



Chairman's Statement



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Geely Automobile Holdings Limited (the "Company"), I have the pleasure of presenting to you the 2006 results of the Company and its subsidiaries (the "Group")

Financial Review

The Group's turnover amounted to HK\$127 million for the year ended 31 December 2006, representing an increase of 25% over 2005. Profit attributable to the equity holders of the Company amounted to HK\$209 million, a significant increase of 88% over 2005. The large increase in net profit was attributable to the significant growth in profit contributions from the Company's four associates - Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") - (collectively referred as "the Associates") - mainly due to the strong demand for "Free Cruiser" family sedans launched in 2005, the initial good response to "Geely Kingkong" mid-end sedans launched in mid



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Chairman

2006, and a more stable raw material prices, more than offsetting the intensified price competition in China's sedan market during the year.

Dividend

The Board recommends the payment of a final dividend of HK1 cent (2005: HK1 cent) per share and a special final dividend of HK0.2 cent (2005: nil) per share.

Business Overview

Although the demand for sedans in the China market continued to register strong growth during 2006, the later part of 2006 saw intensified price pressure in the economy car segment with a few major players adopting more aggressive pricing strategy to gain market shares in China, resulting in heavy price pressure on other economy car manufacturers. As a result, the Associates decided to reduce the retail prices of most of their models by 5-10% during the year. Despite the challenges and difficulties, and thus a less than exciting performance in the second half of 2006, the Associates still managed to achieve respectable results for the full year period in 2006, helped by a more stable raw material prices during the year, and the continued strong demand for "Free Cruiser" and the encouraging response to new products like "Geely Kingkong" and "Vision". The timely response by the management to adjust business strategies and implement new measures to enhance product mix also help the Associates to significantly improve profitability in 2006 with sales of higher priced models like "Free Cruiser", "Geely Kingkong" and "Vision" series accounted for around 40% of their total sales volume, a significant improvement from less than 20% in 2005.

During 2006, the Associates - Zhejiang Geely, Shanghai Maple, Zhejiang Ruhoo and Zhejiang Kingkong - recorded contracted sales volume of 175,635 units of Geely and Maple sedans, up 32% over 2005, maintaining their combined market share in China's passenger car market at around 4.6% in 2006. Of which, the sales of 164,495 units were recognised in the 2006 consolidated financial statements.

The Company's 51%-owned parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin") recorded a healthy increase in both revenue and net profit in 2006. Net profit at Zhejiang Fulin was up 14% YoY to RMB11 million on 21% increase in revenues. The slower earnings growth in 2006 was due to higher expenses caused by the relocation of the plant to new location and expiry of some tax incentives. We, however, believe Zhejiang Fulin's earnings growth could speed up in 2007, helped by the planned launch of new generation of Electric Power Steering ("EPS") and braking system for "Geely Kingkong" and "Vision" models.

2006 was a challenging but fruitful year in the Group and the Associates' history with major achievements in defending the Associates' market share despite fierce price competition in China's economy sedan market and in the successful launches of a number of strategically important new products, including "Geely Kingkong", "Vision", JL4G18 VVT engines and JL-ZA series of automatic gearboxes, paving the way for the Associates to broaden their product range further in the coming years. 2006 is also an important milestone in the Group and the Associates' expansion into the international market with the exports of around 10,000 sedans to over 40 countries, and the signing of a joint-venture agreement with Manganese Bronze Holdings Plc to manufacture London Taxi and three models of high-end sedans in Shanghai, marking the Group and the Associates' first step to enter into taxi market and high-end sedans.

During 2006, the Associates have embarked on an aggressive hiring campaign to further strengthen its R&D capability with the recruitment of several key R&D professionals to its management team to maintain the Associates' leading position in research and development and product innovation.

Prospects

We believe that there are substantial growth potential for car demand in China in the coming decade, due to China's consistent economy growth, its rising household incomes, and its still low car ownership with only 1% of the population owning a sedan at present.

The Group and the Associates will continue to focus on the operation and expansion of its automobile business, to actively seek for ways and opportunities to expand the Group's revenues and to further reduce costs, thereby to enhance the returns to its shareholders.

According to the figures released by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China increased by 37% to 3.8 million units in 2006, surpassing most market expectations. Although fierce competition in China's sedan market should remain, we expect growth of China's sedan sales volume to be maintained at around 20% in the coming few years.

With the successful launches of the "Geely Kingkong" and "Vision" sedans, JL-ZA series of automatic gearboxes, and JL4G18 VVT engines – considered the Associates' most strategically important new product launches in the Group's history – in 2006, and the significant efforts spent in the exploration of export

markets over the past few years, the Associates are well positioned to further increase their combined market shares from 4.6% to 5% in 2007, thus translating into total contracted sales volume of 240,000 units, representing an YoY growth of 37%.

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 Zhejiang Geely Holding Group Company Limited's auto related businesses. To achieve that, the Group would actively consider raising its shareholdings in the Associates to over 50% subject to government approval and compliance with relevant regulations.

With the significant investment and effort spent by the Associates in product development and capacity expansion over the past few years, the improved production facilities and the more comprehensive product lines, the Board believes that the Group's profitability and thus its shareholders' returns should continue to improve in the coming years.

Li Shu Fu

Chairman

11 April 2007