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

(Stock Code 股份代號 : 0175)



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Executive Directors:

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

Non-executive Director:

Mr. Xu Gang (Resigned on 1 April 2010)

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

Auditors:

Grant Thornton

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
The Hong Kong and Shanghai Banking Corporation Limited
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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>



**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 31 which comprise the condensed consolidated balance sheet of Geely Automobile Holdings Limited as of 30 June 2010 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, 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.

Member of Grant Thornton International Ltd

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
6th Floor, Nexus Building
41 Connaught Road Central
Hong Kong

25 August 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Note	Six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Turnover/Revenue		9,235,733	5,948,690
Cost of sales		(7,487,314)	(4,819,092)
Gross profit		1,748,419	1,129,598
Other income	4	583,097	248,395
Distribution and selling expenses		(493,062)	(318,266)
Administrative expenses		(448,383)	(243,153)
Share-based payments		(162,390)	(7,337)
Finance costs	5	(116,354)	(33,433)
Loss on early redemption of convertible bonds	14	–	(15,987)
Share of results of an associate	11	(7,302)	(1,887)
Gain on deemed disposal of interest in an associate	11	–	5,245
Profit before taxation		1,104,025	763,175
Taxation	6	(192,052)	(109,038)
Profit for the period	5	911,973	654,137
Attributable to:			
Equity holders of the Company		804,848	595,910
Non-controlling interests		107,125	58,227
		911,973	654,137
Earnings per share			
Basic	8	RMB10.99 cents	RMB9.00 cents
Diluted	8	RMB9.96 cents	RMB8.93 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	911,973	654,137
Other comprehensive income:		
Exchange differences on translation of foreign operations recognised	(26,964)	(22,754)
Total comprehensive income for the period	885,009	631,383
Attributable to:		
Equity holders of the Company	777,884	573,156
Non-controlling interests	107,125	58,227
	885,009	631,383

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 June 2010

	Note	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	4,934,237	4,328,102
Intangible assets	10	1,241,127	1,069,679
Goodwill		6,222	6,222
Interest in an associate	11	–	7,302
Prepaid land lease payments		1,367,502	1,171,473
		7,549,088	6,582,778
Current assets			
Prepaid land lease payments		29,322	29,322
Inventories	12	916,132	640,504
Trade and other receivables	13	5,635,893	6,144,929
Financial assets at fair value through profit or loss		12,183	12,209
Tax recoverable		5,779	–
Pledged bank deposits		823,758	894,292
Bank balances and cash		5,482,178	4,498,155
		12,905,245	12,219,411
Current liabilities			
Trade and other payables	15	7,224,490	7,328,825
Taxation		152,933	69,329
Bank borrowings, secured	16	1,383,622	1,509,635
		8,761,045	8,907,789
Net current assets		4,144,200	3,311,622
Total assets less current liabilities		11,693,288	9,894,400
CAPITAL AND RESERVES			
Share capital	17	137,852	136,993
Reserves		7,069,037	6,238,620
Equity attributable to equity holders of the Company		7,206,889	6,375,613
Non-controlling interests		981,644	720,907
Total equity		8,188,533	7,096,520
Non-current liabilities			
Convertible bonds	14	1,462,216	1,442,153
Long-term bank borrowings, secured	16	1,984,094	1,318,000
Deferred taxation		58,445	37,727
		3,504,755	2,797,880
		11,693,288	9,894,400

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2010

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory and staff welfare reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Convertible bond and warrant reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	122,542	2,510,927	88,059	27,227	67,635	44,785	-	1,336,687	4,197,862	584,619	4,782,481
Transfers	-	-	-	700	-	-	-	(700)	-	-	-
Profit for the period	-	-	-	-	-	-	-	595,910	595,910	58,227	654,137
Other comprehensive income:											
Exchange differences on translation of foreign operations recognised	-	-	-	-	(22,754)	-	-	-	(22,754)	-	(22,754)
Total comprehensive income for the period	-	-	-	-	(22,754)	-	-	595,910	573,156	58,227	631,383
Transactions with owners:											
Recognition of share-based payments	-	-	-	-	-	7,337	-	-	7,337	-	7,337
Transfer upon expiration of share options	-	-	-	-	-	(3,824)	-	3,824	-	-	-
Issue of shares	10,031	652,408	-	-	-	-	-	-	662,439	-	662,439
Dividend paid	-	-	-	-	-	-	-	(91,376)	(91,376)	-	(91,376)
Total transactions with owners	10,031	652,408	-	-	-	3,513	-	(87,552)	578,400	-	578,400
At 30 June 2009	132,573	3,163,335	88,059	27,927	44,881	48,298	-	1,844,345	5,349,418	642,846	5,992,264

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory and staff welfare reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Convertible bond and warrant reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	136,993	3,334,306	88,059	21,134	89,211	31,007	232,864	2,442,039	6,375,613	720,907	7,096,520
Utilisation of reserve	-	-	-	(3,333)	-	-	-	3,333	-	-	-
Profit for the period	-	-	-	-	-	-	-	804,848	804,848	107,125	911,973
Other comprehensive income:											
Exchange differences on translation of foreign operations recognised	-	-	-	-	(26,964)	-	-	-	(26,964)	-	(26,964)
Total comprehensive income for the period	-	-	-	-	(26,964)	-	-	804,848	777,884	107,125	885,009
Transactions with owners:											
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	153,612	153,612
Shares issued under share option scheme	859	46,063	-	-	-	(7,568)	-	-	39,354	-	39,354
Recognition of share-based payments	-	-	-	-	-	162,390	-	-	162,390	-	162,390
Transfer upon forfeiture of share options	-	-	-	-	-	(36)	-	36	-	-	-
Dividend paid	-	-	-	-	-	-	-	(148,352)	(148,352)	-	(148,352)
Total transactions with owners	859	46,063	-	-	-	154,786	-	(148,316)	53,392	153,612	207,004
At 30 June 2010	137,852	3,380,369	88,059	17,801	62,247	185,793	232,864	3,101,904	7,206,889	981,644	8,188,533

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2010

	Note	Six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Net cash from operating activities		1,469,993	982,446
Net cash used in investing activities			
Purchase of property, plant and equipment		(338,445)	(285,355)
Addition of intangible assets		(236,346)	(157,523)
Purchase of prepaid land leases		(14,020)	–
Proceeds from disposal of property, plant and equipment		100,914	–
Change in pledged bank deposits		70,534	(202,532)
Investment of additional interest in an associate		–	(8,077)
Acquisition of a subsidiary	23	(134,447)	(293,696)
Interest received		19,664	25,292
		(532,146)	(921,891)
Net cash from financing activities			
Dividend paid	7	(148,352)	(91,376)
Capital contribution from non-controlling shareholders		153,612	–
Proceeds from the issuance of shares		–	677,160
Share issuance costs		–	(14,721)
Shares issued upon exercise of the share options		39,354	–
Redemption of convertible bonds	14	–	(322,069)
Proceeds from borrowings		907,000	962,600
Repayment of borrowings		(531,638)	(239,216)
Other financing activities		(369,661)	(42,283)
		50,315	930,095
Net increase in cash and cash equivalents		988,162	990,650
Cash and cash equivalents at beginning of period		4,498,155	889,408
Effect of foreign exchange rate changes		(4,139)	(494)
Cash and cash equivalents at end of period, represented by bank balances and cash		5,482,178	1,879,564

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”).

The condensed interim financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 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 2010. The Group has applied for the first time the following new and revised HKFRSs which are relevant to and effective for Group’s financial statements for the annual financial period beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements

Other than as noted below, the adoption of these new and revised HKFRSs did not change the Group’s accounting policies as followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 3 (Revised) – Business Combinations

The revised standard (HKFRS 3R) introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in HKFRS 3R that had an impact on the Group's acquisitions in 2010 are as follows:

- Acquisition-related costs of the combination are recorded as an expense in the income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition.
- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.
- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. For the six months ended 30 June 2010, the adoption of HKFRS 3R changed the Group's accounting for the business combination during this interim period (see note 23) but did not result in material impacts on the Group's results for the period and its financial position as of 30 June 2010.

Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

HKAS 27 (Revised) – Consolidated and Separate Financial Statements

The adoption of HKFRS 3R required that the revised HKAS 27 (HKAS 27R) is adopted at the same time. HKAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. Similar to HKFRS 3R, HKAS 27R has been applied since 1 January 2010. The adoption of HKAS 27R did not have an impact in the current period financial statements.

HKFRSs (Amendments) – Improvements to HKFRSs 2009

The Improvements to HKFRSs 2009 made several minor amendments to HKFRSs. The only amendment relevant to the Group relates to HKAS 17 Leases. The amendment requires that leases of land are classified as finance or operating applying the general principles of HKAS 17. Prior to this amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new/revised standards, amendments or interpretations relevant to the Group's operation that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
HKFRS 9	Financial Instruments ⁵
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ¹
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

The directors of the Company anticipate that the application of other new and revised standards, amendments and interpretations but not yet effective will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group is principally engaged in manufacturing and trading of automobiles and automobile parts and related automobile components which accounts for the total turnover and trading profits of the Group for the current and prior periods and no segment information has been presented in previous financial statements. After the acquisition of automatic transmissions business (Note 23) during the year ended 31 December 2009, the Group re-organises its management structure and business lines. As a result, the Group manages its businesses by business lines and starts to report segment information from the current period. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, 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.

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 Company's annual financial statements for the year ended 31 December 2009 and note 2 above. Segment profit represents the profit earned by each segment without allocation of corporate expenses, directors' emoluments, share of results of an associate, interest income, interest expenses and income tax expenses. Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

3. SEGMENT INFORMATION *(Continued)*

Information regarding the Group's reportable segments is set out below. Comparative segment information has been restated to reflect the change in the Group's management structure and business lines.

For the six months ended 30 June 2010 (Unaudited)

	Automobiles and related parts and components	Gearboxes	Unallocated	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	8,968,740	266,993	–	–	9,235,733
Inter-segment	2,374	221,029	–	(223,403)	–
Total segment revenue	8,971,114	488,022	–	(223,403)	9,235,733
Segment results	1,362,000	20,239	–	–	1,382,239
Interest income	17,616	1,935	113	–	19,664
Finance costs	(69,854)	(1,416)	(45,084)	–	(116,354)
Corporate and other unallocated expenses	–	–	(174,222)	–	(174,222)
Share of results of an associate	(7,302)	–	–	–	(7,302)
Profit before tax					1,104,025
Income tax expense					(192,052)
Profit for the period					911,973

At 30 June 2010 (Unaudited)

	Automobiles and related parts and components	Gearboxes	Unallocated	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	19,361,167	851,970	247,739	(6,543)	20,454,333
Interest in an associate	–	–	–	–	–
Total	19,361,167	851,970	247,739	(6,543)	20,454,333

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

3. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2009 (Unaudited) (Restated)

	Automobiles and related parts and components	Gearboxes	Unallocated	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	5,948,690	–	–	–	5,948,690
Inter-segment	1,247	156,781	–	(158,028)	–
Total segment revenue	5,949,937	156,781	–	(158,028)	5,948,690
Segment results	809,205	14,727	–	–	823,932
Interest income	24,202	902	188	–	25,292
Finance costs	(26,930)	(942)	(5,561)	–	(33,433)
Corporate and other unallocated expenses	–	–	(55,974)	–	(55,974)
Share of results of an associate	(1,887)	–	–	–	(1,887)
Gain on deemed disposal of interest in an associate	5,245	–	–	–	5,245
Profit before tax					763,175
Income tax expense					(109,038)
Profit for the period					654,137

At 31 December 2009 (Unaudited) (Restated)

	Automobiles and related parts and components	Gearboxes	Unallocated	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	16,227,350	893,010	1,689,335	(14,808)	18,794,887
Interest in an associate	7,302	–	–	–	7,302
Total	16,234,652	893,010	1,689,335	(14,808)	18,802,189

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

4. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	19,664	25,292
Unrealised gain on financial assets at fair value through profit or loss that are classified as held for trading (investments held for trading)	–	1,080
Rental income	3,853	97
Net claims income on defected materials purchased	14,389	12,335
Gain on disposal of scrap materials	28,196	30,393
Net exchange gain	–	156
Subsidy income from government (note 1)	510,639	149,001
Sundry income	6,356	30,041
	583,097	248,395

Note:

- 1 Subsidy income from government mainly relates to cash 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	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Finance costs		
Effective interest expense on convertible bonds	44,898	5,383
Interest on bank borrowings wholly repayable within five years	71,377	28,050
Interest paid to a related company	79	–
Total finance costs	116,354	33,433
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	343,408	189,992
Retirement benefit scheme contributions	26,787	13,509
Recognition of share-based payments	162,390	7,337
Total staff costs	532,585	210,838
Other items		
Cost of inventories recognised as expenses	7,487,314	4,819,092
Depreciation	211,942	122,329
Amortisation of prepaid land lease payments	16,804	13,216
Amortisation of intangible assets	43,829	24,516
Research and development costs	47,794	29,301
Unrealised loss on financial assets at fair value through profit or loss that are classified as held for trading (investments held for trading)	26	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

6. TAXATION

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC enterprise income tax	175,016	96,860
– Other overseas tax	1,164	–
Overprovision in prior years	(5,154)	–
	<hr/>	
	171,026	96,860
Deferred taxation	21,026	12,178
	<hr/>	
	192,052	109,038
	<hr/>	

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.

7. DIVIDEND PAID

During the current period, a final dividend for the year ended 31 December 2009 of HK\$0.023 per share (2009: HK\$0.016 per share), amounting to approximately RMB148,352,000 (2009: RMB91,376,000), were paid to the shareholders of the Company.

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 RMB804,848,000 (2009: RMB595,910,000) and weighted average number of ordinary shares of 7,324,626,721 shares (2009: 6,618,871,472 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	7,310,855,450	6,489,755,450
Effect of new shares issued	–	129,116,022
Effect of shares issued upon exercise of share options	13,771,271	–
	<hr/>	
Weighted average number of ordinary shares at 30 June	7,324,626,721	6,618,871,472
	<hr/>	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

8. 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 RMB849,746,000 (2009: RMB595,910,000) and the weighted average number of ordinary shares of 8,530,697,833 shares (2009: 6,675,465,020 shares), calculated as follows:

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share (profit attributable to equity holders)	804,848	595,910
After tax effect of effective interest on the liability component of convertible bonds	44,898	–
Earnings for the purpose of diluted earnings per share	849,746	595,910

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,324,626,721	6,618,871,472
Effect of deemed conversion of convertible bonds	998,484,894	–
Effect of deemed exercise of warrants	101,145,065	–
Effect of deemed issue of shares under the Company's share option scheme	106,441,153	56,593,548
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,530,697,833	6,675,465,020

The effect of deemed conversion of convertible bonds redeemed during the six months ended 30 June 2009 is anti-dilutive up to the date of redemption.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately RMB765,268,000 (2009: RMB285,355,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

10. INTANGIBLE ASSETS

During the period, additions to intangible assets by acquisition and capitalisation in respect of development costs of approximately RMB216,144,000 (2009: RMB157,523,000).

11. INTEREST IN AN ASSOCIATE

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Share of net assets	81,818	89,120
Goodwill	18,182	18,182
Impairment loss recognised	(100,000)	(100,000)
	-	7,302
Represented by:		
Cost of investments in an associate		
Listed in overseas	197,788	197,788
Share of post-acquisition losses and reserves	(97,788)	(90,486)
Impairment loss recognised	(100,000)	(100,000)
	-	7,302
Fair value of listed investments	22,255	69,595

During the period ended 30 June 2009, the Group and other parties subscribed for additional shares in the associate. Therefore, the Group's interest in the associate decreases from 22.69% to 19.97% and a gain on deemed disposal amounting to RMB5,245,000 was recognised. The Group retains significant influence over the associate through the power to nominate representations on the board.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

11. INTEREST IN AN ASSOCIATE *(Continued)*

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

	At 30 June 2010	At 31 December 2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total assets	727,706	757,721
Total liabilities	(353,585)	(320,856)
Net assets	374,121	436,865
Group's share of net assets of an associate	81,818	89,120
	Six months ended 30 June	2009
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	339,604	414,889
Loss for the period attributable to equity holders of the associate	(42,194)	(8,316)
Group's share of results of an associate for the period	(7,302)	(1,887)

12. INVENTORIES

	At 30 June 2010	At 31 December 2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At costs:		
Raw materials	389,188	272,498
Work in progress	137,925	111,571
Finished goods	389,019	256,435
	916,132	640,504

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

13. TRADE AND OTHER RECEIVABLES

	Note	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Trade and notes receivables			
Trade receivables			
– From third parties		661,678	558,769
– From related companies controlled by the substantial shareholder of the Company		256,477	179,686
	(a)	918,155	738,455
Notes receivable	(b)	2,578,455	4,432,019
		3,496,610	5,170,474
Deposits, prepayments and other receivables			
– Advance payment to suppliers		301,802	380,843
– Deposits paid for acquisition of property, plant and equipment		590,219	294,974
– Utility deposits and other receivables		304,376	275,403
		1,196,397	951,220
Amounts due from related parties	(c)	942,886	23,235
		5,635,893	6,144,929

(a) Trade receivables

The Group allows a credit period of 30 days to 90 days to its local PRC trade customers. 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 based on invoice dates at the balance sheet dates:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
0 – 60 days	404,927	419,146
61– 90 days	41,901	59,751
Over 90 days	471,327	259,558
	918,155	738,455

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

13. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Notes receivable

All notes receivable are denominated in Renminbi and are primarily notes received from third parties for settlement of trade receivable balances. At 30 June 2010 and 31 December 2009, all notes receivable were guaranteed by established banks in the PRC and have maturities of six months or less from the balance sheet date.

(c) Amounts due from related parties

Amounts due from related parties namely represent deposits paid for purchases of raw materials from entities controlled by the substantial shareholder of the Company. The amounts due are unsecured and interest-free.

14. CONVERTIBLE BONDS

All the convertible bonds outstanding at 1 January 2009 have been early redeemed at HK\$365,988,000 (approximately RMB322,069,000) by the bondholders during the six months ended 30 June 2009. The loss on early redemption which represented the difference between the redemption amount and total carrying amounts of liability component and embedded derivatives amounting to RMB15,987,000 has been recognised in the income statement. Details of the terms of these convertible bonds redeemed are set out in the Company's annual report for the year ended 31 December 2008.

The convertible bonds outstanding at 1 January 2010 ("CB2014") 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 Company's annual report for the year ended 31 December 2009. Upon the payment of final dividends for the year ended 31 December 2009, the conversion price of the CB2014 was changed from RMB1.67 (equivalent to HK\$1.90) to RMB1.66 (equivalent to HK\$1.8894) from 29 June 2010 in accordance with the provisions of CB2014.

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

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Liability component		
Carrying amount brought forward	1,449,150	288,267
Issued during the period/year	–	1,436,499
Accrued effective interest charges	44,898	18,034
Redeemed during the period/year	–	(293,650)
	1,494,048	1,449,150
Fair value of embedded derivative in respect of the put option and conversion option		
Carrying amount brought forward	–	37,770
Eliminated upon redemption	–	(37,770)
	–	–
Less: Fair value of embedded derivative in respect of the call option		
Carrying amount brought forward	–	25,338
Eliminated upon redemption	–	(25,338)
	–	–
	–	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

14. CONVERTIBLE BONDS (Continued)

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Liability component is represented by:		
Convertible bonds	1,462,216	1,442,153
Accrued interests included in trade and other payables	31,832	6,997
	1,494,048	1,449,150

15. TRADE AND OTHER PAYABLES

	Note	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Trade and notes payables			
Trade payables			
– To third parties		1,493,988	1,600,761
– To related companies controlled by the substantial shareholder of the Company		935,792	901,450
	(a)	2,429,780	2,502,211
Notes payable	(b)	1,501,565	1,734,565
		3,931,345	4,236,776
Other payables			
Accrued charges and other creditors			
– Receipts in advance from customers		1,156,619	1,460,015
– Deferred income related to government grants which conditions have not yet been satisfied		782,885	453,976
– Payables for acquisition of property, plant and equipment		707,674	280,851
– Accrued staff salaries and benefits		101,590	120,313
– Business and other taxes		19,425	95,410
– Other accrued charges		260,588	507,529
		3,028,781	2,918,094
Amounts due to related parties		51,705	902
Loan from a related company		3,132	3,053
Amount due to ultimate holding company		209,527	170,000
		3,293,145	3,092,049
		7,224,490	7,328,825

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

15. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
0 – 60 days	1,844,031	2,191,688
61 – 90 days	254,936	211,281
Over 90 days	330,813	99,242
	2,429,780	2,502,211

(b) Notes payable

At 30 June 2010 and 31 December 2009, all notes payable have maturities of less than 1 year.

16. BANK BORROWINGS

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Bank loans secured by the Group's assets	1,646,116	1,220,000
Bank loans guaranteed by the ultimate holding company	1,387,000	1,037,000
Other bank loans	334,600	522,881
Collateralised borrowings, secured	–	47,754
	3,367,716	2,827,635

At the balance sheet date, the Group's bank loans were repayable as follows:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
On demand or within one year	1,383,622	1,509,635
In the second year	1,542,229	485,000
In the third to fifth year	441,865	833,000
	3,367,716	2,827,635
Less: amounts due within one year shown under current liabilities	(1,383,622)	(1,509,635)
	1,984,094	1,318,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

17. SHARE CAPITAL

	Number of shares	Nominal value RMB'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 31 December 2009 and 30 June 2010 (Unaudited)	12,000,000,000	246,720
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
At 1 January 2009	6,489,755,450	122,542
Issue of shares for cash	570,000,000	10,032
Balance at 30 June 2009	7,059,755,450	132,574
Shares issued under share option scheme	251,100,000	4,419
Balance at 31 December 2009 and 1 January 2010	7,310,855,450	136,993
Shares issued under share option scheme	48,800,000	859
Balance at 30 June 2010 (Unaudited)	7,359,655,450	137,852

During the period, options were exercised to subscribe for 48,800,000 ordinary shares in the Company at a consideration of approximately RMB39,354,000 of which approximately RMB859,000 was credited to share capital and the balance of RMB38,495,000 was credited to the share premium account. Upon exercise of share options, RMB7,568,000 has been transferred from the share option reserve to the share premium account in accordance with the accounting policy set out in Company's 2009 annual report.

18. COMMITMENTS

Capital expenditure commitments

At the balance sheet date, the Group had the following capital commitments:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Contracted for but not provided for, net of deposits paid		
– purchase of property, plant and machinery	960,508	845,790
– purchase of intangible assets	2,105	6,150
– acquisition of a subsidiary	–	180,000
	962,613	1,031,940

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

18. COMMITMENTS (Continued)

Operating lease commitments

At the balance sheet date, 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 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Office and factory premises		
– Within one year	5,661	6,620
– In the second to fifth year inclusive	8,814	11,091
– Over five years	3,737	5,850
	18,212	23,561
Other assets		
– Within one year	1,570	1,838
– In the second to fifth year inclusive	482	1,330
	2,052	3,168
	20,264	26,729

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

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\$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.

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 2010, the aggregate employer's contributions made by the Group are RMB26,787,000 (2009: RMB13,509,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

20. 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 2009. 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. Movements in number of share options during the period are as follows:

2010

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the period	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	49,000,000	-	(15,500,000)	-	33,500,000	4 January 2010 to 4 June 2010	3.44
	18 January 2010 to 17 January 2020	4.07	-	76,500,000	-	-	76,500,000		
			49,000,000	76,500,000	(15,500,000)	-	110,000,000		
Employees	5 August 2005 to 4 August 2010	0.70	1,800,000	-	(800,000)	(1,000,000)	-	29 March 2010	4.03
	10 July 2006 to 16 May 2011	0.93	4,020,000	-	-	-	4,020,000		
	18 September 2007 to 17 September 2012	1.06	17,500,000	-	-	-	17,500,000		
	8 May 2008 to 7 May 2013	0.92	123,300,000	-	(32,500,000)	-	90,800,000	14 January 2010 to 25 June 2010	2.92
	18 January 2010 to 17 January 2020	4.07	-	439,300,000	-	-	439,300,000		
	21 April 2010 to 20 April 2020	4.07	-	16,900,000	-	-	16,900,000		
			195,620,000	532,700,000	(48,800,000)	(1,000,000)	678,520,000		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

20. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

2009

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Expired during the period	Outstanding at 30 June
Directors	23 February 2004 to 22 February 2009	0.95	35,000,000	(35,000,000)	–
	5 August 2005 to 4 August 2010	0.70	131,000,000	–	131,000,000
	28 November 2006 to 27 November 2011	0.89	12,000,000	–	12,000,000
	10 July 2006 to 16 May 2011	0.93	3,000,000	–	3,000,000
	8 May 2008 to 7 May 2013	0.92	56,500,000	–	56,500,000
			237,500,000	(35,000,000)	202,500,000
Employees	5 August 2005 to 4 August 2010	0.70	86,600,000	–	86,600,000
	10 July 2006 to 16 May 2011	0.93	9,420,000	–	9,420,000
	28 November 2006 to 27 November 2011	0.89	3,000,000	–	3,000,000
	18 September 2007 to 17 September 2012	1.06	28,500,000	–	28,500,000
	8 May 2008 to 7 May 2013	0.92	141,900,000	–	141,900,000
	5 June 2008 to 4 June 2013	0.98	2,000,000	–	2,000,000
			508,920,000	(35,000,000)	473,920,000

20. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

During the six months ended 30 June 2010, 515,800,000 options and 16,900,000 options were granted on 18 January 2010 and 21 April 2010 with estimated total fair values of approximately RMB893 million and RMB26 million respectively. The closing price of the Company's shares immediately before the date on which the options were granted were HK\$3.96 and HK\$3.62 for option lots of 515,800,000 options and 16,900,000 options respectively. The exercise price of the share options granted is HK\$4.07 per share for both option lots of 515,800,000 options and 16,900,000 options. The share options for option lots of 515,800,000 options and 16,900,000 options are valid for a period of 10 years from 18 January 2010 to 17 January 2020 and 21 April 2010 to 20 April 2020 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.

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

Grant date	18 January 2010	21 April 2010
Exercise price	HK\$4.07	HK\$4.07
Expected volatility	58.07%	57.95%
Expected life	10 years	10 years
Risk-free rate	2.742%	2.879%
Expected dividend yield	0.4%	1.15%
Dilution discount	3.51%	N/A

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 expense of RMB162,390,000 (2009: RMB7,337,000) for the six months ended 30 June 2010 in relation to share options granted by the Company.

21. WARRANTS

For 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 2009, the exercise price of the warrants were adjusted to RMB2.0148 (equivalent to HK\$2.2871) per share from 29 June 2010 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 2010

22. 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	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Related companies (Note)			
Zhejiang Geely Merrie Automobile Company Limited (浙江吉利美日汽車有限公司)	Sales of complete knock down kits and sedan tool kits	3,052,021	1,391,292
	Sales of automobile parts and components	218,277	82,604
	Claims income on defected materials purchased	1,153	37,847
	Purchase of complete buildup unit	3,209,070	1,427,485
	Sub-contracting fee paid	9,969	250
	Claims paid on defected materials sold	31,381	37,860
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete knock down kits and sedan tool kits	1,122,497	694,409
	Sales of automobile parts and components	13,756	45,219
	Claims income on defected materials purchased	927	7,748
	Purchase of complete buildup unit	1,618,090	963,380
	Claims paid on defected materials sold	10,963	14,704
	Sales of semi-knock down kits	30,524	-
Zhejiang Haoqing Automobile Manufacturing Company Limited (浙江豪情汽車製造有限公司)	Purchase of automobile parts and components	556	-
	Sales of complete knock down kits and sedan tool kits	3,694,329	2,534,922
	Sales of automobile parts and components	7,934	4,273
	Claims income on defected materials purchased	107,990	37,165
	Purchase of complete buildup unit	3,825,618	2,688,976
	Claims paid on defected materials sold	57,679	9,947
	Sub-contracting fee paid	31,856	18,276
	Acquisition of a subsidiary	18,000	-
Sale of property, plant and equipment	82,853	-	
Rental income	310	-	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

22. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions (Continued)

Name of related parties	Nature of transactions	Six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Related companies (Note)			
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 defected materials purchased Purchase of automobile parts and components	62,574 4,421,211	68,613 2,428,327
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defected materials purchased Purchase of automobile parts and components	14,193 557,569	11,923 460,804
Hunan Geely Automobile Industry Company Limited (湖南吉利汽車工業有限公司)	Sub-contracting fee paid	-	111
Zhejiang Automotive Vocational and Technical College (浙江汽車職業技術學院)	Rental income	5,348	5,402
Taizhou Geely Automobile Sales Company Limited (台州吉利汽車銷售有限公司)	Sales of complete buildup unit	14,252	-
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components Sale of property, plant and equipment	4,411 2,574	- -
Shareholder of the subsidiary			
Kailun (Qufu) Property Investment Limited (凱倫置業(曲阜)有限公司)	Interest paid	79	-
Ultimate holding company			
Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司)	Rental income Acquisition of a subsidiary	230 162,000	230 -

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

22. 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	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and other short-term benefits	13,431	3,444
Retirement benefits scheme contributions	538	37
Share-based payments	162,390	7,337
	176,359	10,818

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

23. BUSINESS COMBINATION

For the six months ended 30 June 2010

On 27 October 2009, the Company entered into agreement with Zhejiang Geely Holding Group Company Limited and its subsidiary to acquire 100% interests in Jinan Geely Automobile Company Limited ("Jinan Geely"). The acquisition of Jinan Geely was completed on 7 January 2010. Details of the acquisition have been set out in the Company's circular dated 17 November 2009.

Net cash outflow in respect of the acquisition of Jinan Geely is approximately RMB134,447,000.

The business acquired did not make any significant contribution to the revenue or profit of the Group for the period between the acquisition date/beginning period date and the balance sheet date. Jinan Geely is not material to the Group and therefore its financial information is not presented.

23. BUSINESS COMBINATION *(Continued)*

For the six months ended 30 June 2009

On 15 June 2009, the Group acquired the business of designing, developing and manufacturing automatic transmissions in Australia from an independent third party (with receivers and managers appointed). The consideration is cash of A\$47.4 million (approximately RMB226.2 million) plus adjustment on working capital determined on the completion date. The final consideration after adjustment on working capital is A\$54.6 million (approximately RMB293,696,000). Details of the acquisition have been set out in the Company's announcement dated 27 March 2009.

The net assets acquired in the transaction are as follows:

	Carrying amount before combination	Adjustments	Fair value
	RMB'000 (Note 1)	RMB'000 (Note 1)	RMB'000
Net assets acquired:			
Property, plant and equipment	252,307	38,150	290,457
Intangible assets	–	13,475	13,475
Trade and other receivables	43,082	17,497	60,579
Inventories	11,981	24,218	36,199
Trade and other payables	(19,717)	(71,142)	(90,859)
Deferred taxation	6,043	(22,198)	(16,155)
	293,696	–	293,696
Total consideration satisfied by:			
Cash			293,696
Net cash outflow arising on acquisition:			
Cash consideration paid			(293,696)

Note 1: The above carrying amounts of assets and liabilities of the business acquired are based on the book values of the business acquired as provided by the receivers. In addition to fair value adjustments, certain financial assets and liabilities have also been adjusted based on the final settlement accounts provided by the receivers.

During the six months ended 30 June 2009, the Group acquired the above automatic transmissions business with fair values of identifiable assets, liabilities and contingent liabilities acquired determined provisionally. For the period subsequent to 30 June 2009, the Group made certain adjustments as set out in note 1 above as a result of completing the initial acquisition accounting. The adjustments to the fair values at the acquisition date were made as if initial acquisition accounting had been completed on the acquisition date. The adjustments set out in note 1 above did not result in any significant changes to the depreciation or amortisation and related tax effect for the six months ended 30 June 2009.

The business acquired did not make any significant contribution to the revenue or profit of the Group for the period between the acquisition date/beginning period date and the balance sheet date.

MANAGEMENT DISCUSSION AND ANALYSIS

2010 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 2010. 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.

OVERALL PERFORMANCE

In the first half of 2010, the Group experienced a strong set of results despite continued difficult market condition in the Group's major export markets. The Group's overall performance in the first half of 2010 was very encouraging, helped by the strong demand for sedans in the China market, more than offsetting the continued weak export sales. The Group sold a total of 195,734 units of vehicles in the first six months of 2010, up 42% from the same period in previous year, achieving 49% of the Group's full year sales volume target of 400,000 units. Total revenues increased by 55% to RMB9,236 million, reflecting both strong growth in sales volume and the improvement in product mix during the period. The profit attributable to shareholders for the first half of 2010 was RMB805 million, 35% higher than the same period in 2009. Diluted EPS was up 12% to RMB9.96 cents. Excluding non-cash expenses related to the recognition of share-based payments to employees, underlying profit attributable to shareholders increased by 60% to RMB967 million.

The Group's 100%-owned subsidiary DSI Holdings Pty Limited ("DSIH") returned to profitability in the first half of 2010 after resuming supply of automatic gearboxes to SsangYong Motor Company ("SsangYong Motor") in early 2010. Total net profit from DSIH was A\$0.5 million on revenue of A\$49 million. DSIH manufactured and sold a total of 29,769 units of automatic gearboxes to independent OEM customers like SsangYong Motor, Ford Motor Australia and Mahindra & Mahindra, in line with its budget.

51%-owned Shanghai LTI Automobile Components Company Limited ("Shanghai LTI"), the Company's joint venture with Manganese Bronze Holdings Plc ("MBH"), started commercial production of localized TX4 London Taxi vehicles in the third quarter of 2009. In the first half of 2010, Shanghai LTI recorded a net loss of RMB11.4 million for its manufacturing operation.

19.97%-owned MBH reported a net loss of GBP4.1 million for the first half of 2010, mainly due to slower sales in the UK market and exceptional costs of GBP3.5 million, including GBP1 million redundancy costs and a GBP2.5 million impairment for TX4 tooling and presses, which are related to its planned move to import kits of bodies and panels from Shanghai LTI for assembly in its plant in Coventry. MBH's vehicle sales volume was down 11.6% to 915 units and its overall turnover was down 8.9% to GBP33.4 million during the period. The Group's share of loss from MBH was limited to RMB7.3 million in the first half of 2010 after the book value of the Group's investment in MBH was fully depleted by the end of June 2010.

FINANCIAL RESOURCES

The Group's net cash position increased further during the first half of 2010 due to continued strong operational cash flow from the Group's manufacturing operation. Total value of cash and bank balance increased from RMB4.5 billion at the end of last year to RMB5.5 billion at the end of June 2010. Total bank borrowings also increased from RMB2.8 billion at the end of 2009 to RMB3.4 billion at the end of June 2010, mainly due to the increase of long-term bank loans by RMB666 million as the Group made use of the low interest rate environment to increase its long-term bank loans to support its expansion. Despite this, the Group's net cash level still increased from RMB1.1 billion at the end of 2009 to RMB1.5 billion at the end of June 2010.

VEHICLE MANUFACTURING (91% INTERESTS)

During the first half of 2010, the Group sold a total of 195,734 units of vehicles, up 42% from the same period last year, helped by the strong demand for new models like Englon "SC7", "Geely Vision" and Emgrand "EC7" in the China market. Exports sales remained disappointing and were up only 10% to 6,940 units, accounting for 3.5% of the Group's total sales volume in the first half of 2010 compared with close to 6% in 2009.

The sales volume of "Free Cruiser" was down by 9% to 47,772 units in the first half of 2010, ahead of the planned launch of its upgraded version in the coming few months. "Free Cruiser" remained the Group's best selling models during the period, accounting for 24% of the Group's total sales volume. Key drivers for growth during the period, however, were the three models developed from the Group's mid-size car platform: "Geely Vision", Englon "SC7" and Emgrand "EC7". With the choice of engine size of 1.5L and 1.8L, but equipped with only 5-speed manual gearboxes, these three models attracted good demand in the China market with a total sales volume of 83,378 units, accounting for 43% of the Group total sales volume in the first half of 2010. Stronger sales of these higher price models also helped to lift the Group's ex-factory average sales price by over 13% YoY to around RMB44,000 level.

The Group started to implement the "Multi-brand Strategy" in 2008, aiming to improve the Group's overall brand images and to enable tailored-made services and brand positioning for different product lines within the Group. Three new brands: "GLEagle", "Emgrand" and "Englon" and their respective distribution networks were launched since the end of 2008 to gradually replace the existing "Geely" and "Maple" brands. The transition to new brands has progressed smoothly with the number of vehicles sold under the new brands accounted for 38% of total sales volume in the first half of 2010, compared with less than 12% in 2009.

Construction of the distribution networks for the three new brands and the migration of existing franchisee stores to the new brands are well underway. By the end of June 2010, the Group's distribution network in China comprised over 800 independent franchisee stores and over 1,000 independent service stations. To further broaden its distribution capabilities, the Group has teamed up with Alibaba.com, an e-commerce platform, to start selling Geely sedans online next year.

NEW PRODUCTS

In the second half of 2010 the Group plans to launch the following new products:

- Emgrand "EC8" large-size sedan (2.0L, 2.4L)
- Emgrand "EC7" mid-size sedan with CVT transmissions (1.8L)
- Emgrand "GC5" mid-size sedan (1.5L)
- Emgrand "EX7" SUV (1.8L)
- Englon "SC5" recreational vehicles (1.3L, 1.5L)

In addition, the Group also plans to launch upgraded models for "Panda", "Jin Yin", "Vision" and "Free Cruiser" in the remainder of the year.

EXPORTS

The Group exported a total of 6,940 units of vehicles in the first six months of 2010, up 10% from the same period last year, but below the Group's original targets. The Group's total export volume in the first half of 2010 accounted for only 3.5% of the Group's total sales volume during the period, compared with 6% in 2009. The Group's share of China's total exports of sedans decreased from 19% in 2009 to less than 10% in the first half of 2010. "Kingkong" and "Free Cruiser" were the most popular export models in terms of sales volume in the first half of 2010, accounting for 33% and 31%, respectively, of the Group's total export sales volume during the period. The lower than expected exports sales volume so far in 2010 has an adverse impact on the operating efficiency

and profitability of the Group's export business. Various measures and new strategies have been implemented to improve the Group's export business, including a major reform of the Group's business models in overseas markets and the speeding up of local assembly in major overseas markets. During the period, new arrangements for CKD assembly were started in Russia, Indonesia and Taiwan.

DSI HOLDINGS PTY LIMITED (100% INTERESTS)

DSIH is principally engaged in the design, development and manufacture of automatic transmissions in Australia, supplying major international automobile original equipment manufacturers like Ssangyong Motor Company, Mahindra & Mahindra and Ford Motor Australia. After resuming supply of automatic gearboxes to SsangYong Motor Company in early 2010, DSIH's performance continued to improve in 2010. With no bank borrowing and a strong cash position, DSIH managed to return to profitability in the first half of 2010. DSIH's net profit after tax was A\$0.5 million on revenue of A\$49 million in the first half of 2010. DSIH manufactured and sold 29,769 sets of automatic gearboxes in the first six months of 2010, on track to achieve its full year sales volume target of 64,000 units in 2010 despite some delay in the supply of automatic gearboxes to the Group's vehicle manufacturing division.

To expand DSIH's sales in China and to improve the cost competitiveness of its products, DSIH set up a 50:50 joint venture with Hunan Geely Automobile Components Company Limited ("Hunan Geely"), one of the Group's 91%-owned operating subsidiaries on 16 November 2009, to develop and manufacture automatic transmissions in China. The joint venture, called Hunan Jisheng International Drivetrain Systems Co., Ltd. ("Hunan Jisheng"), is located in Xiangtan city of Hunan province. Total investment and the registered capital of the joint venture are RMB200 million and RMB80 million, respectively. Construction of the production facilities at

Hunan Jisheng is underway with commercial production of automatic gearboxes scheduled to start at 2012. In addition to Hunan Jisheng, DSIH plans to set up two more automatic transmission manufacturing facilities in Jining of Shandong province and Chongqing city in the Central Western part of China.

SHANGHAI LTI (51% INTERESTS)

51%-owned Shanghai LTI is a production joint venture between the Group and MBH Shanghai LTI was officially established in June 2007 to achieve volume production of the iconic London Taxies at a significantly lower cost and for the production of other high-end saloon cars for sales to the domestic and the world market.

Shanghai LTI started the production of the localized TX4 models in early 2009 and commenced commercial production and sales of TX4 in both the domestic and overseas markets in the third quarter of 2009. Demand for TX4, however, has been below original expectations due to lack of petroleum automatic version until 2011 and the severe shortage of funding amongst customers in overseas markets. As a result, Shanghai LTI only sold 176 units of TX4 vehicles in the first half of 2010, of which 67% were exported to overseas countries. In the first half of 2010, Shanghai LTI recorded a net loss of RMB11.4 million for its manufacturing operation.

Shanghai LTI also started supplying body kits, chassis and panels to MBH in 2010 for assembly of TX4 models by MBH in its facilities in Coventry, mainly for the UK market. The planned move by MBH to import kits of bodies and panels from Shanghai LTI for assembly in its Coventry facilities should help to improve the utilization of the production facilities at Shanghai LTI in the second half of 2010.

MANGANESE BRONZE HOLDINGS Plc (19.97% INTERESTS)

In addition to its 48% stake in Shanghai LTI, MBH derives most of its revenues and profit from the manufacture and sales of London taxies in the UK market. MBH's performance in the first half of 2010 continued to be adversely affected by weak demand in the UK market. As a result, total vehicle sales volume by MBH were down by 11.6% to 915 units and its total revenues was down 8.9% to GBP33.4 million in the first half of 2010. Net loss for the period was GBP4.1 million after including GBP1 million redundancy costs and GBP2.5 million impairment for TX4 tooling and presses, both are related to the planned move from vehicle manufacturing to CKD assembly at the Coventry plant in the second half of 2010. The Group's share of loss from MBH was limited to RMB7.3 million in the first half of 2010 after the book value of the Group's investment in MBH was fully depleted by the end of June 2010.

OUTLOOK

After more than three years of large scale restructuring under its "Strategic Transformation", the Group's overall competitiveness has strengthened significantly, thus putting the Group in a strong position to meet any new market challenges in the future. Despite the Group's strong sales performance in the first half of 2010, the Group's Board of Directors, however, expect competition in both the domestic and export market would continue to intensify and that the Group could face more challenge in the remainder of the year. Despite this, the Group's management team remains confident that our 2010 sales volume target of 22% growth to 400,000 units could still be achieved.

The recent Chinese government policies including the extension of tax incentives for small size cars and the introduction of new subsidies for energy-saving vehicles, should all help to promote the demand for safe, energy-efficient and environmental friendly vehicles. We believe that these favourable policies would stay in place in the near future and should continue to support vehicle demand in China in the remainder of the year.

Longer-term, the Group will continue to invest considerable resources to further strengthen its export business, through continued improvement in distribution capabilities and revamping of its manufacturing arrangements in major export markets and the introduction of more tailor-made models for the exports market. This should provide the Group a cushion to any possible cyclical downturn in the China sedan market in the future, thus enabling the Group to sustain a consistent longer-term profit growth.

In addition to specific measures to enhance its export business, key focuses of the Group in the second half of 2010 also include further effort to open up new markets for the Group's vehicles, improve the Group's cost and quality control capabilities, strengthen internal control and speed up the building of product reserves of alternate energy vehicles. The recent completion of our parent's acquisition of the entire issued share capital of Volvo Car Corporation ("Volvo Car") from Ford Motor Company may offer potential future technical cooperation opportunities between the Group and Volvo Car, and the potential of the Group gaining access to some of the sophisticated technologies of Volvo Car. As of the date of this report, no concrete plan has been made and no discussions were underway and no letter of intent or agreement has been entered into with respect to such cooperation. The Company will comply with the requirements of the Listing Rules if and when binding letter of intent or agreement has been entered into.

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

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 the its parent, Geely Holding Group, and fund raising exercises in the capital market. As at 30 June 2010, the Group's shareholders' fund amounted to approximately RMB7,207 million (As at 31 December 2009: approximately RMB6,376 million). Upon exercise of share options, 48.8 million new shares were issued by the Group during the first six months ended 30 June 2010.

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 most of the assets and liabilities are mainly denominated either in Renminbi or Hong Kong dollars.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group's current ratio (current assets/current liabilities) was 1.47 (As at 31 December 2009: 1.37) and the gearing ratio of the Group was 67% (As at 31 December 2009: 67%) 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 2010 amounted to approximately RMB4.8 billion (As at 31 December 2009: approximately RMB4.3 billion) were mainly the Company's convertible bonds and bank borrowings. For the Company's convertible bonds,

they are unsecured, interest-bearing and repayable on early redemption or maturity. For the bank borrowings, they are secured, interest-bearing and repayable 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 2010, the total number of employees of the Group including associates was about 15,248 (As at 31 December 2009: approximately 12,282). 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. 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 2010, 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	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporation	3,751,159,000	–	50.97
Mr. Yang Jian	Personal	8,000,000	–	0.11
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.06
Dr. Zhao Fuquan	Personal	6,000,000	–	0.08
Mr. Zhao Jie	Personal	6,000,000	–	0.08
Mr. Song Lin	Personal	1,500,000	–	0.02
Mr. Yeung Sau Hung, Alex	Personal	500,000	–	0.01
Share options				
Mr. Yang Jian	Personal	12,000,000 (Note 3)	–	0.16
Mr. Gui Sheng Yue	Personal	8,000,000 (Note 2)	–	0.11
Mr. Gui Sheng Yue	Personal	11,500,000 (Note 3)	–	0.16
Mr. Ang Siu Lun, Lawrence	Personal	11,000,000 (Note 3)	–	0.15

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long Position	Short Position	
Mr. Yin Da Qing, Richard	Personal	7,000,000 (Note 2)	–	0.10
Mr. Yin Da Qing, Richard	Personal	11,000,000 (Note 3)	–	0.15
Mr. Liu Jin Liang	Personal	6,000,000 (Note 2)	–	0.08
Mr. Liu Jin Liang	Personal	9,000,000 (Note 3)	–	0.12
Dr. Zhao Fuquan	Personal	11,000,000 (Note 2)	–	0.15
Dr. Zhao Fuquan	Personal	11,000,000 (Note 3)	–	0.15
Mr. Zhao Jie	Personal	8,000,000 (Note 3)	–	0.11
Mr. Song Lin	Personal	1,000,000 (Note 3)	–	0.01
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 3)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	1,500,000 (Note 2)	–	0.02
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 3)	–	0.01

Notes:

- (1) Proper Glory Holding Inc. (“Proper Glory”) and its concert parties in aggregate hold 3,751,159,000 shares, representing approximately 50.97% of the issued share capital of the Company as at 30 June 2010. 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 8 May 2008 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$0.92 for each share during the period from 8 May 2008 to 7 May 2013. 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 2010.
- (3) 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 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 2010.

(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 Merrie 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 Manufacturing Automobile Company Limited	(Note 5)	–	(Note 5)
Mr. Li Shu Fu	Zhejiang Geely 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)

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 and his associate.
- (3) Zhejiang Geely Merrie Automobile Company Limited (“Zhejiang Geely Merrie”) 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 Geely Automobile Company Limited (“Zhejiang Geely”) is incorporated in the PRC and is 9% directly owned by Zhejiang Geely Merrie. Zhejiang Geely Merrie is incorporated in the PRC and is 100%-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 9% directly owned by Shanghai Maple Automobile. Shanghai Maple Automobile is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
- (8) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 9% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
- (9) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 9% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
- (10) Hunan Geely Automobile Components Company Limited is incorporated in the PRC and is 9% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is incorporated in the PRC and is 100%-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 Geely and as to 10% by Shanghai Maple. Zhejiang Geely and Shanghai Maple is 9% directly owned by Zhejiang Geely Merrie and Shanghai Maple Automobile, respectively. Both Zhejiang Geely Merrie 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 Geely and as to 10% by Shanghai Maple. Zhejiang Geely and Shanghai Maple is 9% directly owned by Zhejiang Geely Merrie and Shanghai Maple Automobile, respectively. Both Zhejiang Geely Merrie 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 Geely and as to 10% by Shanghai Maple. Zhejiang Geely and Shanghai Maple is 9% directly owned by Zhejiang Geely Merrie and Shanghai Maple Automobile, respectively. Both Zhejiang Geely Merrie 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 2010, 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 2010, 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 2010	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	8,000,000	8.5.2008	8.5.2008 – 7.5.2013	0.92
Mr. Gui Sheng Yue	11,500,000	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. Yin Da Qing, Richard	7,000,000	8.5.2008	8.5.2008 – 7.5.2013	0.92
Mr. Yin Da Qing, Richard	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Dr. Zhao Fuquan	11,000,000	8.5.2008	8.5.2008 – 7.5.2013	0.92
Dr. Zhao Fuquan	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Liu Jin Liang	6,000,000	8.5.2008	8.5.2008 – 7.5.2013	0.92
Mr. Liu Jin Liang	9,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Zhao Jie	8,000,000	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	1,500,000	8.5.2008	8.5.2008 – 7.5.2013	0.92
Mr. Lee Cheuk Yin, Dannis	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
	110,000,000			

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 2009 annual report and note 20 to the condensed consolidated financial statements.

Based on the Company's records as at 30 June 2010, except disclosed in the section headed "Directors' Right to Acquire Shares" above, 568,520,000 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 25 August 2010, the Directors resolved not to pay an interim dividend to shareholders (2009: 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	
		2010 RMB'000	2009 RMB'000
Related companies (Note)			
Zhejiang Geely Merrie Automobile Company Limited (浙江吉利美日汽車有限公司)	Sales of complete knock down kits and sedan tool kits	3,052,021	1,391,292
	Sales of automobile parts and components	218,277	82,604
	Claims income on defected materials purchased	1,153	37,847
	Purchase of complete buildup unit	3,209,070	1,427,485
	Sub-contracting fee paid	9,969	250
	Claims paid on defected materials sold	31,381	37,860
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete knock down kits and sedan tool kits	1,122,497	694,409
	Sales of automobile parts and components	13,756	45,219
	Claims income on defected materials purchased	927	7,748
	Purchase of complete buildup unit	1,618,090	963,380
	Claims paid on defected materials sold	10,963	14,704
	Sales of semi-knock down kits	30,524	–
	Purchase of automobile parts and components	556	–

Connected parties	Nature of transactions	Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Related companies (Note)			
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	3,694,329	2,534,922
	Sales of automobile parts and components	7,934	4,273
	Claims income on defected materials purchased	107,990	37,165
	Purchase of complete buildup unit	3,825,618	2,688,976
	Claims paid on defected materials sold	57,679	9,947
	Sub-contracting fee paid	31,856	18,276
	Acquisition of a subsidiary	18,000	–
	Sale of property, plant and equipment	82,853	–
	Rental income	310	–
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 defected materials purchased	62,574	68,613
	Purchase of automobile parts and components	4,421,211	2,428,327
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defected materials purchased	14,193	11,923
	Purchase of automobile parts and components	557,569	460,804
Hunan Geely Automobile Industry Company Limited (湖南吉利汽車工業有限公司)	Sub-contracting fee paid	–	111
Zhejiang Automotive Vocational and Technical College (浙江汽車職業技術學院)	Rental income	5,348	5,402
Taizhou Geely Automobile Sales Company Limited (台州吉利汽車銷售有限公司)	Sales of complete buildup unit	14,252	–
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	4,411	–
	Sale of property, plant and equipment	2,574	–
Shareholder of the subsidiary			
Kailun (Qufu) Property Investment Limited (凱倫置業(曲阜)有限公司)	Interest paid	79	–

Connected parties	Nature of transactions	Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Ultimate holding company			
Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司)	Rental income	230	230
	Acquisition of a subsidiary	162,000	–

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

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

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:

As at 30 June 2010, the following persons (other than the directors or the chief executive of the Company) had

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	–	33.46
Geely Holding (Note 1)	Interest in controlled corporation	3,751,072,000	–	50.97
Zhejiang Geely Merrie (Note 2)	Beneficial owner	776,408,000	–	10.55
Geely Group Limited (Note 1)	Beneficial owner Interest in controlled corporation	87,000 2,462,400,000	– –	0.001 33.46
The Goldman Sachs Group, Inc.	Interest in controlled corporation	1,297,974,003	–	17.64
Geiche Investment Holdings (Delaware) LLC	Beneficial owner	1,144,958,578	–	15.56
Geiche Investment Parallel Holdings	Beneficial owner	152,991,322	–	2.08

Notes:

1. Proper Glory is a limited liability company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited. Geely Group Limited is a limited liability company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.
2. Zhejiang Geely Merrie is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.

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 2010 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 2010.

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 2010, except for the deviation from CG Code E.1.2 as explained below:

The CG Code E.1.2 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 25 May 2010 in Hong Kong.

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 2010, 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
25 August 2010



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

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