the Chairman and Chief Executive Officer of the Group rests on the same individual which deviates from the code provision in the CG Code of not having a clear division of responsibilities. The Board is of the view that this has not compromised accountability and independent decision-making for the following reason:

- The independent non-executive directors proactively challenge the assumptions and proposals of the management, both during and outside of Board meetings through discussion with the Chairman and among the directors via email or telephone, on pertinent issues that would cast impact on the affairs and business of the Group. This enables the Board benefiting from the objective judgment from these independent non-executive directors.

### AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. As at 30 June 2005, the audit committee comprised Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company.

During the period from 7 March 2005 (the resignation date of Mr. Liu Ming Hui, a former independent non-executive director) to 6 June 2005 (the appointment date of Mr. Yeung Sau Hung, Alex as an independent non-executive director), the Company had been unable to strictly comply with the relevant rules 3.10 and 3.21 of the Listing Rules requiring the Company to retain at all times a minimum of three independent non-executive directors and audit committee members.

### APPRECIATION

On behalf of the Board, I wish to express my gratitude to our management team and staff members for their hard work, dedication and support throughout the period.

ON BEHALF OF THE BOARD

**Li Shu Fu**

*Chairman*

Hong Kong

13 September 2005