

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.