

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.