



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

(Stock Code : 0175)

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS:

Mr. Li Shu Fu (*Chairman*)  
Mr. Gui Sheng Yue (*Chief Executive Officer*)  
Mr. Ang Siu Lun, Lawrence  
Mr. Yang Jian  
Mr. Yin Da Qing, Richard  
Mr. Liu Jin Liang  
Mr. Zhao Jie  
Dr. Zhao Fuquan

## NON-EXECUTIVE DIRECTOR:

Mr. Xu Gang (Re-designated on 1 September 2007)

## INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Lee Cheuk Yin, Dannis  
Mr. Song Lin  
Mr. Yeung Sau Hung, Alex

## AUDIT COMMITTEE:

Mr. Lee Cheuk Yin, Dannis (*Committee's Chairman*)  
Mr. Song Lin  
Mr. Yeung Sau Hung, Alex

## REMUNERATION COMMITTEE:

Mr. Gui Sheng Yue (*Committee's Chairman*)  
Mr. Lee Cheuk Yin, Dannis  
Mr. Yeung Sau Hung, Alex

## COMPANY SECRETARY:

Mr. Cheung Chung Yan, David

## QUALIFIED ACCOUNTANT:

Mr. Cheung Chung Yan, David

## AUDITORS:

Grant Thornton

## LEGAL ADVISOR IN HONG KONG:

Sidley Austin

## LEGAL ADVISOR ON CAYMAN ISLANDS LAW:

Maples and Calder

## PRINCIPAL BANKERS:

Standard Chartered Bank (Hong Kong) Limited  
The Hong Kong and Shanghai Banking Corporation  
Limited

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:

Room 2301, 23rd Floor, Great Eagle Centre  
23 Harbour Road, Wanchai  
Hong Kong  
Telephone: (852) 25983333  
Facsimile: (852) 25983399  
Email: [general@geelyauto.com.hk](mailto:general@geelyauto.com.hk)

## REGISTERED OFFICE:

P.O. Box 309, George Town  
Grand Cayman, Cayman Islands  
British West Indies

# CORPORATE INFORMATION

## HONG KONG BRANCH SHARE REGISTRARS & TRANSFER OFFICE:

Union Registrars Limited  
Room 1803  
Fook Lee Commercial Centre Town Place  
33 Lockhart Road, Wanchai, Hong Kong

New address (with effect from 1 October 2007)  
Room 1901-02  
Fook Lee Commercial Centre Town Place  
33 Lockhart Road, Wanchai, Hong Kong

## INVESTOR & MEDIA RELATIONS:

Jovian Financial Communications Ltd.

## 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>

# FINANCIAL INFORMATION (MAJOR PRC ASSOCIATES)

A summary of the combined results and the assets and liabilities of the Group's major PRC associates, namely Zhejiang Geely Automobile Company Limited, Shanghai Maple Guorun Automobile Company Limited, Zhejiang Kingkong Automobile Company Limited and Zhejiang Ruhoo Automobile Company Limited is set out below:

## Combined results – Major PRC associates (unaudited)

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>5,006,190</b>	3,288,163
Cost of sales	<b>(4,534,183)</b>	(2,728,357)
Sales tax	<b>(851)</b>	(3,763)
Gross profit	<b>471,156</b>	556,043
Other net operating income	<b>191,583</b>	70,136
Distribution and selling expenses	<b>(200,492)</b>	(144,172)
Administration expenses	<b>(126,877)</b>	(148,073)
Finance costs	<b>(41,146)</b>	(17,578)
Profit before tax	<b>294,224</b>	316,356
Taxation	<b>(15,379)</b>	(23,872)
Profit for the period	<b>278,845</b>	292,484
Attributable to:		
Equity holders of the major PRC associates	<b>276,895</b>	294,189
Minority interests	<b>1,950</b>	(1,705)
Profit for the period	<b>278,845</b>	292,484
Gross profit margin	<b>9.4%</b>	16.9%
Profit margin	<b>5.5%</b>	8.9%

# FINANCIAL INFORMATION (MAJOR PRC ASSOCIATES)

## Combined assets and liabilities – Major PRC associates (unaudited)

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Non-current assets		
Property, plant and equipment	2,568,436	2,096,881
Intangible assets	153,686	145,501
Prepaid lease payments	972,482	623,425
Goodwill	42,731	42,549
Long-term deferred expenses	3,091	2,009
Long term investment	2,041	2,000
	<b>3,742,467</b>	<b>2,912,365</b>
Current assets		
Inventories	605,017	574,082
Prepaid lease payments	25,314	20,819
Bills receivables	1,610,014	1,246,402
Trade and other receivables	580,486	301,773
Amounts due from related companies	1,327,497	902,038
Short term investment	9,687	7,737
Pledged deposit	194,082	242,760
Bank balances and cash	686,225	741,592
	<b>5,038,322</b>	<b>4,037,203</b>

# FINANCIAL INFORMATION (MAJOR PRC ASSOCIATES)

## Combined assets and liabilities – Major PRC associates (unaudited) (Continued)

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Current liabilities		
Bank borrowings	(1,217,347)	(960,000)
Bills payables	(375,599)	(390,000)
Trade and other payables	(2,842,360)	(1,018,670)
Amounts due to related companies	(423,734)	(754,007)
Taxation	(29,769)	(24,376)
Provision	(2,512)	(2,632)
Dividend payables	(224,929)	(149,506)
	<b>(5,116,250)</b>	<b>(3,299,191)</b>
Net current (liabilities) assets	<b>(77,928)</b>	<b>738,012</b>
Total assets less current liabilities	<b>3,664,539</b>	<b>3,650,377</b>
Equity		
Share capital	2,959,700	2,959,700
Reserves	575,612	601,503
Equity attributable to shareholders of the major PRC associates	<b>3,535,312</b>	<b>3,561,203</b>
Minority interests	<b>19,901</b>	<b>18,605</b>
Total equity	<b>3,555,213</b>	<b>3,579,808</b>
Non-current liabilities		
Other long-term liabilities	<b>109,326</b>	<b>70,569</b>
	<b>3,664,539</b>	<b>3,650,377</b>

# INDEPENDENT REVIEW REPORT

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

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 8 to 29 which comprise the condensed consolidated balance sheet of Geely Automobile Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement 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

Certified Public Accountants  
13/F Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

7 September 2007

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	NOTE	Six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover/Revenue		65,638	69,331
Cost of sales		(57,536)	(59,986)
Gross profit		8,102	9,345
Other income		9,658	7,840
Distribution and selling expenses		(1,781)	(1,949)
Administrative expenses		(22,082)	(10,714)
Finance costs	4	(20,804)	(10,142)
Fair value loss on embedded derivative components of convertible bonds		(18,629)	(7,518)
Share of results of associates	9	129,615	137,680
Profit before taxation		84,079	124,542
Taxation	5	(730)	(842)
Profit for the period	4	83,349	123,700
Attributable to:			
Equity holders of the Company		82,416	120,699
Minority interests		933	3,001
		83,349	123,700
Dividends	6	57,327	41,203
Earnings per share			
Basic	7	HK1.77 cents	HK2.93 cents
Diluted	7	HK1.74 cents	HK2.78 cents

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	NOTE	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	13,513	12,282
Interest in associates	9	1,858,684	1,666,999
		<b>1,872,197</b>	<b>1,679,281</b>
<b>Current assets</b>			
Inventories	10	11,819	9,910
Tax recoverable		707	–
Trade and other receivables	11	68,536	59,065
Dividend receivable from associates		219,628	74,840
Bank balances and cash		623,021	20,972
		<b>923,711</b>	<b>164,787</b>
<b>Current liabilities</b>			
Trade and other payables	13	32,908	23,653
Amount due to immediate holding company		3,720	11,220
Taxation		–	293
Convertible bonds – embedded derivatives	12	51,515	53,888
Short-term bank borrowings (secured)		19,010	22,250
		<b>107,153</b>	<b>111,304</b>
<b>Net current assets</b>		<b>816,558</b>	<b>53,483</b>
Total assets less current liabilities		<b>2,688,755</b>	<b>1,732,764</b>
<b>Capital and reserves</b>			
Share capital	14	101,345	83,028
Reserves		1,925,932	947,129
<b>Equity attributable to equity holders of the Company</b>		<b>2,027,277</b>	<b>1,030,157</b>
Minority interests		230,807	19,769
<b>Total Equity</b>		<b>2,258,084</b>	<b>1,049,926</b>
<b>Non-current liabilities</b>			
Convertible bonds	12	430,671	682,838
		<b>2,688,755</b>	<b>1,732,764</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Six months ended 30 June 2007

	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	82,405	533,964	56,694	13,956	8,627	102,434	798,080	9,013	807,093
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	96	-	-	96	-	96
Profit for the period	-	-	-	-	-	120,699	120,699	3,001	123,700
Total recognised income for the period	-	-	-	96	-	120,699	120,795	3,001	123,796
Recognition of share based payments	-	-	-	-	2,985	-	2,985	-	2,985
Dividend paid	-	-	-	-	-	(41,203)	(41,203)	-	(41,203)
<b>At 30 June 2006</b>	<b>82,405</b>	<b>533,964</b>	<b>56,694</b>	<b>14,052</b>	<b>11,612</b>	<b>181,930</b>	<b>880,657</b>	<b>12,014</b>	<b>892,671</b>
At 1 January 2007	83,028	561,519	56,694	45,646	13,287	269,983	1,030,157	19,769	1,049,926
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	36,644	-	-	36,644	2,089	38,733
Profit for the period	-	-	-	-	-	82,416	82,416	933	83,349
Total recognised income for the period	-	-	-	36,644	-	82,416	119,060	3,022	122,082
Capital contribution from a minority shareholder	-	-	-	-	-	-	-	4,284	4,284
Disposal of partial interest in a subsidiary	-	-	-	-	-	-	-	203,732	203,732
Issue of shares	12,000	597,867	-	-	-	-	609,867	-	609,867
Shares issued upon conversion of convertible bonds	6,317	287,508	-	-	-	-	293,825	-	293,825
Recognition of share based payments	-	-	-	-	1,349	-	1,349	-	1,349
Dividend paid	-	-	-	-	-	(57,327)	(57,327)	-	(57,327)
Deemed contribution from shareholders (Note)	-	-	30,346	-	-	-	30,346	-	30,346
<b>At 30 June 2007</b>	<b>101,345</b>	<b>1,446,894</b>	<b>87,040</b>	<b>82,290</b>	<b>14,636</b>	<b>295,072</b>	<b>2,027,277</b>	<b>230,807</b>	<b>2,258,084</b>

Note: Deemed contribution from shareholders mainly represented difference between the consideration received and the fair value of net assets disposed of by the associates of the Group to Zhejiang Geely Holding Group Company Limited and its subsidiaries (collectively referred to as "Zhejiang Geely Holding Group"). Zhejiang Geely Holding Group is beneficially owned by the substantial shareholder of the Company.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(14,780)</b>	2,030
<b>NET CASH FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,902)	(4,374)
Dividend received from associates	61,231	47,157
Interest received	8,239	6,975
	<b>67,568</b>	49,758
<b>NET CASH FROM FINANCING ACTIVITIES</b>		
Dividend paid	(57,327)	(41,161)
Capital contribution from a minority shareholder	4,284	–
Net proceeds from the issuance of shares	609,867	–
Net proceeds from the issuance of convertible bonds	–	727,872
Other financing activities	(7,648)	(2,078)
	<b>549,176</b>	684,633
<b>Net increase in cash and cash equivalents</b>	<b>601,964</b>	736,421
<b>Cash and cash equivalents at beginning of period</b>	<b>20,972</b>	8,449
Effect of foreign exchange rate changes	85	96
<b>Cash and cash equivalents at end of period, represented by bank balances and cash</b>	<b>623,021</b>	744,966

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 1. BASIS OF PREPARATION

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

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2007 annual financial statements. Details of these changes in accounting policies are set out in note 2.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs" which term collectively includes individual HKFRSs, HKASs and Interpretations) that are effective for accounting periods beginning on or after 1 January 2007 as follows:

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised. The Group has not early applied the following new/revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Interpretation 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Interpretation 12	Service Concession Arrangements <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

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

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

### Business Segments

No business segment information has been presented for the six months ended 30 June 2007 and 30 June 2006 as the directors consider that the Group is principally engaged in the manufacturing and trading of automobile parts and related automobile components which accounts for the total turnover and trading profits of the Group for the periods.

### Geographical segments

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 4. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
<b>Finance costs</b>		
Effective interest expense on convertible bonds	20,656	10,142
Interest on bank borrowings wholly repayable within one year	148	–
<b>Total finance costs</b>	<b>20,804</b>	10,142
<b>Staff costs, including directors' emoluments</b>		
Salaries, wages and other benefits	8,115	6,346
Retirement benefits scheme contributions	776	136
Recognition of share based payments (included in administrative expenses)	1,349	2,985
<b>Total staff costs</b>	<b>10,240</b>	9,467
<b>Other items</b>		
Interest income	(8,239)	(6,975)
Cost of inventories sold	57,536	59,986
Depreciation	869	622
Share of tax of associates (included in share of results of associates)	7,197	15,837

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 5. TAXATION

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC foreign enterprise income tax	730	842

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 PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC foreign 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 period based on existing legislation, interpretations and practices in respect thereof.

## 6. DIVIDENDS

During the current period, a final dividend and a special dividend for the year ended 31 December 2006 of HK\$0.01 per share (2006: HK1 cent per share) and HK\$0.002 (2006: Nil) per share respectively, amounting to HK\$57,327,000 (2006: HK\$41,203,000), were paid to the shareholders.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$82,416,000 (2006: HK\$120,699,000) and weighted average number of ordinary shares of 4,667,546,612 shares (2006: 4,120,264,902 shares), calculated as follows:

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	4,151,388,496	4,120,264,902
Effect of new shares issued	447,513,812	–
Effect of shares issued upon conversion of convertible bonds	68,644,304	–
Weighted average number of ordinary shares at 30 June	4,667,546,612	4,120,264,902

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 7. EARNINGS PER SHARE *(Continued)*

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the period is based on the profit attributable to equity holders of the Company of HK\$82,416,000 (2006: HK\$138,359,000) and the weighted average number of ordinary shares of 4,745,191,036 shares (2006: 4,970,176,228 shares), calculated as follows:

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share (profit attributable to equity holders)	82,416	120,699
After tax effect of effective interest on the liability component of convertible bonds	–	10,142
After tax effect of fair value losses on embedded derivative components of convertible bonds	–	7,518
<b>Earnings for the purpose of diluted earnings per share</b>	<b>82,416</b>	<b>138,359</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 7. EARNINGS PER SHARE *(Continued)*

### (b) Diluted earnings per share *(Continued)*

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>4,667,546,612</b>	4,120,264,902
Effect of deemed conversion of convertible bonds	–	833,258,427
Effect of deemed issue of shares under the Company's share option scheme	<b>77,644,424</b>	16,652,899
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>4,745,191,036</b>	4,970,176,228

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

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$1,902,000 (2006: HK\$4,374,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 9. INTEREST IN ASSOCIATES

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Share of net assets other than goodwill	1,844,211	1,666,999
Goodwill	14,473	–
	<b>1,858,684</b>	<b>1,666,999</b>

During the period, the Group, a related party and Manganese Bronze Holdings plc (“MBH”), a company which shares are listed on the London Stock Exchange, jointly set up a sino-foreign equity joint venture, Shanghai LTI Automobile Components Company Limited (“Shanghai LTI”) in which the Group, the related party and MBH own 51%, 1% and 48% respectively. MBH raised the funds required for satisfying its share of the capital contribution to Shanghai LTI by issuing 5,700,000 ordinary shares to the Group. As a result, the Group becomes the holder of 22.83% of the equity shares of MBH and MBH becomes an associate of the Group. Details of the incorporation of Shanghai LTI and the acquisition of interest in MBH are set out in the Company’s circular dated 2 April 2007.

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Total assets	10,110,766	6,949,568
Total liabilities	(5,746,464)	(3,388,365)
Net assets	<b>4,364,302</b>	<b>3,561,203</b>
Group’s share of net assets of associates	<b>1,844,211</b>	<b>1,666,999</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 9. INTEREST IN ASSOCIATES *(Continued)*

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Revenue	5,006,190	3,288,163
Profit for the period attributable to equity holders of the associates	276,895	294,189
Group's share of results of associates for the period	129,615	137,680

## 10. INVENTORIES

	30 June	31 December
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Audited)
At costs:		
Raw materials	7,518	5,656
Work in progress	310	1,000
Finished goods	3,991	3,254
	11,819	9,910

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 11. TRADE AND OTHER RECEIVABLES

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>Trade and notes receivables</b>		
Trade receivables from an associate	30,526	20,538
Notes receivables	28,500	37,405
	59,026	57,943
<b>Other receivables</b>		
Deposits, prepayments and other receivables	9,510	1,122
	68,536	59,065

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
0 – 60 days	30,526	20,503
61 – 90 days	–	35
	30,526	20,538

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 12. CONVERTIBLE BONDS

Details of the terms of the convertible bonds are set out in the Company's annual report for the year ended 31 December 2006. Convertible bonds contain a liability component and the embedded derivatives (comprising a put option, a call option and conversion option), which are required to be accounted for separately. The movements of the convertible bonds for the period are set out below:

	Six months ended 30 June 2007 HK\$'000 (Unaudited)	Year ended 31 December 2006 HK\$'000 (Audited)
<b>Liability component</b>		
Carrying amount brought forward/Fair value at inception	682,838	689,917
Issuing costs	–	(13,632)
Conversion during the period/year	(272,823)	(25,736)
Accrued effective interest charges	20,656	32,289
	<b>430,671</b>	<b>682,838</b>
<b>Fair value of embedded derivative in respect of the put option and conversion option</b>		
Carrying amount brought forward/Fair value at inception	169,782	192,714
Conversion during the period/year	(66,169)	(10,694)
Changes in fair value	135,130	(12,238)
	<b>238,743</b>	<b>169,782</b>
<b>Less: Fair value of embedded derivative in respect of the call option</b>		
Carrying amount brought forward/Fair value at inception	115,894	141,126
Conversion during the period/year	(45,167)	(8,252)
Changes in fair value	116,501	(16,980)
	<b>187,228</b>	<b>115,894</b>
	<b>51,515</b>	<b>53,888</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 12. CONVERTIBLE BONDS *(Continued)*

The principal amount of the convertible bonds converted during the period was HK\$278.2 million (year ended 31 December 2006: HK\$27.7 million) and the principal amount outstanding at 30 June 2007 is HK\$435.7 million (31 December 2006: HK\$713.9 million).

The derivatives embedded in the convertible bonds are measured at fair value at 30 June 2007 by an independent professional valuer, BMI Appraisals Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method.

## 13. TRADE AND OTHER PAYABLES

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>Trade payables</b>		
To third parties	26,943	19,498
<b>Other payables</b>		
Accrued charges and other creditors	5,965	4,155
	<b>32,908</b>	<b>23,653</b>

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
0 – 60 days	21,085	16,379
61 – 90 days	3,854	1,407
Over 90 days	2,004	1,712
	<b>26,943</b>	<b>19,498</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 14. SHARE CAPITAL

	Note	Number of shares	Nominal value HK\$'000
Authorised:			
Ordinary shares of HK\$0.02 each			
At 31 December 2006 and <b>30 June 2007</b>		<b>8,000,000,000</b>	<b>160,000</b>
Issued and fully paid:			
Ordinary shares of HK\$0.02 each			
Balance at 1 January 2006		4,120,264,902	82,405
Shares issued upon conversion of convertible bonds		31,123,594	623
Balance at 31 December 2006 and at 1 January 2007 (Audited)		4,151,388,496	83,028
Issue of shares for cash	(a)	600,000,000	12,000
Shares issued upon conversion of convertible bonds	(b)	315,876,778	6,317
<b>Balance at 30 June 2007 (Unaudited)</b>		<b>5,067,265,274</b>	<b>101,345</b>

Note:

- (a) During the period, the Company issued 600,000,000 ordinary shares (year ended 31 December 2006: Nil) of HK\$0.02 each at a subscription price of HK\$1.06 per share for cash to provide for additional working capital of the Group and to finance the investment in Shanghai LTI. These shares rank pari passu with the existing shares in all respects.
- (b) During the period, convertible bonds of principal amount of HK\$278,230,000 (year ended 31 December 2006: HK\$27,700,000) have been converted into 315,876,778 ordinary shares (year ended 31 December 2006: 31,123,594 ordinary shares) of the Company at a conversion price of HK\$0.89 per share and HK\$0.88 per share before and after the distribution of 2006 final dividends and special dividends, respectively. These shares rank pari passu with the existing shares in all respects.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 15. COMMITMENTS

### Capital expenditure commitments

As at the balance sheet dates, the Group had entered into contracts with related parties to establish sino-foreign equity joint ventures in the PRC in which the Group will invest approximately the following amount:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Capital contribution	<b>182,849</b>	418,580

### Operating lease commitments

- (1) At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office and factory premises under non-cancellable operating leases with third parties which fall due as follows:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Within one year	<b>760</b>	926
In the second to fifth year inclusive	<b>490</b>	–
	<b>1,250</b>	926

Leases are negotiated and rentals are fixed for an average term of 2 years.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 15. COMMITMENTS (Continued)

### Operating lease commitments (Continued)

- (2) At the balance sheet date, the Group had commitments for future minimum lease payments in respect of factory premises and equipment under non-cancellable operating leases with an associate of the Company which fall due as follows:

	<b>30 June 2007</b>	31 December 2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>33,980</b>	–
In the second to fifth year inclusive	<b>135,918</b>	–
Over five years	<b>507,367</b>	–
	<b>677,265</b>	–

Leases are negotiated and rentals are fixed for an average term of 20 years.

## 16. 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\$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 17% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

For the six months ended 30 June 2007, the aggregate employer's contributions made by the Group and charged to the income statement are HK\$776,000 (2006: HK\$136,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 17. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible employees of the Group. Details of the terms of the scheme have been set out in the Company's annual report for the year ended 31 December 2006. Movements in number of share options during the period are as follows:

	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Outstanding at the beginning of the period	282,500,000	254,500,000
Granted during the period	–	13,000,000
Forfeited during the period	(2,480,000)	–
Outstanding at the end of the period	280,020,000	267,500,000

No options were exercised or granted to subscribe for shares in the Company during the period.

The Group recognised a total expense of HK\$1,349,000 for the six months ended 30 June 2007 (2006: HK\$2,985,000) in relation to share options granted by the Company.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 18. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these condensed consolidated financial statements, 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	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
<b>Associates</b>			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of automobile parts and components	65,333	69,271
	Purchase of automobile part and components	–	580
	Dividend income	183,463	174,489
Shanghai Maple Guorun Automobile Company Limited (上海華普國潤汽車有限公司)	Dividend income	22,556	53,683
<b>Related company (Note)</b>			
Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	75	217

Note: The Group and the related company are under the same common substantial shareholder.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2007

## 18. RELATED PARTY TRANSACTIONS *(Continued)*

### (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	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other short-term benefits	3,559	1,826
Retirement benefits scheme contribution	31	17
Share-based payments	1,349	2,985
	<b>4,939</b>	<b>4,828</b>

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

## 19. POST BALANCE SHEET EVENTS

On 13 July 2007, the Group entered into agreements with various connected persons to acquire 44.19% of the remaining interests in each of the PRC associates from its respective controlling shareholder and its associates at the total consideration of approximately HK\$1,611 million to be satisfied fully by the issue of 1,288,672,000 ordinary shares of nominal value of HK\$0.02 each at HK\$1.25 per share. In addition, on the same day, the Group entered into agreement with a related party to acquire the remaining 49% interest in the registered capital of the Company's non wholly-owned subsidiary for a total consideration of approximately HK\$23 million, which is payable in cash by primarily applying the dividends to be distributed from the non wholly-owned subsidiary.

The above acquisitions are subject to the approval by the independent shareholders of the Company and at the date of issue of these condensed consolidated financial statements, the above acquisitions have not yet been completed.

## 20. COMPARATIVE FIGURES

Certain comparative figures on the condensed consolidated balance sheet have been reclassified to conform with current period's presentation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2007 INTERIM RESULTS

The Board of Directors (the "Board") of Geely Automobile Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007. These interim results have been reviewed by the Company's Audit Committee, comprising solely the independent non-executive directors, one of whom chairs the committee, and the Company's auditors, Grant Thornton.

## OVERALL PERFORMANCE

The Group's performance in the first half of 2007 was affected by the intensified competition in China's sedan market, featured by repeated price cuts by major sedan manufacturers and a slow down in the demand for economy sedans in the China market. To cope with the rapid changes in market environment, the Group has embarked on a major strategic transformation, through expansion into higher-end and large sized vehicles and major investments to enhance the Group's technology competence and product branding, aiming at transforming Geely's competitive advantages from price competitive to technology and performance competent. Although the strategic transformation has so far yielded very positive results, it has also caused some short-term negative impact on sales volume growth and profitability so far this year.

The Company's turnover, which principally came from the Company's 51%-owned auto parts subsidiary Zhejiang Fulin Guorun Automobile Parts & Components Co. Ltd ("Zhejiang Fulin"), amounted to HK\$66 million for the six months ended 30 June 2007, representing a small decline of 5% from the same period last year. Profit attributable to shareholders amounted to HK\$82 million, down 32% from the

same period in 2006. The decline in net profit was mainly due to the 6% decrease in profit contribution from its four associates: Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo"), the startup costs of Shanghai LTI Automobile Components Company Limited ("Shanghai LTI"), the Company's new joint venture with Manganese Bronze Holdings PLC ("Manganese Bronze"), and the large increase in the net expenses related to the outstanding convertible bonds "CBs", including the accrued interests for the debt portion of the CBs and the revaluation deficit of the derivative portion of the CBs. Key contributor to the Company's net profit in the first half of 2007 remained the Company's four associates which recorded a 6% decline in net profit during the period, mainly due to the decline in the sales volume of low end sedans and a 5-6% price cuts during the first half of 2007 for most of their models, which had more than offset the increased profit contribution from new models like "Geely Kingkong".

The earnings performance of the Company's 51%-owned auto parts subsidiary Zhejiang Fulin in the first half of 2007 was also affected by the slower sales of Geely sedans, which utilized the Company's braking and steering products for its lower end models. As a result, Zhejiang Fulin's net profit after tax decreased by around 11% to HK\$5.3 million during the period.

The Company issued 600 million new shares at HK\$1.06 per share in February 2007, raising net proceeds of HK\$609 million, mainly used to fund the capital contribution to Shanghai LTI, the Company's new joint-venture with Manganese Bronze.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROPOSAL TO ACQUIRE ADDITIONAL INTERESTS IN OPERATING ASSOCIATES AND ZHEJIANG FULIN

The Company announced on 13 July 2007 that it had signed an agreement with its controlling shareholder to acquire 44.19% stakes in each of the Group's five operating associates: Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely Automobile Components Company Limited ("Hunan Geely") – an associate established in April 2007 to invest in a new plant under construction in Xiangtan of Hunan province, raising its equity interests in these operating associates to 91%, for a total consideration of HK\$1,611 million to be satisfied by the issue of 1,289 million new shares of the Group at HK\$1.25 per share. The consideration of HK\$1,611 million has been determined with reference to the unaudited net asset value of the operating associates on 30 June 2007.

The Company also entered into another agreement on the same day with a connected party for the acquisition of the remaining 49% stake in Zhejiang Fulin, raising its equity interests in Zhejiang Fulin from 51% to 100%, for a total consideration of HK\$23.3 million, payable in cash. The consideration is based on the 49% attributable interest in unaudited net asset value of Zhejiang Fulin on 30 June 2007.

The proposal reflects the management's continued effort to further rationalize and restructure the Group's structure, aiming at improving the Group's overall transparency and its effectiveness as the ultimate holding vehicle of Zhejiang Geely Holding Group Company Limited ("Geely Holding")'s auto-related

businesses. The use of new share issue rather than cash to pay for the additional stakes in the operating associates would not only help to reduce the financial burden over the Company, but also help the Group to further expand its capital base to cope with the rapid development of the Group in the future. The acquisitions are subject to approval by relevant government bodies and independent shareholders of the Company and are expected to be completed before the end of 2007.

## AUTOMOBILE PARTS MANUFACTURING – ZHEJIANG FULIN GUORUN AUTOMOBILE PARTS AND COMPONENTS CO. LTD

51%-owned Zhejiang Fulin is principally engaged in the manufacturing and sales of brake system and electric power steering ("EPS") for sedans. Demand for the Company's products in the first half of 2007 was affected by the slower sales volume growth achieved by Geely and Maple's lower-end sedans, which utilized the Company's braking and steering products. As a result, Zhejiang Fulin's turnover declined by 5% to HK\$66 million and net profit was down 10.6% to HK\$5.3 million in the first half of 2007. Zhejiang Fulin had started to supply new generation of Electric Power Steering ("EPS") for higher end Geely sedans in the first half of 2007. This, coupled with the relocation of production to new facilities completed in mid-2007, should help to improve Zhejiang Fulin's production efficiency and further reduce its production costs. Based on the existing production plan and the progress of new product launches, we are still confident that Zhejiang Fulin's performance should improve in the second half of 2007.

# MANAGEMENT DISCUSSION AND ANALYSIS

## NEW JOINT-VENTURE WITH MANGANESE BRONZE – SHANGHAI LTI

In March 2007, the Company set up a new production joint venture, named Shanghai LTI Automobile Components Company Limited, with Manganese Bronze to manufacture the iconic London Taxies, a limousine and two large saloon car models in Shanghai starting from the second half of 2008. The Company invested US\$53.8 million for a 51% stake in Shanghai LTI, plus a 22.83% stake or 5.7 million new shares in Manganese Bronze, which in turn owns 48% stake in the joint venture. The remaining 1% stake of the joint venture is owned by Shanghai Maple Automobile Company Limited, which is 90%-owned by Geely Holding. Total investment of Shanghai LTI is estimated to be around US\$99.5 million, which is funded by shareholders' capital contribution and subsequent bank borrowings. Manganese Bronze will appoint Mr. Gui Sheng Yue and Mr. Ang Siu Lun, Lawrence, both are executive directors of the Group, to join the board of Manganese Bronze as non-executive directors with effect from 25 September 2007. The Group will start to equity account for Manganese Bronze's financial results in its financial statements from the second half of 2007.

Shanghai LTI has completed its product plans and has commenced the redesign and reengineering of Manganese Bronze's TX4 models for subsequent production of the localized models in China. Shanghai LTI is scheduled to start production in an existing production plant leased from Shanghai Maple towards the end of 2008. Without revenues during the period, Shanghai LTI recorded a net loss of HK\$3.4 million in the first half of 2007.

## VEHICLE MANUFACTURING – ZHEJIANG GEELY, SHANGHAI MAPLE, ZHEJIANG KINGKONG AND ZHEJIANG RUHOO

46.8%-owned Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong and Zhejiang Ruhoo remained the key earnings contributors to the Company, accounting for the bulk of the Company's earnings in the first half of 2007. The four operating associates sold a total of 84,111 units of vehicles in the first six months of 2007, down 3% from the restated sales volume of 86,641 units in the same period last year. The combined market share of Geely and Maple sedans declined from 4.3% in 2006 to 3.7% in the first half of 2007 due to the dramatic drop in the sales volumes of the low-priced models like Haoqing and Ulion, as a result of the Group's strategic transformation towards more performance and technology driven products.

Despite the slight decline in sales volume, the four associates continued to improve their product mixes towards higher-priced models through the introduction of more higher-priced models like "Vision" and the 1.8L "Power Version" of "Geely Kingkong" during the first half of 2007. Sales of the three higher-priced models: "Free Cruiser", "Geely Kingkong" and "Vision" accounted for 59% of their total sales volume in the first half of 2007 compared with only 34% during the same period in 2006. In particular, "Geely Kingkong", the Group's key new product last year, has received very good market response and achieved a tremendous success in the first half of 2007 with a total sales volume of 16,504 units and become the second best selling models of the associates during the period. "Free Cruiser" remained the associates' best selling models during the period, achieving sales volume of 30,606 units, 6% higher than the level

# MANAGEMENT DISCUSSION AND ANALYSIS

achieved the same period last year. Although "Vision", the associates' key new product in 2007, was only officially launched in May 2007, the market response has been encouraging so far with a total of 2,622 units sold in the first half of 2007.

In the first half of 2007, the four operating associates recorded total net profit of HK\$277 million, down 6% from the same period in 2006, on 3% decrease in sales volume to 84,111 units and 52.2% increase in total revenue to HK\$5,006 million. Average revenue per car improved significantly by 47% to HK\$53,745 per car as improved product mix more than offset the 5-6% price reduction during the first half of 2007. Net profit per car, however, decreased by 3% YoY to HK\$3,292 per car during the first half of 2007, as price reduction and increased expenses related to new product launches more than offset the improved product mix and costs cutting achieved during the period. Total unit production costs for comparable models are estimated to have fallen by around 3-5% during the first half of 2007.

## PRODUCTION PLANTS

Owing to good response to "Vision" mid-end sedans and the continued high levels of demand for "Free Cruiser" models, the Ningbo plant, which is the only production base for both "Vision" and "Free Cruiser", has been suffering from capacity constraints during the first half of 2007. To alleviate the problems, the Ningbo plant is undergoing a major upgrading and expansion, aiming at expanding the annual production capacity from 50,000 units per shift to 80,000 units per shift by early 2008.

In Shanghai, the installation of machinery and equipment in the Phase II of Shanghai Maple plant was completed in the first half of 2007 and the relocation of production of Maple sedans from the Phase I plant to Phase II plant started in June 2007. The initial production capacity at Phase II of Shanghai plant will be 50,000 units per annum, expandable to 100,000 units. After the relocation, a major renovation programme will be started at the Phase I of the Shanghai plant, which will then be rented to Shanghai LTI for the production of a localized version of TX4 starting from the end of 2008.

The Linhai plant is currently undergoing a major technological upgrading to prepare for the production of a new platform of economy sedans in 2008. A new engine plant for the production of a new series of engines for compact cars is being constructed in the Linhai plant. With the expansion and upgrading at the Ningbo, Shanghai and Linhai plants, the Group's total annual production capacity will be expanded from 200,000 units by the end of 2006 to close to 300,000 units by early 2008. In addition, the planned acquisitions of new plants currently constructed by the Group's parent Geely Holding in Xiangtan, Lanzhou and Jinan could expand the Group's total annual production capacity by a further 200,000 units. Construction of the new plants in Xiangtan and Lanzhou was completed last year. Trial production at Xiangtao plant was started in December 2006, while trial production at Lanzhou plant was started in February 2007. Both plants are scheduled to start mass production by the end of 2007.

# MANAGEMENT DISCUSSION AND ANALYSIS

## NEW PRODUCTS

Major new product launches in the first half of 2007 are summarized below:

1. Geely "Merrie Star" 2007 facelift (1.05L; 1.3L);
2. Geely "Kingkong" mid-end sedans "power version" (1.8L);
3. Geely "Vision" mid-end sedans (1.8L);
4. Maple "Marindo" sedans "economy version" (1.3L).

In the second half of 2007, the Company's four operating associates plan to launch the following new products:

1. Geely "JL-Z142" 4-speed automatic gearboxes;
2. Geely "JL-S148" manual gearboxes;
3. Geely "Free Cruiser" "2008 version" (1.3L, 1.5L);
4. Maple "Haifeng" mid-end sedans (1.5L, 1.8L).

The Group's long-term new product development focus is to develop 15 brand new vehicle models, 8 new engines, 6 new manual transmissions, 6 new automatic transmissions, 3 ECVT (Electronically Controlled Continuously Variable Transmissions) and one hybrid project by 2010.

## EXPORTS

In the first half of 2007, the Company's four associates exported a total of 6,933 units of Geely and Maple sedans, or around 8% of the four associates' total sales

volume, to overseas market. The Company expects total export volume to exceed 20,000 units for the full year 2007, up from 10,000 units in 2006. The Company's major export markets are the developing countries in Middle East, Africa and Central America, including Venezuela, Russia, Ukraine, Syria, Southern Africa and Peru. During the first half of 2007, major achievements were accomplished in the attempt to assemble Geely sedans in overseas countries, with the trial assembly of Geely sedans in Ukraine and Indonesia in cooperation with local partners started during the period. Further, a new division was set up in early 2007 to target at large customers in overseas markets including the procurement orders from government bodies, large corporate purchases and taxi companies.

## OUTLOOK

Although competition in China's sedan market continues to intensify, we expect the growth of China's sedan sales volume to be maintained at around 20% per annum in the coming few years. According to the figures compiled by the China Association of Automobile Manufacturers, total sales volume of sedans in China amounted to 2.3 million units in the first half of 2007, up almost 26% from the previous year. However, sales of smaller sized cars have slowed down significantly since the end of 2006. In particular, sales volume of sedans with engine size of 1.0L or less was down almost 30% YoY during the first half of 2007, reflecting an interesting shift in preference for larger size cars by the Chinese consumers, probably a result of the increasing need for longer distance intra city travel and a strong domestic stock market, which is reported to have prompted potential car buyers to delay their car purchase plans to spare more funds for investment in the local stock market. As a result of the dramatic slow down in the demand for smaller cars,

# MANAGEMENT DISCUSSION AND ANALYSIS

most small car manufacturers have decided to adopt a more aggressive pricing strategy, resulting in several rounds of competitive price cuts since the beginning of 2007, resulting in tremendous price pressures in the economy car segment so far this year. Despite this, the very difficult market condition, which has resulted in dramatic fall in sales volume and major deterioration in profitability amongst most economy car manufacturers in China, has so far only limited impact on the Group's performance, thanks to the Group's well timed transformation to broaden its product range over the past few years.

To cope with the rapid changes in market environment, the Group has reduced the retail prices of its products by 5-6% so far in 2007. In addition, more resources have been allocated to improve the Group's brand images, product mix, customer services and the quality and technology standards of its products, aiming to enhance the Group's pricing power through differentiating the Group's products from the products offered by other Chinese sedan manufacturers. Additional efforts were also spent to promote exports sales in order to compensate for the shortfall in the domestic demand. Major restructuring in various business areas including the research and development department, the auto parts procurement system, and the suppliers' system have been implemented to further reduce cost and improve product quality. A management reshuffle also happened in Shanghai Maple, aiming to revive the profitability of the Maple sedans. Major restructuring of the Group's dealers and distribution network has also started to improve the effectiveness of the Geely sedans' market penetration. With the considerable effort spent since the beginning of 2007, we expect the Group's performance will show improvement over the next few months.

In view of the less than satisfactory performance in the first half of 2007, featured by dramatic fall in the sales volume of the Group's low end sedan models, which have long been the key contributors to the Group's total sales volume, we have decided to revise downwards our full year sales target from 240,000 units to 190,000 units, which still represent a respectful growth of 16% over 2006. In the first half of 2007, the Company's four associates had sold 84,111 units of vehicles, achieving 44% of their revised combined full year sales volume target.

In the medium to longer term, the Group will continue to upgrade and expand our production facilities to improve quality and reduce costs, to build new production facilities in less developed provinces to develop new markets and generate additional demand for Geely and Maple sedans, to invest in product and technology innovation in order to differentiate our products from the rest of the market, and to establish strategic alliances with major suppliers to reduce volatility of raw material and component costs, with an aim to develop the Group into an internationally competitive sedan manufacturer.

The Group's major achievements in the first half of 2007, including the successful launch of Geely's first mid-end sedan model: "Vision", the significant improvement in average unit sales price to HK\$53,745 per car, up 47% from the same period last year, and thus a huge increase in the half year sale revenue of the operating associates to over HK\$5 billion benchmark, paving way for the operating associates to achieve their target of surpassing HK\$10 billion in revenue in 2007, and the substantial effort devoted to restructure the associates' parts procurement system and dealers' network, should have built up a good foundation for the Group's sustained long-term growth in the future.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE AND TREASURY POLICIES

The business activities of the Group are mainly financed by the share capital, dividends received from the Group's two major associates, net proceeds from the top-up placement of 600 million shares issued by the Company in February 2007. As at 30 June 2007, the Group's shareholders' fund amounted to approximately HK\$2,027 million (As at 31 December 2006: approximately HK\$1,030 million). Save for the 600 million shares issued for the top-up placement in February 2007 and 315,876,778 shares issued upon conversion of convertible bonds, no further shares were issued by the Group during the period.

## EXPOSURE TO FOREIGN EXCHANGE RISK

The Group considers that fluctuations in exchange rate do not impose a significant risk to the Group since the Group's operations are principally in the Mainland China and Hong Kong and all assets and liabilities are denominated either in Renminbi or Hong Kong dollars.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group's current ratio (current assets/current liabilities) was 8.62 (As at 31 December 2006: 1.48) and the gearing ratio of the Group was 22.4% (As at 31 December 2006: 69.5%) which was calculated on the Group's total borrowings to total

shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 30 June 2007 amounted to approximately HK\$453 million (As at 31 December 2006: approximately HK\$716 million) were mainly the Company's convertible bonds, bank borrowings and the amount due to immediate holding company. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity. For the bank borrowings, they were secured by notes receivables, interest-bearing and repaid on maturity. Whilst for the amount due to immediate holding company, they were unsecured, interest-free and repayable on demand. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

## EMPLOYEES' REMUNERATION POLICY

As at 30 June 2007, the total number of employees of the Group including associates was about 8,409 (As at 31 December 2006: approximately 9,484). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2007, 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 interest 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:

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

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long Position	Short Position	
<b>Shares</b>				
Mr. Li Shu Fu (Note 1)	Corporate	2,500,087,000	–	49.34%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.04%
<b>Share options</b>				
Mr. Ang Siu Lun, Lawrence	Personal	35,000,000 (Note 2)	–	0.69%
Mr. Ang Siu Lun, Lawrence	Personal	10,000,000 (Note 3)	–	0.20%
Mr. Gui Sheng Yue	Personal	23,000,000 (Note 3)	–	0.45%
Mr. Xu Gang	Personal	23,000,000 (Note 3)	–	0.45%
Mr. Yang Jian	Personal	23,000,000 (Note 3)	–	0.45%

# MANAGEMENT DISCUSSION AND ANALYSIS

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long Position	Short Position	
Mr. Liu Jin Liang	Personal	18,000,000 (Note 3)	–	0.36%
Mr. Zhao Jie	Personal	18,000,000 (Note 3)	–	0.36%
Mr. Yin Da Qing, Richard	Personal	16,000,000 (Note 3)	–	0.32%
Dr. Zhao Fuquan	Personal	12,000,000 (Note 5)	–	0.24%
Mr. Song Lin	Personal	1,000,000 (Note 4)	–	0.02%
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 4)	–	0.02%
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 4)	–	0.02%

Notes:

- (1) Proper Glory Holding Inc. is a private company incorporated in the British Virgin Islands and is wholly owned by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li.
- (2) This interest relates to share options granted on 23 February 2004 by the Company to Mr. Ang Siu Lun, Lawrence. The share options are exercisable at a subscription price of HK\$0.95 for each share during the period from

23 February 2004 to 22 February 2009. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2007. Pursuant to the passing of the resolution proposed at the extraordinary general meeting and the directors' meeting (including all independent non-executive directors) of the Company held on 31 July 2007, these share options have been replaced with the new one on terms that mirror those under Old Option (1) (as defined in the circular of the Company dated 13 July 2007).

# MANAGEMENT DISCUSSION AND ANALYSIS

- (3) This interest relates to share options granted on 5 August 2005 by the Company to the executive Directors. The share options are exercisable at a subscription price of HK\$0.70 for each share during the period from 5 August 2005 to 4 August 2010. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2007. Pursuant to the passing of the resolution proposed at the extraordinary general meeting and the directors' meeting (including all independent non-executive directors) of the Company held on 31 July 2007, these share options have been replaced with the new one on terms that mirror those under Old Option (2) (as defined in the circular of the Company dated 13 July 2007).
- (4) This interest relates to share options granted on 23 May 2006 by the Company to the independent non-executive Directors. The share options are exercisable at a subscription price of HK\$0.93 for each share during the period from 10 July 2006 to 16 May 2011. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2007. Pursuant to the passing of the resolution proposed at the extraordinary general meeting and the directors' meeting (including all independent non-executive directors) of the Company held on 31 July 2007, these share options have been replaced with the new one on terms that mirror those under Old Option (3) (as defined in the circular of the Company dated 13 July 2007).
- (5) This interest relates to share options granted on 28 November 2006 by the Company to Dr. Zhao Fuquan. The share options are exercisable at a subscription price of HK\$0.89 for each share during the period from 28 November 2006 to 27 November 2011. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that at 30 June 2007. Pursuant to the passing of the resolution proposed at the extraordinary general meeting and the directors' meeting (including all independent non-executive directors) of the Company held on 31 July 2007, these share options have been replaced with the new one on terms that mirror those under Old Option (4) (as defined in the circular of the Company dated 13 July 2007).

# MANAGEMENT DISCUSSION AND ANALYSIS

## (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	Geely Group Limited	50,000	–	100%
Mr. Li Shu Fu	Zhejiang Geely Automobile Company Limited	(Note 1)	–	(Note 1)
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	(Note 2)	–	(Note 2)
Mr. Li Shu Fu	Zhejiang Kingkong Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 4)	–	(Note 4)

### Notes:

- (1) Zhejiang Geely Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Geely Merrie Automobile Company Limited. Zhejiang Geely Merrie Automobile Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
- (2) Shanghai Maple Guorun Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Shanghai Maple Automobile Company Limited. Shanghai Maple Automobile Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
- (3) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (4) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 53.19%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Zhejiang Geely Holding Group Company Limited. Zhejiang Geely Holding Group Company Limited is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.

Save as disclosed above, as at 30 June 2007, 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.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

As at 30 June 2007, the directors and chief executive of the Company have the following options to subscribe for the shares of the Company under the Company's share options scheme approved and adopted on 31 May 2002 (the "Scheme"):

Name of Director	Outstanding Options as at 30 June 2007	Date of grant	Exercise period	Exercise price HK\$
Mr. Ang Siu Lun, Lawrence	35,000,000	23.2.2004	23.2.2004 – 22.2.2009	0.95
Mr. Ang Siu Lun, Lawrence	10,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Mr. Gui Sheng Yue	23,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Mr. Xu Gang	23,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Mr. Yang Jian	23,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Mr. Liu Jin Liang	18,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Mr. Zhao Jie	18,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Mr. Yin Da Qing, Richard	16,000,000	5.8.2005	5.8.2005 – 4.8.2010	0.70
Dr. Zhao Fuquan	12,000,000	28.11.2006	28.11.2006 – 27.11.2011	0.89
Mr. Song Lin	1,000,000	23.5.2006	10.7.2006 – 16.5.2011	0.93
Mr. Yeung Sau Hung, Alex	1,000,000	23.5.2006	10.7.2006 – 16.5.2011	0.93
Mr. Lee Cheuk Yin, Dannis	1,000,000	23.5.2006	10.7.2006 – 16.5.2011	0.93
	<u>181,000,000</u>			

# MANAGEMENT DISCUSSION AND ANALYSIS

## SHARE OPTION SCHEME

A share option scheme of the Company was approved and adopted on 31 May 2002. The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, 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 Scheme were disclosed in the Company's 2006 annual report.

Based on the Company's records as at 30 June 2007, except disclosed in the section headed "Directors'

Right to Acquire Shares" above, 99,020,000 share options were granted by the Company to the employees and remain outstanding since its adoption.

## INTERIM DIVIDEND

At a meeting of the Board held on 7 September 2007, the Directors resolved not to pay an interim dividend to shareholders (2006: Nil).

## CONNECTED TRANSACTIONS

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

### (A) Transactions

Connected parties	Nature of transactions	Six months ended 30 June	
		2007 HK\$'000	2006 HK\$'000
Zhejiang Geely Automobile Company Limited	Sales of automobile parts and components	65,333	69,271
	Purchases of automobile parts and components	–	580
	Dividend income	183,463	174,489
Shanghai Maple Guorun Automobile Company Limited	Dividend income	22,556	53,683
Zhejiang Guo Mei Renovation Company Limited (Note)	Rental expense	75	217

Note: The Group and the related company are under the controlling shareholder and his associate.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF OTHER PERSONS

As at 30 June 2007, the following persons (other than the directors or the chief executive 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 Listing Rules)

Name	Capacity	Number of shares held		Shareholding Percentage (%)
		Long position	Short position	
Proper Glory Holding Inc. (Note)	Beneficial owner	2,500,000,000	–	49.34
Geely Group Ltd. (Note)	Beneficial owner	87,000	–	0.002
	Corporate	2,500,000,000	–	49.34
TOSCA	Corporate	544,230,000	–	10.74
Morgan Stanley	Corporate	404,638,810	404,638,810	–
UBS AG	Corporate	389,221,589	1,808,000	7.65
OZ Management, L.L.C.	Corporate	251,279,888	–	4.96

Note: Proper Glory Holding Inc. is a private company incorporated in the British Virgin Islands and is wholly owned 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.

Save as disclosed above, the Company had not been notified of any other person (other than the directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 30 June 2007 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2007.

## CORPORATE GOVERNANCE

The Company has met with the code provisions of the Code on Corporate Governance Practices (the "CG Code"), as set out in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2007, except for the following deviation:—

### Code provision E.1.2

The code provision E.1.2 of the CG Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to other commitment in the PRC, Mr. Li Shu Fu ("Mr. Li"), the Chairman of the Board, was unable to attend physically at the annual general meeting of the Company held on 14 May 2007 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the CG Code.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own Code for Securities Transactions by Officer (the "Code"). All directors of the Company have confirmed their compliance during the review period with the required standards set out in the Model Code and the Code.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. As at 30 June 2007, the audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company.

## 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  
7 September 2007