

GITI TIRE CORPORATION

Financial Results for the Financial Year Ended 31 December 2011 (“FY2011”)

In 2011, the performance of the global automotive industry was modest, as evident by the slowdown in growth of the auto industry and market demand. The domestic auto industry registered the lowest growth rate in recent years of 0.84% and 2.45% respectively, in terms of production and sales growth due to the government’s macro policies as well as removal of incentives. On the back of weak demand, fluctuation in raw material prices, especially natural rubber and increased international competition etc., the Chinese tire industry produced 832 million tires in 2011, an increase of 8.5% over the previous year and realised an annual sales to production rate of 99.7%, showing a reasonable growth trend.

In 2011, Giti Tire Corporation¹ (the “Company”) undertook various measures to improve business operations and increase profitability such as: (i) adjust selling prices to mitigate increases in raw material prices, including adjusting marketing strategies of each market and region to realise higher revenue and sales volume; (ii) develop new and upgrade existing sales channels as well as implement better after-sales service and other measures to promote retail business growth; (iii) improve product offerings through research and development, product improvement and enhancement etc; (iv) increase sales of high value-added products and its research and development, increase the emphasis on product innovation and improve tire quality so as to enhance competitiveness; (v) continue to implement cost-saving activities and enhance overall budget management, and raise production efficiency through efficient consumption and use of energy e.g. water, coal and power; (vi) strengthen financial management and improve debt structure.

The Company achieved total revenue of RMB4.817 billion in FY2011, an increase of 33.41% year on year, while the operating profit was RMB193 million, and profit attributable to the shareholders of the Company was RMB77 million, a year on year increase of 51.32% and 50.33%, respectively. Due to the increase in raw material prices during the year, cost of sales increased by 34.34%. The Company’s gross profit was RMB522 million, an increase of approximately 24% compared to FY2010. Although the Company adjusted its selling prices, it is unable to fully offset the increase in cost of raw materials, resulting in a gross profit margin of 10.8% in 2011, a slight decline of 0.8% from the previous year. Total domestic and export sales were RMB1.224 billion and RMB3.569 billion respectively. The growth in revenue and sales volume were achieved as a result of the Company being able to continuously adapt to market changes, develop new sales channels, improve product offering and expand its presence in the retail as well as OEM businesses.

Selling expenses increased by 17.59% mainly due to the increase in logistics costs and export-related costs while general and administrative expenses increased by 9.49% mainly due to increase in staff costs. Finance costs increased by 10.66% year on year mainly due to the increase in interest rates as a result of domestic monetary tightening policies. Profit before tax was RMB198 million, an increase of 45.29% year on year, with the resultant profit attributable to the shareholders of the Company of RMB77 million, an increase of 50.33% from the previous year while income tax expense increased by 34.8%.

The Company's Outlook and Prospects

In the short-term, it is expected that the global economic downturn and the debt crisis situation in Europe will still prevail. In 2012, the tire industry is expected to continue to face slower growth in market demand, raw material price fluctuations, trade barriers as well as other challenges, including increased competition in the industry. Despite the above, the Company believes that the tire industry

¹ ***Giti Tire Corporation is a subsidiary company of Giti Tire Company Limited. Giti Tire Corporation holds 51% of Giti Tire Fujian, which represents one of seven tire manufacturing plants owned by Giti Tire Company Limited.***

would still achieve a certain degree of growth on the expectation that the Chinese auto industry will maintain a steady growth and the global economy will gradually recover.

The Company will continue to strengthen its business and operations through the following measures: (i) closely monitor fluctuations in raw material prices, adopt a flexible and responsive sales strategy to adapt to market changes, increase sales of higher-value added products, improve product mix etc.; (ii) improve communications with customers, and strive to improve product quality and service quality in order to expand market share; (iii) strengthen financial risk management and be cognisant of the impact of the following factors on the business e.g. macroeconomic environment and industry conditions, economic policy changes and exchange rate fluctuations etc.