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## **GEELY AUTOMOBILE HOLDINGS LIMITED**

*(incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

### **REVISION OF ANNUAL CAPS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS WITH ZHEJIANG GEELY JV**

#### **CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the circular of the Company dated 8 June 2005 in respect of the Continuing Connected Transactions. Fulin Guorun, a 51% owned subsidiary of the Company and Zhejinag Geely JV, an associated company of the Company, entered into the Supply Agreement on 6 May 2005 pursuant to which Fulin Guorun has agreed to supply to Zhejiang Geely JV and its subsidiaries automobile parts and components in the manufacture of automobiles. The Supply Agreement together with the Annual Caps of HK\$60 million, HK\$80 million and HK\$95 million for the year ended 31 December 2005 and the two years ending 2006 and 2007 respectively, were approved by the Independent Shareholders at the EGM held on 24 June 2005.

Due to (i) better-than-expected sales for certain models manufactured by Zhejiang Geely JV during the second half of 2005; and (ii) cut-off adjustments of the sales by Fulin Guorun to Zhejiang Geely JV and the reclassification of sales to Zhejiang Geely JV required to be made as noted during the annual audit of the Annual Cap, the unaudited amount of transactions conducted under the Supply Agreement for the year ended 31 December 2005 is estimated to be approximately HK\$101 million which, exceeds the Annual Cap of HK\$60 million for the year ended 31 December 2005 as approved by the Stock Exchange and the Independent Shareholders and constitutes a breach of Rule 14A.36 of the Listing Rules.

Furthermore, the Directors consider that, by virtue of the sales volumes of automobiles achieved by the Group in the second half of the financial year 2005, there arises a need to revise the Annual Caps for the year ending 31 December 2006 and 2007. Given the above, on 20 March 2006, Fulin Guorun has entered into the Supplemental Supply Agreement with Zhejiang Geely JV to amend the annual caps as stated in the Supply Agreement, save for this, other terms of the Supply Agreement have remained unchanged. Mr. Li, the ultimate controlling Shareholder of the Company, is also the ultimate controlling shareholder of Zhejiang Geely JV and therefore, the transactions contemplated under the Supplemental Supply Agreement constitute continuing connected transactions for the Company. The Supplemental Supply Agreement is conditional upon the approval of the Independent Shareholders.

A circular containing, among other things, (i) details of the Supplemental Supply Agreement and the Revised Caps; (ii) recommendations of the Independent Board Committee; and (iii) advice from the independent financial adviser to the Independent Board Committee on the Supplemental Supply Agreement and the Revised Caps will be despatched to the Shareholders within 21 days from the publication of this announcement. Mr. Li and his associates will abstain from voting in relation to the resolution approving the Supplemental Supply Agreement and the Revised Caps at the EGM.

This announcement is made pursuant to Rule 14A.36 of the Listing Rules.

## **BACKGROUND**

As disclosed in the circular of the Company dated 8 June 2005, Fulin Guorun, a 51% owned subsidiary of the Company and Zhejiang Geely JV, an associated company of the Company, entered into the Supply Agreement on 6 May 2005 pursuant to which Fulin Guorun has agreed to supply to Zhejiang Geely JV and its subsidiaries automobile parts and components for their own consumption in the manufacture of automobiles. The Supply Agreement together with the Annual Caps of HK\$60 million, HK\$80 million and HK\$95 million for the year ending 31 December 2005, 2006 and 2007 respectively, were approved by the Independent Shareholders at the EGM held on 24 June 2005.

During the annual audit conducted on the results of the financial year 2005, it is noted that the unaudited amount of transactions contemplated under the Supply Agreement for the year ended 31 December 2005 is estimated to be approximately HK\$101 million which, exceeds the Annual Cap of HK\$60 million for the year ended 31 December 2005 approved by the Stock Exchange and the Independent Shareholders and constitutes a breach of Rule 14A.36 of the Listing Rules.

## **REASONS FOR EXCEEDING THE ANNUAL CAP**

The Directors consider that the increase in the Group's unaudited amount of transactions conducted under the Supply Agreement for the year ended 31 December 2005 was mainly due to the following reasons:

- (i) better-than-expected sales for models manufactured by Zhejiang Geely JV during the second half of 2005; and
- (ii) cut-off adjustments of sales by Fulin Guorun to Zhejiang Geely JV and the reclassification of sales by Fulin Guorun to Zhejiang Geely JV required to be made as noted during the annual audit of the Annual Cap.

## **MEASURES ADOPTED BY THE COMPANY FOR FUTURE COMPLIANCE**

In avoidance of any similar events, the Directors and senior management of the Company will closely monitor and regularly review the Continuing Connected Transactions contemplated under the Supply Agreement and the Supplemental Supply Agreement. The Company has taken necessary measures to strengthen the reporting and documentation system and internal control procedures of the Company and its subsidiaries including the engagement of a professional firm to review the internal control system of Fulin Guorun and to increase training and communications to all managerial staff in future.

The Directors, including the independent non-executive Directors, confirm that the Continuing Connected Transactions were entered into in the ordinary and usual course of business of the Company, on normal commercial terms and were in the interests of the Company as far as the Shareholders are concerned.

## **SUPPLEMENTAL SUPPLY AGREEMENT DATED 20 MARCH 2006**

The Directors consider that, by virtue of the sales volumes of automobiles achieved by the Group in the second half of the financial year ended 2005, there arises a need to revise the Annual Caps for the two years ending 31 December 2006 and 2007. Given the above, on 20 March 2006, Fulin Guorun has entered into the Supplemental Supply Agreement with Zhejiang Geely JV to amend the annual caps as stated in the Supply Agreement, save for this, other terms of the Supply Agreement have remained unchanged.

### **Term of the Supplemental Supply Agreement**

From the date of approval of the Supplemental Supply Agreement by the Independent Shareholders at the EGM to 31 December 2008, and if there is no agreement on the extension period three months prior to the date of expiry of the Supplemental Supply Agreement, the Supplemental Supply Agreement will automatically be renewed for 1 year thereafter. The Company will comply with the relevant provisions of Chapter 14A of the Listing Rules upon renewal of the Supplemental Supply Agreement.

### **Revised Caps**

The Company proposes that the aggregate amount of the transactions contemplated under the Supplemental Supply Agreement will not exceed HK\$238 million, HK\$359 million and HK\$518 million for each of the three years ending 31 December 2006, 2007 and 2008 respectively. The Revised Caps have been determined by the executive Directors with reference to:

- (i) the historical unaudited transaction amount of approximately HK\$101 million for the year ended 31 December 2005 of the Continuing Connected Transactions;
- (ii) the latest projection of Fulin Guorun's sales volume of automobile parts and components to Zhejiang Geely JV for each of the three years ending 31 December 2008;
- (iii) the continuous increase in the variety of automobile parts and components to be manufactured by Fulin Guorun and the expected increase in the volume of products to be sold to Zhejiang Geely JV for each of the three years ending 31 December 2008;
- (iv) the estimated price trend of the automobile parts and components manufactured by Fulin Guorun in the coming years.

Set out below is a comparison of the original Annual Caps as approved by the Stock Exchange and the proposed Revised Caps:

<b>For the year ending 31 December</b>	<b>Original Annual Caps (HK\$'million)</b>	<b>Revised Caps (HK\$'million)</b>
2006	80	238
2007	95	359
2008	N/A	518

## **REASONS FOR ENTERING INTO THE SUPPLEMENTAL SUPPLY AGREEMENT**

Fulin Guorun, a 51% owned subsidiary of the Company, is principally engaged in the manufacturing and trading of automobile parts and components in the PRC and has been in its usual and ordinary course of business, selling automobile parts and components on normal commercial terms to Zhejiang Geely JV and its subsidiaries whose principal business is engaged in the design and manufacture of automobiles in the PRC. The Supplemental Supply Agreement will provide the Group with an additional source of revenue for the Group's products. The Directors consider that the Supplemental Supply Agreement will enable the Group to generate steady revenue from the trading of automobile parts and components. Furthermore, the Directors also consider the terms of the Supplemental Supply Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

## **LISTING RULES REQUIREMENTS**

Mr. Li, the ultimate controlling Shareholder of the Company, is also the ultimate controlling shareholder of Zhejiang Geely JV and therefore, the transactions contemplated under the Supplemental Supply Agreement constitute continuing connected transactions for the Company and are subject to Independent Shareholders' approval. An EGM will be held to obtain Independent Shareholders' approval for the Supplemental Supply Agreement and the Revised Caps.

## **GENERAL**

The Board has appointed an Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Supplemental Supply Agreement and the Revised Caps. An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transactions.

A circular containing details of the terms of the Supplemental Supply Agreement and the Revised Caps, the relevant advice from the independent board committee of the Company and the advice from the independent financial adviser to the independent board committee will be despatched to the Shareholders within 21 days from the publication of this announcement. Mr. Li and his associates will abstain from voting at the resolution to be proposed at the EGM to approve the Supplemental Supply Agreement and the Revised Caps.

## **DEFINITIONS**

“Annual Cap(s)”	the maximum aggregate annual value of the Continuing Connected Transactions contemplated under the Supply Agreement for each of the three financial years ended 31 December 2007
“associate(s)”	the same meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Geely Automobile Holdings Limited, a company incorporated in Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions transacted and to be transacted between Fulin Guorun and Zhejiang Geely JV under the Supply Agreement and the Supplemental Supply Agreement

“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the Supplemental Supply Agreement including the Revised Caps
“Fulin Guorun”	Zhejiang Fulin Guorun Automobiles Parts & Components Co Ltd, a company incorporated in the PRC, and owned as to 51% by the Company and 49% by Zhejiang Fulin Automobiles Parts & Components Co Ltd, an independent third party
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent board committee comprising the three independent non-executive Directors, namely Mr. Lee Cheuk Yin, Dannis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex
“Independent Shareholders”	Shareholders other than Mr. Li and his associates
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Mr. Li Shu Fu, the controlling Shareholder interested in approximately 60.68% of the issued share capital of the Company
“PRC”	the People’s Republic of China
“Revised Cap(s)”	the maximum aggregate annual value of the Continuing Connected Transactions contemplated under the Supplemental Supply Agreement for each of the three financial years ended 31 December 2008
“Shareholders”	holders of the share(s) of HK\$0.02 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement”	the master supply agreement dated 6 May 2005 entered into between Fulin Guorun and Zhejiang Geely JV for the sale and purchase of automobile parts and components
“Supplemental Supply Agreement”	the supplemental master supply agreement dated 20 March 2006 entered into between Fulin Guorun and Zhejiang Geely JV for the sale and purchase of automobile parts and components

“Zhejiang Geely JV”

Zhejiang Geely Automobile Co Ltd, a sino-foreign joint venture company incorporated in the PRC, and owned as to 46.8% by the Company and 53.2% by Zhejiang Geely Merrie Automobile Company Limited (a company incorporated in the PRC, and is ultimately owned by Mr. Li and his associates)

“%”

per cent.

*As at the date of this announcement, the executive Directors are Messrs. Li Shu Fu, Ang Siu Lun, Lawrence, Xu Gang, Yang Jian, Yin Da Qing, Richard, Liu Jin Liang, Zhao Jie and Gui Sheng Yue. and the independent non-executive directors are Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex.*

By order of the Board  
**Geely Automobile Holdings Limited**  
**David C.Y. Cheung**  
*Company Secretary*

Hong Kong, 20 March 2006

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