



INTERIM REPORT 2012

中 期 報 告

GEELY

吉利汽車控股有限公司
GEELY AUTOMOBILE HOLDINGS LIMITED

(Stock Code : 0175)

CONTENTS

Corporate Information	2
Independent Review Report	3
Condensed Consolidated Income Statement	4
Condensed Consolidated Statement of Comprehensive Income	5
Condensed Consolidated Statement of Financial Position	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	8
Notes to the Condensed Consolidated Financial Statements	9
Management Discussion and Analysis	31

CORPORATE INFORMATION

Executive Directors:

Mr. Li Shu Fu (*Chairman*)
Mr. Yang Jian (*Vice Chairman*)
Mr. Gui Sheng Yue (*Chief Executive Officer*)
Mr. An Cong Hui
Mr. Ang Siu Lun, Lawrence
Mr. Li Dong Hui, Daniel
Mr. Liu Jin Liang
Dr. Zhao Fuquan
Ms. Wei Mei

Non-executive Director:

Mr. Yin Da Qing, Richard

Independent Non-executive Directors:

Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex
Mr. Fu Yu Wu
Mr. Wang Yang (Re-designated on 17 May 2012)

Audit Committee:

Mr. Lee Cheuk Yin, Dannis (*Committee's Chairman*)
Mr. Song Lin
Mr. Yeung Sau Hung, Alex
Mr. Fu Yu Wu
Mr. Wang Yang (Appointed on 17 May 2012)

Remuneration Committee:

Mr. Yeung Sau Hung, Alex (*Committee's Chairman*)
Mr. Lee Cheuk Yin, Dannis
Mr. Fu Yu Wu
Mr. Wang Yang (Appointed on 17 May 2012)
Ms. Wei Mei

Nomination Committee:

Mr. Fu Yu Wu (*Committee's Chairman*)
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex
Mr. Wang Yang (Appointed on 17 May 2012)
Mr. Gui Sheng Yue

Company Secretary:

Mr. Cheung Chung Yan, David

Auditors:

Grant Thornton Hong Kong Limited

Legal Advisor on Hong Kong Law:

Sidley Austin

Legal Advisor on Cayman Islands Law:

Maples and Calder

Principal Bankers in Hong Kong:

Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Company Limited
CITIC Bank International Limited

Head Office and Principal Place of Business:

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23 Harbour Road, Wanchai, Hong Kong
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Registered Office:

P.O. Box 309, Ugland House,
Grand Cayman, KY1-1104, Cayman Islands

Hong Kong Share Registrar & Transfer Office:

Union Registrars Limited
18/F., Fook Lee Commercial Centre, Town Place,
33 Lockhart Road, Wanchai, Hong Kong

Investor & Media Relations:

Prime International Consultants Limited

Design & Production:

HeterMedia Services Limited

Listing Information:

The Stock Exchange of Hong Kong Limited
Stock Code: 0175

Company's Website:

<http://www.geelyauto.com.hk>

INDEPENDENT REVIEW REPORT



Member of Grant Thornton International Ltd

To the Board of Directors of Geely Automobile Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 4 to 30 which comprise the condensed consolidated statement of financial position of Geely Automobile Holdings Limited as of 30 June 2012 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34.

Grant Thornton Hong Kong Limited

Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

22 August 2012

Lin Ching Yee Daniel
Practising Certificate Number: P02771

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Note	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Turnover/Revenue		11,177,331	10,537,962
Cost of sales		(9,237,171)	(8,703,617)
Gross profit		1,940,160	1,834,345
Other income	4	747,140	628,471
Distribution and selling expenses		(659,423)	(591,662)
Administrative expenses, excluding share-based payments		(577,939)	(453,855)
Share-based payments		(63,660)	(78,302)
Finance costs	5	(124,098)	(100,841)
Share of results of associates	11	(1,427)	(1,233)
Profit before taxation		1,260,753	1,236,923
Taxation	6	(233,908)	(206,029)
Profit for the period	5	1,026,845	1,030,894
Attributable to:			
Equity holders of the Company		1,019,630	937,648
Non-controlling interests		7,215	93,246
		1,026,845	1,030,894
Earnings per share			
Basic	8	RMB13.66 cents	RMB12.59 cents
Diluted	8	RMB12.49 cents	RMB11.48 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	1,026,845	1,030,894
Other comprehensive income:		
Exchange differences on translation of foreign operations recognised	(11,396)	11,909
Gain arising on revaluation of available-for-sale financial assets	58	–
Total comprehensive income for the period	1,015,507	1,042,803
Attributable to:		
Equity holders of the Company	1,008,292	949,557
Non-controlling interests	7,215	93,246
	1,015,507	1,042,803

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	6,904,556	6,795,825
Intangible assets	10	2,466,771	2,221,745
Goodwill		6,222	6,222
Interests in associates	11	130,121	83,719
Available-for-sale financial assets		4,605	3,636
Prepaid land lease payments		1,485,271	1,479,575
Deferred tax assets		42,339	–
		11,039,885	10,590,722
Current assets			
Prepaid land lease payments		37,657	37,582
Inventories	12	1,806,427	1,357,506
Trade and other receivables	13	11,488,971	12,214,691
Financial assets at fair value through profit or loss		12,703	12,225
Tax recoverable		1,007	109
Pledged bank deposits		333,648	353,532
Bank balances and cash		3,180,544	3,030,391
		16,860,957	17,006,036
Current liabilities			
Trade and other payables	15	11,914,378	12,114,356
Taxation		132,788	338,768
Borrowings	16	2,519,504	2,531,639
		14,566,670	14,984,763
Net current assets		2,294,287	2,021,273
Total assets less current liabilities		13,334,172	12,611,995
CAPITAL AND RESERVES			
Share capital	17	139,866	139,573
Reserves		10,380,756	9,442,627
Equity attributable to equity holders of the Company		10,520,622	9,582,200
Non-controlling interests		337,345	567,915
Total equity		10,857,967	10,150,115
Non-current liabilities			
Convertible bonds	14	1,549,883	1,526,760
Borrowings	16	823,000	842,926
Deferred tax liabilities		103,322	92,194
		2,476,205	2,461,880
		13,334,172	12,611,995

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Statutory and staff welfare reserve	Translation reserve	Share option reserve	Convertible bonds and warrants reserve	Fair value reserve	Accumulated profits	Sub-total	Non-controlling interests	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Balance at 1 January 2011	139,279	3,459,019	88,059	17,614	135,698	283,534	232,864	-	3,665,815	8,021,882	1,055,795	9,077,677
Profit for the period	-	-	-	-	-	-	-	-	937,648	937,648	93,246	1,030,894
Other comprehensive income:												
Exchange differences on translation of foreign operations recognised	-	-	-	-	11,909	-	-	-	-	11,909	-	11,909
Total comprehensive income for the period	-	-	-	-	11,909	-	-	-	937,648	949,557	93,246	1,042,803
Transactions with owners:												
Utilisation of reserve	-	-	-	(213)	-	-	-	-	213	-	-	-
Shares issued under share option scheme	218	12,094	-	-	-	(1,955)	-	-	-	10,357	-	10,357
Recognition of share-based payments	-	-	-	-	-	78,302	-	-	-	78,302	-	78,302
Transfer upon forfeiture of share options	-	-	-	-	-	(165)	-	-	165	-	-	-
Dividends paid in respect of the previous year	-	-	-	-	-	-	-	-	(170,416)	(170,416)	-	(170,416)
Total transactions with owners	218	12,094	-	(213)	-	76,182	-	-	(170,038)	(81,757)	-	(81,757)
Balance at 30 June 2011	139,497	3,471,113	88,059	17,401	147,607	359,716	232,864	-	4,433,425	8,889,682	1,149,041	10,038,723
Balance at 1 January 2012	139,573	3,475,208	88,059	17,401	112,205	417,886	232,864	(174)	5,099,178	9,582,200	567,915	10,150,115
Profit for the period	-	-	-	-	-	-	-	-	1,019,630	1,019,630	7,215	1,026,845
Other comprehensive income:												
Exchange differences on translation of foreign operations recognised	-	-	-	-	(11,396)	-	-	-	-	(11,396)	-	(11,396)
Gain arising on revaluation of available-for-sale financial assets	-	-	-	-	-	-	-	58	-	58	-	58
Total comprehensive income for the period	-	-	-	-	(11,396)	-	-	58	1,019,630	1,008,292	7,215	1,015,507
Transactions with owners:												
Acquisition of additional interests in subsidiaries (note 23)	-	-	-	-	-	-	-	-	22,399	22,399	(237,785)	(215,386)
Shares issued under share option scheme	293	16,206	-	-	-	(2,899)	-	-	-	13,600	-	13,600
Recognition of share-based payments	-	-	-	-	-	63,660	-	-	-	63,660	-	63,660
Final dividend declared and approved in respect of the previous year	-	-	-	-	-	-	-	-	(169,529)	(169,529)	-	(169,529)
Total transactions with owners	293	16,206	-	-	-	60,761	-	-	(147,130)	(69,870)	(237,785)	(307,655)
Balance at 30 June 2012	139,866	3,491,414	88,059	17,401	100,809	478,647	232,864	(116)	5,971,678	10,520,622	337,345	10,857,967

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Note	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Cash flows from operating activities			
Profit before taxation		1,260,753	1,236,923
Adjustments for non-cash items		545,809	504,879
Operating profit before working capital changes		1,806,562	1,741,802
Net changes in working capital		25,813	(197,392)
Cash from operations		1,832,375	1,544,410
Income taxes paid		(472,097)	(209,856)
Net cash from operating activities		1,360,278	1,334,554
Cash flows from investing activities			
Purchase of property, plant and equipment		(583,669)	(604,466)
Addition of intangible assets		(338,167)	(337,971)
Addition of prepaid land lease payments		(46,385)	(5,022)
Proceeds from disposal of property, plant and equipment		56,250	20,463
Proceeds from disposal of intangible assets		1,764	6,127
Proceeds from disposal of prepaid land lease payments		3,442	6,174
Change in pledged bank deposits		19,884	(65,606)
Acquisition of additional interests in subsidiaries	23	(215,386)	-
Acquisition of assets and liabilities through acquisition of subsidiaries	24	-	(398,023)
Investments in associates		(47,829)	(41,613)
Investments in available-for-sale financial assets		(931)	-
Proceeds from disposal of available-for-sale financial assets		-	100,195
Interest received		20,630	20,775
Net cash used in investing activities		(1,130,397)	(1,298,967)
Cash flows from financing activities			
Dividend paid		-	(170,416)
Proceeds from issuance of shares upon exercise of the share options		13,600	10,357
Proceeds from borrowings		1,477,000	561,045
Repayment of borrowings		(1,491,936)	(336,186)
Other financing activities		(76,004)	(54,524)
Net cash (used in)/from financing activities		(77,340)	10,276
Net increase in cash and cash equivalents		152,541	45,863
Cash and cash equivalents at beginning of period		3,030,391	4,393,075
Effect of foreign exchange rate changes		(2,388)	3,670
Cash and cash equivalents at end of period, represented by			
Bank balances and cash		3,180,544	4,442,608

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. Basis of Preparation

These unaudited condensed consolidated interim financial report (the “Interim Financial Report”) has 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”).

The Interim Financial Report is presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

The accounting policies and methods of computation used in the preparation of the Interim Financial Report are consistent with those used in the annual financial statements for the year ended 31 December 2011 except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”) as disclosed in note 2 to this Interim Financial Report.

The Interim Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011.

2. Adoption of New or Amended HKFRSs

In the current period, the Group has applied for the first time the new and revised standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2012.

The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

3. Segment Information

The Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Automobiles and related parts and components: Manufacture and sale of automobiles, automobile parts and related automobile components (excluding gearboxes).

Gearboxes: Manufacture and sale of gearboxes.

The accounting policies of the reportable segment are the same as the Group’s accounting policies described in the Group’s annual financial statements for the year ended 31 December 2011 and in note 2 above. Segment profit represents the profit earned by each segment without allocation of corporate income and expenses, directors’ emoluments, share of results of associates, interest income, interest expenses and taxation. Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, deferred tax assets and other corporate assets. This is the measure reported to the Group’s chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. Information regarding the Group’s reportable segments is set out below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

3. Segment Information (Continued)

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012 (Unaudited)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Sales to external customers	10,837,552	339,779	–	–	11,177,331
Inter-segment	54,966	246,713	–	(301,679)	–
Total segment revenue	10,892,518	586,492	–	(301,679)	11,177,331
Segment results	1,432,484	(3,501)	–	–	1,428,983
Interest income	20,225	270	135	–	20,630
Finance costs	(72,367)	(141)	(51,590)	–	(124,098)
Corporate and other unallocated expenses	–	–	(77,774)	–	(77,774)
Other unallocated income	–	–	14,439	–	14,439
Share of results of associates	(1,427)	–	–	–	(1,427)
Profit before taxation					1,260,753
Taxation					(233,908)
Profit for the period					1,026,845

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 (Unaudited)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Assets					
Segment assets	25,714,447	1,574,415	280,524	158,996	27,728,382
Interests in associates	130,121	–	–	–	130,121
Deferred tax assets	42,339	–	–	–	42,339
Total	25,886,907	1,574,415	280,524	158,996	27,900,842

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

3. Segment Information (Continued)

CONDENSED CONSOLIDATED INCOME STATEMENT For the six months ended 30 June 2011 (Unaudited)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Sales to external customers	10,122,494	415,468	–	–	10,537,962
Inter-segment	6,874	178,116	–	(184,990)	–
Total segment revenue	10,129,368	593,584	–	(184,990)	10,537,962
Segment results	1,395,889	11,543	–	–	1,407,432
Interest income	18,925	1,670	180	–	20,775
Finance costs	(54,302)	–	(46,539)	–	(100,841)
Corporate and other unallocated expenses	–	–	(89,210)	–	(89,210)
Share of results of associates	(1,233)	–	–	–	(1,233)
Profit before taxation					1,236,923
Taxation					(206,029)
Profit for the period					1,030,894

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION At 31 December 2011 (Audited)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Assets					
Segment assets	26,103,677	1,327,610	188,614	(106,862)	27,513,039
Interests in associates	83,719	–	–	–	83,719
Total	26,187,396	1,327,610	188,614	(106,862)	27,596,758

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

4. Other Income

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Bank and other interest income	20,630	20,775
Exchange difference, net	21,213	–
Gain on disposal of available-for-sale financial assets	–	195
Gain on disposal of intangible assets	–	222
Gain on disposal of property, plant and equipment	363	1,842
Gain on disposal of prepaid land lease payments	–	2,100
Gain on disposal of scrap materials	29,278	32,686
Net claims income on defective materials purchased	10,057	17,018
Rental income	14,278	6,019
Subsidy income from government (note)	634,034	534,748
Sundry income	17,287	12,866
	747,140	628,471

Note: Subsidy income mainly relates to cash subsidies (excluding any asset-related subsidies) in respect of research and development activities from government which are either unconditional grants or grants with conditions having been satisfied.

5. Profit for the Period

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging:		
Finance costs		
Effective interest expense on convertible bonds	48,094	46,317
Interest on bank borrowings wholly repayable within five years	75,906	54,303
Interest expenses paid to a non-controlling shareholder of a subsidiary of the Group	98	221
	124,098	100,841
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	567,127	407,691
Retirement benefit scheme contributions	57,872	36,274
Recognition of share-based payments	63,660	78,302
	688,659	522,267
Other items		
Cost of inventories recognised as expense	9,237,171	8,703,617
Depreciation	292,241	282,032
Amortisation of prepaid land lease payments	18,829	17,049
Amortisation of intangible assets	91,267	51,530
Research and development costs	56,527	30,577
Loss on disposal of property, plant and equipment	12,225	–
Unrealised loss on financial assets at fair value through profit or loss that are classified as held for trading (listed investments held for trading)	478	785

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

6. TAXATION

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC enterprise income tax	267,639	158,061
– Other overseas tax	4,601	1,416
(Over)/Under provision in prior years	(7,021)	30,137
	265,219	189,614
Deferred taxation	(31,311)	16,415
	233,908	206,029

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 relevant laws and regulations in the People's Republic of China (the "PRC"), the Group's PRC subsidiary is entitled to an exemption from PRC enterprise income tax for the two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The income tax provision is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practises in respect thereof.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. Dividend

During the current period, a final dividend for the year ended 31 December 2011 of HK\$0.028 per share (2011: HK\$0.026), amounting to approximately RMB169,529,000 (2011: RMB170,416,000), has been declared and approved by the shareholders at the annual general meeting of the Company. The 2011 final dividend was paid in July 2012 and is reflected as a dividend payable in the Interim Financial Report. The 2010 final dividend was paid during the six months ended 30 June 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

8. Earnings Per Share

(a) Basic earnings per share

The calculation of the basic earnings per share for the period is based on the profit attributable to equity holders of the Company of RMB1,019,630,000 (2011: RMB937,648,000) and weighted average number of ordinary shares of 7,466,034,759 shares (2011: 7,445,302,190 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	7,457,460,450	7,440,755,450
Effect of shares issued upon exercise of share options	8,574,309	4,546,740
	<hr/>	<hr/>
Weighted average number of ordinary shares at 30 June	7,466,034,759	7,445,302,190

(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 RMB1,067,724,000 (2011: RMB983,965,000) and the weighted average number of ordinary shares of 8,545,350,883 shares (2011: 8,573,189,187 shares), calculated as follows:

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share (profit attributable to equity holders)	1,019,630	937,648
After tax effect of effective interest on the liability component of convertible bonds	48,094	46,317
	<hr/>	<hr/>
Earnings for the purpose of diluted earnings per share	1,067,724	983,965

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,466,034,759	7,445,302,190
Effect of deemed conversion of convertible bonds	1,012,167,165	1,004,069,387
Effect of deemed exercise of warrants	55,089,246	88,025,505
Effect of deemed issue of shares under the Company's share option scheme	12,059,713	35,792,105
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,545,350,883	8,573,189,187

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

9. Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment of approximately RMB460,849,000 (2011: RMB680,285,000), excluding the amounts through acquisition of subsidiaries of nil (2011: RMB541,776,000).

10. Intangible Assets

During the period, additions to intangible assets by acquisition and capitalisation in respect of development costs amounted to approximately RMB338,167,000 (2011: RMB316,683,000), excluding the amounts through acquisition of subsidiaries of nil (2011: RMB155,839,000).

11. Interests in Associates

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Share of net assets	211,276	164,874
Goodwill	18,845	18,845
Impairment loss recognised	(100,000)	(100,000)
	130,121	83,719
<hr/>		
Represented by:		
Cost of investments in associates		
– Listed overseas	197,788	197,788
– Unlisted	138,747	90,918
	336,535	288,706
Share of post-acquisition losses and reserves	(106,414)	(104,987)
Impairment loss recognised	(100,000)	(100,000)
	130,121	83,719
<hr/>		
Fair value of listed investments	18,583	19,532

At the reporting dates, the Group's interest in Manganese Bronze Holdings plc ("MBH") and Ningbo DIPO Traffic Facilities Co., Ltd. ("Ningbo DIPO") is 19.97% and 18% respectively. The Group retains significant influence over MBH and Ningbo DIPO through the power to representations on their respective boards.

Having considered the decrease in the market value of the shares in MBH and the projected future profitability and cash flows of MBH, the impairment of RMB100 million made in prior years is not reversed given the difference between fair value less costs to sell and net carrying value is not significant to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

11. Interests in Associates *(Continued)*

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

	At 30 June 2012	At 31 December 2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total assets	1,413,445	1,179,196
Total liabilities	(770,968)	(632,487)
Net assets	642,477	546,709
Group's share of net assets of associates	211,276	164,874
	Six months ended 30 June 2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	588,632	400,568
Loss for the period attributable to equity holders of associates	(34,447)	(12,889)
Group's share of results of associates for the period	(1,427)	(1,233)

12. Inventories

	At 30 June 2012	At 31 December 2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At costs:		
Raw materials	692,588	681,515
Work in progress	331,827	288,160
Finished goods	782,012	387,831
	1,806,427	1,357,506

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

13. Trade and Other Receivables

	Note	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Trade and notes receivables			
Trade receivables			
– Third parties		1,064,165	951,550
– Related parties controlled by the substantial shareholder of the Company		1,515,677	766,887
Notes receivable	(a) (b)	2,579,842 6,557,427	1,718,437 8,832,267
		9,137,269	10,550,704
Deposits, prepayments and other receivables			
Prepayments to suppliers			
– Third parties		146,586	106,201
– Related parties controlled by the substantial shareholder of the Company		938,715	499,927
		1,085,301	606,128
Deposits paid for acquisition of property, plant and equipment		218,095	237,203
VAT and other taxes receivables		585,987	614,733
Utility deposits and other receivables		448,912	191,524
		2,338,295	1,649,588
Amounts due from related parties controlled by the substantial shareholder of the Company	(c)	13,407	12,635
Amount due from ultimate holding company	(c)	–	1,764
		2,351,702	1,663,987
		11,488,971	12,214,691

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

13. Trade and Other Receivables *(Continued)*

(a) Trade receivables

The Group allows an average credit period of 30 days to 90 days to its local PRC trade customers. The following is an aged analysis of the trade receivables of local PRC trade customers based on invoice dates at the reporting dates:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
0 – 60 days	1,363,451	653,886
61 – 90 days	138,118	35,807
Over 90 days	186,689	155,219
	1,688,258	844,912

For overseas trade customers, the Group may allow a credit period of over 1 year. The following is an aged analysis of the trade receivables of overseas trade customers based on invoice dates at reporting dates:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
0 – 60 days	342,388	244,832
61 – 90 days	144,680	155,982
91 – 365 days	258,784	268,161
Over 1 year	145,732	204,550
	891,584	873,525

(b) Notes receivable

All notes receivable were denominated in Renminbi and are primarily notes received from third parties for settlement of trade receivable balances. At 30 June 2012 and 31 December 2011, all notes receivable were guaranteed by established banks in the PRC and have maturities of six months or less from the reporting date.

(c) Amounts due from related parties/ultimate holding company

The amounts due from related parties/ultimate holding company are unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

14. Convertible Bonds

The convertible bonds ("CB 2014") contain a liability component and a conversion option which is included in the equity of the Company. Details of the terms of the CB 2014 are set out in the Group's annual financial statements for the year ended 31 December 2011. Upon the payment of final dividends for the year ended 31 December 2011 (note 7), the conversion price of CB 2014 was changed from RMB1.651 (equivalent to HK\$1.8742) per share to RMB1.637 (equivalent to HK\$1.8583) per share from 10 July 2012 in accordance with the provisions of CB 2014.

The movements of the convertible bonds for the period/year are set out below:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Liability component		
Carrying amount brought forward	1,533,889	1,488,725
Accrued effective interest charges	48,094	93,829
Interest paid during the period/year	–	(48,665)
	1,581,983	1,533,889
Liability component is represented by:		
Convertible bonds	1,549,883	1,526,760
Accrued interests included in trade and other payables	32,100	7,129
	1,581,983	1,533,889

The principal amount outstanding at 30 June 2012 is RMB1,671 million (At 31 December 2011: RMB1,671 million).

CB 2014 contains two components, liability and equity elements. The equity element is presented in equity as convertible bonds reserve. The effective interest rate of the liability component on initial recognition is 6.582% per annum. The redemption option of CB 2014 is included as a liability component and not separately recognised. The liability component is measured at amortised cost.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

15. Trade and Other Payables

	Note	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Trade and notes payables			
Trade payables			
– Third parties		5,086,183	4,991,644
– An associate		150,264	101,020
– Related parties controlled by the substantial shareholder of the Company		1,733,398	1,288,583
	(a)	6,969,845	6,381,247
Notes payable	(b)	1,051,760	1,005,189
		8,021,605	7,386,436
Other payables			
Accrued charges and other creditors			
Receipts in advance from customers			
– Third parties		1,408,710	1,600,910
– Related parties controlled by the substantial shareholder of the Company		544,202	1,165,819
		1,952,912	2,766,729
Deferred income related to government grants which conditions have not been satisfied		129,822	34,190
Payables for acquisition of property, plant and equipment		576,687	718,615
Accrued staff salaries and benefits		155,904	240,338
VAT and other taxes payables		195,601	356,360
Dividend payables		169,529	–
Other accrued charges		497,023	419,188
		3,677,478	4,535,420
Amounts due to related parties controlled by the substantial shareholder of the Company	(c)	204,623	185,062
Amount due to ultimate holding company	(c)	–	939
Loan from a non-controlling shareholder of a subsidiary of the Group	(d)	10,672	6,499
		3,892,773	4,727,920
		11,914,378	12,114,356

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

15. Trade and Other Payables (Continued)

(a) Trade payables

The following is an aged analysis of trade payables based on invoice dates at the reporting dates:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
0 – 60 days	4,378,766	5,120,325
61 – 90 days	1,345,595	700,064
Over 90 days	1,245,484	560,858
	6,969,845	6,381,247

Trade payables do not carry interest. The average credit period on purchase of goods is 60 days.

(b) Notes payable

All notes payable were denominated in Renminbi and are primarily notes paid to third parties for settlement of trade payable balances. At 30 June 2012 and 31 December 2011, all notes payable have maturities of less than 1 year from the reporting date.

(c) Amounts due to related parties/ultimate holding company

The amounts due to related parties/ultimate holding company are unsecured, interest-free and repayable on demand.

(d) Loan from a non-controlling shareholder of a subsidiary of the Group

Loan from a non-controlling shareholder of a subsidiary of the Group is unsecured, interest bearing at 3.28% to 6.56% (At 31 December 2011: 2.78% to 6.56%) per annum and repayable within one year.

16. Borrowings

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Bank loans secured by the Group's assets	1,981,054	2,068,965
Bank loans guaranteed by the ultimate holding company	865,000	691,319
Other bank loans, secured	68,000	268,000
Bank loans, unsecured	398,450	331,281
Total bank borrowings	3,312,504	3,359,565
Loan from government	30,000	15,000
	3,342,504	3,374,565

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

16. Borrowings (Continued)

At the reporting dates, the Group's borrowings were repayable as follows:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
On demand or within one year	2,519,504	2,531,639
In the second year	618,000	691,926
In the third to fifth year	205,000	151,000
	3,342,504	3,374,565
Less: amounts due within one year shown under current liabilities	(2,519,504)	(2,531,639)
	823,000	842,926

17. Share Capital

	Number of shares	Nominal value RMB'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 31 December 2011 and 30 June 2012 (Unaudited)	12,000,000,000	246,720
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
At 1 January 2011	7,440,755,450	139,279
Shares issued under share option scheme	12,390,000	218
At 30 June 2011	7,453,145,450	139,497
Shares issued under share option scheme	4,315,000	76
At 31 December 2011 and 1 January 2012	7,457,460,450	139,573
Shares issued under share option scheme	18,100,000	293
At 30 June 2012 (Unaudited)	7,475,560,450	139,866

During the period, options were exercised to subscribe for 18,100,000 ordinary shares in the Company at a consideration of approximately RMB13,600,000 of which approximately RMB293,000 was credited to share capital and the balance of RMB13,307,000 was credited to the share premium account. As a result of the exercise of options, RMB2,899,000 has been transferred from the share option reserve to the share premium account in accordance with the accounting policy set out in the Group's annual financial statements for the year ended 31 December 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

18. Commitments

Capital expenditure commitments

At the reporting dates, the Group had the following capital commitments:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Contracted but not provided for, net of deposits paid		
– purchase of property, plant and machinery	396,881	865,210
– purchase of intangible assets	10,650	10,650
– purchase of prepaid land lease payments	–	24,208
– investments in associates	127,201	113,170
– investments in available-for-sale financial assets	8,998	5,400
– acquisition of additional interests in subsidiaries	–	215,386
	543,730	1,234,024

Operating lease commitments

At the reporting dates, the Group had commitments for future minimum lease payments in respect of office and factory premises and other assets under non-cancellable operating leases which fall due as follows:

	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
Office and factory premises		
Within one year	8,237	8,396
In the second to fifth year inclusive	5,754	3,496
After five years	88	263
	14,079	12,155
Other assets		
Within one year	2,540	6,483
In the second to fifth year inclusive	2,155	5,159
	4,695	11,642
	18,774	23,797

Leases are negotiated and rentals are fixed for an average term of four (At 31 December 2011: four) years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

19. Retirement Benefits Scheme

The Group participates in MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme which is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$25,000 (prior to 1 June 2012: HK\$20,000) per employee.

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a fixed percentage of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group in respect of the retirement benefit scheme is to make the specified contributions.

Contributions are made by the Company's subsidiary in other overseas countries to defined contribution superannuation funds in accordance with the relevant laws and regulations in these countries.

For the six months ended 30 June 2012, the aggregate employer's contributions made by the Group and charged to the condensed consolidated income statement are RMB57,872,000 (2011: RMB36,274,000).

20. Share-based Payment Transactions

The Company has operated a share option scheme for eligible employees of the Group. The existing share option scheme ("Old Share Option Scheme") is valid and effective for a period of ten years from 31 May 2002. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2012, a new share option scheme ("New Share Option Scheme") was adopted to replace the Old Share Option Scheme with the same terms. After the adoption of the New Share Option Scheme, the Old Share Option Scheme was terminated. Details of the terms of the scheme have been set out in the Group's annual financial statements for the year ended 31 December 2011.

For those options granted prior to 1 January 2010, approximately 33% of the options will be automatically vested at the date of grant and the remaining 67% will be vested one year from the date of grant. For those options granted after 1 January 2010, one-tenth of options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant. Movements in number of share options during the period are as follows:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

20. Share-based Payment Transactions (Continued)

2012 (Unaudited)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the period	Exercised during the period	Outstanding at 30 June	Exercise date	Weighted average share price at exercise date HK\$
Directors	8 May 2008 to 7 May 2013	0.92	11,000,000	-	(11,000,000)	-	13 March 2012	3.04
	18 January 2010 to 17 January 2020	4.07	80,500,000	-	-	80,500,000		
	23 March 2012 to 22 March 2022	4.07	-	12,000,000	-	12,000,000		
			91,500,000	12,000,000	(11,000,000)	92,500,000		
Employees	18 September 2007 to 17 September 2012	1.06	5,000,000	-	(1,000,000)	4,000,000	13 March 2012	3.34
	8 May 2008 to 7 May 2013	0.92	30,035,000	-	(6,100,000)	23,935,000	22 January 2012 to 24 June 2012	3.12
	18 January 2010 to 17 January 2020	4.07	397,700,000	-	-	397,700,000		
	21 April 2010 to 20 April 2020	4.07	15,900,000	-	-	15,900,000		
	23 March 2012 to 22 March 2022	4.07	-	12,000,000	-	12,000,000		
	25 June 2012 to 24 June 2022	4.07	-	9,000,000	-	9,000,000		
			540,135,000	33,000,000	(18,100,000)	555,035,000		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

20. Share-based Payment Transactions (Continued)

2011 (Unaudited)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Exercised during the period	Forfeited during the period	Outstanding at 30 June	Exercise date	Weighted average share price at exercise date HK\$
Directors	8 May 2008 to 7 May 2013	0.92	11,000,000	-	-	11,000,000		
	18 January 2010 to 17 January 2020	4.07	71,500,000	-	-	71,500,000		
			82,500,000	-	-	82,500,000		
Employees	10 July 2006 to 16 May 2011	0.93	2,070,000	(1,990,000)	(80,000)	-	25 March 2011 to 4 May 2011	2.88
	18 September 2007 to 17 September 2012	1.06	7,500,000	(2,500,000)	-	5,000,000	19 May 2011 to 30 May 2011	3.11
	8 May 2008 to 7 May 2013	0.92	43,250,000	(7,900,000)	(1,000,000)	34,350,000	25 March 2011 to 30 May 2011	3.03
	18 January 2010 to 17 January 2020	4.07	428,350,000	-	(10,250,000)	418,100,000		
	21 April 2010 to 20 April 2020	4.07	15,900,000	-	-	15,900,000		
			579,570,000	(12,390,000)	(11,330,000)	555,850,000		

During the six months ended 30 June 2012, 24,000,000 options and 9,000,000 options were granted on 23 March 2012 and 25 June 2012 with estimated total fair values of approximately RMB43 million and RMB11 million respectively. The closing price of the Company's shares immediately before the date on which the options granted were HK\$2.99 and HK\$2.74 for option lots of 24,000,000 options and 9,000,000 options respectively. The exercise price of the share options granted is HK\$4.07 per share for both option lots of 24,000,000 options and 9,000,000 options. The share options for option lots of 24,000,000 options and 9,000,000 options are valid for a period of 10 years from 23 March 2012 to 22 March 2022 and 25 June 2012 to 24 June 2022 respectively and one-tenth of options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

20. Share-based Payment Transactions *(Continued)*

The fair values were calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

Grant date	23 March 2012	25 June 2012
Exercise price	HK\$4.07	HK\$4.07
Expected volatility	62.90%	54.93%
Expected life	10 years	10 years
Risk-free rate	1.476%	1.048%
Expected dividend yield	0.84%	1.03%

Expected volatility was determined by using historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised a total of RMB63,660,000 (2011: RMB78,302,000) as administrative expenses for the six months ended 30 June 2012 in relation to share options granted by the Company and the share-based payment expenses were shown as a separate item line on the face of condensed consolidated income statement.

21. Warrants

During the year ended 31 December 2009, the Company issued 299,526,900 warrants to certain investors with a subscription price of HK\$1 for all the warrants. The warrants are convertible into fully paid ordinary shares of HK\$0.02 each of the Company at an initial exercise price of RMB2.0262 (equivalent to HK\$2.3) per share, subject to adjustment in certain events. Upon the payment of final dividends for the year ended 31 December 2011 (note 7), the exercise price of the warrants were adjusted from RMB1.9986 (equivalent to HK\$2.2687) per share to RMB1.9816 (equivalent to HK\$2.2494) per share from 10 July 2012 in accordance with the provisions of the warrants. The warrants are exercisable in part or in whole at any time from the issue date of the warrants on 11 November 2009 to the fifth anniversary of the issuance of the warrants and are freely transferable, but in minimum tranches of 250,000 warrants. The warrants have been classified as equity instruments of the Company.

During the period, none of the warrants issued has been exercised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. Related Party Transactions

In addition to the transactions/information disclosed elsewhere in these condensed consolidated financial report, during the period, the Group had the following material transactions with related parties:

(a) Transactions

Name of related parties	Nature of transactions	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Related companies (Note)			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of complete knock down kits and sedan tool kits	3,887,284	3,499,820
	Sales of automobile parts and components	1,541	5,581
	Claims income on defective materials purchased	27,136	24,590
	Purchase of complete buildup units	4,063,774	3,737,263
	Sub-contracting fee paid	8,970	15,241
	Claims paid on defective materials sold	28,492	26,434
	Purchase of automobile parts and components	196	2,191
	Acquisition of property, plant and equipment	68	480
	Acquisition of subsidiaries	-	411,608
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete and semi knock down kits and sedan tool kits	1,332,412	1,169,643
	Sales of automobile parts and components	7,591	39,187
	Claims income on defective materials purchased	10,978	19,141
	Purchase of complete buildup units	1,331,691	1,184,578
	Claims paid on defective materials sold	7,125	18,377
	Purchase of automobile parts and components	91	345
Zhejiang Haoqing Automobile Manufacturing Company Limited (浙江豪情汽車製造有限公司)	Sales of complete knock down kits and sedan tool kits	3,687,344	4,151,366
	Sales of automobile parts and components	702	982
	Claims income on defective materials purchased	33,105	49,459
	Purchase of complete buildup units	3,887,542	4,310,224
	Claims paid on defective materials sold	32,870	49,250
	Purchase of automobile parts and components	1,204	56
	Sub-contracting fee paid	24,257	42,956
	Sale of property, plant and equipment	620	1,372
	Sale of intangible assets	-	6,083
	Acquisition of property, plant and equipment	725	-
	Rental income	461	-
	Acquisition of subsidiaries	215,386	-
Zhejiang Geely Automobile Parts and Components Company Limited (浙江吉利汽車零部件採購有限公司)	Claims income on defective materials purchased	18,375	23,015
	Purchase of automobile parts and components	2,979,045	2,747,394
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defective materials purchased	3,051	6,262
	Purchase of automobile parts and components	329,442	278,508
Taizhou Haoqing Automobile Sales Company Limited (台州豪情汽車銷售有限公司)	Sales of complete buildup units	34,353	41,628

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

22. Related Party Transactions (Continued)

(a) Transactions (Continued)

Name of related parties	Nature of transactions	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Related companies (Note)			
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	9,034	8,713
Chengdu New Land Automobile Co., Ltd (成都新大地汽車有限責任公司)	Sales of complete knock down kits and sedan tool kits Purchase of complete buildup units	574,468 588,991	– –
Zhejiang Geely Automobile Industry School (浙江吉利汽車工業學校)	Rental income	2,680	–
Non-controlling shareholder of the subsidiary			
Kailun (Qufu) Property Investment Limited (凱倫(曲阜)置業有限公司)	Interest paid Loan advances	98 6,000	221 –
Associate			
Mando (Ningbo) Automotive Parts Company Limited (萬都(寧波)汽車零部件有限公司)	Purchase of automobile parts and components Sale of property, plant and equipment	186,658 1,397	2,528 21,540
Ultimate holding company			
Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司)	Acquisition of subsidiaries Loan advances Sale of complete buildup units	– – –	45,734 150,000 927

Note: The Group and the related companies are under the common control of the substantial shareholder of the Company's ultimate holding company.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Salaries and other short-term benefits	18,216	16,230
Retirement benefits scheme contributions	1,173	617
Share-based payments	63,660	78,302
	83,049	95,149

The remuneration of directors and key management are determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

23. Acquisition of Additional Interests in Subsidiaries

For the six months ended 30 June 2012

During the period, the Group has completed the acquisition of an additional 8% equity interest in Zhejiang Kingkong Automobile Company Limited and Zhejiang Ruhoo Automobile Company Limited, subsidiaries of the Company, (collectively, the "Subsidiaries") from Zhejiang Haoqing Automobile Manufacturing Company Limited, a related company controlled by Zhejiang Geely Holding Group Company Limited, the ultimate holding company of the Company, increasing each of its equity interest from 91% to 99% at a total cash consideration of RMB215,386,000. Details of the acquisition have been set out in the Group's annual financial statements for the year ended 31 December 2011. The proportionate additional 8% share of the carrying amount of the Subsidiaries in the Group's financial statements on the date of the acquisition was approximately RMB237,785,000. Accordingly, the Group recognised a decrease in non-controlling interests of RMB237,785,000 and an increase in accumulated profits of RMB22,399,000 on the condensed consolidated statement of changes in equity during the period ended 30 June 2012.

24. Acquisition of Assets and Liabilities Through Acquisition of Subsidiaries

For the six months ended 30 June 2011

On 21 January 2011, the Company entered into an agreement with the ultimate holding company and its subsidiary to acquire 100% interests in Ningbo Vision Automobile Parts and Components Company Limited ("Ningbo Vision") and Shandong Geely Gearbox Company Limited ("Shandong Geely") for cash considerations of RMB437.3 million and RMB20 million respectively. There is a further capital injection of RMB80 million for Shandong Geely immediately after the completion of its acquisition. The acquisition of Ningbo Vision and Shandong Geely was completed during the period. Details of the acquisition have been set out in the Company's announcement dated 21 January 2011.

Ningbo Vision and Shandong Geely have not engaged in any operating activities, and did not have sufficient workforce and all necessary plant and equipment ready for production at the acquisition dates and the acquisition was accounted for as purchases of assets and liabilities of which no goodwill was recognised.

The assets and liabilities acquired in the acquisition of Ningbo Vision and Shandong Geely at the acquisition dates are as follows:

	Carrying amount RMB'000
The assets and liabilities acquired:	
Property, plant and equipment	541,776
Intangible assets	155,839
Prepaid land lease payments	194,003
Trade and other receivables	41,038
Inventories	7,732
Cash and cash equivalents	59,319
Trade and other payables	(542,365)
	<hr/> 457,342
Total consideration satisfied by:	
Cash	457,342
Net cash outflow arising on acquisition:	
Cash consideration paid	(457,342)
Bank balances and cash acquired	59,319
	<hr/> (398,023)

MANAGEMENT DISCUSSION AND ANALYSIS

2012 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 (collectively, the “Group”) for the six months ended 30 June 2012. These interim results have been reviewed by the Company’s audit committee, comprising solely the independent non-executive directors of the Company, one of whom chairs the committee, and the Company’s auditors, Grant Thornton Hong Kong Limited.

Overall Performance

The Group’s performance in the first half of 2012 was in line with our expectations despite continued slowdown in the growth of motor vehicle sales volume in China. In particular, sales of indigenous brand sedans in China have weakened considerably in the first half of 2012, down 7% from the previous year, compared with the 6% growth of the overall sedan market during the period. As a result, the Group’s sales volume in the China market was down 9% from the same period in 2011. Demand for the Group’s vehicles in the export markets, however, continued to be very strong, up 199% to 40,061 units in the first half of 2012. Overall, the Group sold a total of 222,390 units of vehicles in the first six months of 2012, up 4% from the same period in the previous year, achieving 48% of the Group’s full year sales volume target of 460,000 units. Total revenues increased by 6% to RMB11.2 billion, reflecting stable product prices and continued improvement in product mix during the period. Profit attributable to the equity holders of the Company for the first half of 2012 was up 9% to RMB1,020 million as strong export sales and subsidy income helped to offset lower contribution from domestic sales. The acquisition of additional stakes in major operating subsidiaries completed in phases from December 2011 up to February 2012 also helped to lift the attributable profit. Fully diluted earnings per share (EPS) was up 9% to RMB12.49 cents.

Financial Resources

The Group’s financial position remained strong at the end of June 2012 due to the continued good operational cash inflow from its manufacturing operation and stabilizing working capital (inventories + trade and other receivables – trade and other payables), which decreased slightly by 5% from the end of 2011 to RMB1,381 million at the end of June 2012, or equivalent to 74% of the Group’s average monthly revenue in the first half of 2012. The Group’s total cash level (cash and bank balances + pledged bank deposits) increased by 4% to RMB3,514 million at the end of June

2012, while its borrowings decreased by 1% to RMB3,343 million during the same period. Net notes receivable (bank notes receivable – bank notes payable) at the end of June 2012 amounted to RMB5,506 million, which could provide the Group with additional cash reserves when needed through discounting the notes with the banks.

Vehicle Manufacturing (99% interests)

The Group sold a total of 222,390 units of vehicles in the first half of 2012, up 4% from the same period last year, helped by a strong demand for the “EC7” model in the China market and a rapid increase in export sales, which more than offset the drop in the sales of older models like “Free Cruiser” and “Vision” during the period.

The Group’s domestic sales volume in the first half of 2012 was down 9% to 182,329 units, weaker than the overall sedan market in China, which was up 6% during the period. The Group’s market share in China’s sedan market was therefore down from 3.8% in 2011 to 3.5% in the first half of 2012, reflecting the shift of market demand in China from local brands and price-competitive, smaller-sized models to other models. Export sales volume continued to recover strongly and was up 199% to 40,061 units in the first half of 2012, thanks to the strong demand for the Group’s products in its major export markets in Eastern Europe and Middle East. Export sales accounted for 18% of the Group’s total sales volume in the first half of 2012.

Amongst the Group’s three brand divisions: “GLEagle”, “Emgrand” and “Englon”, “GLEagle” branded vehicles remained the most important in terms of sales volume and accounted for 36% of the Group’s total sales volume in the first half of 2012. “Emgrand” branded vehicles, however, continued to achieve the fastest growth in sales volume during the same period. Sales volume of vehicles under “Emgrand” brand was up 36% over the same period in the previous year to 69,447 units.

“EC7” continued to achieve very strong growth with its sales volume up 38% to 61,015 units in the first half of 2012, helped by additional production capacity at Cixi plant completed at the end of 2011 and good demand for the upgraded 2012 version of “EC7”. The model continued to be the Group’s best-selling model, accounting for 27% of the Group’s total sales volume during the period. This was despite the major demand constraints caused by the lack of automatic transmissions (AT) versions of “EC7” during the period. Aging models like “Free Cruiser” and “Vision”, both grouped under “GLEagle” brand, continued their downward trends in the first half of 2012. Their sales volume declined

MANAGEMENT DISCUSSION AND ANALYSIS

by 20% and 44% respectively from the same period in the previous year. Demand for “Geely Panda” in the first half of 2012 was affected by a generally weaker smaller-sized car demand in China and the expiration of fuel efficiency subsidies available to the model at the end of last year. The sales of “Kingkong” and “SC7” models were steady during the period. The sales performance of “EC8” and “SC5-RV”, however, has been less than satisfactory, ahead of the planned launches of their upgraded models in the second half of 2012. The demand for the two new models launched in the first half of 2012, “GC7” and “GX7”, was in line with the Group’s expectations. Although the model represents the Group’s first entry into the fast growing Sport Utility Vehicle (SUV) market in China, “GX7” has received encouraging market response, achieving monthly sales volume of over 2,000 units in the first few months of sales. The Group’s ex-factory average sales price was steady during the period as positive contribution from the strong sales volume growth of “EC7” was offset by deteriorating model mix of models like “Kingkong” and higher incentives offered by older models during the period.

The Group conducts its business under three independent product lines and brands: “GLEagle”, “Emgrand” and “Englon”, all of which have their own management teams and distribution networks. At the end of June 2012, the Group’s three independent sales networks in China comprised a total of 973 shops, including 530 4S stores and 443 exclusive franchisee stores.

In July 2012, the Group’s first SUV “GX7” achieved a 5+ star rating with record high scores of 50.3 amongst all local brand models in C-NCAP crash test, reflecting the Group’s leading position in terms of vehicle safety in China’s automobile industry.

The Group’s effort in improving customer service standards yielded positive results in the most recent “J.D.Power Asia Pacific 2012 China Customer Service Index (CSI) Study”. All the Group’s three brands, “GLEagle”, “Emgrand” and “Englon”, ranked significantly higher than the industry average in the annual study of overall customer satisfaction with after-sales service with authorized dealers in China. Amongst all the indigenous brands in China, “GLEagle” ranked number one, followed by “Englon”, which ranked number two, and “Emgrand”, which ranked number four. “GLEagle” achieved number twelve in overall ranking, only behind eleven major international brands.

In a bid to further enhance the Group’s product quality and competitive edge, Zhejiang Geely Holding Group Company Limited (“Geely Holding Group”), the controlling shareholder of the Group, signed a memorandum of understanding

(“MoU”) with Volvo Car Corporation (“Volvo Car”) on the transfer of technology and the cooperation to develop strategic projects on 9 March 2012. These joint efforts will include: joint development of small displacement, high performance and green engine family; joint development of safe, light-weight and environmentally friendly small car platform; and joint development of shared powertrain technology of electric vehicles, hybrid vehicles and plug-in hybrid vehicles. The Group is currently discussing with Geely Holding Group with respect to its involvement in these projects and the Board believes that the cooperation between Volvo Car and the Group could further strengthen the Group’s competitiveness in the future.

New Products

In the second half of 2012, the Group plans to launch the following new products:

“GLEagle”

- “GX7” SUV with 2.4L engine and DSIH 6AT
- 2nd Generation of “Kingkong” basic sedan

“Emgrand”

- “EV8” MPV
- “EX8” SUV

“Englon”

- “SC3” economy sedan
- “SC6” basic sedan
- “SC7” mid-sized sedan with DSIH 6AT
- “SC5” basic sedan with new 1.3T engine
- “SX7” SUV

Exports

The Group exported a total of 40,061 units of vehicles in the first six months of 2012, up 199% from the same period last year, and accounted for 18% of the Group’s total sales volume during the period. The Group’s share of China’s total exports of sedans increased from 10.6% in 2011 to 19.4% in the first half of 2012. “Geely MK” (Kingkong), “EC7” and “Geely CK” (Free Cruiser) were the most popular export models in terms of sales volume in the first half of 2012, which together accounted for 68% of the Group’s total export sales volume during the period. Developing countries in the Middle East, Eastern Europe and Central and Southern America remain the most important markets for the Group’s exports. Amongst which, the most important

MANAGEMENT DISCUSSION AND ANALYSIS

export destinations in terms of sales volume were Russia, Iraq, Saudi Arabia, Ukraine and Chile, which together accounted for 84% of the Group's total exports volume in the first half of 2012. In addition to direct exports from its plants in China, the Group also assembles some models sold overseas using contract manufacturing arrangements with local partners in Russia, Ukraine, Indonesia, Taiwan, Sri Lanka and Egypt. Key focuses of the Group's export business in 2012 include the localization of production in major export markets, restructuring of the Group's export channels and infrastructure to improve operating efficiency and additional investment to improve brand awareness of the Group's products. To improve the Group's market penetration in Central and Southern American market, the Group is constructing a new assembly plant with a local partner in Uruguay.

DSI Holdings Pty Limited ("DSIH") (100% interests)

DSIH is principally engaged in the design, development and manufacture of automatic transmissions in Australia, supplying to major international automobile manufacturers like Ssangyong Motor Company (SYMC). In view of the rapid growth of demand for more fuel-efficient automatic transmissions in China, DSIH is constructing three new production facilities to manufacture automatic transmissions products in China. The first venture – Hunan Jisheng International Drivetrain System Co., Ltd. ("Hunan Jisheng") – started large scale production of 6-speed automatic transmissions ("6ATs") at the end of June 2012 in a new plant in Xiangtan, initially supplying 6ATs to the Group's models like "GC7", "GX7" and "EC8". Annual designed production capacity at Hunan Jisheng is 100,000 units. The second plant in Jining of Shandong province is preliminarily scheduled to start production of 6ATs and related products by the end of 2012. DSIH also plans to build its third plant in China in Chongqing city for the manufacturing of a series of new 7-speed Dual Clutch Transmissions (7DCTs), which is currently under development. DSIH manufactured and sold 30,188 sets of automatic gearboxes in its Australian facilities in the first six months of 2012. As a result of the absence of any contribution from its China operations and the rising costs and lower revenues from its Australian operations, DSIH posted a net loss after tax of A\$1 million on revenue of A\$52 million in the first half of 2012.

Shanghai LTI (51% interests)

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 ("MBH") for the manufacture of the iconic London taxis in China. In addition, Shanghai LTI has been supplying body kits and components to MBH for the assembly of TX4 London taxi models for sales in the UK market since November 2010. Shanghai LTI manufactured and sold 650 units of TX4 vehicles and SKD kits in the first half of 2012, up 33% from the same period last year. Shanghai LTI managed to reduce its net loss by 82% to RMB3 million in the first half of 2012, mainly helped by better margins. Although demand at the UK market continued to be weak so far this year, the management at Shanghai LTI expects stronger sales in the second half this year due to the positive impact on demand for the new Euro V TX4 taxis in London arising from the London city government's Air Quality Strategy.

Outlook

Against a background of increasing global economic uncertainty, slower growth and continued fierce competition in China's sedan market, trading conditions in the second half of 2012 are expected to be more challenging. The Group's competitive advantages, however, have improved significantly following the success of its "Strategic Transformation" in the areas of brand image, product quality, technology and innovation, putting the Group in a strong position to deal with current challenges. The Group's financial position remains strong, thus allowing the Group to continue investing in the future, further enhancing its core strengths in powertrain technologies, standards of customer service, well-established supply chains and strong position in China to ensure the sustainable success of the Group.

Pressure on sales will continue as a result of increasing competition in both the domestic and export markets. Although raw material and component costs should stay low in the remainder of the year, competitive pressure on prices is expected to continue. Quality improvements in both product and service will be a key focus to differentiate the Group's products from its competitors. Although market condition in China is expected to remain challenging, demand for the Group's vehicles in its major export markets should benefit from the relatively stable economic activity in those areas and as a result of the Group's major investment in distribution capabilities and brand image over the past few years.

On the positive front, the commencement of mass production of automatic transmissions at DSIH's plant in Xiangtan at the end of June 2012 should enable the Group to offer more vehicle models equipped with automatic transmissions in the second half of the year, thus significantly enhancing the attractiveness of the Group's products. In addition, five

MANAGEMENT DISCUSSION AND ANALYSIS

models of the Group have recently been included in the list of fuel-efficient vehicles by the Chinese Government, thus allowing their customers to enjoy cash subsidies from the Government. These, together with the encouraging market response to new models launched recently and the continued strong export sales momentum, should offer good opportunity for the Group to speed up its sales growth in the coming months.

Despite difficult market condition in China in the first half of 2012, the Group still achieved its original performance plan and targets set for the period. As a result, the Group's management team decided to keep our 2012 sales volume target of 9% growth to 460,000 units unchanged.

Capital Structure and Treasury Policies

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and the credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, shareholders' loan from its parent Geely Holding Group and fund-raising exercises in the capital market. As at 30 June 2012, the Group's shareholders' fund amounted to approximately RMB10.5 billion (As at 31 December 2011: approximately RMB9.6 billion). Upon exercise of share options, 18.1 million new shares were issued by the Group during the six months ended 30 June 2012.

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 the Group's assets and liabilities are mainly denominated in Renminbi, the functional currency of the Group.

Liquidity and Financial Resources

As at 30 June 2012, the Group's current ratio (current assets/current liabilities) was 1.16 (As at 31 December 2011: 1.13) and the gearing ratio of the Group was 46.5% (As at 31 December 2011: 51.2%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the trade and other payables)

as at 30 June 2012 amounted to approximately RMB4.9 billion (As at 31 December 2011: approximately RMB4.9 billion) were mainly the Company's convertible bonds and bank borrowings. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on early redemption or maturity. For the bank borrowings, they were mostly secured, interest-bearing and repaid on maturity. 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 2012, the total number of employees of the Group was about 17,695 (As at 31 December 2011: approximately 17,288). 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 the state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

Directors' and Chief Executives' Interests and Short Positions in the Securities of the Company and its Associated Corporations

As at 30 June 2012, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Interests and short positions in the securities of the Company

Name of Director	Capacity	Number of securities in the Company		Shareholding percentage (%)
		Long position	Short position	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporation	3,751,159,000	–	50.18
Mr. Yang Jian	Personal	8,000,000	–	0.11
Mr. Gui Sheng Yue	Personal	11,800,000	–	0.16
Mr. An Cong Hui	Personal	6,000,000	–	0.08
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.06
Mr. Liu Jin Liang	Personal	6,000,000	–	0.08
Dr. Zhao Fuquan	Personal	17,000,000	–	0.23
Mr. Yin Da Qing, Richard	Personal	6,600,000	–	0.09
Share options				
Mr. Yang Jian	Personal	12,000,000 (Note 2)	–	0.16
Mr. Gui Sheng Yue	Personal	11,500,000 (Note 2)	–	0.15
Mr. An Cong Hui	Personal	9,000,000 (Note 2)	–	0.12
Mr. Ang Siu Lun, Lawrence	Personal	11,000,000 (Note 2)	–	0.15
Mr. Li Dong Hui, Daniel	Personal	7,000,000 (Note 3)	–	0.09
Mr. Liu Jin Liang	Personal	9,000,000 (Note 2)	–	0.12
Dr. Zhao Fuquan	Personal	11,000,000 (Note 2)	–	0.15
Ms. Wei Mei	Personal	3,000,000 (Note 2)	–	0.04
Ms. Wei Mei	Personal	5,000,000 (Note 3)	–	0.07
Mr. Yin Da Qing, Richard	Personal	11,000,000 (Note 2)	–	0.15
Mr. Song Lin	Personal	1,000,000 (Note 2)	–	0.01
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 2)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 2)	–	0.01

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Proper Glory Holding Inc. ("Proper Glory") and its concert parties in aggregate hold 3,751,159,000 shares, representing approximately 50.18% of the issued share capital of the Company as at 30 June 2012. Proper Glory is a private company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (2) This interest relates to share options granted on 18 January 2010 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each share during the period from 18 January 2010 to 17 January 2020. The percentage of holding is calculated on the basis (i) that the share options are fully exercised; and (ii) the number of issued share capital of the Company when the share options are exercised is the same as that on 30 June 2012.
- (3) This interest relates to share options granted on 23 March 2012 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each share during the period from 23 March 2012 to 22 March 2022. The percentage of holding is calculated on the basis (i) that the share options are fully exercised; and (ii) the number of issued share capital of the Company when the share options are exercised is the same as that on 30 June 2012.

(II) Interests and short positions in the securities of the associated corporations of the Company

Name of Director	Name of its associated corporations	Number of shares in its associated corporations		Shareholding percentage (%)
		Long position	Short position	
Mr. Li Shu Fu	Proper Glory Holding Inc.	(Note 1)	–	(Note 1)
Mr. Li Shu Fu	Geely Group Limited	50,000	–	100
Mr. Li Shu Fu	Zhejiang Geely Holding Group Company Limited	(Note 2)	–	(Note 2)
Mr. Li Shu Fu	Zhejiang Geely Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Shanghai Maple Automobile Company Limited	(Note 4)	–	(Note 4)
Mr. Li Shu Fu	Zhejiang Haoqing Automobile Manufacturing Company Limited	(Note 5)	–	(Note 5)
Mr. Li Shu Fu	Zhejiang Jirun Automobile Company Limited	(Note 6)	–	(Note 6)
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	(Note 7)	–	(Note 7)
Mr. Li Shu Fu	Zhejiang Kingkong Automobile Company Limited	(Note 8)	–	(Note 8)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 9)	–	(Note 9)
Mr. Li Shu Fu	Hunan Geely Automobile Components Company Limited	(Note 10)	–	(Note 10)
Mr. Li Shu Fu	Chengdu Gaoyuan Automobile Industries Company Limited	(Note 11)	–	(Note 11)
Mr. Li Shu Fu	Lanzhou Geely Automobile Industries Company Limited	(Note 12)	–	(Note 12)
Mr. Li Shu Fu	Jinan Geely Automobile Company Limited	(Note 13)	–	(Note 13)

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Proper Glory Holding Inc. is a private company incorporated in the British Virgin Islands and is owned as to 68% by Zhejiang Geely Holding Group Company Limited (“Geely Holding”) and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (2) Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (3) Zhejiang Geely Automobile Company Limited (“Zhejiang Geely”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (4) Shanghai Maple Automobile Company Limited (“Shanghai Maple Automobile”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (5) Zhejiang Haoqing Automobile Manufacturing Company Limited (“Zhejiang Haoqing”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (6) Zhejiang Jirun Automobile Company Limited (“Zhejiang Jirun”) is incorporated in the PRC and is 1% directly owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (7) Shanghai Maple Guorun Automobile Company Limited (“Shanghai Maple”) is incorporated in the PRC and is 1% directly owned by Shanghai Maple Automobile. Shanghai Maple Automobile is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (8) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 1% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (9) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 1% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (10) Hunan Geely Automobile Components Company Limited is incorporated in the PRC and is 1% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (11) Chengdu Gaoyuan Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (12) Lanzhou Geely Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (13) Jinan Geely Automobile Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, as at 30 June 2012, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

Directors' Right to Acquire Shares

As at 30 June 2012, the directors and chief executives of the Company have the following options to subscribe for

the shares of the Company under the Company's share option schemes approved and adopted by the shareholders of the Company at the general meetings:

Name of Director	Outstanding Options as at 30 June 2012	Date of grant	Exercise period	Exercise price HK\$
Mr. Yang Jian	12,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Gui Sheng Yue	11,500,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. An Cong Hui	9,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Ang Siu Lun, Lawrence	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Li Dong Hui, Daniel	7,000,000	23.3.2012	23.3.2012 – 22.3.2022	4.07
Dr. Zhao Fuquan	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Liu Jin Liang	9,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Ms. Wei Mei	3,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Ms. Wei Mei	5,000,000	23.3.2012	23.3.2012 – 22.3.2022	4.07
Mr. Yin Da Qing, Richard	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Song Lin	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Yeung Sau Hung, Alex	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Lee Cheuk Yin, Dannis	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
	92,500,000			

Share Option Scheme

A share option scheme (the "Old Share Option Scheme") of the Company was approved and adopted on 31 May 2002. The Old Share Option Scheme is valid and effective for a period of ten years from the date of adoption. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2012, a new share option scheme (the "New Share Option Scheme") was adopted by the Company. The New Share Option Scheme replaced the Old Share Option Scheme with the same terms. After the adoption of the New Share Option Scheme, the Old Share Option Scheme was terminated and no further options can be granted under it.

Pursuant to both the Old and New Share Option Schemes, the Company may grant options to inter alia, directors and employees of the Company and its subsidiaries and other participants to subscribe for shares of the Company. Further details of the Old Share Option Scheme were disclosed in the Company's 2011 annual report. Further details of the New Share Option Scheme were disclosed in the Company's circular to the shareholders dated 29 March 2012.

Based on the Company's records as at 30 June 2012, except disclosed in the section headed "Directors' Right to Acquire Shares" above, 462,535,000 share options were granted by the Company to the employees and remain outstanding since its adoption of the relevant share option schemes.

Interim Dividend

At a meeting of the Board held on 22 August 2012, the Directors resolved not to pay an interim dividend to shareholders (2011: Nil).

Connected Transactions

In addition to the transactions/information disclosed elsewhere in these condensed consolidated financial report, during the period, the Group had the following material transactions with connected parties:

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Transactions

Connected parties	Nature of transactions	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Related companies (Note)			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of complete knock down kits and sedan tool kits	3,887,284	3,499,820
	Sales of automobile parts and components	1,541	5,581
	Claims income on defective materials purchased	27,136	24,590
	Purchase of complete buildup units	4,063,774	3,737,263
	Sub-contracting fee paid	8,970	15,241
	Claims paid on defective materials sold	28,492	26,434
	Purchase of automobile parts and components	196	2,191
	Acquisition of property, plant and equipment	68	480
	Acquisition of subsidiaries	–	411,608
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete and semi knock down kits and sedan tool kits	1,332,412	1,169,643
	Sales of automobile parts and components	7,591	39,187
	Claims income on defective materials purchased	10,978	19,141
	Purchase of complete buildup units	1,331,691	1,184,578
	Claims paid on defective materials sold	7,125	18,377
	Purchase of automobile parts and components	91	345
Zhejiang Haoqing Automobile Manufacturing Company Limited (浙江豪情汽車製造有限公司)	Sales of complete knock down kits and sedan tool kits	3,687,344	4,151,366
	Sales of automobile parts and components	702	982
	Claims income on defective materials purchased	33,105	49,459
	Purchase of complete buildup units	3,887,542	4,310,224
	Claims paid on defective materials sold	32,870	49,250
	Purchase of automobile parts and components	1,204	56
	Sub-contracting fee paid	24,257	42,956
	Sale of property, plant and equipment	620	1,372
	Sale of intangible assets	–	6,083
	Acquisition of property, plant and equipment	725	–
	Rental income	461	–
	Acquisition of subsidiaries	215,386	–

MANAGEMENT DISCUSSION AND ANALYSIS

Connected parties	Nature of transactions	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Zhejiang Geely Automobile Parts and Components Company Limited (浙江吉利汽車零部件採購有限公司)	Claims income on defective materials purchased	18,375	23,015
	Purchase of automobile parts and components	2,979,045	2,747,394
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defective materials purchased	3,051	6,262
	Purchase of automobile parts and components	329,442	278,508
Taizhou Haoqing Automobile Sales Company Limited (台州豪情汽車銷售有限公司)	Sales of complete buildup units	34,353	41,628
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	9,034	8,713
Chengdu New Land Automobile Co., Ltd (成都新大地汽車有限責任公司)	Sales of complete knock down kits and sedan tool kits	574,468	–
	Purchase of complete buildup units	588,991	–
Zhejiang Geely Automobile Industry School (浙江吉利汽車工業學校)	Rental income	2,680	–
Non-controlling shareholder of the subsidiary			
Kailun (Qufu) Property Investment Limited (凱倫(曲阜)置業有限公司)	Interest paid	98	221
	Loan advances	6,000	–
Associate			
Mando (Ningbo) Automotive Parts Company Limited (萬都(寧波)汽車零部件有限公司)	Purchase of automobile parts and components	186,658	2,528
	Sale of property, plant and equipment	1,397	21,540
Ultimate holding company			
Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司)	Acquisition of subsidiaries	–	45,734
	Loan advances	–	150,000
	Sale of complete buildup units	–	927

Note: The Group and the related companies are under the common control of the substantial shareholder of the Company's ultimate holding company.

MANAGEMENT DISCUSSION AND ANALYSIS

Interests and Short Positions in Shares and Underlying Shares of Other Persons

As at 30 June 2012, the following persons (other than the directors or the chief executives of the Company) had

interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Substantial Shareholders

(as defined in the SFO)

Name	Capacity	Number of shares held		Shareholding percentage (%)
		Long position	Short position	
Proper Glory (Note 1)	Beneficial owner	2,462,400,000	–	32.94
Geely Holding (Note 1)	Interest in controlled corporation	3,751,072,000	–	50.18
Zhejiang Geely (Note 2)	Beneficial owner	776,408,000	–	10.39
Geely Group Limited (Note 1)	Beneficial owner	87,000	–	0.001
	Interest in controlled corporation	2,462,400,000	–	32.94
The Goldman Sachs Group, Inc.	Interest in controlled corporation	1,339,900,912	–	17.92
Gehicle Investment Holdings (Delaware) LLC	Beneficial owner	1,144,958,578	–	15.32
Gehicle Investment Parallel Holdings	Beneficial owner	152,991,322	–	2.05

Notes:

- Proper Glory Holding Inc. (“Proper Glory”) is a private company incorporated in the British Virgin Islands and is owned as to 68% by Zhejiang Geely Holding Group Company Limited (“Geely Holding”) and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- Zhejiang Geely is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, the Company had not been notified of any other person (other than the directors or the chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 30 June 2012 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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 2012.

Corporate Governance

In regard to the review of the Code on Corporate Governance Practices (the "former Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") conducted by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the year end of 2011, the Stock Exchange adopted most of the proposals put forward at the time and the Corporate Governance Code (the "revised Code") was adopted in replacement of the former Code with effect from 1 April 2012.

As the former Code and the revised Code both applies to the Company's interim reporting period ended 30 June 2012, save for code provision ("CP") E.1.2, the Company has met with all of the CPs of the former Code; and save for CPs E.1.2 and A.6.7 (which is a new CP in the revised Code after being upgraded from the non-mandatory Recommended Best Practices of the former Code), the Company has complied with all of the CPs of the revised Code. Considered reasons for the deviation from CPs E.1.2 and A.6.7 are discussed in the paragraph below.

CP E.1.2 (applicable to both the former Code and the revised Code) provides that the Chairman of the Board shall attend the annual general meeting of the Company and CP A.6.7 (applicable to the revised Code only) stipulates the Independent Non-executive Directors and the Non-executive Director shall attend the general meetings of the Company. At the annual general meeting of the Company held on 18 May 2012 in Hong Kong ("AGM"), an Executive Director, an Independent Non-executive Director and the Company's external auditors, Grant Thornton Hong Kong

Limited, attended the AGM in person; however, due to other commitment in the PRC and overseas, Mr. Li Shu Fu ("Mr. Li"), the Chairman of the Board, seven Executive Directors, one Non-executive Director and three Independent Non-executive Directors (collectively the "overseas Directors") were unable to attend the AGM physically. Despite this, the Company had provided another communication channel via conference call for shareholders to directly discuss with Mr. Li and the overseas Directors at the AGM.

In the interim period under review, 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 of conduct 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 Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. As at 30 June 2012, the audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Song Lin, Yeung Sau Hung, Alex, Fu Yu Wu and Wang Yang who are the independent non-executive directors of the Company.

Appreciation

On behalf of the Board, I wish to express my gratitude to our management team and staff members for their hard work, dedication and support throughout the period.

ON BEHALF OF THE BOARD

Li Shu Fu
Chairman

Hong Kong
22 August 2012