



吉利汽車控股有限公司  
GEELY AUTOMOBILE HOLDINGS LIMITED  
(Incorporated in the Cayman Islands with limited liability)  
(Stock code: 175)

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**Financial highlights:**

Revenue of the Group for the first half of 2008 was approximately HK\$72 million, representing an increase of approximately HK\$6 million (10%) over the same period in 2007.

Profit attributable to equity holders of the Company for the first half of 2008 was approximately HK\$261 million, representing a significant increase of approximately HK\$156 million (217%) over the same period in 2007.

Share of results of associates for the first half of 2008 was approximately HK\$288 million, representing a significant increase of approximately HK\$158 million (122%) over the same period in 2007.

Basic earnings per share for the first half of 2008 was approximately HK5.02 cents (2007: HK1.77 cents).

At a meeting of the Board held on 10 September 2008, the Directors resolved not to pay an interim dividend to shareholders of the Company (2007: Nil).

## INTERIM RESULTS

The Board of Directors (the “Board”) of Geely Automobile Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008. These interim results have been reviewed by the Company’s Audit Committee, comprising solely the independent non-executive directors, one of whom chairs the committee, and the Company’s auditors, Grant Thornton.

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Six months ended 30th June	
		2008	2007
	Note	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
<b>Turnover/Revenue</b>		<b>72,123</b>	65,638
<b>Cost of sales</b>		<b>(68,112)</b>	(57,536)
Gross profit		<b>4,011</b>	8,102
Other income		<b>9,530</b>	9,658
Distribution and selling expenses		<b>(1,899)</b>	(1,781)
Administrative expenses		<b>(47,396)</b>	(22,082)
Finance costs	4	<b>(7,047)</b>	(20,804)
Fair value gain (loss) on embedded derivative components of convertible bonds		<b>17,572</b>	(18,629)
Share of results of associates	9	<b>287,830</b>	129,615
<b>Profit before taxation</b>		<b>262,601</b>	84,079
Taxation	5	<b>(6,113)</b>	(730)
<b>Profit for the period</b>	4	<b>256,488</b>	83,349
<b>Attributable to:</b>			
Equity holders of the Company		<b>261,095</b>	82,416
Minority interests		<b>(4,607)</b>	933
		<b>256,488</b>	83,349
<b>Dividends</b>	6	<b>67,614</b>	57,327
<b>Earnings per share</b>			
Basic	7	<b>HK5.02 cents</b>	HK1.77 cents
Diluted	7	<b>HK4.46 cents</b>	HK1.74 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AT 30 JUNE 2008**

	<i>Note</i>	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	76,327	32,246
Intangible assets		8,862	–
Interest in associates	9	<u>2,355,080</u>	<u>2,125,456</u>
		<b>2,440,269</b>	2,157,702
<b>Current assets</b>			
Inventories	10	21,368	14,498
Trade and other receivables	11	94,767	68,171
Taxation recoverable		1,159	–
Amount due from an associate		31,042	–
Dividend receivables from associates		160,400	3,560
Available-for-sale investments		1,290	–
Financial assets at fair value through profit or loss		–	4,681
Bank balances and cash		<u>576,205</u>	<u>793,421</u>
		<b>886,231</b>	884,331
<b>Current liabilities</b>			
Trade and other payables	13	46,071	38,725
Amount due to an associate		1,071	127
Taxation		–	731
Convertible bonds – embedded derivatives	12	1,888	19,460
Short-term bank borrowings (secured)		<u>–</u>	<u>20,516</u>
		<b>49,030</b>	79,559
<b>Net current assets</b>		<u><b>837,201</b></u>	<u>804,772</u>
<b>Total assets less current liabilities</b>		<u><b>3,277,470</b></u>	<u>2,962,474</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		104,022	104,022
Reserves		<u>2,626,607</u>	<u>2,337,418</u>
Equity attributable to equity holders of the Company		<b>2,730,629</b>	2,441,440
Minority interests		<u>224,789</u>	<u>211,760</u>
<b>Total equity</b>		<b>2,955,418</b>	2,653,200
<b>Non-current liabilities</b>			
Convertible bonds	12	316,321	309,274
Deferred tax liability		<u>5,731</u>	–
		<u>322,052</u>	<u>309,274</u>
		<u><b>3,277,470</b></u>	<u>2,962,474</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

## 1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2008 annual financial statements. Details of these changes in accounting policies are set out in note 2.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs” which term collectively includes individual HKFRSs, HKASs and Interpretations) that are effective for accounting periods beginning on or after 1 January 2008. The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new/revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

The Group is in the process of making an assessment of the impact of these new/revised standards and interpretations to the Group’s results of operations and financial position in the period of initial application.

### 3. SEGMENT INFORMATION

#### Business Segments

No business segment information has been presented for the six months ended 30 June 2008 and 30 June 2007 as the directors consider that the Group is principally engaged in the manufacturing and trading of automobile parts and related automobile components which accounts for the total turnover and trading profits of the Group for the periods.

#### Geographical segments

The Group's activities, operations and its customers are based in the People's Republic of China (the "PRC"). Accordingly, no geographical analysis is presented.

### 4. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging/(crediting):		
<b>Finance costs</b>		
Effective interest expense on convertible bonds	7,047	20,656
Interest on bank borrowings wholly repayable within one year	—	148
Total finance costs	<u>7,047</u>	<u>20,804</u>
<b>Staff costs (including directors' emoluments)</b>		
Salaries, wages and other benefits	13,330	8,115
Retirement benefit scheme contributions	1,076	776
Recognition of share based payments (included in administrative expenses)	<u>17,717</u>	<u>1,349</u>
Total staff costs	<u>32,123</u>	<u>10,240</u>
<b>Other items</b>		
Interest income	(9,060)	(8,239)
Cost of inventories sold	68,112	57,536
Depreciation	1,892	869
Share of tax of associates (included in share of results of associates)	<u>21,576</u>	<u>7,197</u>

## 5. TAXATION

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC foreign enterprise income tax	382	730
Deferred taxation	<u>5,731</u>	<u>—</u>
	<u><b>6,113</b></u>	<u><b>730</b></u>

Hong Kong Profits Tax has not been provided for the period as the companies within the Group had no estimated assessable profits in Hong Kong.

Pursuant to the PRC enterprise income tax law (“New Law”) passed by the Tenth National People’s Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and are effective from 1 January 2008 (2007: 33%). In respect of tax holidays, for those enterprises which have already started their tax holidays before 2008, they are able to enjoy the remaining tax holidays until expiry whereas for those enterprises which have not yet started their tax holidays before 2008, the tax holidays will be deemed to start from 1 January 2008 and they are able to enjoy the remaining tax holidays until expiry.

Pursuant to the New Law, the Group will be liable to withholding tax on dividends to be distributed from the Group’s foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. Deferred tax liability of HK\$5,731,000 was recognised for the distributable profits of its associates in the PRC that are generated during the six months ended 30 June 2008.

## 6. DIVIDENDS

During the current period, a final dividend and a special dividend for the year ended 31 December 2007 of HK\$0.013 per share (2007: HK\$0.01 per share) and HK\$ nil per share (2007: HK\$0.002 per share) respectively, amounting to HK\$67,614,000 (2007: HK\$57,327,000), were paid to the shareholders.

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$261,095,000 (2007: HK\$82,416,000) and weighted average number of ordinary shares of 5,201,083,450 shares (2007: 4,667,546,612 shares), calculated as follows:

#### (i) Weighted average number of ordinary shares

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
Issued ordinary shares at 1 January	<b>5,201,083,450</b>	4,151,388,496
Effect of new shares issued	–	447,513,812
Effect of shares issued upon conversion of convertible bonds	–	68,644,304
	<u>–</u>	<u>68,644,304</u>
Weighted average number of ordinary shares at 30 June	<b><u>5,201,083,450</u></b>	<b><u>4,667,546,612</u></b>

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the period is based on the profit attributable to equity holders of the Company of HK\$250,570,000 (2007: HK\$82,416,000) and the weighted average number of ordinary shares of 5,612,951,176 shares (2007: 4,745,191,036 shares), calculated as follows:

#### (i) Profit attributable to equity holders of the Company (diluted)

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Earnings for the purpose of basic earnings per share (profit attributable to equity holders)	<b>261,095</b>	82,416
After tax effect of effective interest on the liability component of convertible bonds	<b>7,047</b>	–
After tax effect of fair value gains on embedded derivative components of convertible bonds	<b>(17,572)</b>	–
	<u>–</u>	<u>–</u>
Earnings for the purpose of diluted earnings per share	<b><u>250,570</u></b>	<b><u>82,416</u></b>

#### (ii) Weighted average number of ordinary shares (diluted)

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>5,201,083,450</b>	4,667,546,612
Effect of deemed conversion of convertible bonds	<b>365,413,793</b>	–
Effect of deemed issue of shares under the Company's share option scheme	<b>46,453,933</b>	77,644,424
	<u>–</u>	<u>77,644,424</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>5,612,951,176</u></b>	<b><u>4,745,191,036</u></b>

The effect of deemed conversion of convertible bonds for the period ended 30 June 2007 has not been included in the calculation of diluted earnings per share because it is anti-dilutive.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$45,213,000 (2007: HK\$1,902,000).

## 9. INTEREST IN ASSOCIATES

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Share of net assets	2,336,140	2,106,516
Goodwill	<u>18,940</u>	<u>18,940</u>
	<b><u>2,355,080</u></b>	<b><u>2,125,456</u></b>
Represented by:		
Cost of investments in associates		
Unlisted	727,246	846,642
Listed in overseas	199,323	203,732
Share of post-acquisition of profits and reserves	1,409,571	1,056,142
Goodwill	<u>18,940</u>	<u>18,940</u>
	<b><u>2,355,080</u></b>	<b><u>2,125,456</u></b>
Fair value of listed investments	<b><u>332,916</u></b>	<b><u>495,378</u></b>

The summarised financial information in respect of the Group's associates is set out below:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Total assets	11,899,943	10,310,038
Total liabilities	<u>(6,583,289)</u>	<u>(5,402,959)</u>
Net assets	<b><u>5,316,654</u></b>	<b><u>4,907,079</u></b>
Group's share of net assets of associates	<b><u>2,336,140</u></b>	<b><u>2,106,516</u></b>



	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Revenue	<u><b>6,847,232</b></u>	<u>5,006,190</u>
Profit for the period attributable to equity holders of the associates	<u><b>619,557</b></u>	<u>276,895</u>
Group's share of results of associates for the period	<u><b>287,830</b></u>	<u>129,615</u>

## 10. INVENTORIES

	<b>30 June</b>	31 December
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
At costs:		
Raw materials	13,993	9,127
Work in progress	1,217	1,147
Finished goods	<u>6,158</u>	<u>4,224</u>
	<u><b>21,368</b></u>	<u>14,498</u>

## 11. TRADE AND OTHER RECEIVABLES

	<b>30 June</b>	31 December
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
<b>Trade and notes receivables</b>		
Trade receivables from an associate	56,988	18,310
Notes receivables	<u>22,189</u>	<u>43,397</u>
	<b>79,177</b>	61,707
<b>Other receivables</b>		
Deposits, prepayments and other receivables	<u>15,590</u>	<u>6,464</u>
	<u><b>94,767</b></u>	<u>68,171</u>

The Group allows a credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
0 – 60 days	26,543	18,310
61– 90 days	16,176	–
Over 90 days	14,269	–
	<u>56,988</u>	<u>18,310</u>

## 12. CONVERTIBLE BONDS

Details of the terms of the convertible bonds are set out in the Company's annual report for the year ended 31 December 2007. Convertible bonds contain a liability component and the embedded derivatives (comprising a put option, a call option and conversion option), which are required to be accounted for separately. The movements of the convertible bonds for the period are set out below:

	<b>Six months ended 30 June 2008 HK\$'000 (Unaudited)</b>	Year ended 31 December 2007 HK\$'000 (Audited)
<b>Liability component</b>		
Carrying amount brought forward	309,274	682,838
Conversion during the period/year	–	(408,667)
Accrued effective interest charges	7,047	35,103
	<u>316,321</u>	<u>309,274</u>
<b>Fair value of embedded derivative in respect of the put option and conversion option</b>		
Carrying amount brought forward	56,779	169,782
Conversion during the period/year	–	(90,658)
Changes in fair value	(23,001)	(22,345)
	<u>33,778</u>	<u>56,779</u>
<b>Less: Fair value of embedded derivative in respect of the call option</b>		
Carrying amount brought forward	37,319	115,894
Conversion during the period/year	–	(61,884)
Changes in fair value	(5,429)	(16,691)
	<u>31,890</u>	<u>37,319</u>
	<u>1,888</u>	<u>19,460</u>

No convertible bond was converted during the period (year ended 31 December 2007: HK\$396.0 million) and the principal amount outstanding at 30 June 2008 is HK\$317.9 million (31 December 2007: HK\$317.9 million).

The derivatives embedded in the convertible bonds are measured at fair value at 30 June 2008 by an independent professional valuer, BMI Appraisals Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method.

### 13. TRADE AND OTHER PAYABLES

	<b>30 June 2008</b> <i>HK\$'000</i> (Unaudited)	31 December 2007 <i>HK\$'000</i> (Audited)
<b>Trade payables</b>		
To third parties	37,400	31,047
<b>Other payables</b>		
Accrued charges and other creditors	<u>8,671</u>	<u>7,678</u>
	<b><u>46,071</u></b>	<b><u>38,725</u></b>

The following is an aged analysis of trade payables at the balance sheet dates:

	<b>30 June 2008</b> <i>HK\$'000</i> (Unaudited)	31 December 2007 <i>HK\$'000</i> (Audited)
0 – 60 days	28,146	24,872
61 – 90 days	5,984	4,143
Over 90 days	<u>3,270</u>	<u>2,032</u>
	<b><u>37,400</u></b>	<b><u>31,047</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall Performance

The year 2008 has been a milestone year in the Group's history with its successful transformation into the ultimate holding vehicle of Geely Group's auto-related businesses following the completion of the acquisition of additional interests in the Group's five operating associates on 1 July 2008, raising its equity interests in these operating associates to 91%. By virtue of the acquisitions, the Group's five operating associates – the key earnings contributors to the Group, comprising virtually all Geely Group's auto-related businesses – will become subsidiaries of the Group, thus allowing the Group to fully consolidate their financial results into the Group's consolidated financial statements from July 2008.

Despite continued difficult market condition in China's sedan market, featured by a continued slow down in the growth of sedan sales in the China market and the tremendous cost pressure caused by higher inflation in China and the rapidly rising prices of raw materials, the Group's performance in the first half of 2008 was very encouraging, helped by the operating associates' successful migration from the old lower priced models to the higher margin new models and the initial positive results from the Group's strategic transformation implemented about a year ago.

To cope with the rapid changes in market environment, the Group's operating associates have embarked on a major strategic transformation since mid 2007, through expansion into higher-end and large sized vehicles and major investments to enhance the operating associates' technology competence and product branding, aiming at transforming their competitive advantages from price competitive to technology and performance competent. The strategic transformation has started to yield very positive results in 2008, enabling the operating associates to achieve remarkable results in terms of sales volume growth and profitability despite a generally weaker sedan market in China since the second quarter of 2008. The Group's five operating associates – Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong"), Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") and Hunan Geely Automobile Components Company Limited ("Hunan Geely") – sold a total of 106,948 units of vehicles in the first six months of 2008, up 27% from the same period in previous year, and achieved net profit of HK\$607 million, up 119% from the first half of 2007.

Helped by the strong performance of the operating associates, the Group recorded a significant growth in net profit to HK\$261 million in the first half of 2008, up 217% from the same period in 2007. The strong earnings performance was also helped by a HK\$18 million fair value gain on the Company's outstanding 5-year zero coupon Convertible Bonds due 2011, and an 66% decline in finance costs, mainly due to the conversion of over half of the Company's Convertible Bonds during 2007. The good results, however, were despite the inclusion of non-cash charges including HK\$18 million expense on share option benefits and HK\$6 million on deferred taxation.

The Group's turnover, which principally came from its 100%-owned auto parts subsidiary Zhejiang Fulin Guorun Automobile Parts & Components Co. Ltd ("Zhejiang Fulin"), amounted to HK\$72 million for the six months ended 30 June 2008, representing a small increase of 10% from the same period last year. Zhejiang Fulin's earnings performance in the first half of 2008 was affected by higher raw materials prices during the period. As a result, Zhejiang Fulin's net profit decreased by around 55% to HK\$2.4 million in the first half of 2008.

51%-owned Shanghai LTI Automobile Components Company Limited ("Shanghai LTI"), the Company's joint venture with Manganese Bronze Holdings PLC ("Manganese Bronze"), is on track to start mass production of the localized TX4 models by the end of 2008. Without any revenues during the period, Shanghai LTI recorded a net loss of HK\$9.4 million in the first half of 2008, mainly due to foreign exchange related losses totaled HK\$5.1 million.

100%-owned Zhejiang Kingkong Automobile Parts and Components R&D Company Limited ("Zhejiang Kingkong Auto Parts R&D") was officially set up in December 2007 to invest in automobile parts related projects. The company concluded its first investment project during the first half of 2008, but has not started to generate any revenue during the period. The company recorded a net loss of HK\$3.7 million, predominantly as a result of a HK\$3.5 million exchange loss from its cash holding.

#### **Acquisition of Additional Interests in Operating Associates**

The Group completed the acquisition of the additional 44.19% interests in each of five operating associates: Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely on 1 July 2008, raising its equity interests in these operating associates to 91%, for a total consideration of HK\$1,611 million to be satisfied by the issue of 1,289 million new shares of the Group at HK\$1.25 per share. The issue of the new shares increased the Group's total number of ordinary shares by around 25%. The consideration of HK\$1,611 million has been determined with reference to the unaudited net asset value of the operating associates on 30 June 2007.

The acquisition should significantly enhance the Group's corporate structure, thus resulting in a more streamlined operation with much improved operating efficiency and much better transparency. The acquisition would also allow the Group to fully incorporate the large revenue base of Geely Group's auto-related businesses, which exceeded RMB7 billion in 2007 and allow the Group to share the majority of Geely Group's operating profits from its auto-related businesses. Immediately after the completion of the acquisition, the five operating associates became subsidiaries of the Group and their financial results have since then been consolidated with the financial results of the Group.

## **Automobile Parts Manufacturing – Zhejiang Fulin Guorun Automobile Parts and Components Co. Ltd.**

Wholly owned subsidiary Zhejiang Fulin is principally engaged in the manufacturing and sales of brake system and electric power steering (“EPS”) for sedans, mainly to the Group’s operating associates. Demand for the company’s products in the first half of 2008 remained stable, helped by the continued strong sales of the operating associates’ “Free Cruiser” sedans, which utilize Zhejiang Fulin’s brake systems and EPS. Zhejiang Fulin’s profit margin, however, was affected by the rapidly rising raw materials like pig iron and steel during the period. As a result, Zhejiang Fulin’s net profit was down 55% to HK\$2.4 million in the first half of 2008 although its turnover was maintained at last year’s level at around HK\$72 million. Zhejiang Fulin started the mass production of a new generation of Electric Power Steering (“EPS”) for higher end Geely sedans like “Free Cruiser” and “Geely Kingkong” in 2008. Zhejiang Fulin also started the production of other higher end products like Burst Monitoring and Braking System (“BMBS”) recently, hoping to alleviate impact from rising raw material prices and to restore margin to a more healthy level. With the new products in the pipeline and a bigger capital base after a capital injection by the Group at the end of 2007 to expand Zhejiang Fulin’s registered capital from RMB20 million to RMB120 million, the Board believes that Zhejiang Fulin should be in much better position to improve its performance in the coming years.

## **Taxi Vehicle Manufacturing – Shanghai LTI**

51%-owned Shanghai LTI Automobile Components Company Limited (“Shanghai LTI”) is a production joint venture between the Group and UK-listed Manganese Bronze Holdings PLC. Shanghai LTI was officially established in June 2007, aiming to achieve volume production of the iconic London Taxies at a significantly lower cost and for the production of high-end saloon cars for sales to the domestic and the World market. With the factory modification of rented facilities from Shanghai Maple completed in mid-2008 and the successful production of the first prototype TX4 models in June 2008, Shanghai LTI is on track to start production of the localized TX4 London Taxi models by the end of 2008. Selling and marketing activities have already started in China, Asia and other international markets to develop the potential demand for the TX4 models to be produced by Shanghai LTI, including the displays of TX4 models in Hong Kong International Auto Parts & Accessories Fair in 2007, in Detroit Auto Show in January 2008, and the Beijing Auto Show in April 2008. Considerable interests have been shown in the TX4 models by a wide variety of customers in different countries. Manganese Bronze, the exclusive distribution agent for TX4 models outside Asia, announced that it has signed Memoranda of Understanding (MOU) for a total of 6,000 vehicles over a period of three years with deliveries commencing in early 2009. Without any revenues during the period, Shanghai LTI recorded a net loss of HK\$9.4 million in the first half of 2008, mainly due to foreign exchange related losses totalled HK\$5.1 million.

## **Zhejiang Kingkong Automobile Parts and Components R&D Company Limited**

Wholly owned Zhejiang Kingkong Auto Parts R&D was officially set up in December 2007 to invest in automobile parts related projects, focusing on investment in automobile components manufacturers and R&D projects, tailored to the need of the Group’s operating associates. Total capital contribution by the Group amounted to US\$14.9 million, which was funded by the Group’s internal cash reserves.

The company made its first investment in 2008 by setting up a 50:50 joint-venture with Tianjin Haitian Automobile Fittings & Parts Development Company Limited (“Tianjin Haitian”), a leading auto parts manufacturer in China specializing in the manufacturing and sales of automobile engine components like crankshaft vibration dampers and engine support stands. Total investment of the joint venture, named Qufu Kailun Automobile Parts and Components Manufacturing Company Limited, amounted to RMB30 million, while the joint venture’s total registered capital was RMB20 million. The Group’s capital contribution of RMB10 million was paid in cash. In addition to its capital contribution of RMB10 million in cash, Tianjin Haitian also agreed to transfer into the joint venture its existing manufacturing business and its production technologies. Located in Qufu city of Shandong province, the joint venture is principally engaged in the manufacturing and sales of crankshaft vibration dampers and engine support stands, mainly for uses on Tianjin Xiali’s and the Group’s operating associates’ sedans. A brand new plant with total annual production capacity of 1 million set of vibration dampers and 1 million set of engine support stands and production floor area of 10,000 square metres is being constructed in Qufu Development Zone in Shandong, scheduled to start mass production in early 2009.

The company did not generate any revenue and recorded a net loss of HK\$3.7 million during the first half of 2008, mainly due to a HK\$3.5 million exchange loss from its cash holding.

### **Manganese Bronze Holdings PLC**

The Group owns 5.7 million shares, representing 22.83% stake in Manganese Bronze Holdings PLC (“MBH”), the leading manufacturer of the distinctive London taxis in UK. In addition to its 48% stake in Shanghai LTI, MBH derives most of its revenues and profit from the manufacture and sales of London taxis in the UK market. MBH’s performance in the first half of 2008 was affected by the uncertain macro economic conditions in UK and thus slow down in the sales of new taxi vehicles in the London market. As a result, total vehicle sales were down by 13% to 1,169 units and total revenues was down 7% to GBP42.4 million in the first half of 2008. In addition, the strength of Euro against GBP, also negatively affected earnings given that some of the company’s key components were sourced in Europe and denominated in Euro. These negative factors, however, were largely offset by the strong performance of MBH’s parts and finance businesses, enabling MBH to report profit before tax of GBP1.5 million in the six months ended 30 June 2008 (six months ended 31 January 2007: GBP0.7 million). The Board of MBH also declared an interim dividend of 2.25 pence per share.

In MBH’s 2008 interim results announcement, the Board of MBH said that demand for new vehicles in the second half of 2008 will follow the normal seasonal pattern and be below that of the first half. Despite the uncertain UK business condition, the breakeven point of MBH’s manufacturing business in UK has been significantly reduced through the implementation of an aggressive cost reduction programme early this year. The Board of MBH therefore believes that the company is in a good position to handle any future UK market challenges. The management plans to focus on operating cost control and procurement savings from Chinese sourcing to offset any lower volume in the UK business. Despite this, its 48%-stake in Shanghai LTI is on track to start commercial production in Shanghai in late 2008 and should help MBH to improve its financial performance longer-term.

## **Vehicle Manufacturing – Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely**

Since the acquisition of additional stakes in the operating associates was only completed on 1 July 2008, the Group's interests in Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely were only all equity accounted for as 46.8% associates in the Group's financial statements in the first half of 2008. The five operating associates sold a total of 106,948 units of vehicles in the first six months of 2008, up 27% from the same period last year, helped by the strong demand for new higher-priced models like the "Geely Kingkong" model, and the strong growth in export sales volume, which was up almost 200% to more than 20,400 units during the period. As a result of the continued improvement in product mixes towards higher-priced models, the operating associates achieved even faster growth in both of their revenues and net profits. Total sales revenue of vehicles by the operating associates was up 44% to HK\$4,690 million, while their total net profit was up 119% to HK\$607 million. The three new higher priced models: namely "Free Cruiser", "Geely Kingkong" and "Vision" accounted for 72% of total sales volume, compared with 59% in same period last year.

In particular, "Geely Kingkong" continued to receive very good market response and achieved a total sales volume of 29,342 units, up 78% from the previous year, and remained the operating associates' second best selling models in terms of sales volume during the period. "Free Cruiser" remained the operating associates' best selling models during the first half of 2008, achieving 9% YoY increase in sales volume to 33,426 units, or 31% of the operating associates' total sales volume during the period. The highest-priced model of the operating associates – "Vision" sedans – achieved the fastest growth in sales volume during the period with sales volume up over 400% to 13,968 units in the first half of 2008. The commencement of production of "Vision" model in Xiangtan plant of Hunan Geely in the third quarter of 2008 in addition to its existing production in Ningbo should help to eliminate the current capacity constraints of "Vision" model, thus allowing "Vision" models to maintain its strong sales momentum towards the end of 2008. Through the introduction of a lower-priced Haifeng model and the lower-priced version of Marindo and Hysoul models, Maple sedans recovered strongly in the first half of 2008, reversing previous trend of stagnant sales by Maple sedans since 2005, achieving 60% YoY growth to 21,168 units during the period, paving the way for Maple sedans to achieve a record year in terms of sales volume in 2008.

In the first half of 2008, the average sales price of the operating associates increased by 7% to RMB40,782 per car due to continued improvement in product mix towards more higher-priced models. Net profit per car increased by 73% to HK\$5,679 per car during the period, helped by stable product prices and success in controlling costs. During the period, unit production costs for comparable models are estimated to have fallen by around 2-3% due to significant cost saving from the application of platform technology in the new model development process, which allow increased sharing of parts and components between different models. Better control over the fluctuation of raw material prices through the employment of long-term supply contracts and strategic alliance with major raw material suppliers, and improved operating efficiency achieved at the operating associates' manufacturing process also helped to offset significant cost pressure during the period.



## **Outlook**

Although competition in China's sedan market continues to intensify, we expect the growth of China's sedan sales volume to be maintained at around 20% per annum in the coming few years. According to the figures compiled by the China Association of Automobile Manufacturers, total sales volume of sedans in China amounted to 2.67 million units in the first half of 2008, up 16.7% from the previous year. The healthy long-term growth in China's sedan demand should bode well for the Group's financial performance in the coming years. On the other hand, the increasing importance of the operating associates' export sales should also provide the operating associates a cushion to any cyclical downturn in the China sedan market, thus enabling the Group to sustain a consistent profit growth longer-term.

Despite significant upward pressure on production costs during the first half of 2008 due to higher inflation in China and rapid rise in the prices of key raw materials, the Group's operating associates have been able to mitigate the impact through a number of long-term projects implemented a few years earlier, including a dedicated effort to improve their product mix to include more higher priced models, a completed revamp of the new product development process to allow more parts and components sharing between different product platforms and models, and the effort to strengthen relationship with key supplier through long-term supply contracts and strategic alliances. These, coupled with continued improvement in production efficiency and the stability of product prices during the period, have allowed the operating associates to largely offset the cost pressure during the period.

Despite the Group's strong performance in the first half of 2008, featured by strong growth in both revenues and profitability of the Group's operating associates during the period, the Group's Board of Directors, however, decided to take a more conservative stance and to maintain our full year sales target at 230,000 units, representing a growth of 27% over 2007, in view of the increased uncertainty in the economic condition in China and abroad. In the first half of 2008, the Group's operating associates had sold 106,948 units of vehicles, achieving 47% of their combined full year sales volume target. In view of the recent continued strong demand for both Geely and Maple sedans even in the traditional low season of July and August, the Board believes that the operating associates are on track to achieve their full year sales targets.

In the medium to longer term, the Group will continue to upgrade and expand its production facilities to improve quality and reduce costs, to invest in product and technology innovation in order to differentiate its products from the rest of the market, and to proactively establish strategic alliances with other internationally auto related companies and major suppliers to improve its market access to different markets all over the World and to reduce volatility of raw material and component costs, with an aim to develop the Group into an internationally competitive automobile manufacturer.

## **CAPITAL STRUCTURE AND TREASURY POLICIES**

The business activities of the Group are mainly financed by the share capital, internal cash reserves and dividends received from the Group's four major associates. As at 30 June 2008, the Group's shareholders' fund amounted to approximately HK\$2,731 million (As at 31 December 2007: approximately HK\$2,441 million). No shares were issued by the Group during the period.

## **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 30 June 2008, the Group's current ratio (current assets/current liabilities) was 18.07 (As at 31 December 2007: 11.12) and the gearing ratio of the Group was 12% (As at 31 December 2007: 14%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 30 June 2008 amounted to approximately HK\$317 million (As at 31 December 2007: approximately HK\$330 million) were mainly the Company's convertible bonds and the amount due to an associate. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity. For the amount due to an associate, it was unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

## **EMPLOYEES' REMUNERATION POLICY**

As at 30 June 2008, the total number of employees of the Group including associates was about 9,445 (As at 31 December 2007: approximately 8,813). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

## **INTERIM DIVIDEND**

At a meeting of the Board held on 10 September 2008, the Directors resolved not to pay an interim dividend to shareholders of the Company (2007: Nil).

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2008.

## **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code"), as set out in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2008.

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 own Code for Securities Transactions by Officer (the “Code”). All directors of the Company have confirmed their compliance during the review period with the required standards set out in the Model Code and the Code.

## **AUDIT COMMITTEE**

The Company has an Audit Committee which was established in accordance with the requirements of the CG Code for the purpose of reviewing and providing supervision over the Group’s financial reporting processes and internal controls. As at 30 June 2008, the Audit Committee comprises Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2008.

## **PUBLICATION OF INTERIM REPORT ON THE WEB SITES OF THE COMPANY AND THE STOCK EXCHANGE OF HONG KONG LIMITED**

Pursuant to the requirements of the Listing Rules regarding the reporting period, the 2008 interim report will set out all information disclosed in the interim results announcement for the first half of 2008 and will be disclosed on the websites of the Company (<http://www.geelyauto.com.hk>) and the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) on or before 30 September 2008.

By Order of the Board of  
**Geely Automobile Holdings Limited**  
**Li Shu Fu**  
*Chairman*

Hong Kong, 10 September 2008

*As at the date of this announcement, the executive directors of the Company are Mr. Li Shu Fu (Chairman), Mr. Yang Jian (Vice Chairman), Mr. Gui Sheng Yue (CEO), Mr. Ang Siu Lun, Lawrence, Mr. Yin Da Qing, Richard, Mr. Liu Jin Liang, Mr. Zhao Jie and Dr. Zhao Fuquan; the non-executive director of the Company is Mr. Xu Gang and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex.*