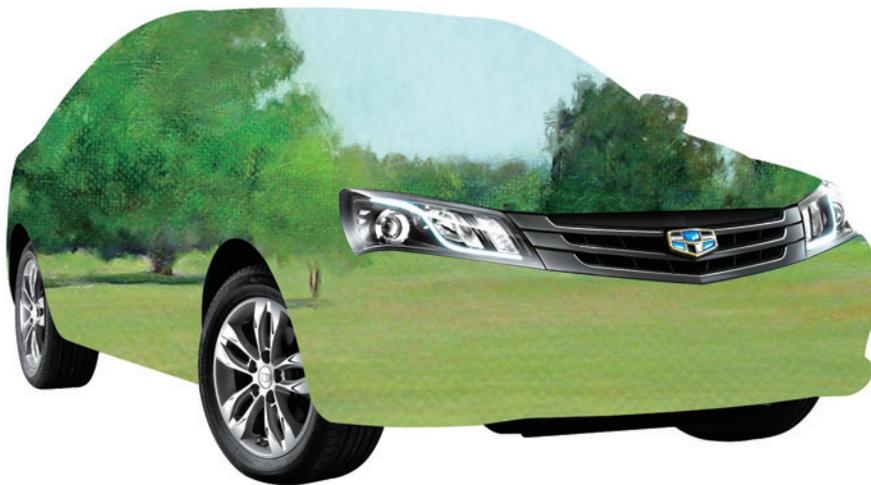


GEELY

QUALITY GEELY QUALITY LIFE

Interim Report 2014



吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 0175)

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CORPORATE INFORMATION

Executive Directors:

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

Non-executive Director:

Mr. Carl Peter Edmund Moriz Forster

Independent Non-executive Directors:

Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex
Mr. Fu Yu Wu
Mr. An Qing Heng
Mr. Wang Yang

Audit Committee:

Mr. Lee Cheuk Yin, Dannis (*Committee's Chairman*)
Mr. Yeung Sau Hung, Alex
Mr. Fu Yu Wu
Mr. An Qing Heng
Mr. Wang Yang

Remuneration Committee:

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

Nomination Committee:

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

Company Secretary:

Mr. Cheung Chung Yan, David

Auditors:

Grant Thornton Hong Kong Limited

Legal Advisor on Hong Kong Law:

Sidley Austin

Legal Advisor on Cayman Islands Law:

Maples and Calder

Principal Bankers in Hong Kong:

Standard Chartered Bank (Hong Kong) Limited
China CITIC Bank International Limited
Bank of America NA

Head Office and Principal Place of Business:

Room 2301, 23rd Floor, Great Eagle Centre,
23 Harbour Road, Wanchai,
Hong Kong
Telephone: (852) 2598-3333
Facsimile: (852) 2598-3399
Email: general@geelyauto.com.hk

Registered Office:

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

Hong Kong Share Registrars & Transfer Office:

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

Investor & Media Relations:

Prime International Consultants Limited

Listing Information:

The Stock Exchange of Hong Kong Limited
Stock Code: 0175

Company's Website:

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

INDEPENDENT REVIEW REPORT



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 33 which comprise the condensed consolidated statement of financial position of Geely Automobile Holdings Limited as of 30 June 2014 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of Review

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

Conclusion

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

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

20 August 2014

Chiu Wing Ning

Practising Certificate No.: P04920

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Turnover/Revenue		10,158,351	14,854,979
Cost of sales		(8,092,446)	(12,008,149)
Gross profit		2,065,905	2,846,830
Other income	4	554,405	552,308
Distribution and selling expenses		(556,708)	(820,927)
Administrative expenses, excluding share-based payments		(598,982)	(746,903)
Share-based payments		(31,089)	(46,019)
Finance costs, net	5	(2,755)	(56,572)
Share of results of associates		(5,249)	(3,812)
Share of result of a joint venture		7,330	–
Profit before taxation		1,432,857	1,724,905
Taxation	6	(307,230)	(323,003)
Profit for the period	5	1,125,627	1,401,902
Attributable to:			
Equity holders of the Company		1,113,439	1,398,468
Non-controlling interests		12,188	3,434
		1,125,627	1,401,902
Earnings per share			
Basic	8	RMB12.65 cents	RMB16.92 cents
Diluted	8	RMB12.65 cents	RMB16.16 cents

The notes on pages 10 to 33 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	1,125,627	1,401,902
Other comprehensive income/(loss) for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations recognised	33,230	(80,898)
Loss arising on revaluation of available-for-sale financial assets	(8)	–
Total comprehensive income for the period	1,158,849	1,321,004
Attributable to:		
Equity holders of the Company	1,146,661	1,317,570
Non-controlling interests	12,188	3,434
	1,158,849	1,321,004

The notes on pages 10 to 33 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	Note	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	5,615,865	6,208,554
Intangible assets	11	3,555,708	3,220,043
Prepaid land lease payments		947,198	1,166,070
Goodwill		6,222	6,222
Interests in associates	12	256,136	261,385
Interests in a joint venture	13	419,114	411,784
Available-for-sale financial assets		12,150	14,492
Deferred tax assets		60,379	59,411
		10,872,772	11,347,961
Current assets			
Prepaid land lease payments		24,755	30,098
Inventories	14	1,878,350	1,783,692
Trade and other receivables	15	11,757,522	14,785,486
Financial assets at fair value through profit or loss		13,527	13,114
Tax recoverable		8,473	55,739
Pledged bank deposits		101,722	105,471
Bank balances and cash		6,338,595	5,477,747
		20,122,944	22,251,347
Assets held for sale	9	943,509	–
		21,066,453	22,251,347
Current liabilities			
Trade and other payables	17	13,222,496	16,074,808
Taxation		156,569	196,728
Borrowings	18	796,479	965,565
		14,175,544	17,237,101
Liabilities directly associated with assets held for sale	9	522,412	–
		14,697,956	17,237,101
Net current assets		6,368,497	5,014,246
Total assets less current liabilities		17,241,269	16,362,207

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	Note	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	19	161,346	161,346
Reserves		16,764,583	15,906,678
<hr/>			
Equity attributable to equity holders of the Company		16,925,929	16,068,024
Non-controlling interests		173,855	161,667
<hr/>			
Total equity		17,099,784	16,229,691
<hr/>			
Non-current liabilities			
Deferred tax liabilities		141,485	132,516
<hr/>			
		17,241,269	16,362,207
<hr/>			

Li Shu Fu
Director

Gui Sheng Yue
Director

The notes on pages 10 to 33 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014

	Attributable to equity holders of the Company											
	Share capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Statutory and staff welfare reserve RMB'000 (Unaudited)	Translation reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Convertible bonds and warrant reserve RMB'000 (Unaudited)	Fair value reserve RMB'000 (Unaudited)	Accumulated profits RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Balance at 1 January 2013	152,557	4,947,807	88,059	60,182	111,177	491,418	93,271	(42)	6,942,228	12,886,657	317,367	13,204,024
Profit for the period	-	-	-	-	-	-	-	-	1,398,468	1,398,468	3,434	1,401,902
Other comprehensive loss:												
Exchange differences on translation of foreign operations recognised	-	-	-	-	(80,898)	-	-	-	-	(80,898)	-	(80,898)
Total comprehensive income for the period	-	-	-	-	(80,898)	-	-	-	1,398,468	1,317,570	3,434	1,321,004
Transactions with owners:												
Transfer of reserve	-	-	-	25,000	-	-	-	-	(25,000)	-	-	-
Shares issued under share option scheme	232	12,698	-	-	-	(2,251)	-	-	-	10,679	-	10,679
Disposal of a subsidiary (note 20)	-	-	-	-	-	-	-	-	-	-	(162,972)	(162,972)
Recognition of share-based payments	-	-	-	-	-	46,019	-	-	-	46,019	-	46,019
Transfer upon forfeiture of share options	-	-	-	-	-	(18,600)	-	-	18,600	-	-	-
Final dividend declared and approved in respect of the previous year	-	-	-	-	-	-	-	-	(261,353)	(261,353)	-	(261,353)
Total transactions with owners	232	12,698	-	25,000	-	25,168	-	-	(267,753)	(204,655)	(162,972)	(367,627)
Balance at 30 June 2013	152,789	4,960,505	88,059	85,182	30,279	516,586	93,271	(42)	8,072,943	13,999,572	157,829	14,157,401
Balance at 1 January 2014	161,346	5,815,964	88,059	106,113	22,284	524,353	-	(52)	9,349,957	16,068,024	161,667	16,229,691
Profit for the period	-	-	-	-	-	-	-	-	1,113,439	1,113,439	12,188	1,125,627
Other comprehensive income:												
Exchange differences on translation of foreign operations recognised	-	-	-	-	33,230	-	-	-	-	33,230	-	33,230
Loss arising on revaluation of available-for-sale financial assets	-	-	-	-	-	-	-	(8)	-	(8)	-	(8)
Total comprehensive income for the period	-	-	-	-	33,230	-	-	(8)	1,113,439	1,146,661	12,188	1,158,849
Transactions with owners:												
Recognition of share-based payments	-	-	-	-	-	31,089	-	-	-	31,089	-	31,089
Transfer upon forfeiture of share options	-	-	-	-	-	(9,822)	-	-	9,822	-	-	-
Final dividend declared and approved in respect of the previous year	-	-	-	-	-	-	-	-	(319,845)	(319,845)	-	(319,845)
Total transactions with owners	-	-	-	-	-	21,267	-	-	(310,023)	(288,756)	-	(288,756)
Balance at 30 June 2014	161,346	5,815,964	88,059	106,113	55,514	545,620	-	(60)	10,153,373	16,925,929	173,855	17,099,784

The notes on pages 10 to 33 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Profit before taxation		1,432,857	1,724,905
Adjustments for non-cash items		527,703	580,974
Operating profit before working capital changes		1,960,560	2,305,879
Net changes in working capital		103,356	1,276,574
Cash from operations		2,063,916	3,582,453
Income taxes paid		(296,644)	(240,305)
<i>Net cash from operating activities</i>		1,767,272	3,342,148
Cash flows from investing activities			
Purchase of property, plant and equipment		(90,998)	(450,992)
Addition of intangible assets		(540,285)	(385,615)
Addition of prepaid land lease payments		–	(180,043)
Proceeds from disposal of property, plant and equipment		17,991	18,238
Proceeds from disposal of intangible assets		26,216	26,190
Proceeds from disposal of prepaid land lease payments		–	33,792
Change in pledged bank deposits		3,749	246,240
Net cash inflow on disposal of subsidiaries	20	–	163,651
Investments in associates		–	(37,333)
Investments in a joint venture		–	(500,000)
Interest received		23,105	35,563
<i>Net cash used in investing activities</i>		(560,222)	(1,030,309)
Cash flows from financing activities			
Proceeds from issuance of shares upon exercise of the share options		–	10,679
Proceeds from borrowings		393,779	7,932
Repayment of borrowings		(562,865)	(709,667)
Interest paid		(25,860)	(65,469)
<i>Net cash used in financing activities</i>		(194,946)	(756,525)
Net increase in cash and cash equivalents		1,012,104	1,555,314
Cash and cash equivalents at beginning of period		5,477,747	4,188,862
Effect of foreign exchange rate changes		(15,454)	(24,779)
Cash and cash equivalents at end of period		6,474,397	5,719,397
Analysis of cash and cash equivalents			
Bank balances and cash		6,338,595	5,719,397
Bank balances and cash included in a disposal group classified as held for sale	9	135,802	–
Cash and cash equivalents at end of period		6,474,397	5,719,397

The notes on pages 10 to 33 are integral parts of this interim financial report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

1. Basis of Preparation

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

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

The accounting policies and methods of computation used in the preparation of the Interim Financial Report are consistent with those used in the annual financial statements for the year ended 31 December 2013 except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”) and the change in segment presentation as disclosed in notes 2 and 3 respectively to this Interim Financial Report.

The Interim Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013.

2. Adoption of New or Amended HKFRSs

In the current period, the Group has applied for the first time the following new and revised standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2014:

HKAS 32 (Amendments) Offsetting Financial Assets and Financial Liabilities

HKAS 36 (Amendments) Recoverable Amount Disclosures for Non-Financial Assets

HKAS 39 (Amendments) Novation of Derivatives and Continuation of Hedge Accounting

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

3. Segment Information

The Group previously managed its business by business lines and two reportable segments were identified.

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

Gearboxes: Manufacture and sale of gearboxes.

During the second quarter of 2013, the Group completed an evaluation of its activities in Gearboxes. As a result, and consistent with the Group's strategic view of its integrated business, the previously reported Gearboxes segment activities are aligned and reported within the Group's core business of automobiles and related parts and components. The Group believes the change in its internal reporting system allows the most senior executive management to assess the Group's performance more effectively.

As the resources allocation and performance assessment of the Group are now carried out by the most senior executive management based on the overall operation of the production and sale of automobiles, automobile parts and related automobile components, the Group has only one business segment for internal reporting purpose. As a result, no segment information has been presented for the periods ended 30 June 2014 and 2013. The Group uses consolidated profit before taxation as a measure of segment profit or loss. The Group's consolidated turnover represents revenue from external customers as the Group has only one segment.

4. Other Income

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of scrap materials	21,646	27,368
Net gain on disposal of subsidiaries	–	5,268
Net gain on disposal of property, plant and equipment	3,452	–
Net foreign exchange gain	12,196	–
Rental income	13,937	20,390
Subsidy income from government (note)	478,473	484,647
Sundry income	18,323	14,186
Unrealised gain on financial assets at fair value through profit or loss that are classified as held for trading (listed investments held for trading)	6,378	449
	554,405	552,308

Note: Subsidy income mainly relates to cash subsidies in respect of operating and research and development activities from government which are either unconditional grants or grants with conditions having been satisfied.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

5. Profit for the Period

Profit for the period has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income and costs		
Finance costs		
Effective interest expense on convertible bonds	–	26,666
Interest on bank borrowings wholly repayable within five years	25,860	65,142
Interest expenses paid to a non-controlling shareholder of a subsidiary of the Group	–	327
	25,860	92,135
Finance income		
Bank and other interest income	(23,105)	(35,563)
	2,755	56,572
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	525,969	636,207
Retirement benefit scheme contributions	80,822	69,852
Recognition of share-based payments	31,089	46,019
	637,880	752,078
Other items		
Cost of inventories recognised as expense	8,092,446	12,008,149
Depreciation	297,392	322,692
Net foreign exchange (gain)/loss	(12,196)	117,035
Amortisation of prepaid land lease payments	14,681	21,063
Amortisation of intangible assets	140,783	133,407
Research and development costs	60,621	86,331
Net (gain)/loss on disposal of property, plant and equipment	(3,452)	21,857
Unrealised gain on financial assets at fair value through profit or loss that are classified as held for trading (listed investments held for trading)	(6,378)	(449)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

6. Taxation

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong profits tax	584	–
PRC enterprise income tax	294,940	320,652
Other overseas tax	9,749	8,475
Overprovision in prior years	(1,138)	(3,158)
	304,135	325,969
Deferred taxation	3,095	(2,966)
	307,230	323,003

The provision for Hong Kong profits tax for 2014 is calculated at 16.5% (Six months ended 30 June 2013: Nil as no estimated assessable profits) of the estimated assessable profits for the period.

The income tax provision of the Group in respect of its operations in the People's Republic of China (the "PRC") has been calculated at the applicable tax rate on the estimated assessable profits for the period based on the existing legislation, interpretations and practises in respect thereof. The applicable tax rate is the PRC enterprise income tax rate of 25%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries obtained the High and New Technology Enterprises qualification and accordingly, enjoyed preferential income tax rate of 15%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. Dividend

During the current period, a final dividend for the year ended 31 December 2013 of HK\$0.046 per share (Six months ended 30 June 2013: HK\$0.039), amounting to approximately RMB319,845,000 (Six months ended 30 June 2013: RMB261,353,000), has been declared and approved by the shareholders at the annual general meeting of the Company. The 2013 final dividend was paid in July 2014 and is reflected as a dividend payable in the Interim Financial Report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

8. Earnings Per Share

(a) Basic earnings per share

The calculation of the basic earnings per share for the period is based on the profit attributable to equity holders of the Company of RMB1,113,439,000 (Six months ended 30 June 2013: RMB1,398,468,000) and the weighted average number of ordinary shares of 8,801,446,540 shares (2013: 8,266,868,105 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Issued ordinary shares at 1 January	8,801,446,540	8,258,948,934
Effect of shares issued upon exercise of share options	–	7,919,171
Weighted average number of ordinary shares at 30 June	8,801,446,540	8,266,868,105

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period is based on the profit attributable to equity holders of the Company of RMB1,113,439,000 (Six months ended 30 June 2013: RMB1,425,134,000) and the weighted average number of ordinary shares of 8,801,446,540 shares (2013: 8,817,438,996 shares), calculated as follows:

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

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Earnings for the purpose of basic earnings per share (profit attributable to equity holders of the Company)	1,113,439	1,398,468
After tax effect of effective interest on the liability component of convertible bonds	–	26,666
Earnings for the purpose of diluted earnings per share	1,113,439	1,425,134

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

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,801,446,540	8,266,868,105
Effect of deemed conversion of convertible bonds	–	550,570,891
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,801,446,540	8,817,438,996

Diluted earnings per share for the six months ended 30 June 2014 equals to the basic earnings per share as the potential ordinary shares of share options are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

9. Assets Held for Sale

Disposal group is classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets of the disposal group are generally stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through their continuing use.

On 30 May 2014, the Company has entered into a memorandum of understanding on a proposed disposal of DSI Holdings Pty Limited, Hunan Jisheng International Drivetrain System Company Limited and Shandong Geely Gearbox Company Limited, the indirect wholly-owned subsidiaries of the Company (collectively the “disposal group”), to related companies with a common beneficiary shareholder. Subsequent to the reporting date, formal sales and purchase agreements of the disposal of the disposal group were entered into between the members of the Group and the related companies.

Assets and liabilities of the disposal group are as follows:

(a) Assets held for sale

	Note	As at 30 June 2014 RMB'000 (Unaudited)
Non-current assets		
Property, plant and equipment	10	454,216
Intangible assets	11	38,187
Available-for-sale financial assets		2,509
Prepaid land lease payments		38,694
Deferred tax assets		5,180
		538,786
Current assets		
Prepaid land lease payments		876
Inventories		103,225
Trade and other receivables		164,820
Bank balances and cash		135,802
		404,723
Total assets		943,509

(b) Liabilities directly associated with assets held for sale

	As at 30 June 2014 RMB'000 (Unaudited)
Current liabilities	
Trade and other payables	522,028
Taxation	384
Total liabilities	522,412

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

10. Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment of approximately RMB420,777,000 (Six months ended 30 June 2013: RMB392,449,000). Property, plant and equipment with net book value of approximately RMB21,443,000 (Six months ended 30 June 2013: RMB40,095,000) were disposed of during the period, resulting in a gain on disposal of approximately RMB3,452,000 (Six months ended 30 June 2013: a loss of approximately RMB21,857,000, excluding the amounts through disposal of subsidiaries for the six months ended 30 June 2013 as set out in note 20). During the six months ended 30 June 2014, property, plant and equipment with net book value of approximately RMB454,216,000 (Six months ended 30 June 2013: Nil) were classified as assets held for sale (note 9(a)).

11. Intangible Assets

During the period, additions to intangible assets by acquisition and capitalisation in respect of development costs amounted to approximately RMB540,285,000 (Six months ended 30 June 2013: RMB385,615,000). During the six months ended 30 June 2013, certain intangible assets were disposed of through disposal of subsidiaries as set out in note 20. Intangible assets with net book value of approximately RMB38,187,000 (Six months ended 30 June 2013: Nil) were classified as assets held for sale (note 9(a)).

12. Interests in Associates

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Share of net assets	256,136	261,385
Goodwill	663	663
Impairment loss recognised	(663)	(663)
	256,136	261,385
	<hr/>	
	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Represented by:		
Cost of unlisted investments	271,146	271,146
Share of post-acquisition losses and reserves	(14,347)	(9,098)
Impairment loss recognised	(663)	(663)
	256,136	261,385

At the reporting dates, the Group's interest in Manganese Bronze Holdings plc ("MBH") (being put under administration on 30 October 2012) is 19.97%. In prior years, the Group retained significant influence over MBH through the power to nominate representatives on their respective boards. During the year ended 31 December 2013, the Group ceased to exercise significant influence over MBH and has reclassified its investment to available-for-sale financial assets and carried at cost less impairment. The net carrying amount of MBH was considered to be nil as at 30 June 2014 and 31 December 2013.

After considering the unsatisfactory projected future profitability and cash flows of Hangzhou Xuan You Network Technology Limited, the directors determined to recognise an impairment loss of RMB663,000 during the year ended 31 December 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

13. Interests in a Joint Venture

During the year ended 31 December 2013, the Group has invested in a joint venture, namely Kandi Electric Vehicles Group Co., Ltd. (formerly known as “Zhejiang Kandi Electric Vehicles Co., Ltd.”) (“Kandi Electric”), at an investment cost of RMB500,000,000. At the reporting date, Kandi Electric is engaged in the manufacture of electric vehicles and investment holding and the Group’s interest in Kandi Electric is approximately 50%.

Details of interests in a joint venture are as follows:

	At 30 June 2014 RMB’000 (Unaudited)	At 31 December 2013 RMB’000 (Audited)
Share of net assets	419,114	411,784

14. Inventories

	At 30 June 2014 RMB’000 (Unaudited)	At 31 December 2013 RMB’000 (Audited)
At costs:		
Raw materials	317,902	506,858
Work in progress	145,508	430,903
Finished goods	1,414,940	845,931
	1,878,350	1,783,692

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

15. Trade and Other Receivables

	Note	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Trade and notes receivables			
Trade receivables			
– Third parties		3,133,898	2,050,463
– Associates		114,366	392,781
– Related parties controlled by the substantial shareholder of the Company		1,556,378	1,348,683
	(a)	4,804,642	3,791,927
Notes receivable	(b)	3,577,146	8,060,190
		8,381,788	11,852,117
Deposits, prepayment and other receivables			
Prepayment to suppliers			
– Third parties		126,969	167,665
– Related parties controlled by the substantial shareholder of the Company		960,594	527,987
		1,087,563	695,652
Deposits paid for acquisition of property, plant and equipment		405,430	249,996
VAT and other taxes receivables		879,627	1,171,576
Utility deposits and other receivables		510,867	184,142
		2,883,487	2,301,366
Amounts due from related parties controlled by the substantial shareholder of the Company	(c)	183,241	189,150
Amount due from ultimate holding company	(c)	306	2,202
Amount due from a joint venture	(d)	259,550	440,651
Amount due from an associate	(c)	49,150	–
		3,375,734	2,933,369
		11,757,522	14,785,486

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

15. Trade and Other Receivables *(Continued)*

(a) Trade receivables

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

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0 – 60 days	1,067,795	1,289,513
61 – 90 days	389,223	113,540
Over 90 days	544,451	114,720
	2,001,469	1,517,773

For overseas trade customers, the Group allows credit period of 180 days to over 1 year. The following is an aged analysis of the trade receivables of overseas trade customers based on invoice dates at the reporting dates:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0 – 60 days	261,918	254,121
61 – 90 days	464,348	602,171
91 – 365 days	1,903,895	1,275,429
Over 1 year	173,012	142,433
	2,803,173	2,274,154

(b) Notes receivable

All notes receivable are denominated in Renminbi and are notes received from third parties for settlement of trade receivable balances. At 30 June 2014 and 31 December 2013, all notes receivable are guaranteed by established banks in the PRC and have maturities of six months or less from the reporting dates.

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

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

(d) Amount due from a joint venture

The amount due from a joint venture is unsecured, interest-free and repayable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

16. Convertible Bonds

The convertible bonds (“CB 2014”) contain a liability component and a conversion option which is included in the equity of the Company. Details of the terms of the CB 2014 are set out in the Group’s annual financial statements for the year ended 31 December 2013.

During the year ended 31 December 2012, the investors partially converted CB 2014 in the principal amount of RMB769,834,000 (approximately HK\$873,878,000) into ordinary shares at a conversion price of HK\$1.8583 per share. CB 2014 was issued together with the Warrants under the general mandate in 2009. The original general mandate limit was 1,297,951,090 Shares (the “General Mandate”). Upon partial conversion of CB2014 (470,256,584 Shares were issued) and full exercise of the Warrants (299,526,900 Shares were issued) in prior years, the unutilised General Mandate left was 528,167,606 Shares (the “Unutilised General Mandate”).

During the year ended 31 December 2013, the investors converted all the outstanding CB 2014 in the principal amount of RMB901,313,000 (approximately HK\$1,023,126,000). The number of shares to be issued under the outstanding CB 2014 is 555,805,023 (the “Outstanding Conversion Shares”).

As the Outstanding Conversion Shares exceed the Unutilised General Mandate by 27,637,417 Shares (the “Excess Conversion Shares”), the Investors have the right to request the Company, pursuant to the terms of CB 2014, to pay in cash for any Outstanding Conversion Shares that the Company was unable to deliver upon the conversion of the outstanding Bonds.

Accordingly, upon the conversion of all the outstanding CB 2014 during the year ended 31 December 2013, the Company allotted and issued a total of 528,167,606 ordinary shares to the Investors at the conversion price of HK\$1.8408 per share and the Company has paid in cash of approximately RMB98 million (equivalent to approximately HK\$121 million) to the Investors to satisfy the Excess Conversion Shares in lieu of delivery of the Excess Conversion Shares.

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

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Liability component		
Carrying amount brought forward	-	854,590
Accrued effective interest charges	-	14,206
Conversion during the period/year	-	(770,745)
Compensation paid in lieu of delivery of the Excess Conversion Shares	-	(98,051)
	-	-
Liability component is represented by:		
Convertible bonds	-	-
Accrued interests included in trade and other payables	-	-
	-	-

The principal amount outstanding at 30 June 2014 is Nil (31 December 2013: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

16. Convertible Bonds (Continued)

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

17. Trade and Other Payables

	Note	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Trade and notes payables			
Trade payables			
– Third parties		6,368,561	7,744,569
– An associate		372,458	425,649
– Related parties controlled by the substantial shareholder of the Company		1,882,178	2,408,220
	(a)	8,623,197	10,578,438
Notes payable	(b)	422,180	644,003
		9,045,377	11,222,441
Other payables			
Accrued charges and other creditors			
Receipts in advance from customers			
– Third parties		676,840	1,090,384
– Related parties controlled by the substantial shareholder of the Company		85,369	468,673
		762,209	1,559,057
Deferred income related to government grants which conditions have not been satisfied		876,498	467,598
Payables for acquisition of property, plant and equipment		36,778	366,557
Accrued staff salaries and benefits		176,028	274,679
VAT and other taxes payables		238,540	725,054
Dividend payables		323,015	–
Other payables and accrued charges		1,083,477	819,134
		3,496,545	4,212,079
Amounts due to related parties controlled by the substantial shareholder of the Company	(c)	410,574	640,095
Amount due to ultimate holding company	(c)	270,000	193
		4,177,119	4,852,367
		13,222,496	16,074,808

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

17. Trade and Other Payables *(Continued)*

(a) Trade payables

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

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0 – 60 days	6,662,387	8,763,174
61 – 90 days	1,189,408	1,023,405
Over 90 days	771,402	791,859
	8,623,197	10,578,438

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

(b) Notes payable

All notes payable are denominated in Renminbi and are notes paid to third parties for settlement of trade payable balances. As at 30 June 2014 and 31 December 2013, all notes payable have maturities of less than 1 year from the reporting dates.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

18. Borrowings

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Bank loans secured by the Group's assets	–	75,000
Bank loans guaranteed by the ultimate holding company	693,779	785,000
Bank loans, unsecured	102,700	105,565
	<hr/>	<hr/>
Total bank borrowings	796,479	965,565

At the reporting date, there are demand clauses in the banking facilities and, therefore, all the bank borrowings are classified as current liabilities.

19. Share Capital

	Number of shares	Nominal value RMB'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 31 December 2013 and 30 June 2014 (Unaudited)	12,000,000,000	246,720
	<hr/>	<hr/>
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
At 1 January 2013	8,258,948,934	152,557
Shares issued under share option scheme	14,330,000	232
	<hr/>	<hr/>
At 30 June 2013	8,273,278,934	152,789
Shares issued upon conversion of convertible bonds	528,167,606	8,557
	<hr/>	<hr/>
At 31 December 2013, 1 January 2014 and 30 June 2014 (Unaudited)	8,801,446,540	161,346

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

20. Disposal of Subsidiaries

In February 2013, the Group disposed of its 51% indirect interest in Shanghai LTI Automobile Components Company Limited ("Shanghai LTI") to Shanghai Maple Automobile Company Limited, a related company controlled by the substantial shareholder of the Company, and disposed of the entire interest in Shanghai Maple Automobile Moulds Manufacturing Company Limited ("Shanghai Maple Moulds"), a wholly owned subsidiary of Shanghai LTI, to an independent third party. The considerations of the disposal of Shanghai LTI and Shanghai Maple Moulds were RMB173,350,000 and RMB50,000,000 respectively. The disposals of Shanghai LTI and Shanghai Maple Moulds were completed in June and February 2013, respectively.

	RMB'000
Aggregated net assets disposed of:	
Property, plant and equipment	201,718
Intangible assets	36,483
Inventories	81,325
Trade and other receivables	357,910
Bank balances and cash	9,699
Trade and other payables	(305,045)
Taxation	(1,036)
	381,054
Net gain on disposal of subsidiaries:	
Cash consideration received/receivable	223,350
Net assets disposed of	(381,054)
Non-controlling interests	162,972
	5,268
Aggregated net cash inflow arising on disposal:	
Cash consideration received (note)	173,350
Bank balances and cash disposed of	(9,699)
	163,651

Note: The consideration for the disposal of Shanghai Maple Moulds was included under other receivables of Shanghai LTI.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

21. Commitments

Capital expenditure commitments

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

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Contracted but not provided for, net of deposits paid		
– purchase of property, plant and machinery	845,362	808,595
– purchase of intangible assets	2,398	4,500
– investment in associates	3,514	3,468
– investment in a joint venture	720,000	720,000
– investment in available-for-sale financial assets	5,400	5,400
	1,576,674	1,541,963

Operating lease commitments

At the reporting 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 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Office and factory premises		
Within one year	4,178	7,000
In the second to fifth year inclusive	1,349	5,044
	5,527	12,044
Other assets		
Within one year	2,071	4,505
In the second to fifth year inclusive	553	919
	2,624	5,424
	8,151	17,468

Leases are negotiated and rentals are fixed for an average term of four (2013: four) years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

22. 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\$30,000 (HK\$25,000 prior to June 2014) per employee.

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

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

For the six months ended 30 June 2014, the aggregate employer's contributions made by the Group and charged to the condensed consolidated income statement amounted to RMB80,822,000 (Six months ended 30 June 2013: RMB69,852,000).

23. Share-Based Payment Transactions

The Company has operated a share option scheme for eligible employees of the Group. Details of the terms of the scheme have been set out in the Group's annual financial statements for the year ended 31 December 2013.

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 if the grantee remains as an employee of the Group. For those options granted after 1 January 2010, one-tenth of options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant. Movements in number of share options during the period are as follows:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

23. Share-Based Payment Transactions (Continued)

2014 (Unaudited)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the period	Exercised during the period	Forfeited during the period	Transfer upon resignation	Outstanding at 30 June
Directors	18 January 2010 to 17 January 2020	4.07	58,500,000	-	-	-	(1,000,000)	57,500,000
	23 March 2012 to 22 March 2022	4.07	12,000,000	-	-	-	(7,000,000)	5,000,000
			70,500,000	-	-	-	(8,000,000)	62,500,000
Employees	18 January 2010 to 17 January 2020	4.07	330,600,000	-	-	(6,450,000)	1,000,000	325,150,000
	21 April 2010 to 20 April 2020	4.07	14,400,000	-	-	-	-	14,400,000
	23 March 2012 to 22 March 2022	4.07	12,000,000	-	-	(2,500,000)	7,000,000	16,500,000
	25 June 2012 to 24 June 2022	4.07	9,000,000	-	-	-	-	9,000,000
	17 January 2013 to 16 January 2023	4.11	4,100,000	-	-	-	-	4,100,000
			440,600,000	-	-	(8,950,000)	-	431,650,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

23. Share-Based Payment Transactions (Continued)

2013 (Unaudited)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the period	Exercised during the period	Forfeited during the period	Transfer upon resignation	Outstanding at 30 June	Exercise date	Weighted average share price at exercise date HK\$
Directors	18 January 2010 to 17 January 2020	4.07	80,500,000	-	-	(11,000,000)	(11,000,000)	58,500,000		
	23 March 2012 to 22 March 2022	4.07	12,000,000	-	-	-	-	12,000,000		
			92,500,000	-	-	(11,000,000)	(11,000,000)	70,500,000		
Employees	8 May 2008 to 7 May 2013	0.92	14,330,000	-	(14,330,000)	-	-	-	3 January 2013 to 30 April 2013	3.70
	18 January 2010 to 17 January 2020	4.07	359,400,000	-	-	(11,050,000)	11,000,000	359,350,000		
	21 April 2010 to 20 April 2020	4.07	14,400,000	-	-	-	-	14,400,000		
	23 March 2012 to 22 March 2022	4.07	12,000,000	-	-	-	-	12,000,000		
	25 June 2012 to 24 June 2022	4.07	9,000,000	-	-	-	-	9,000,000		
	17 January 2013 to 16 January 2023	4.11	-	4,100,000	-	-	-	4,100,000		
			501,630,000	4,100,000	(14,330,000)	(22,050,000)	-	469,350,000		

During the six months ended 30 June 2013, 4,100,000 options were granted on 17 January 2013 with estimated total fair values of approximately RMB9 million. The closing price of the Company's shares immediately before the date on which the options granted were HK\$4.10. The exercise price of the share options granted is HK\$4.11 per share. The share options are valid for a period of 10 years from 17 January 2013 to 16 January 2023 and one-tenth of options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

23. Share-Based Payment Transactions (Continued)

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

Grant date	17 January 2013	25 June 2012	23 March 2012
Exercise price	HK\$4.11	HK\$4.07	HK\$4.07
Expected volatility	53.94%	54.93%	62.90%
Expected life	10 years	10 years	10 years
Risk-free rate	0.91%	1.048%	1.476%
Expected dividend yield	0.68%	1.03%	0.84%

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

The Group recognised a total of RMB31,089,000 (Six months ended 30 June 2013: RMB46,019,000) as administrative expenses for the six months ended 30 June 2014 in relation to share options granted by the Company and the share-based payment expenses were shown as a separate item line on the face of the condensed consolidated income statement.

24. Related Party Transactions

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

(a) Transactions

Name of related parties	Nature of transactions	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Related companies (Note (i))			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of complete knock down kits and sedan tool kits	3,191,916	5,180,573
	Sales of automobile parts and components	1,583	1,752
	Claims income on defective materials purchased	18,483	19,147
	Purchase of complete buildup units	3,295,575	5,450,594
	Sub-contracting fee paid	11,990	15,776
	Claims paid on defective materials sold	29,578	23,421
	Acquisition of property, plant and equipment	-	79
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete and semi knock down kits and sedan tool kits	188,267	1,103,259
	Sales of automobile parts and components	46,663	43
	Claims income on defective materials purchased	971	1,682
	Purchase of complete buildup units	243,493	1,156,260
	Claims paid on defective materials sold	548	1,384
	Disposal of a subsidiary (Note 20)	-	173,350
	Acquisition of property, plant and equipment	1,626	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

24. Related Party Transactions (Continued)

(a) Transactions (Continued)

Name of related parties	Nature of transactions	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Related companies (Note (i))			
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	2,813,262	3,925,860
	Sales of automobile parts and components	-	381
	Claims income on defective materials purchased	27,792	30,405
	Purchase of complete buildup units	2,906,297	4,059,371
	Purchase of automobile parts and components	41	749
	Sub-contracting fee paid	9,032	24,600
	Claims paid on defective materials sold	23,817	27,875
	Acquisition of property, plant and equipment	-	1,212
	Rental income	145	461
Zhejiang Geely Automobile Parts and Components Company Limited (浙江吉利汽車零部件採購有限公司)	Sales of automobile parts and components	1,511	5,194
	Claims income on defective materials purchased	7,569	3,768
	Purchase of automobile parts and components	1,722,203	2,125,927
	Purchase of accessories	4,111	-
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defective materials purchased	-	3
	Sales of automobile parts and components	-	165
Taizhou Haoqing Automobile Sales Company Limited (台州豪情汽車銷售有限公司)	Sales of complete buildup units	52,312	44,228
	Sales of automobile parts and components	1,493	-
	Claims paid on defective materials sold	384	-
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	10,363	14,919
	Claims income on defective materials purchased	358	-
	Rental income	86	-
Chengdu New Land Automobile Co., Ltd (成都新大地汽車有限責任公司)	Sales of complete knock down kits and sedan tool kits	2,087,059	1,902,803
	Claims income on defective materials purchased	17,150	9,922
	Purchase of complete buildup units	2,205,267	1,964,908
	Acquisition of property, plant and equipment	481	-
Shanghai LTI Automobile Components Company Limited (上海英倫帝華汽車部件有限公司)	Rental income	3,809	-
	Sales of automobile parts and components	2	-
	Purchase of automobile parts and components	682	-
	Claims paid on defective materials sold	4	-
Non-controlling shareholder of the subsidiary (Note (ii))			
Kailun (Qufu) Property Investment Limited (凱倫(曲阜)置業有限公司)	Interest paid	-	327

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

24. Related Party Transactions (Continued)

(a) Transactions (Continued)

Name of related parties	Nature of transactions	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Associate			
Mando (Ningbo) Automotive Parts Company Limited (萬都(寧波)汽車零部件有限公司)	Purchase of automobile parts and components	443,098	174,179
Subsidiary of the joint venture			
Kandi Electric Vehicles (Shanghai) Co., Ltd. (康迪電動汽車(上海)有限公司)	Sales of automobile parts and components	50,667	-

Note:

- (i) The Group and the related companies are under the common control of the substantial shareholder of Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司), the Company's ultimate holding company.
- (ii) During the year ended 31 December 2013, the Group disposed of its 50% indirect interest in Qufu Kailun Automobile Parts and Components Manufacturing Company Limited ("Qufu Kailun"). Kailun (Qufu) Property Investment Limited is no longer a non-controlling shareholder of a subsidiary of the Group after the completion of the disposal of Qufu Kailun.

(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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Salaries and other short-term benefits	15,393	18,356
Retirement benefits scheme contributions	493	599
Share-based payments	31,089	46,019
	46,975	64,974

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

25. Fair Value Measurements of Financial Instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

	Fair value at 30 June 2014 RMB'000 (Unaudited)	Fair value measurements as at 30 June 2014 using	
		Quoted prices in active market for identical assets (Level 1) RMB'000 (Unaudited)	Significant other observable inputs (Level 2) RMB'000 (Unaudited)
Recurring fair value measurement			
Financial assets:			
Financial assets at fair value through profit or loss			
– Listed equity securities held for trading	13,527	13,527	-

	Fair value at 31 December 2013 RMB'000 (Audited)	Fair value measurements as at 31 December 2013 using	
		Quoted prices in active market for identical assets (Level 1) RMB'000 (Audited)	Significant other observable inputs (Level 2) RMB'000 (Audited)
Recurring fair value measurement			
Financial assets:			
Financial assets at fair value through profit or loss			
– Listed equity securities held for trading	13,114	13,114	-
Available-for-sale financial assets			
– Listed debt security	2,342	-	2,342

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (Six months ended 30 June 2013: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation technique and inputs used in Level 2 fair value measurements

Fair value of available-for-sale financial assets is determined with reference to fair value estimated by independent professionals, which are based on quoted market prices on listed investments or the present value of the estimated future cash flows discounted at the effective interest rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2014

25. Fair Value Measurements of Financial Instruments *(Continued)*

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

2014 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 2014. These interim results have been reviewed by the Board’s audit committee, comprising solely the independent non-executive directors of the Company, one of whom chairs the committee, and the Company’s auditors, Grant Thornton Hong Kong Limited.

Overall Performance

The Group’s performance in the first half of 2014 did not meet the management’s expectations due to weakening demand for indigenous brand vehicles in China and a sharp decline in vehicle sales in some of the Group’s major export markets. The sales volume of the local brand sedans in China in the first half of 2014 was down 15% from the previous year, compared with an increase of 13% in the same period last year over the first half of 2012. Further, the Group was in the midst of a major product upgrading cycle and has embarked on a major reshuffle of its sales and marketing system. These also affected its sales performance during the period. The Group’s sales volume in the China market was down 28% from the same period in 2013. The Group’s export sales volume slid 32% to 34,440 units in the first half of 2014 compared to the first half of 2013, amidst the political and social instability in some of the Group’s major export markets in the Middle East and Eastern Europe. The Group sold a total of 187,296 units of vehicles in the first six months of 2014, down 29% from the same period in the previous year. Total revenues decreased by 32% to RMB10,158 million during the period compared to the first half of 2013. Profit attributable to the equity holders of the Company for the first half of 2014 was down 20% to RMB1,113 million compared to the first half of 2013. During the period, benefits from lower automobile component costs for vehicle sales more than offset the decrease in total revenues and sales volume, resulting in higher gross margin ratio. This, together with stable subsidy incomes and lower distribution and selling expenses, resulted in smaller decline in net profit. Fully diluted earnings per share (EPS) was down 22% to RMB12.65 cents.

Financial Resources

Despite lower revenues and operating profits in the first half of 2014, the Group’s financial position continued to be strong at the end of the first half of 2014 due to the consistent operational cash inflow from its manufacturing operation. The Group’s total cash level (cash and bank balances + pledged bank deposits) increased by 15% from the end of 2013 to RMB6,440 million at the end of June 2014, while its bank borrowings decreased by 18% to RMB796 million during the same period. Net cash on hand (total cash level – bank borrowings) amounted to RMB5,644 million, the highest level in the Group’s history. In addition, net notes receivable (bank notes receivable – bank notes payable) at the end of June 2014 amounted to RMB3,155 million, which could provide the Group with additional cash reserves when needed through discounting the notes with the banks.

Vehicle Manufacturing

The Group sold a total of 187,296 units of vehicles in the first half of 2014, down 29% from the same period last year. In addition to weaker demand for indigenous brand vehicles in China, key factors behind the Group’s weaker sales in the first half of 2014 also include the ongoing reshuffle of its sales and marketing system in China, the imminent launch of upgraded versions of the Group’s major models such as “EC7” and “GX7” and the sharp drop in export sales during the period.

The Group’s domestic sales volume in the first half of 2014 was down 28% to 152,856 units, weaker than the overall passenger vehicle market in China, which was up 11% during the period, according to China Association of Automobile Manufacturers. The Group’s market share in China’s passenger vehicle market dropped to around 2% in the first half of 2014 according to China Association of Automobile Manufacturers. Export sales volume was down 32% to 34,440 units in the first half of 2014, mainly caused by the political and social instability in the Group’s major export markets like Ukraine, Russia and Iraq. Export sales accounted for 18% of the Group’s total sales volume in the first half of 2014, compared with 19% in the same period in 2013.

The sales volume of “EC7” was down 26% to 64,046 units in the first half of 2014. Despite this, “EC7” continued to be the Group’s best-selling model, accounting for 34% of the Group’s total sales volume during the period. Sales of aging models such as “Free Cruiser” and “Vision” continued their downward trends in the first half of 2014. Their sales volume declined by 53% and 70%, respectively from the same period in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Helped by the launch of an upgraded version of “Geely Kingkong” in April 2014, the sales volume of “Geely Kingkong” recorded a growth of 16% to 30,657 units in the first half of 2014. The sales of “GC7” continued to be stable and its sales volume reached 10,004 units in the first half of 2014. The sales performance of “EC7”, “EC8”, “SC3” and “SC6”, however, has been less than satisfactory, ahead of the planned launches of their upgraded models in the second half of 2014. Helped by the launch of an upgraded version of “GX7” in March this year, sales performance of the Group’s SUV models, “GX7” and “SX7”, continued to achieve growth in the first half of 2014. The Group’s two SUV models together achieved a 4% growth in sales volume of 29,333 units during the period. As a result of the drop in sales volume of “EC7” ahead of the launch of its upgraded version, the Group’s ex-factory average sales price decreased by around 3% during the first half of 2014 from the same period last year.

The Group started a major restructuring of its distribution system in early 2014: we expect that the current three product brands will gradually be consolidated into a single brand called “Geely” within 2 years. In this respect, the existing sales channels would be evaluated before further integration or streamlining, thus enabling the Group to provide its customers with better quality services. At the end of June 2014, the Group’s sales network in China comprised a total of 838 shops, including 723 4S stores and 115 exclusive franchisee stores.

In May 2014, the Group initiated a marketing campaign, namely “Geely Across China Trip” to promote the new “Geely” brand. Such campaign is expected to be the longest in terms of duration and the most comprehensive in terms of scale and scope in the Group’s history. It aims not only to expand the Group’s sales and distribution channel covering the third and fourth-tier cities in China, but also exhibit the new image of “Geely” brand and competitive edges of the Group’s products.

In Beijing Auto Show in April 2014, the Group exhibited its new hybrid technology in two new models: “Emgrand Cross” and “EC7 Hybrid”. This signifies the Group’s achievement in the development of hybrid technologies, which we expect will help to speed up the commercialization of the Group’s new energy vehicles in the near future.

In “J.D. Power Asia Pacific 2014 China Customer Service Index (CSI) StudySM”, which analyzed after-sales dealer service satisfaction by vehicle owners, the “Geely” brand continued to score above the industry average with its score improving to 847 compared with the average score of 839 achieved by the Group’s three brands in 2013. Amongst all the local brands in China, “Geely” ranked number five. In terms of overall ranking, “Geely” achieved number 17 position among the 67 passenger vehicle brands examined by the study.

New Products

The Group launched the upgraded version of “GX7”, “SC7”, “Geely Panda Cross” and “Geely Kingkong” in the first half of 2014. In the second half of 2014, the Group plans to launch the following new products:

- “Xindihao” mid side sedan
- “GX9” full size SUV
- “GC9” large size sedan (“KC”)

In addition, the Group is preparing for the commercial launches of a series of new energy vehicles in the coming year in view of the expected increase in demand for these vehicles in China.

Exports

The Group exported a total of 34,440 units of vehicles in the first six months of 2014, down 32% from the same period last year, and accounted for 18% of the Group’s total sales volume during the period. Such decrease was mainly driven by the political and social instability in some of the Group’s major export markets in the Middle East and Eastern Europe. The Group’s share of China’s total exports of sedans and SUVs was maintained at around 15% in the first half of 2014, according to China Association of Automobile Manufacturers. “Emgrand 7” (also known as “EC7” in the domestic market) continued to be the Group’s most popular export models in terms of sales volume in the first half of 2014. Export volume of “Emgrand 7” amounted to 16,401 units and accounted for 48% of the Group’s total export sales volume during the first six months of 2014. Also, the Group’s SUV model “Emgrand X7” (also known as “GX7” in the domestic market) recorded a total export volume of 7,266 units in the first half of 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Developing countries in the Eastern Europe, Middle East, and Central and Southern America remained to be the most important markets for the Group's exports. Amongst which, the most important export destinations in terms of sales volume were Russia, Egypt, Belarus, Iran and Ukraine, Uruguay and Saudi Arabia, which together accounted for over 93% of the Group's total exports volume in the first half of 2014. In addition to export of vehicles from China, the Group also assembles some models sold overseas using contract manufacturing arrangements with local partners in Russia, Ukraine, Indonesia, Sri Lanka, Ethiopia, Uruguay and Egypt.

In May 2014, the Group commenced the CKD assembly of "GC2" ("Geely Panda") in Uruguay in cooperation with a local partner, which we expect to improve the Group's market penetration in Central and Southern American market.

Vehicle Financing Joint Venture with BNP Paribas Personal Finance

On 27 January 2014, the Company obtained its shareholders' approval at the extraordinary general meeting on the formation of a joint venture company with BNP Paribas Personal Finance to engage in the vehicles financing business in China.

The official establishment of the joint venture company and its commencement of business are subject to two-phase approvals from the China Banking Regulatory Commission and other relevant government authorities in China. The first phase and second phase approvals are currently expected to be obtained in early January 2015 and mid of 2015, respectively. The management of the Group believes that the joint venture would enable the Group to provide a full range of quality automotive financing services to its customers, which in turn, could help strengthen its competitiveness and promote the sales of its vehicles in the China market.

Disposals of DSI, Hunan International and Shandong Gearbox

On 30 May 2014, the Company entered into a memorandum of understanding on the proposed disposal of (i) the entire issued share capital in DSI Holdings Pty Limited ("DSI"), a direct wholly-owned subsidiary of the Company; (ii) 50% of the issued share capital in Hunan Jisheng International Drivetrain System Company Limited (湖南吉盛國際動力傳動系統有限公司) ("Hunan International") not held by DSI, an indirect wholly-owned subsidiary of the Company which is 50% owned by DSI and 50% owned by Hunan Geely Automobile Components Co. Limited (湖南吉利汽車部件有限公司); and (iii) the entire issued share capital in Shandong Geely Gearbox Company Limited (山東吉利變速器有限公司) ("Shandong Gearbox"), an indirect wholly-owned subsidiary of the Company (collectively the "disposal group"), to two group members of Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司) ("Geely Holding", together with its subsidiaries, collectively the "Geely Holding Group"), a company wholly-owned by Mr. Li Shu Fu, the chairman and executive director of the Company, and his associate. On 21 July 2014, the Company entered into definitive sales and purchase agreements in relation to the transfers of the disposal group and the transfers of the disposal group are still subject to completion at the date of this interim report. During the first half of 2014, the Group presented the financial information of the disposal group in the condensed consolidated statement of financial position as "Assets held for sale" and "Liabilities directly associated with assets held for sale".

In order to pave the road for the Group with focus on the production of vehicles and related components in China, and the consolidation of all the Chinese-based and overseas research and development and production activities of automatic transmissions with the Geely Holding Group, it is expected that upon completion of the disposals, there would be more efficient pooling of resources that would avoid duplication in costs and investments and eventually create better synergies between the Group and the Geely Holding Group in the future as a result of more distinct segregation in their provision of expertise and nature of services, which in turn, is expected to enhance the Group's profitability in the long term.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

Challenges remain in the second half of 2014 in view of the rapid changes in economic and regulatory environment in China. Competitive pressure on indigenous brands in the China market should continue to intensify in the coming years as most major international brands have been strengthening their presence in the China market through more products offering, more aggressive pricing strategies, adding new production capacity and improving their marketing and customer services. The implementation of more stringent regulatory requirements in fuel efficiency, product warranty, product recall and emissions standards in China could put tremendous cost pressure on indigenous brands in China. Further, more major cities in China are expected to introduce local policies to restrict new car licenses to ease traffic and combat air pollution, thus restricting the demand for passenger vehicles. The impact could be even bigger for indigenous brands, where their major competitive edges in pricing could be seriously undermined by the introduction of an auction and lottery system to curb the growth of new vehicles.

The exports business for motor vehicles in our major markets like Russia and Ukraine has seen a material slowdown due to political and social instability. It is envisaged these external factors would persist and our exports business could continue to face tremendous challenges in the remainder of 2014.

On the positive front, the Group's competitive advantages, however, have improved, putting the Group in a stronger position to meet with the challenges. Also, the Group's current restructuring of its distribution system, when accomplished, could significantly enhance the service quality and efficiency of the Group's sales channel, thus providing further momentum to support the Group's future growth.

The Group has started to offer turbo-charged engines in some of its models, which the management of the Group believes will enhance the attractiveness of the Group's products. With the substantial investment in new technologies like turbo-charged engines over the past few years, our powertrain system has become far more fuel efficient and environmentally friendly. The Group plans to replace its old models with more sophisticated new models equipped with more advanced powertrain technologies and designs. Further, a new full size SUV model and a brand new large size sedan model are planned for launch by the Group within the year. These new powertrain technologies and new products are expected to help to revert the Group's overall

sales performance in the remainder of 2014. Further, the shift of preference on vehicle procurement by the Chinese Government towards more indigenous brand products should provide additional opportunities for the Group to further expand our sales.

With a series of major structural changes implemented in the Group's product development and sales/marketing functions over the past few months, the Group's management believes that 2014 will become another benchmark year in the Group's on-going "Strategic Transformation". The Group's cooperation with Volvo Car Corporation ("Volvo Car") has already started across different functional units, enabling the Group to further optimize resource utilization, and speed up the implementation of platform strategy, standardization, and shared modularization in product development, and thereby giving the Group a strong and unique advantage over its competitors. With the new product platforms, new powertrains and high standard new production facilities under development, the Group expects to deliver quality products and outstanding customer satisfaction and experience, thus allowing the Group to participate in global competition with confidence.

Despite fierce competition in China's automobile market and sign of deteriorating market conditions in some of its major export markets in the first half of 2014, the Group's management team expected the overall sales performance should improve in the second half of 2014. But in view of the less than satisfactory performance in the first half of 2014, the Group's management team decided to revise downward our full year sales volume target from 580,000 units to 430,000 units, which represent around 22% decline over 2013.

Capital Structure and Treasury Policies

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and the credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, shareholders' loan from its parent Geely Holding Group and fund raising exercises in the capital market. As at 30 June 2014, the Group's shareholders' fund amounted to approximately RMB16.9 billion (As at 31 December 2013: approximately RMB16.1 billion). No new shares were issued by the Company during the six months ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to Foreign Exchange Risk

The Group considers that fluctuations in exchange rate do not impose a significant risk to the Group since the Group's operations are principally in the Mainland China and Hong Kong and the Group's assets and liabilities are mainly denominated in Renminbi, the functional currency of the Group.

Liquidity and Financial Resources

As at 30 June 2014, the Group's current ratio (current assets/current liabilities) was 1.43 (As at 31 December 2013: 1.29) and the gearing ratio of the Group was 4.7% (As at 31 December 2013: 6.0%) 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 2014 amounted to approximately RMB0.8 billion (As at 31 December 2013: approximately RMB1.0 billion) were solely the bank borrowings. For the bank borrowings, they were mostly secured, interest-bearing and repaid on maturity. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

Employees' Remuneration Policy

As at 30 June 2014, the total number of employees of the Group was about 16,363 (As at 31 December 2013: approximately 18,138). 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, state-managed retirement benefit scheme in the PRC and defined contribution superannuation funds in other overseas countries. 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 2014, 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:

MANAGEMENT DISCUSSION AND ANALYSIS

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

Name of Director	Capacity	Number of securities in the Company		Shareholding percentage (%)
		Long position	Short position	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporation	3,751,159,000	–	42.62
Mr. Yang Jian	Personal	8,000,000	–	0.09
Mr. Gui Sheng Yue	Personal	11,800,000	–	0.13
Mr. An Cong Hui	Personal	6,000,000	–	0.07
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.05
Share options				
Mr. Yang Jian	Personal	12,000,000 (Note 2)	–	0.14
Mr. Gui Sheng Yue	Personal	11,500,000 (Note 2)	–	0.13
Mr. An Cong Hui	Personal	9,000,000 (Note 2)	–	0.10
Mr. Ang Siu Lun, Lawrence	Personal	11,000,000 (Note 2)	–	0.12
Mr. Ran Zhang	Personal	1,000,000 (Note 3)	–	0.01
Mr. Liu Jin Liang	Personal	9,000,000 (Note 2)	–	0.10
Ms. Wei Mei	Personal	3,000,000 (Note 2)	–	0.03
Ms. Wei Mei	Personal	5,000,000 (Note 4)	–	0.06
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 2)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 2)	–	0.01

Notes:

- (1) Proper Glory Holding Inc. ("Proper Glory") and its concert parties in aggregate hold 3,751,159,000 shares, representing approximately 42.62% of the issued share capital of the Company as at 30 June 2014. Proper Glory is a private company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (2) This interest relates to share options granted on 18 January 2010 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each share during the period from 18 January 2010 to 17 January 2020. The percentage of holding is calculated on the basis (i) that the 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 2014.
- (3) This interest relates to share options granted on 21 April 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 21 April 2010 to 20 April 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 2014.
- (4) This interest relates to share options granted on 23 March 2012 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each share during the period from 23 March 2012 to 22 March 2022. The percentage of holding is calculated on the basis (i) that the 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 2014.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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

Save as disclosed above, as at 30 June 2014, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

Directors' Right to Acquire Shares

As at 30 June 2014, the directors and chief executive of the Company have the following options to subscribe for

the shares of the Company under the Company's old share options scheme approved and adopted on 31 May 2002:

Name of Director	Outstanding Options as at 30 June 2014	Date of grant	Exercise period	Exercise price HK\$
Mr. Yang Jian	12,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Gui Sheng Yue	11,500,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. An Cong Hui	9,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Ang Siu Lun, Lawrence	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Ran Zhang	1,000,000	21.4.2010	21.4.2010 – 20.4.2020	4.07
Mr. Liu Jin Liang	9,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Ms. Wei Mei	3,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Ms. Wei Mei	5,000,000	23.3.2012	23.3.2012 – 22.3.2022	4.07
Mr. Yeung Sau Hung, Alex	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Lee Cheuk Yin, Dannis	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07

63,500,000

Share Option Scheme

A share option scheme ("Old 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 an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2012, a new share option scheme (the "New Share Option Scheme") was adopted by the Company. The New Share Option Scheme replaced the Old Share Option Scheme. After the adoption of the New Share Option Scheme, the Old Share Option Scheme was terminated and no further options can be granted under it.

Pursuant to the New Share Option 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 Old Share Option Scheme were disclosed in the Company's 2013 annual report.

Based on the Company's records as at 30 June 2014, except disclosed in the section headed "Directors' Right to Acquire Shares" above, 368,150,000 share options were granted by the Company to the employees and remain outstanding.

Interim Dividend

At a meeting of the Board held on 20 August 2014, the Directors resolved not to pay an interim dividend to shareholders of the Company (2013: 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:

MANAGEMENT DISCUSSION AND ANALYSIS

Connected parties	Nature of transactions	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Related companies (Note 1)			
Zhejiang Geely Automobile Company Limited (浙江吉利汽車有限公司)	Sales of complete knock down kits and sedan tool kits	3,191,916	5,180,573
	Sales of automobile parts and components	1,583	1,752
	Claims income on defective materials purchased	18,483	19,147
	Purchase of complete buildup units	3,295,575	5,450,594
	Sub-contracting fee paid	11,990	15,776
	Claims paid on defective materials sold	29,578	23,421
	Acquisition of property, plant and equipment	–	79
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete and semi knock down kits and sedan tool kits	188,267	1,103,259
	Sales of automobile parts and components	46,663	43
	Claims income on defective materials purchased	971	1,682
	Purchase of complete buildup units	243,493	1,156,260
	Claims paid on defective materials sold	548	1,384
	Disposal of a subsidiary	–	173,350
	Acquisition of property, plant and equipment	1,626	–
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	2,813,262	3,925,860
	Sales of automobile parts and components	–	381
	Claims income on defective materials purchased	27,792	30,405
	Purchase of complete buildup units	2,906,297	4,059,371
	Purchase of automobile parts and components	41	749
	Sub-contracting fee paid	9,032	24,600
	Claims paid on defective materials sold	23,817	27,875
	Acquisition of property, plant and equipment	–	1,212
	Rental income	145	461
Zhejiang Geely Automobile Parts and Components Company Limited (浙江吉利汽車零部件採購有 限公司)	Sales of automobile parts and components	1,511	5,194
	Claims income on defective materials purchased	7,569	3,768
	Purchase of automobile parts and components	1,722,203	2,125,927
	Purchase of accessories	4,111	–
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defective materials purchased	–	3
	Sales of automobile parts and components	–	165
Taizhou Haoqing Automobile Sales Company Limited (台州豪情汽車銷售有限公司)	Sales of complete buildup units	52,312	44,228
	Sales of automobile parts and components	1,493	–
	Claims paid on defective materials sold	384	–

MANAGEMENT DISCUSSION AND ANALYSIS

Connected parties	Nature of transactions	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	10,363	14,919
	Claims income on defective materials purchased	358	–
	Rental income	86	–
Chengdu New Land Automobile Co., Ltd (成都新大地汽車有限責任 公司)	Sales of complete knock down kits and sedan tool kits	2,087,059	1,902,803
	Claims income on defective materials purchased	17,150	9,922
	Purchase of complete buildup units	2,205,267	1,964,908
	Acquisition of property, plant and equipment	481	–
Shanghai LTI Automobile Components Company Limited (上海英倫帝華汽車部件 有限公司)	Rental income	3,809	–
	Sales of automobile parts and components	2	–
	Purchase of automobile parts and components	682	–
	Claims paid on defective materials sold	4	–
Non-controlling shareholder of the subsidiary (Note 2)			
Kailun (Qufu) Property Investment Limited (凱倫(曲阜)置業有限公司)	Interest paid	–	327
Associate			
Mando (Ningbo) Automotive Parts Company Limited (萬都(寧波)汽車零部件有限 公司)	Purchase of automobile parts and components	443,098	174,179
Subsidiary of the joint venture			
Kandi Electric Vehicles (Shanghai) Co., Ltd. (康迪電動汽車(上海)有限公 司)	Sales of automobile parts and components	50,667	–

Note:

1. The Group and the related companies are under the common control of the substantial shareholder of Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司), the Company's ultimate holding company.
2. During the year ended 31 December 2013, the Group disposed of its 50% indirect interest in Qufu Kailun Automobile Parts and Components Manufacturing Company Limited ("Qufu Kailun"). Kailun (Qufu) Property Investment Limited is no longer a non-controlling shareholder of a subsidiary of the Group after the completion of the disposal of Qufu Kailun.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2014, 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 SFO)

Name	Capacity	Number of shares held			Shareholding Percentage (%)
		Long position	Short position	Lending pool	
Proper Glory (Note 1)	Beneficial owner	2,462,400,000	–	–	27.98
Geely Holding (Note 1)	Interest in controlled corporation	3,751,072,000	–	–	42.62
Zhejiang Geely (Note 2)	Beneficial owner	776,408,000	–	–	8.82
Geely Group Limited (Note 1)	Beneficial owner	87,000	–	–	0.001
	Interest in controlled corporation	2,462,400,000	–	–	27.98
JP Morgan Chase & Co.	Beneficial owner	793,657,678	–	–	9.02
		–	30,968,340	–	0.35
		–	–	195,658,151	2.22

Notes:

- Proper Glory Holding Inc. ("Proper Glory") is a limited liability 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 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 wholly owned by Mr. Li Shu Fu and his associate.
- Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") is a limited liability company incorporated in the PRC and is beneficially wholly 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 2014 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 2014.

Corporate Governance

The Company has complied with the code provisions ("CPs") of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2014, except for CPs E.1.2 and A.6.7 as explained below:

CP E.1.2 stipulates that the chairman of the Board, whilst CP A.6.7 provides that the non-executive directors (including the independent non-executive directors) of the Company, shall attend the general meetings of the Company. With the availability of conference call facility, any directors of the Company who are unable to physically attend the general meetings can participate in the meetings and have direct communication with the Company's shareholders.

Due to other business engagement outside Hong Kong, Mr. Li Shu Fu ("Mr. Li"), the chairman of the Board, and two independent non-executive directors were unable to physically attend the extraordinary general meeting of the Company held on 27 January 2014 in Hong Kong ("EGM"). Nevertheless, three executive directors and one independent non-executive director attended the EGM in person whilst other available directors attended the EGM via conference call. At the annual general meeting of the Company held on 29 May 2014 in Hong Kong ("AGM"), three executive directors and one independent non-executive director attended the AGM in person, whilst Mr. Li and other available directors attended the AGM via conference call. The Board believes the directors who participated in the general meetings via conference call were still able to directly conduct discussion with the Company's shareholders on questions they had and such shareholders' views would be properly channeled to the Board as a whole. In order to ensure that shareholders' questions about the proposed resolutions of the general meetings could be properly addressed, representatives of the Company's financial adviser, China Securities (International) Corporate Finance Company Limited, attended the EGM in person; and representatives of the Company's external auditors, Grant Thornton Hong Kong Limited, attended both the EGM and the AGM in person.

In the interim period under review, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by officers ("Code"). All directors of the Company have confirmed their compliance during the review period with the required standards set out in both the Model Code and the Code.

Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. As at 30 June 2014, the audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Yeung Sau Hung, Alex, Fu Yu Wu, An Qing Heng and Wang Yang who are the independent non-executive directors of the Company.

Appreciation

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

ON BEHALF OF THE BOARD

Li Shu Fu
Chairman

Hong Kong
20 August 2014