吉利汽車控股有限公司

# GEELY AUTOMOBILE HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited libaility)*
website: http://www.geelyauto.com.hk
(Stock code: 175)

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

## 1. RESULTS

The Board of directors (the "Board") of Geely Automobile Holdings Limited (the "Company") is pleased to announce the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 together with the comparative figures for 2003 as follows:

| | Notes | **2004** *HK$'000* | 2003 *HK$'000* |
|---|---|---|---|
| Turnover | *b* | **41,123** | 39,872 |
| Cost of sales | | **(38,468)** | (31,900) |
| Gross profit | | **2,655** | 7,972 |
| Other operating income | | **91** | 644 |
| Distribution and selling expenses | | **(284)** | (1,165) |
| Administrative expenses | | **(15,192)** | (19,271) |
| Other operating expenses | | **–** | (757) |
| Loss from operations | *d* | **(12,730)** | (12,577) |
| Finance costs | | **(53)** | (153) |
| Share of results of associates | | **100,213** | 68,350 |
| Gain on disposal of subsidiaries | | **3,189** | – |
| Profit before taxation | | **90,619** | 55,620 |
| Income tax expense | *e* | **(6,696)** | (237) |
| Profit before minority interests | | **83,923** | 55,383 |
| Minority interests | | **471** | 2,103 |
| Net profit for the year | | **84,394** | 57,486 |
| Dividends | | | |
| Proposed final dividend of HK$0.01 per share | | **41,203** | – |
| Earnings per share – basic | *f* | **HK2.0 cents** | HK1.6 cents |
| – diluted | *f* | **HK2.0 cents** | N/A |

*Notes:*

**a. Potential Impact Arising from the Recently Issued Accounting Standards**

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKAS(s)") and Hong Kong Financial Reporting Standards ("HKFRS(s)") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

**b. Turnover**

Turnover represents the aggregate of the sales revenue arising from sales of automobile parts and components and from information and technology related business and is analysed as follows:

| | **2004**<br>***HK$'000*** | 2003<br>*HK$'000* |
|---|---|---|
| Sales of automobile parts and components | **31,903** | 372 |
| Sales revenue from information and technology related businesses | **9,220** | 39,500 |
| | **41,123** | 39,872 |

**c. Business and Geographical Segments**

*Business segments*

For management purposes, the Group is organised into two operating divisions – (i) manufacturing and trading of automobile and related automobile components, (ii) information technology. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | |
|---|---|
| Automobile | – manufacturing and trading of automobile parts and related automobile components |
| Information technology | – information technology and related business |

Following the disposal of the entire 51% interest in Deep Treasure Investments Limited ("Deep Treasure") and its subsidiaries, the operations of information technology was discontinued from 30 March 2004.

Segment information about the continuing and discontinuing businesses is presented below.

**For the year ended 31 December 2004**

| | **Continuing operations** | **Discontinuing operations** | |
|---|---|---|---|
| | **Automobile** *HK$'000* | **Information technology** *HK$'000* | **Consolidated** *HK$'000* |
| REVENUE | | | |
| External sales | 31,903 | 9,220 | 41,123 |
| RESULT | | | |
| Segment result | (256) | (787) | (1,043) |
| Unallocated corporate expenses | | | (11,687) |
| Loss from operations | | | (12,730) |
| Finance costs | – | (53) | (53) |
| Share of results of associates | 100,167 | 46 | 100,213 |
| Gain on disposal of subsidiaries | – | 3,189 | 3,189 |
| Profit before taxation | | | 90,619 |
| Income tax expense | (6,696) | | (6,696) |
| Profit before minority interests | | | 83,923 |
| Minority interests | 121 | 350 | 471 |
| Net profit for the year | | | 84,394 |

**BALANCE SHEET**

| | **Continuing operations** | **Discontinuing operations** | |
|---|---|---|---|
| | **Automobile** *HK$'000* | **Information technology** *HK$'000* | **Consolidated** *HK$'000* |
| ASSETS | | | |
| Segment assets | 680,767 | – | 680,767 |
| LIABILITIES | | | |
| Segment liabilities | (18,674) | – | (18,674) |
| Unallocated liabilities | | | (4,180) |
| | | | (22,854) |

**OTHER INFORMATION**

| | **Continuing operations** | **Discontinuing operations** | |
|---|---|---|---|
| | **Automobile** *HK$'000* | **Information technology** *HK$'000* | **Consolidated** *HK$'000* |
| Capital additions | 2,568 | 60 | 2,628 |
| Depreciation | 528 | 183 | 711 |
| Loss on disposal of property, plant and equipment | 7 | – | 7 |

**For the year ended 31 December 2003**

| | Continuing operations | Discontinuing operations | |
|---|---|---|---|
| | **Automobile** | **Information technology** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | | | |
| External sales | 372 | 39,500 | 39,872 |
| RESULT | | | |
| Segment result | (69) | (2,012) | (2,081) |
| Unallocated corporate expenses | | | (10,496) |
| Loss from operations | | | (12,577) |
| Finance costs | (4) | (149) | (153) |
| Share of results of associates | 68,358 | (8) | 68,350 |
| Profit before taxation | | | 55,620 |
| Income tax expense | | | (237) |
| Profit before minority interests | | | 55,383 |
| Minority interests | | | 2,103 |
| Net profit for the year | | | 57,486 |

**BALANCE SHEET**

| | Continuing operations | Discontinuing operations | |
|---|---|---|---|
| | **Automobile** | **Information technology** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| ASSETS | | | |
| Segment assets | 579,108 | 24,080 | 603,188 |
| LIABILITIES | | | |
| Segment liabilities | (7,770) | (20,421) | (28,191) |
| Unallocated liabilities | | | (3,562) |
| | | | (31,753) |

**OTHER INFORMATION**

| | Continuing operations | Discontinuing operations | |
|---|---|---|---|
| | **Automobile** | **Information technology** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Capital additions | 3,758 | 219 | 3,977 |
| Depreciation | 101 | 1,132 | 1,233 |
| Loss on disposal of property, plant and equipment | 2 | 40 | 42 |

**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.

**d. Loss from Operations**

| | 2004 *HK$'000* | 2003 *HK$'000* |
|---|---|---|
| Loss from operations has been arrived at after charging (crediting): | | |
| Staff costs, including directors' emoluments | **8,454** | 8,343 |
| Retirement benefits scheme contributions | **527** | 206 |
| Total staff costs | **8,981** | 8,549 |
| Auditors' remuneration | **332** | 483 |
| Depreciation | **711** | 1,233 |
| Loss on disposal of property, plant and equipment | **7** | 42 |
| Interest income from bank deposits | **(6)** | (37) |

**e. Income Tax Expense**

| | 2004 *HK$'000* | 2003 *HK$'000* |
|---|---|---|
| Share of taxation attributable to associates | **6,696** | 237 |
| | **6,696** | 237 |

Hong Kong Profits Tax has not been provided for the year 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.

The charge for the year ended 31 December 2004 represents enterprise income tax provided by the associates and the subsidiaries of the associates with operations in the PRC at the applicable rates on their assessable profits.

**f. Earnings per share**

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK$84,394,000 (2003: HK$57,486,000) and on 4,120,264,902 (2003: weighted average number of 3,614,785,000) shares in issue during the year.

Diluted earnings per share for the year ended 31 December 2004 does not assume the exercise of share options as the exercise price of the share options were higher than the average market price.

No diluted earnings per share for the year ended 31 December 2003 had been presented as there was no potential ordinary share in existence during that year.

## 2. FINAL DIVIDEND

The Board of Directors has resolved to recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year, to shareholders on the register of members on 25 May 2005.

The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The final dividend will be paid on or about 8 July 2005.

## 3. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23 May 2005 to Wednesday, 25 May 2005, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Standard Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 20 May 2005.

## 4. MANAGEMENT DISCUSSION AND ANALYSIS

**Financial Review**

The Group's turnover amounted to HK$41m for the year ended 31 December 2004, representing an increase of 3% over previous year. Profit attributable to shareholders amounted to HK$84m, a significant increase of 47% over 2003. 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") – a combined result of the new profit contributions from a series of acquisitions during 2003-2004 and the healthy natural growth achieved by the two associates during the period.

**Business Overview**

2004 was a difficult year for the automobile industry in China, featured by the sharp slow down in vehicle sales since the second quarter of 2004 and the continuous downward pressure on car prices throughout the year. Despite the challenges and difficulties in 2004, the Group still managed to achieve respectable results, helped by 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 alleviate the impact from a significantly slower car market in China.

Despite the implementation of new measures including the restructuring of production facilities to improve economies of scale, the postponement of capital expenditure programmes and new product launches to ensure better utilization of resources, and various stringent measures to cut costs, the Group still managed to achieve better than average growth in sales volume and to offset most product price declines with cost cutting, thus help maintaining the group's competitiveness in China's car market, resulting in further increase in our market share in China's sedan market in 2004.

During 2004, the group's major partner Geely Holding sold 96,693 units of Geely and Maple sedans, up 27% over 2003, gaining 4.2% share in China's passenger car market in 2004. Sales volume attributable to the listed company amounted to 66,057 units in 2004, up significantly by 139% from only 27,594 units in 2003, as a result of the acquisition of Haoqing series of automobile assets in July 2004, the full year contributions of the group's two associates – Zhejiang Geely and Shanghai Maple – and the healthy natural growth of the sales of Geely and Maple sedans in China. Zhejiang Geely and Shanghai Maple, which produces and sell Geely and Maple sedans, remained the key profit contributors of the group in 2004.

The Group's 51%-owned parts subsidiary Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin") recorded small loss in 2004 due to the deterioration in market condition in China's sedan market and thus the continuous pressure on product prices throughout the year. This was however largely offset by the significant cut in the group's administrative expenses after the group's completed withdrawal from the information technology ("IT") businesses in March 2004. Despite this, Zhejiang Fulin successfully launched a strategically important new steering system, commonly known as "EPS" (Electric Power Steering), which has been widely considered as one of the most advanced steering system available in the market, thus paving the way for the group's entry into high value added auto parts market.

The Group managed to complete the acquisitions of most of the remaining auto-related assets from Geely Holding through its two associates in July 2004, thus helping to broaden the group's product line to cover all the existing and future car models to be produced by Geely Holding and to facilitate the subsequent restructuring of the group's production facilities to further improve its production efficiency and cost competitiveness.

**Prospects**

2005 should be an equally difficult year for the automobile industry in China with major challenges like rapidly rising steel and raw material prices, fierce competition due to the elimination of import quota for motor vehicles at the beginning of 2005 and the further reduction of import tariff rates, continuous pressure on product pricing, high fuel prices, traffic congestion in major cities, and increasingly stringent regulations on emission control, vehicle safety and the protection on car buyers' interests in China. Despite this, the group is amongst the best prepared for the challenges ahead with the timely adjustments implemented last year and Geely Holding's proven cutting edges in management flexibility and cost control.

In 2005, the groups' two associates plan to produce and sell 120,000 units of vehicles and to complete the technological upgrading at the companies' four production bases, thus lifting their combined annual production capacity to 300,000 units. In addition, the two companies plan to launch new sedan models equipped with the 1.6L and 1.8L engines, a new series of automatic gearboxes and the right-hand drive version for some of their existing models during the year to further broaden their product lines and improve the competitiveness of their products.

The Board believes that the current downturn of China's sedan market should represent more an opportunity than challenges to the group given its distinctive advantages in cost control and flexibility, largely as a result of the company's private enterprise status, its unique structure of a completed vertically integrated operation, spanning from R&D, auto parts, power train design and manufacturing to final assembly of sedans. Despite the slow down in the growth of car demand in China in 2004, the Board remains confident that longer-term demand for sedans could continue to grow fast in China.

To further improve the group's competitiveness, the management will continue to explore new business opportunities for new sources of revenues, way to share and reduce costs and business risks, and way to further improve efficiency and competitiveness. With the more efficient business and corporate structures, improved production facilities and more comprehensive product lines brought about by the restructuring and the acquisitions over the last two years, the Board believes that the group's profitability and its shareholders' returns should continue to improve in the coming years.

**Financial Resources**

*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 31 December 2004, the Group's shareholders' fund amounted to HK$653 million (2003: HK$569 million). No additional share was issued during the year.

*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 31 December 2004, the Group's current ratio (current assets/current liabilities) was 1.17 (2003: 1.70) and the gearing ratio of the Group was 1.6% (2003: 3.7%) which was calculated based on the Group's total borrowings to total shareholders' equity. Total borrowings as at 31 December 2004 amounted to HK$10 million (2003: HK$21 million) were mainly advances due to ultimate holding company and minority shareholders and they were unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain such financing.

*Material acquisition and disposal of subsidiaries and associated companies*

On 30 March 2004, the entire 51% interest in Deep Treasure Investments Limited and its subsidiaries were disposed with a gain of HK$3.2 million. The Group's operating division of information technology was discontinued following the disposal.

*Employees' remuneration policy*

As at 31st December 2004, the total number of employees of the Group, including the associated companies was 6,941 (2003: 2,864). The significant increase of number of employees was mainly due to the acquisition of Zhejiang Haoqing Automobile Manufacturing Company Limited during the year by one of the associated companies, Zhejiang Geely Automobile Company Limited.

Employees' remuneration packages are reviewed annually by management by taking into account the experience, overall performance of the staff as well as the prevailing market conditions.

## 5. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2004.

## 6. CORPORATE GOVERNANCE

**Code of Best Practice**

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

**Audit Committee**

The Company has an audit committee which was established in accordance with the requirements of the Code for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises Messrs. Lee Cheuk Yin, Dannis and Song Lin, who are the independent non-executive directors of the Company.

Upon the resignation of Mr. Liu Ming Hui on 7 March 2005, the Company has only two independent non-executive directors and audit committee members. Thus, the Company is temporarily 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. The Board is in the process of identifying a potential candidate to fill the vacancy and is expecting the new appointment to be finalized soon.

**Model Code for Securities Transactions by Directors of Listed Issuers**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Based on specific enquiry of the directors of the Company, all directors have complied with the required standard as set out in the Mode Code, throughout the accounting period covered by this announcement.

## 7. PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2004 annual report containing all the informations required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be submitted to The Stock Exchange for uploading onto the Stock Exchange's website (www.hkex.com.hk) in due course.

By Order of the Board
**Geely Automobile Holdings Limited**
**He Xuechu**
*Chairman*

Hong Kong, 28 April 2005

*As at the date of this announcement, Mr. He Xuechu, Mr. Xu Xing Yao, Mr. Ang Siu Lun, Lawrence, Mr. Zhou Teng, Mr. Ku Wai Kwan, Mr. Nan Yang, Mr. Zhang Zhe and Mr. Wong Hing Kwok are the executive directors of the Company and Mr. Lee Cheuk Yin, Dannis and Mr. Song Lin are the independent non-executive directors of the Company.*

Please also refer to the published version of this announcement in The Standard.