



吉利汽车
GEELY AUTOMOBILE

自由舰

自由舰成功登顶海拔 5217 米的珠峰大本营



Chairman's Statement

CHAIRMAN'S STATEMENT



Li Shu Fu, Chairman

On behalf of the Board of Directors of Geely Automobile Holdings Limited, I have the pleasure of presenting to you the Group's 2005 results.

FINANCIAL REVIEW

The Group's turnover amounted to HK\$101m for the year ended 31st December, 2005, representing an increase of 147% over previous year. Profit attributable to shareholders amounted to HK\$111m, a significant increase of 36% over 2004. The big increase in net profit was attributable to the large increase in profit contributions from the Group's two associates – Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") and Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple") – mainly due to the strong sales and earnings recovery achieved by the two associates in the second half of 2005, more than offsetting the 23% decline in net profit in the first half of 2005.

DIVIDEND

The Board recommends the payment of final dividend of HK1 cent per share for 2005 (2004: HK1 cent).

BUSINESS OVERVIEW

Although the demand for sedans in the China market started to recover since the beginning of 2005, the early part of 2005 remained a difficult period for the automobile industry in China, featured by rapidly rising costs of raw materials and fierce competition. Despite the challenges and difficulties, and thus a less than exciting performance in the first half of 2005, the Group still managed to achieve respectable results for the full year period in 2005, helped by a more stable raw material prices since the second quarter of the year, and the encouraging response to new products like "Free Cruiser" – launched in mid 2005 – and the new 1.0L "Ulion" family sedans. The Group's proven track record in cost control and the timely response by the management to adjust business strategies and implement new measures to enhance product mix also help the Group to significantly improve profitability in the second half of 2005, reversing the downward margin trend started in mid 2004. In 2005, sales of higher priced models like "Free Cruiser", "Mybo" and "Maple" series accounted for 38% of the two associates' total sales volume, a significant improvement from 12% in 2004 and only 8% in 2003.

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During 2005, the Group's two major associates – Zhejiang Geely and Shanghai Maple – sold 133,041 units of Geely and Maple sedans, up 101% over 2004, raising their combined market share in China's passenger car market to 4.8% in 2005. Zhejiang Geely and Shanghai Maple, which produce and sell Geely and Maple sedans, remained the key profit contributors of the Group in 2005.

The Group's 51%-owned parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin") returned to profitability in 2005. Zhejiang Fulin recorded substantial growth in turnover during the year, helped by 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 and Maple sedans, which utilize Zhejiang Fulin's braking and steering products.

Although the withdrawal from information technology businesses in March 2004 helped to reduce expenses during 2005, the Group's administrative expenses in 2005 still increased by 12% to HK\$18m due to the inclusion of an additional HK\$5.5m expenses incurred by the grant of share options to key management team members for the subscription for a total of 239.5m shares of the Group in August 2005 following the adoption of revised Hong Kong Accounting Standards from 1st January, 2005.

2005 was a milestone in the Group's expansion into the international market with the exports of over 7,000 sedans to over 30 countries, accounting for almost half of the total number of sedans exported from China in 2005. In June, 2005, the Group's associate Shanghai Maple signed an agreement with Information Gateway Corporation Sdn Bhd ("IGC") to export and assembly Geely sedans in Malaysia, marking the Group's first step to manufacture Geely sedans in overseas location and the export and sales of car-manufacturing technologies to third parties. The Group also signed a Memorandum of Understanding with the Hong Kong Productivity Council ("HKPC") on 21st June, 2005 to collaborate on the development of a high-end sedan and related components in Hong Kong, signifying the Group's first attempt to enter into the high-end sedan market. In addition, the first appearances of Geely sedans in the Frankfurt Motor Show held in September 2005 and the Detroit Auto Show in January 2006 had achieved tremendous success and had proved to be a very effective way to promote "Geely" brand and enhance the international market recognition of Geely sedans.

During 2005, the Group completed the restructuring of its management team to reflect its new shareholding structure and its gradual transformation into a company focusing on manufacturing and sales of automobiles and automobile parts. I, together with other six new executive directors, were nominated to join the Board in June, 2005. I was also appointed as the Chairman of the Group on 9th June, 2005.

PROSPECTS

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, consistently rising household incomes and Chinese government new policies to promote environmentally friendly compact cars. With less than 1% of the population owning a car at present, there should be substantial growth potential for car demand in China.

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According to figures compiled by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China grew 25% YoY in 2005 to 2.9 million units. 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 20% in the coming few years, reaching around 3.5 million units in 2006. However, sales of lower end economy sedans should continue to grow faster than other types of sedans in the near future due to the continued migration of demand from corporations to individuals.

With the commencement of mass production of new facilities in Luqiao in 2006, the full year contribution from "Free Cruiser" model first offered in 2nd quarter of 2005 and the scheduled launches of a number of strategically important new models in 2006, the Group's two associates expect to further increase their combined market shares to 5% in 2006, thus translating into total sales volume of 180,000 units, representing an YoY growth of 35%.

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.

With the more favourable business environment in China, the improved production facilities and more comprehensive product lines, the Board believes that the Group's profitability and its shareholders' returns should continue to improve in the coming years.

Li Shu Fu

Chairman

Hong Kong, 21st April, 2006