

Fine Cars for Everyone



Interim Report
2016

GEELY

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. Li Dong Hui, Daniel (*Vice Chairman*)
(*appointed on 15 July 2016*)
Mr. Gui Sheng Yue (*Chief Executive Officer*)
Mr. An Cong Hui
Mr. Ang Siu Lun, Lawrence
Mr. Liu Jin Liang (*resigned on 15 July 2016*)
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. An Qing Heng
Mr. Wang Yang

Audit Committee:

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

Nomination Committee:

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

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

Head Office and Principal Place of Business:

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Grand Cayman, KY1-1104,
Cayman Islands

Hong Kong Share Registrars & Transfer Office:

Union Registrars Limited
Suites 3301-04, 33/F.,
Two Chinachem Exchange Square
338 King's Road,
North Point, 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 30 which comprises the condensed consolidated statement of financial position of Geely Automobile Holdings Limited as of 30 June 2016 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 "Interim Financial Reporting".

Our responsibility is to express a conclusion, based on our review, on this interim financial report 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 as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

18 August 2016

Chiu Wing Ning

Practising Certificate No.: P04920

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2016

	Note	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	3	18,089,274	13,806,810
Cost of sales		(14,882,254)	(11,371,818)
Gross profit		3,207,020	2,434,992
Other income	4	743,592	650,076
Distribution and selling expenses		(821,392)	(782,075)
Administrative expenses, excluding share-based payments		(712,713)	(558,924)
Share-based payments		(23,671)	(29,034)
Finance costs, net	5(a)	(22,877)	(21,043)
Share of results of associates		6,206	22,796
Share of results of joint ventures		(33,506)	20,646
Profit before taxation	5	2,342,659	1,737,434
Taxation	6	(412,771)	(317,887)
Profit for the period		1,929,888	1,419,547
Attributable to:			
Equity holders of the Company		1,907,242	1,404,595
Non-controlling interests		22,646	14,952
		1,929,888	1,419,547
Earnings per share			
Basic	8	RMB21.67 cents	RMB15.96 cents
Diluted	8	RMB21.65 cents	RMB15.90 cents

The notes on pages 10 to 30 are integral parts of this interim financial report. Details of dividends payable to equity holders of the Company are set out in note 7.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	1,929,888	1,419,547
Other comprehensive income (after tax of RMBNil) for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	(42,759)	(5,072)
Total comprehensive income for the period	1,887,129	1,414,475
Attributable to:		
Equity holders of the Company	1,864,830	1,399,544
Non-controlling interests	22,299	14,931
Total comprehensive income for the period	1,887,129	1,414,475

The notes on pages 10 to 30 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Note	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	8,844,093	8,034,427
Intangible assets	10	5,975,546	5,260,241
Land lease prepayments		1,519,081	1,537,713
Goodwill		2,584	2,584
Interests in associates	11	276,772	284,774
Interests in joint ventures	12	1,776,727	1,709,081
Available-for-sale financial assets		21,650	21,650
Deferred tax assets		94,715	94,138
		18,511,168	16,944,608
Current assets			
Land lease prepayments		36,938	37,001
Inventories	13	1,274,613	1,226,169
Trade and other receivables	14	13,861,744	14,836,439
Financial assets at fair value through profit or loss	24(a)	16,931	17,118
Income tax recoverable		9,140	23,666
Pledged bank deposits		39,131	40,533
Bank balances and cash		11,225,068	9,166,926
		26,463,565	25,347,852
Current liabilities			
Trade and other payables	16	20,838,072	20,114,371
Income tax payable		269,775	334,883
Bank borrowing	17	325,500	–
		21,433,347	20,449,254
Net current assets		5,030,218	4,898,598
Total assets less current liabilities		23,541,386	21,843,206

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 30 June 2016

	Note	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	18	161,362	161,354
Reserves		20,971,292	19,362,462
<hr/>			
Equity attributable to equity holders of the Company		21,132,654	19,523,816
Non-controlling interests		236,897	215,707
<hr/>			
Total equity		21,369,551	19,739,523
<hr/>			
Non-current liabilities			
Senior notes	15	1,976,503	1,928,856
Deferred tax liabilities		195,332	174,827
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		2,171,835	2,103,683
<hr/>			
		23,541,386	21,843,206
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The notes on pages 10 to 30 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016

	Attributable to equity holders of the Company							Non-controlling interests	Total	
	Share capital	Share premium	Capital reserve	Statutory reserve	Translation reserve	Share option reserve	Accumulated profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Balance at 1 January 2015	161,346	5,815,964	164,790	106,113	(5,120)	549,723	10,495,180	17,287,996	178,354	17,466,350
Profit for the period	-	-	-	-	-	-	1,404,595	1,404,595	14,952	1,419,547
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(5,051)	-	-	(5,051)	(21)	(5,072)
Total comprehensive income for the period	-	-	-	-	(5,051)	-	1,404,595	1,399,544	14,931	1,414,475
Transactions with owners:										
Share issued under share option scheme	5	960	-	-	-	-	-	965	-	965
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	8,931	8,931
Disposal of a subsidiary	-	-	-	-	-	-	-	-	309	309
Equity settled share-based payments	-	-	-	-	-	29,034	-	29,034	-	29,034
Transfer upon forfeiture of share options	-	-	-	-	-	(21,595)	21,595	-	-	-
Final dividend declared and approved in respect of the previous year (note 7)	-	-	-	-	-	-	(173,834)	(173,834)	-	(173,834)
Total transactions with owners	5	960	-	-	-	7,439	(152,239)	(143,835)	9,240	(134,595)
Balance at 30 June 2015	161,351	5,816,924	164,790	106,113	(10,171)	557,162	11,747,536	18,543,705	202,525	18,746,230
Balance at 1 January 2016	161,354	5,818,466	164,790	118,993	84,684	572,962	12,602,567	19,523,816	215,707	19,739,523
Profit for the period	-	-	-	-	-	-	1,907,242	1,907,242	22,646	1,929,888
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(42,412)	-	-	(42,412)	(347)	(42,759)
Total comprehensive income for the period	-	-	-	-	(42,412)	-	1,907,242	1,864,830	22,299	1,887,129
Transactions with owners:										
Share issued under share option scheme	8	1,732	-	-	-	(436)	-	1,304	-	1,304
Disposal of subsidiaries (note 19)	-	-	-	-	-	-	-	-	(1,109)	(1,109)
Equity settled share-based payments	-	-	-	-	-	23,671	-	23,671	-	23,671
Transfer upon forfeiture of share options	-	-	-	-	-	(22,619)	22,619	-	-	-
Final dividend declared and approved in respect of the previous year (note 7)	-	-	-	-	-	-	(280,967)	(280,967)	-	(280,967)
Total transactions with owners	8	1,732	-	-	-	616	(258,348)	(255,992)	(1,109)	(257,101)
Balance at 30 June 2016	161,362	5,820,198	164,790	118,993	42,272	573,578	14,251,461	21,132,654	236,897	21,369,551

The notes on pages 10 to 30 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before taxation	2,342,659	1,737,434
Adjustments for non-cash items	607,000	433,925
Operating profit before working capital changes	2,949,659	2,171,359
Net changes in working capital	930,977	2,125,996
Cash generated from operations	3,880,636	4,297,355
Income taxes paid	(443,370)	(217,339)
<i>Net cash generated from operating activities</i>	3,437,266	4,080,016
Cash flows from investing activities		
Purchase of property, plant and equipment	(725,675)	(441,818)
Addition of intangible assets	(1,007,439)	(760,067)
Addition of land lease prepayments	-	(29,252)
Proceeds from disposal of property, plant and equipment	18,895	47,851
Government grants received	-	52,221
Change in pledged bank deposits	1,402	(18,397)
Net cash outflow on acquisition of a subsidiary	-	(1,133,895)
Net cash outflow on disposal of subsidiaries	(1,991)	(3,047)
Investments in financial assets at fair value through profit or loss	-	(609)
Investment in a joint venture	-	(720,000)
Interest received	31,658	28,502
<i>Net cash used in investing activities</i>	(1,683,150)	(2,978,511)
Cash flows from financing activities		
Proceeds from issuance of shares upon exercise of share options	1,304	965
Proceeds from bank borrowing	325,500	-
Repayment of bank borrowing	-	(391,616)
Interest paid	(52,370)	(56,052)
Capital contribution from non-controlling interests	-	8,931
<i>Net cash generated from/(used in) financing activities</i>	274,434	(437,772)
Net increase in cash and cash equivalents	2,028,550	663,733
Cash and cash equivalents at the beginning of the period	9,166,926	7,203,176
Effect of foreign exchange rate changes	29,592	(44,407)
Cash and cash equivalents at the end of the period	11,225,068	7,822,502

The notes on pages 10 to 30 are integral parts of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

for the six months ended 30 June 2016

1. Basis of Preparation

The 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 (the “SEHK”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 18 August 2016.

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 2015 except for the adoption of the new and amended Hong Kong Financial Reporting Standards (“HKFRSs”) as disclosed in note 2.

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 annual financial statements of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2015.

2. Adoption of New and Amended HKFRSs

In the current period, the HKICPA has issued the following amendments to HKFRSs (the “amended HKFRSs”) which are relevant to and effective for the current accounting period of the Group:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Presentation of Financial Statements: Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

3. Revenue and Segment Information

Revenue represents the consideration received and receivable from sales, net of discounts, returns and value-added taxes ("VAT") or related sales taxes, of automobiles and automobile parts and components.

The only operating segment of the Group is the production and sale of automobiles, automobile parts and related automobile components. The directors consider that the Group operates in a single business segment. No separate analysis of the reportable segment results by operating segment is necessary.

4. Other Income

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants and subsidies (note)	534,366	532,622
Unrealised gain on financial assets at fair value through profit or loss	–	21,519
Gain on disposal of scrap materials	2,528	7,624
Gain on disposal of subsidiaries (note 19)	72	62,879
Net foreign exchange gain	143,886	–
Rental income	11,728	23,755
Sundry income	51,012	1,677
	743,592	650,076

Note: Government grants and subsidies 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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

5. Profit before Taxation

Profit before taxation has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance income and costs		
Finance costs		
Interest expense on senior notes	54,479	49,545
Interest on bank borrowing wholly repayable within five years	56	–
	54,535	49,545
Finance income		
Bank and other interest income	(31,658)	(28,502)
	22,877	21,043
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	1,168,951	743,306
Retirement benefit scheme contributions	81,329	68,810
Equity settled share-based payments	23,671	29,034
	1,273,951	841,150
(c) Other items		
Cost of inventories	14,882,254	11,371,818
Depreciation	363,893	274,414
Net foreign exchange (gain)/loss	(143,886)	60,431
Amortisation of land lease prepayments	18,695	16,067
Amortisation of intangible assets	292,064	157,102
Research and development costs	96,578	–
Net loss on disposal of property, plant and equipment	26,787	2,268
Written off of intangible assets	–	14,252
Impairment loss on interest in an associate	3,349	–
Unrealised loss/(gain) on financial assets at fair value through profit or loss	187	(21,519)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

6. Taxation

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– The People's Republic of China ("PRC") enterprise income tax	387,762	310,284
– Overseas tax	6,038	–
– (Over)/under-provision in prior years	(957)	759
	392,843	311,043
Deferred tax	19,928	6,844
	412,771	317,887

Hong Kong profits tax has not been provided as the Hong Kong incorporated companies within the Group had no estimated assessable profits in Hong Kong for the periods ended 30 June 2016 and 2015.

The income tax provision of the Group in respect of its operations in 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 PRC enterprise income tax rate is 25%.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group obtained the High and New Technology Enterprises qualification. Accordingly, they enjoyed a preferential income tax rate of 15%.

The share of results of associates and joint ventures in the condensed consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

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

7. Dividends

During the current period, a final dividend for the year ended 31 December 2015 of HK\$0.038 per share (six months ended 30 June 2015: HK\$0.025 per share), amounting to approximately RMB280,967,000 (six months ended 30 June 2015: RMB173,834,000), has been declared and approved by the shareholders at the annual general meeting of the Company. The 2015 final dividend was paid in July 2016 and is reflected as a dividend payable in the Interim Financial Report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

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 RMB1,907,242,000 (six months ended 30 June 2015: RMB1,404,595,000) and the weighted average number of ordinary shares of 8,802,127,148 shares (2015: 8,801,545,822 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Issued ordinary shares at 1 January	8,801,986,540	8,801,446,540
Effect of shares options exercised	140,608	99,282
Weighted average number of ordinary shares at 30 June	8,802,127,148	8,801,545,822

(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 RMB1,907,242,000 (six months ended 30 June 2015: RMB1,404,595,000) and the weighted average number of ordinary shares of 8,808,966,024 shares (2015: 8,834,646,540 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,802,127,148	8,801,545,822
Effect of shares issued upon exercise of share options	6,838,876	33,100,718
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,808,966,024	8,834,646,540

9. Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment of approximately RMB1,219,437,000 (six months ended 30 June 2015: RMB738,528,000). Property, plant and equipment with net book value of approximately RMB45,682,000 (six months ended 30 June 2015: RMB102,340,000) were disposed of during the period, resulting in a net loss on disposal of approximately RMB26,787,000 (six months ended 30 June 2015: RMB2,268,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

10. Intangible Assets

During the period, additions to intangible assets by acquisition and capitalisation of development costs amounted to approximately RMB1,007,439,000 (six months ended 30 June 2015: RMB760,067,000).

During the period, there was no written off of the capitalised development costs (six months ended 30 June 2015: RMB14,252,000) in relation to particular projects which would not be put into commercialisation in view of the change in market conditions.

11. Interests in Associates

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Share of net assets	280,121	284,774
Goodwill	663	663
Impairment loss recognised	(4,012)	(663)
	276,772	284,774

12. Interests in Joint Ventures

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Share of net assets	1,776,727	1,709,081

13. Inventories

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Raw materials	610,866	394,917
Work in progress	222,490	244,098
Finished goods	441,257	587,154
	1,274,613	1,226,169

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

14. Trade and Other Receivables

	Note	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Trade and notes receivables			
Trade receivables			
– Third parties		917,868	890,920
– A joint venture		68,479	53,256
– Associates		105,620	111,757
– Related parties controlled by the substantial shareholder of the Company		658,820	537,203
		1,750,787	1,593,136
Notes receivables	(a) (b)	8,485,707	10,203,692
		10,236,494	11,796,828
Deposits, prepayment and other receivables			
Prepayment to suppliers			
– Third parties		128,323	82,609
– Related parties controlled by the substantial shareholder of the Company		931,879	750,645
		1,060,202	833,254
Deposits paid for acquisition of property, plant and equipment		632,152	558,920
VAT and other taxes receivables		1,450,001	1,187,706
Utility deposits and other receivables		345,905	370,875
		3,488,260	2,950,755
Amounts due from related parties controlled by the substantial shareholder of the Company	(c)	117,132	62,605
Amount due from ultimate holding company	(c)	–	27
Amount due from a joint venture	(c)	19,858	26,224
		3,625,250	3,039,611
		13,861,744	14,836,439

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

14. Trade and Other Receivables (Continued)

(a) Trade receivables

The Group allows an average credit period ranged from 30 days to 90 days to its PRC customers. The following is an ageing analysis of the trade receivables of the PRC customers, based on invoice date, at the reporting date:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
0 – 60 days	563,484	275,711
61 – 90 days	64,441	95,013
Over 90 days	482,468	745,188
	1,110,393	1,115,912

For overseas customers, the Group allows credit period ranged from 180 days to 450 days. The following is an ageing analysis of the trade receivables of the overseas customers, based on invoice date, at the reporting date:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
0 – 60 days	348,504	178,886
61 – 90 days	13,830	17,208
91 – 365 days	49,715	125,509
Over 365 days	228,345	155,621
	640,394	477,224

(b) Notes receivables

All notes receivables are denominated in RMB. At 30 June 2016 and 31 December 2015, all notes receivables are guaranteed by established banks in the PRC and have maturities of less than six months from the reporting date.

The Group pledged notes receivables of RMB20,700,000 (31 December 2015: RMB23,365,000) to banks to secure the Group's notes payables at 30 June 2016.

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

The amounts due are unsecured, interest-free and repayable on demand.

Except for trade and other receivables of RMB178,917,000 (31 December 2015: RMB116,789,000) which is expected to be recovered after one year from the reporting date, all other trade and other receivables are expected to be recovered or recognised as an expense within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

15. Senior Notes

On 6 October 2014, the Company issued senior notes with an aggregate principal amount of USD300,000,000 (equivalent to approximately RMB1,836,750,000) (the “Senior Notes”).

The Senior Notes are listed on the SEHK. Details of the terms of the Senior Notes have been set out in the Group’s annual financial statements for the year ended 31 December 2015.

The movements of the Senior Notes for the period/year are set out below:

	At 30 June 2016 RMB’000 (Unaudited)	At 31 December 2015 RMB’000 (Audited)
Carrying amount		
At the beginning of the period/year	1,928,856	1,820,138
Exchange differences	45,482	104,486
Interest expenses	54,479	103,295
Coupon payment	(52,314)	(99,063)
	1,976,503	1,928,856

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

16. Trade and Other Payables

	Note	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Trade and notes payables			
Trade payables			
– Third parties		10,927,500	9,001,560
– Associates		523,980	737,199
– Related parties controlled by the substantial shareholder of the Company		921,872	1,394,491
	(a)	12,373,352	11,133,250
Notes payables	(b)	122,450	71,655
		12,495,802	11,204,905
Other payables			
Receipts in advance from customers			
– Third parties		1,920,467	2,064,772
– A joint venture		45,809	–
– Related parties controlled by the substantial shareholder of the Company		57,465	234,574
		2,023,741	2,299,346
Deferred government grants which conditions have not been satisfied		3,176,326	2,737,519
Payables for acquisition of property, plant and equipment		493,762	211,267
Accrued staff salaries and benefits		249,742	419,020
VAT and other taxes payables		200,305	171,957
Dividend payable		281,103	136
Other accrued charges		1,318,666	1,534,606
		7,743,645	7,373,851
Amounts due to related parties controlled by the substantial shareholder of the Company	(c)	598,334	1,535,585
Amount due to ultimate holding company	(c)	291	30
		8,342,270	8,909,466
		20,838,072	20,114,371

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

16. Trade and Other Payables (Continued)

(a) Trade payables

The following is an ageing analysis of trade payables, based on invoice date, at the reporting date:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
0 – 60 days	9,869,884	8,746,578
61 – 90 days	1,389,146	1,090,495
Over 90 days	1,114,322	1,296,177
	12,373,352	11,133,250

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

(b) Notes payables

All notes payables are denominated in RMB and are notes paid and/or payable to third parties for settlement of trade payables. At 30 June 2016 and 31 December 2015, all notes payables have maturities of less than one year from the reporting date.

At 30 June 2016, the Group pledged notes receivables and pledged bank deposits of RMB20,700,000 (31 December 2015: RMB23,365,000) and RMB39,131,000 (31 December 2015: RMB40,533,000) respectively to secure the notes payables.

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

The amounts due are unsecured, interest-free and repayable on demand.

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

17. Bank Borrowing

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Bank loan, unsecured	325,500	–

At 30 June 2016, the Group's bank borrowing was carried at amortised cost, repayable in September 2016 and interest bearing at the London Interbank Offered Rates plus 1% per annum. Also, there is a demand clause in the bank facility and, therefore, the bank loan is classified as a current liability at the reporting date.

18. Share Capital

	Number of shares	Nominal value RMB'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 31 December 2015 and 30 June 2016	12,000,000,000	246,720
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
At 1 January 2015	8,801,446,540	161,346
Shares issued under share option scheme	540,000	8
At 31 December 2015 and 1 January 2016	8,801,986,540	161,354
Shares issued under share option scheme	460,000	8
At 30 June 2016 (unaudited)	8,802,446,540	161,362

19. Disposal of Subsidiaries

On 28 January 2016, the Group entered into an equity transfer agreement with an independent third party for the disposal of the entire interests in Zhejiang Shou La Shou Automobile Services Company Limited ("Shou La Shou") and Hangzhou Ha Man Automobile Services Company Limited ("Ha Man"), the indirectly owned subsidiaries with 64.4% equity interest (the "Disposal"), which are engaged in sales of sedans and provision of automobile services. The Disposal was completed on the same date. The aggregate consideration for the Disposal was RMB2,110,000 and a gain on disposal of subsidiaries of RMB72,000 was recorded in "Other income" in the condensed consolidated income statement. The fair value of total net assets disposed of and non-controlling interests at the disposal date were RMB3,147,000 and RMB1,109,000 respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

20. Commitments

Capital expenditure commitments

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

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Contracted but not provided for		
– purchase of property, plant and equipments	1,586,999	1,514,991
– acquisition of subsidiaries	1,422,451	–
	3,009,450	1,514,991

Operating lease commitments – as lessee

At the reporting date, the total future minimum lease payments in respect of office and factory premises and other assets under non-cancellable operating leases are payable as follows:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Office and factory premises		
– Within one year	2,764	6,126
– In the second to fifth years inclusive	525	12,349
– After five years	–	6,602
	3,289	25,077
Other assets		
– Within one year	95	136
	3,384	25,213

Leases are negotiated and rentals are fixed for an initial period of one to three years (31 December 2015: one to three years) with an option to renew the leases when all terms are renegotiated.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

20. Commitments (Continued)

Operating lease commitments – as lessor

At the reporting date, the total future minimum lease receipts in respect of leasehold land and buildings, motor vehicles and plant and machinery under non-cancellable operating leases are receivable as follows:

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Leasehold land and buildings		
– Within one year	5,961	4,391
– In the second to fifth years inclusive	16,791	16,877
– After five years	19,837	26,235
	42,589	47,503
Motor vehicles and plant and machinery		
– Within one year	4,001	4,001
– In the second to fifth years inclusive	16,004	16,004
– After five years	18,908	25,006
	38,913	45,011
	81,502	92,514

Leases are negotiated and rental are fixed for an initial period of one to fourteen years (31 December 2015: one to fourteen years).

21. 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 the employees' relevant income to the scheme. Both the employer's and the employees' contributions are subject to a maximum of monthly relevant income of HK\$30,000 (equivalent to RMB24,000) per employee. Contributions to the plan vest immediately.

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 2016, the aggregate employer's contributions made by the Group and charged to the condensed consolidated income statement amounted to RMB81,329,000 (six months ended 30 June 2015: RMB68,810,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

22. Equity Settled Share-Based Payment Transactions

The Company has operated a share option scheme for eligible participants 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 2015.

2016 (Unaudited)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June
Directors	18 January 2010 to 17 January 2020	4.07	57,500,000	-	-	-	57,500,000
	23 March 2012 to 22 March 2022	4.07	5,000,000	-	-	-	5,000,000
	9 January 2016 to 8 January 2020	2.79	16,000,000	-	-	-	16,000,000
			78,500,000	-	-	-	78,500,000
Employees	18 January 2010 to 17 January 2020	4.07	284,760,000	-	(210,000)	(3,520,000)	281,030,000
	21 April 2010 to 20 April 2020	4.07	13,000,000	-	-	-	13,000,000
	23 March 2012 to 22 March 2022	4.07	16,500,000	-	-	-	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
	9 January 2016 to 8 January 2020	2.79	16,900,000	-	(250,000)	(1,150,000)	15,500,000
	2 June 2016 to 1 June 2020	4.08	1,000,000	-	-	-	1,000,000
			345,260,000	-	(460,000)	(13,670,000)	331,130,000
Other eligible participants	2 June 2016 to 1 June 2020	4.08	20,400,000	-	-	-	20,400,000
			444,160,000	-	(460,000)	(13,670,000)	430,030,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

22. Equity Settled Share-Based Payment Transactions (Continued)

2015 (Unaudited)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June
Directors	18 January 2010 to 17 January 2020	4.07	57,500,000	-	-	-	57,500,000
	23 March 2012 to 22 March 2022	4.07	5,000,000	-	-	-	5,000,000
	9 January 2016 to 8 January 2020	2.79	-	16,000,000	-	-	16,000,000
			62,500,000	16,000,000	-	-	78,500,000
Employees	18 January 2010 to 17 January 2020	4.07	306,750,000	-	(300,000)	(14,750,000)	291,700,000
	21 April 2010 to 20 April 2020	4.07	14,000,000	-	-	(1,000,000)	13,000,000
	23 March 2012 to 22 March 2022	4.07	16,500,000	-	-	-	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
	9 January 2016 to 8 January 2020	2.79	-	16,900,000	-	-	16,900,000
	2 June 2016 to 1 June 2020	4.08	-	1,000,000	-	-	1,000,000
			350,350,000	17,900,000	(300,000)	(15,750,000)	352,200,000
Other eligible participants	2 June 2016 to 1 June 2020	4.08	-	20,400,000	-	-	20,400,000
			412,850,000	54,300,000	(300,000)	(15,750,000)	451,100,000

During the period, the Group recognised a total of RMB23,671,000 (six months ended 30 June 2015: RMB29,034,000) in relation to share options granted by the Company and the share-based payments were shown as a separate line item on the face of the condensed consolidated income statement.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

23. Material Related Party Transactions

In addition to the transactions/information disclosed elsewhere in the Interim Financial Report, during the period, the Group had the following material transactions with related parties:

Name of related parties	Nature of transactions	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Related companies (notes (a) and (b))			
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	10,292,435	6,032,096
	Sales of automobile parts and components	545	2,837
	Claims income on defective materials purchased	42,627	21,281
	Purchase of complete buildup units	10,529,239	6,373,364
	Sub-contracting fee paid	14,723	19,210
	Claims paid on defective materials sold	54,503	26,166
	Acquisition of property, plant and equipment	1,477	4,377
	Research and development services rendered	225	393
	Sales of property, plant and equipment	573	1,017
Shanghai Maple Automobile Company Limited# 上海華普汽車有限公司	Sales of automobile parts and components	226	279
	Claims income on defective materials purchased	-	244
	Purchase of automobile parts and components	-	671
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	5,922,606	5,889,864
	Sales of automobile parts and components	-	684
	Claims income on defective materials purchased	38,815	41,083
	Purchase of complete buildup units	6,090,630	6,208,347
	Purchase of automobile parts and components	42,360	204
	Sub-contracting fee paid	8,100	8,100
	Claims paid on defective materials sold	49,174	48,621
	Acquisition of property, plant and equipment	2,009	672
	Research and development services rendered	49	334
	Acquisition of intangible assets	-	926
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	49	-
	Claims income on defective materials purchased	11,724	13,582
	Purchase of automobile parts and components	2,749,673	2,050,014
	Acquisition of property, plant and equipment	856	1,758
Taizhou Haoqing Automobile Sales Company Limited# 台州豪情汽車銷售有限公司	Sales of complete buildup units	159,942	82,957
	Sales of automobile parts and components	2,542	1,266
	Claims paid on defective materials sold	696	673
Shanghai LTI Automobile Components Company Limited# 上海英倫帝華汽車部件有限公司	Rental income	3,759	3,809
	Sales of automobile parts and components	2	3
	Purchase of automobile parts and components	3,492	1,485
	Claims paid on defective materials sold	-	58

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

23. Material Related Party Transactions (Continued)

Name of related parties	Nature of transactions	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Related companies (notes (a) and (b))			
Zhejiang Jirun Chunxiao Automobile Components Company Limited [#] (note (c)) 浙江吉潤春曉汽車部件有限公司	Sales of automobile parts and components	-	52,135
	Purchase of automobile parts and components	-	10,185
Hunan Jisheng International Drivetrain System Company Limited [#] (note (d)) 湖南吉盛國際動力傳動系統有限公司	Sales of automobile parts and components	-	10
	Purchase of automobile parts and components	-	46,880
	Claims income on defective materials purchased	-	3,376
Ningbo Geely Automobile Research Development Co., Ltd. [#] 寧波吉利汽車研究開發有限公司	Sales of complete knock down kits and sedan tool kits	790	-
	Sales of automobile parts and components	3,642	-
Hangzhou Geely New Energy Automobile Sales Company Limited [#] 杭州吉利新能源汽車銷售有限公司	Sales of complete buildup units	595,322	-
	Purchase of complete buildup units	2,250	-
Associates			
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	212,867	616,187
Faurecia Emissions Control Technologies (Ningbo) Co., Ltd. [#] 佛吉亞排氣控制技術(寧波)有限公司	Purchase of automobile parts and components	83,825	-
Ningbo DIPO Traffic Facilities Co., Ltd. [#] 寧波帝寶交通器材有限公司	Purchase of automobile parts and components	5,305	-
Closed Joint Stock Company BELGEE	Sales of complete buildup units	52,127	145
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	42,525	3,365
	Sales of complete buildup units	-	4,804

[#] The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

23. Material Related Party Transactions (Continued)

Notes:

- (a) 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.
- (b) The Group does not have the automobile catalogue issued by the National Development Reform Commission in the PRC which is required to facilitate payment of the PRC consumption tax. The related parties referred to above have the relevant automobile catalogue licence and therefore the sales of complete knock down kits and sedan tool kits to and purchase of complete buildup units from related parties as set out above have been presented on a net basis in the condensed consolidated income statement (to the extent that they are back-to-back transactions) since the said related parties in effect only act as a channel to facilitate the payment of the PRC consumption tax. For the same reason, the related claims income from and claims expenses paid to these related parties have also been presented on a net basis as long as they are back-to-back transactions.
- (c) Zhejiang Jirun Chunxiao Automobile Components Company Limited has been acquired by the Group as a 99% owned subsidiary in May 2015. The transactions in 2015 represented sale and purchases before the acquisition.
- (d) In May 2015, the Company's ultimate holding company has disposed of Hunan Jisheng International Drivetrain System Company Limited ("Hunan Jisheng") to an independent third party. Subsequently, Hunan Jisheng is no longer a related company of the Group. The transactions in 2015 represented sales, purchases and claims income before the disposal.

24. Fair Value Measurements of Financial Instruments

(a) Assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the reporting date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

24. Fair Value Measurements of Financial Instruments (Continued)

(a) Assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 30 June 2016 RMB'000 (Unaudited)	Fair value measurement as at 30 June 2016 categorised into Level 1 RMB'000 (Unaudited)
Recurring fair value measurement		
Financial assets:		
Financial assets at fair value through profit or loss		
– Listed equity securities held for trading	16,931	16,931

	Fair value at 31 December 2015 RMB'000 (Audited)	Fair value measurement at 31 December 2015 categorised into Level 1 RMB'000 (Audited)
Recurring fair value measurement		
Financial assets:		
Financial assets at fair value through profit or loss		
– Listed equity securities held for trading	17,118	17,118

During the six months ended 30 June 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the reporting date in which they occur.

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

As the trading volume of the Senior Notes in public market is low, management estimated the fair value of the Senior Notes to be approximately RMB2,086,622,000 (31 December 2015: RMB2,000,875,000) by reference to the 30-day average market price of the Senior Notes. The fair value measurement was categorised as Level 2 of fair value hierarchy.

Except for the Senior Notes, the carrying amounts of the other financial instruments of the Group's carried at cost or amortised cost are not materially different from their fair values at 30 June 2016 and 31 December 2015 due to their short-term maturities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

for the six months ended 30 June 2016

25. Events after the Reporting Date

Acquisitions of 寶雞吉利汽車部件有限公司 Baoji Geely Automobile Components Company Limited# (“Baoji Target”) and 山西吉利汽車部件有限公司 Shanxi Geely Automobile Components Company Limited# (“Shanxi Target”)

On 1 June 2016, Zhejiang Jirun Automobile Company Limited (“Jirun Automobile”), a 99% owned subsidiary of the Company, and two fellow subsidiaries owned by the Company’s ultimate holding company entered into acquisition agreements pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiaries have conditionally agreed to sell the entire equity interests of Baoji Target and Shanxi Target for a total cash consideration of approximately RMB702,207,000 and RMB720,244,000, respectively. Baoji Target and Shanxi Target had accounts payable to the fellow subsidiaries of the Company of approximately RMB1,173.5 million and RMB659.9 million respectively, which arose from the acquisitions of machinery and equipment from the fellow subsidiaries as at 31 May 2016. As at 30 June 2016, the acquisitions were not yet completed. The acquisitions have been approved by the independent shareholders of the Company at the extraordinary general meeting held on 8 August 2016. Please refer to the Company’s circular dated 21 July 2016 for further details.

Disposals of 康迪電動汽車集團有限公司 Kandi Electric Vehicles Group Co., Ltd.# (“Kandi Electric”) and 寧海知豆電動汽車有限公司 Ninghai Zhidou Electric Vehicles Company Limited# (“Zhidou Electric”)

On 25 July 2016, the Company entered into a master disposal agreement with its ultimate holding company to dispose of the Group’s entire interests in Kandi Electric and Zhidou Electric to the Company’s ultimate holding company at an aggregate cash consideration of approximately RMB1,346,487,000, of which RMB725,413,000 and RMB621,074,000 are for the disposal of Kandi Electric and Zhidou Electric, respectively. The disposals will be subject to, amongst others, the approval of the independent shareholders of the Company at the extraordinary general meeting.

The English translation of the name of the companies is for reference only. The official names of these companies are in Chinese.

MANAGEMENT DISCUSSION AND ANALYSIS

2016 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 2016. 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 2016 exceeded the management’s expectations, helped by the continued good domestic demand for its sedan models like “New Emgrand”, “New Vision”, “Kingkong” and “Geely GC9” as well as strong market response to its new Sport Utility Vehicle (“SUV”) model “Geely Boyue” (吉利博越) and new crossover model “Emgrand GS”, more than offsetting the continued weak export sales during the same period. In the first half of 2016, passenger vehicle sales volume of the Chinese indigenous brands exhibited strong growth, with their overall sales volume growing 13% year-on-year (“YoY”) during the period, compared with the only 9% YoY growth of the overall Chinese passenger vehicle market in the same period, according to China Association of Automobile Manufacturers. The Group’s sales performance in the China market continued its strong growth momentum, with the total sales volume up 15% YoY to 269,669 units in the first half of 2016. The Group’s export sales volume, however, slid 40% YoY to 10,668 units in the first half of 2016 given the continued unfavourable political and economic environment in some of its major export markets and the Group’s strategy on taking a more conservative approach to contain financial risks in the export markets. The Group sold a total of 280,337 units of vehicles in the first six months of 2016, achieved an 11% YoY growth over the same period last year. Total revenues increased by 31% to RMB18,089 million during the period. Profit attributable to the equity holders of the Company for the first half of 2016 was up 36% to RMB1,907 million compared to the first half of 2015. Despite benefits from improved product mix and higher average selling price were largely offset by the inclusion of newly launched models like “Geely Boyue” and “Emgrand GS”, which usually carry relatively lower margins at the initial

stage of their product cycle, the gross margin ratio remained stable during the period. Savings from well-controlled selling and distribution expense, which was up only 5% during the period, partially offset the increase in administrative expenses, driven by the rapid growth in related expenditures on research and development (R&D). These, together with the stable government grants and subsidies during the period and the write-back of some foreign exchange losses from the Group’s ruble-denominated assets, resulted in net profit growing faster than the overall revenue growth in the first six months of 2016. Diluted earnings per share (EPS) was up 36% to RMB21.65 cents.

Financial Resources

As a result of higher revenues and operating profits in the first half of 2016, the Group’s financial position continued to be very strong at the end of June 2016. The Group’s total cash level (bank balances and cash + pledged bank deposits) increased by 22% from the end of 2015 to RMB11,264 million at the end of June 2016, while its total borrowings (including bank borrowing and the 5-year US\$300 million 5.25% senior notes due 2019 (“Senior Notes”)) increased by 19% to RMB2,302 million during the same period. Net cash on hand (total cash level – bank borrowing – Senior Notes) amounted to RMB8,962 million, the highest level in the Group’s history, versus a net cash level of RMB7,279 million six months ago. In addition, net notes receivables (bank notes receivables – bank notes payables) at the end of June 2016 amounted to RMB8,363 million, which could provide the Group with additional cash reserves when needed through discounting the notes receivables with the banks.

Vehicle Manufacturing

The Group sold a total of 280,337 units of vehicles in the first half of 2016, up 11% YoY, driven by the good market demand for the Group’s sedan models like “New Emgrand”, “New Vision”, “Kingkong” and “Geely GC9” as well as the strong market response to the new SUV model namely “Geely Boyue” (吉利博越) and new crossover model “Emgrand GS”. The decent volume growth during the first half of the year was despite the Group’s lack of new products in the first three months of 2016 and the continued weak export sales during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's domestic sales volume in the first half of 2016 increased 15% YoY to 269,669 units, much stronger than the overall passenger vehicle market in China and outperformed the Chinese indigenous brand sedan segment, which was up 9% YoY and down 16% YoY, respectively, according to China Association of Automobile Manufacturers. The Group's market share in China's overall passenger vehicle market remained at around 2% in the first half of 2016, according to figures from the same organization. Export sales volume was down 40% to 10,668 units in the first half of 2016, as a result of the uncertain political and economic environment in some of the Group's major export markets in the Eastern Europe, Middle East and Africa and the Group's strategy of taking a more conservative approach to contain financial risks in its export markets. Consequently, export sales accounted for only 4% of the Group's total sales volume in the first half of 2016, compared with 7% in the same period in 2015 and over 20% in 2013.

In the first half of 2016, the Group's "Emgrand" series, including "EC7", its upgraded version "New Emgrand" and its electric version "Emgrand EV", which was launched in November 2015, remained the Group's most popular sedan models in terms of sales volume. The combined sales volume of the "Emgrand" sedan series was 106,959 units, an increase of about 7% YoY, which accounted for 38% of the Group's total sales volume during the period. Sales of older models such as "Free Cruiser" and "Geely Panda" continued their downward trends in the first half of 2016 with their sales volume plunged 96% YoY and 56% YoY, respectively. New models launched during the period included a brand new SUV model called "Geely Boyue" (吉利博越) and the Group's first crossover vehicle model: "Emgrand GS", which have significantly strengthened the Group's products offering in the SUV and crossover segments. Both "Geely Boyue" and "Emgrand GS" received tremendous market response with their sales volumes well exceeded the management's expectations in their first few months of sales. The aggregate sales volume of "GX7", "Geely Boyue" (吉利博越) and "Emgrand GS" amounted to 40,697 units in the first half of 2016, an increase of 23% from the same period last year.

Thanks to the Group's competitive strength in China's sedan segment, "New Vision" (launched in late-2014) and "Geely GC9" (吉利博瑞) (launched in the second quarter of 2015) continued to record good sales performance in the first half of 2016. In the period, "New Vision" sedan and "Geely GC9" (吉利博瑞) B-segment sedan achieved sales volumes of 67,925 units (up 10% YoY) and 24,786 units (more than threefold YoY increase due to low base for the corresponding period of last year for comparison), respectively. The sales volume of "Kingkong" also increased by 17% YoY to 35,953 units in the first half of 2016. As a result of the improvement in product mix (i.e. higher proportion of higher-priced models), the Group's ex-factory average sales price increased by 17% during the first half of 2016 as compared with the same period last year.

Over the past few years, the Group had successfully restructured its three brands and sales channels into a single "Geely" brand and distribution network enabling the Group to provide its customers with enhanced after-sales services. At the end of June 2016, the Group's sales network in China comprised a total of 691 dealers.

Being the Group's strategically important B-segment flagship car, "Geely GC9" has been well accepted by both the customers and the automobile industry since its initial launch last year. In addition to its top 5-star rating in the C-NCAP (China's New Car Assessment Programme) crash test, "Geely GC9" was also awarded "2016 China Car of the Year" (2016中國年度車) and became the first vehicle model from the Chinese indigenous brands to win the award. Further, it was also awarded Xuanyuan Award 2016 (2016 軒轅獎年度大獎) in Beijing Auto Museum in early 2016.

In "J.D. Power Asia Pacific 2016 China Customer Service Index (CSI) StudySM", which analyzed after-sales dealer service satisfaction by vehicle owners, "Geely" brand achieved a high score of 741 compared with the mass market average score of 674 in 2016, being the fourth year in a row to maintain high ranking in this after-sales customer satisfaction survey. Amongst all the local brands in China, "Geely" ranked number three. In terms of overall ranking, "Geely" brand achieved number eight position among the 74 passenger vehicle brands in China examined by the study.

MANAGEMENT DISCUSSION AND ANALYSIS

New Products

The Group launched two new models namely the SUV model “Geely Boyue” (吉利博越) and the Group’s first crossover vehicle model: “Emgrand GS” during the first half of 2016. In the second half of 2016, the Group plans to launch the following new products:

- “Emgrand GL”: a new generation of A-segment sedan model;
- “Vision SUV”: a new compact SUV model; and
- A new hybrid electric version of “Emgrand” series sedans.

New Energy Vehicles Strategy

The Group announced its new energy vehicle strategy named “Blue Geely Initiative” in November 2015. “Blue Geely Initiative” is a 5-year campaign and programmes displaying the Group’s dedication to transformation into industry leader in new energy vehicle technologies. The Group will leverage on CEVT (“China Europe Vehicle Technologies”) and Volvo Car’s, both are parts of the Group’s parent Zhejiang Geely Holding Group Company Limited, leading technologies on new energy vehicles to speed up its products offering on new energy vehicles, starting from pure electric vehicle (“EVs”), followed by gradual transition into PHEVs (“Plug-in Hybrid”) and HEVs (“Hybrid Electric Vehicles”). The Group’s first new energy vehicle model – “Emgrand EV” was launched in November 2015. Despite huge uncertainties caused by the government’s frequent revision of new energy vehicle subsidies and the still lack of proper supporting infrastructure in China, the sales volume of “Emgrand EV” had grown steadily since the beginning of 2016, reaching a monthly volume of over 1,500 units by July 2016.

Exports

The Group exported a total of 10,668 units of vehicles in the first six months of 2016, down 40% from the same period last year, and accounted for 4% of the Group’s total sales volume during the period. The weak export sales performance was mainly caused by the uncertain political and economic environment in some of the Group’s major export markets in the Eastern Europe, Middle East and Africa and the Group’s strategy on taking a more conservative approach to contain financial risks in its export markets. As a result, the Group’s share of China’s total exports of passenger vehicles was down to 5% in the first half of 2016, compared to 8% in the same period last year, according to China Association of Automobile Manufacturers. “EC7” and “New Emgrand” continued to be the Group’s most popular export models in terms of sales volume in the first half of 2016. Export volume of “EC7” and “New Emgrand” amounted to 2,611 units and accounted for 25% of the Group’s total export sales volume during the first six months of 2016. At the end of June 2016, the Group exported its products to 24 countries through 23 exclusive sales agents and 355 sales and service outlets in these countries.

Developing countries located in the Middle East, Asia, Southern America and Africa were the most important markets for the Group’s exports in the first half of 2016. Amongst which, the most important export destinations in terms of sales volume were Saudi Arabia, Sri Lanka, Belarus, Cuba and Egypt, which together accounted for over 81% of the Group’s total exports volume in the first half of 2016. In addition to export of vehicles from China, the Group also assembles some models sold overseas using contract manufacturing arrangements with local partners in Belarus, Russia, Sri Lanka, Ethiopia, Uruguay and Egypt.

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisitions of 100% interest in 寶雞吉利汽車部件有限公司 (Baoji Geely Automobile Components Co., Ltd. or “Baoji Automobile Components”) and 山西吉利汽車部件有限公司 (Shanxi Geely Automobile Components Co., Ltd. or “Shanxi Automobile Components”)

On 1 June 2016, the Group agreed to acquire the entire registered capitals of Baoji Automobile Components and Shanxi Automobile Components from its parent – 浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Company Limited or “Geely Holding”) – for RMB702,206,798 and RMB720,244,135, respectively. These two acquisitions were not inter-conditional. The considerations for these two acquisitions were determined with reference to the net asset value of the 100% interest in the respective registered capital of Baoji Automobile Components and Shanxi Automobile Components as at 31 May 2016 and will be fully financed by internal resources of the Group. On 8 August 2016, the acquisitions had been duly approved by the independent shareholders of the Company at the extraordinary general meeting.

It is expected that the acquisitions will expand the Group’s manufacturing capacity as well as production capabilities for the manufacture of new high-end sedan, SUV and mid-end to high-end electric vehicle models which will expand the Group’s products offering and enhance the overall competitive strength of the Group’s products in the market. These new products are expected to become one of the key drivers for the Group’s future profitability. Upon completions of the acquisitions, Baoji Automobile Components and Shanxi Automobile Components will become the 99% owned subsidiaries of the Group and the financial statements of which will be consolidated into the financial statements of the Group.

Disposals of equity interests in 康迪電動汽車集團有限公司 (Kandi Electric Vehicles Group Co., Ltd. or “Kandi JV”) and 寧海知豆電動汽車有限公司 (Ninghai Zhidou Electric Vehicles Co., Ltd. or “Zhidou JV”)

On 25 July 2016, the Company entered into a master disposal agreement with Geely Holding to dispose of the Group’s 50% and 45% interests in Kandi JV and Zhidou JV to Geely Holding at an aggregate consideration of RMB1,346,486,590, which was determined with reference to the historical financial performances of Kandi JV and Zhidou JV; and the future prospects of their respective electric vehicle product portfolios. These two disposals were inter-conditional. As at the date of this report, the disposals are still subject to the approval of the independent shareholders of the Company at the extraordinary general meeting.

The disposals are consistent with the Group’s on-going strategy to enhance value for its shareholders through consolidating and enhancing its product portfolio and thus brand image by focusing on relatively higher-end automobiles going forward. It is expected that the disposals will allow the Group to allocate more time and resources to the development of mid to higher-end automobiles.

Outlook

The passenger vehicle market in China exhibited a faster-than-expected growth despite intensified competitive pressure in China’s automobile market in the first half of 2016. Although more international brands started to adopt aggressive pricing and competitive strategies to safeguard their market shares in China whilst the more flexible indigenous brands have chosen to seize market shares through the offering of more innovated products with better value for money like the SUVs. During the same time, most indigenous brands also invested heavily to improve product performance, quality and dependability, resulting in higher market shares for indigenous brands in China’s passenger vehicle market recently.

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the improved performance by the indigenous brands in China recently, 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 motor vehicle manufacturers in China. The impact could be even bigger for China's indigenous brands given their relatively weak pricing power, and thus their difficulties to pass on the additional costs to their customers. Further, the planned expiration of sales and purchase tax reduction policy by the end of 2016 could potentially shift some demand forwards from early 2017 to 2016, thus affecting demand for small and mid-size vehicles in early part of 2017.

The business environment in the Group's key export markets remains uncertain. The Group's exports businesses in developing markets in the Eastern Europe, Middle East and Africa remain weak due to the uncertain political and economic conditions there. It is envisaged these external factors would persist and the Group's exports business could continue to face tremendous challenges in the remainder of 2016.

On the positive front, the Group's overall competitiveness and management capabilities have been strengthened significantly following its strategic transformation to improve its brand image, product quality and satisfying service to its customers, as reflected by the excellent market acceptance received by the Group's recent new products, and the improved customer satisfactions shown in J.D. Power's recent study on customer services. So far in 2016, the Group's performance has exceeded management's expectations. The Group's long-term plan to further improve customer satisfaction through quality products offering, enhanced services, technologies and innovation is making significant progress.

With the continuous investments in the areas of new energy vehicles, new technologies and innovations like advanced powertrain and high-performance turbocharged engines over the past few years, the Group's products have become far more environmentally friendly and fuel-efficient. The Group will continue to replace its old models with more sophisticated new models equipped with more advanced powertrain technologies in the near future. The launch of "Emgrand EV", the Group's first new energy vehicle model, in November 2015 marked the beginning of its gradual transition from traditional to new energy vehicles.

While upholding its leading position in the Chinese mass market sedan segment, the Group will increase its products offering in the SUV segment. Following the successful launch of new SUV model "Geely Boyue" (吉利博越) and "Emgrand GS" (the Group's first crossover model) in the first half of 2016, a new compact SUV model will be launched later this year. These new SUV and crossover products should enable the Group to cater for the current rapid growth in SUV demand in China. Further, a new generation of A-segment sedan model is scheduled to be launched in the second half of the year to consolidate the Group's current leading position in China's A-segment sedan market. We believe that these new products offering should help to bolster the Group's overall sales performance in the remainder of 2016.

The development of compact modular architecture ("CMA") platform and the initial batch of new models under the platform via China Euro Vehicle Technology AB ("CEVT"), a wholly owned subsidiary of Geely Holding with independent operation based in Gothenburg, has been progressing well. The successful development and adoption of CMA platform could offer the Group competitive advantages like economies of scale, lower new model development costs and reduced marketing time of new products, and should provide the Group with a strong and unique advantage over its competitors in China.

Despite the fierce competition in China's automobile market and the continued uncertain market conditions in some of the Group's major export markets, the Group's new products launched so far this year have been very successful, thus enabling the Group to smoothly execute its business plan and achieve its performance targets set for the first half of 2016 ahead of schedule. With sign of continued strong sales enjoyed by new products launched recently and the initial good market feedback for upcoming new model launches in the remainder of the year, the management team is of the opinion that the Group's overall performance in 2016 should exceed our original expectations set at the beginning of the year and therefore decided to raise the Group's full year sales volume target by 10% from 600,000 units to 660,000 units, which is up 29% from 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure and Treasury Policies

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and the credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, shareholders' loan from the its parent Geely Holding Group and fund raising exercises in the capital market. As at 30 June 2016, the Group's shareholders' fund amounted to approximately RMB21.1 billion (As at 31 December 2015: approximately RMB19.5 billion). Upon exercise of share options, 0.46 million new shares were issued by the Group during the six months ended 30 June 2016.

Exposure to Foreign Exchange Risk

During the six months ended 30 June 2016, the Group's operations were principally related to domestic sales of automobiles and related automobile parts and components in the Mainland China and the Group's assets and liabilities were mainly denominated in RMB, the functional currency of the Group.

In terms of export operations, most of the Group's export sales were denominated in US\$ during the period. Also, the Group could face foreign exchange risk, particularly in emerging markets if it had local subsidiaries, associates or joint ventures in overseas export markets. The devaluation of local currencies in overseas markets could result in foreign exchange losses and affect the Group's competitiveness and therefore its sales volume in these markets. To mitigate the foreign exchange risk, the Group has embarked on plans to build additional overseas plants to increase the proportion of its costs in local currencies to engage in local business activities. Also, to compensate for higher costs in export markets, the Group has speeded up the renewal of its export models, and has started to streamline its export operations displaying comparative advantages with an aim to achieve higher customer satisfaction, better operating efficiency and economies of scale in its export markets.

The Group's management would also closely monitor the market situation and might consider tools to manage foreign exchange risk whenever necessary.

Liquidity and Financial Resources

As at 30 June 2016, the Group's current ratio (current assets/current liabilities) was 1.23 (As at 31 December 2015: 1.24) and the gearing ratio of the Group was 11% (As at 31 December 2015: 10%) which was calculated on the Group's total borrowings (including the 5-year US\$300 million 5.25% senior notes due 2019 ("Senior Notes") but excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests). Total borrowings (including Senior Notes but excluding the trade and other payables) as at 30 June 2016 amounted to approximately RMB2.3 billion (As at 31 December 2015: approximately RMB1.9 billion) were mainly the Group's bank borrowing and Senior Notes. At the end of June 2016, the majority of the Group's total borrowings were denominated in United States Dollars. They aligned with the currency mix of the Group's revenues, which were mainly denominated in United States Dollars. For the bank borrowing and Senior Notes, they were unsecured, 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 2016, the total number of employees of the Group was about 23,929 (As at 31 December 2015: approximately 18,700). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2016, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of

Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interest and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

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

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long Position	Short Position	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporation	3,759,959,000	–	42.71
Mr. Li Shu Fu	Personal	23,140,000	–	0.26
Mr. Yang Jian	Personal	14,475,000	–	0.16
Mr. Gui Sheng Yue	Personal	14,300,000	–	0.16
Mr. An Cong Hui	Personal	15,380,000	–	0.17
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.05
Mr. Liu Jin Liang	Personal	4,250,000	–	0.05
Ms. Wei Mei	Personal	4,170,000	–	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. Gui Sheng Yue	Personal	6,000,000 (Note 4)	–	0.07
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. Ang Siu Lun, Lawrence	Personal	5,000,000 (Note 4)	–	0.06

MANAGEMENT DISCUSSION AND ANALYSIS

Name of Director	Capacity	Number of shares in the Company		Shareholding percentage (%)
		Long Position	Short Position	
Share options				
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 3)	–	0.06
Mr. Carl Peter Edmund Moriz Forster	Personal	1,000,000 (Note 4)	–	0.01
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 2)	–	0.01
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 4)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 2)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 4)	–	0.01
Mr. An Qing Heng	Personal	1,000,000 (Note 4)	–	0.01
Mr. Wang Yang	Personal	1,000,000 (Note 4)	–	0.01

Notes:

- (1) Proper Glory Holding Inc. (“Proper Glory”) and its concert parties in aggregate hold 3,759,959,000 shares (excluding those held directly by Mr. Li Shu Fu), representing approximately 42.71% of the issued share capital of the Company as at 30 June 2016. 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 2016.
- (3) This interest relates to share options granted on 23 March 2012 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each share during the period from 23 March 2012 to 22 March 2022. The percentage of holding is calculated on the basis (i) that the 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 2016.
- (4) This interest relates to share options granted on 9 January 2015 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$2.79 for each share during the period from 9 January 2016 to 8 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 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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 a private company incorporated in the PRC and is 1% directly owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (7) Shanghai Maple Guorun Automobile Company Limited (“Shanghai Maple”) is a private company incorporated in the PRC and is 1% directly owned by Shanghai Maple Automobile. Shanghai Maple Automobile is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (8) Zhejiang Kingkong Automobile Company Limited is a private company incorporated in the PRC and is 1% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (9) Zhejiang Ruhoo Automobile Company Limited is a private company incorporated in the PRC and is 1% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (10) Hunan Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1% directly owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (11) Chengdu Gaoyuan Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (12) 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 2016, 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 2016, 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 (the "Old Share Option Scheme") and the Company's new share options scheme approved and adopted on 18 May 2012 (the "New Share Option Scheme"):

Name of Director	Outstanding options as at 30 June 2016	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. Gui Sheng Yue	6,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
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. Ang Siu Lun, Lawrence	5,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
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. Carl Peter Edmund Moriz Forster	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. An Qing Heng	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. Yeung Sau Hung, Alex	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Yeung Sau Hung, Alex	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. Lee Cheuk Yin, Dannis	1,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Lee Cheuk Yin, Dannis	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. Wang Yang	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
	78,500,000			

Share Option Scheme

A share option scheme ("Old Share Option Scheme") of the Company was approved and adopted on 31 May 2002. Such 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 New Share Option Scheme were disclosed in the Company's 2015 annual report.

Based on the Company's records as at 30 June 2016, except disclosed in the section headed "Directors' Right to Acquire Shares" above, 351,530,000 share options were granted by the Company to the employees and other eligible participants and remain outstanding.

Interim Dividend

At a meeting of the Board held on 18 August 2016, the Directors resolved not to pay an interim dividend to the Company's shareholders (2015: Nil).

Connected Transactions

In addition to the transactions/information disclosed elsewhere in the Interim Financial Report, 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	
		2016 RMB'000	2015 RMB'000
Related companies (notes (a) and (b))			
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	10,292,435	6,032,096
	Sales of automobile parts and components	545	2,837
	Claims income on defective materials purchased	42,627	21,281
	Purchase of complete buildup units	10,529,239	6,373,364
	Sub-contracting fee paid	14,723	19,210
	Claims paid on defective materials sold	54,503	26,166
	Acquisition of property, plant and equipment	1,477	4,377
	Research and development services rendered	225	393
	Sales of property, plant and equipment	573	1,017
Shanghai Maple Automobile Company Limited# 上海華普汽車有限公司	Sales of automobile parts and components	226	279
	Claims income on defective materials purchased	-	244
	Purchase of automobile parts and components	-	671
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	5,922,606	5,889,864
	Sales of automobile parts and components	-	684
	Claims income on defective materials purchased	38,815	41,083
	Purchase of complete buildup units	6,090,630	6,208,347
	Purchase of automobile parts and components	42,360	204
	Sub-contracting fee paid	8,100	8,100
	Claims paid on defective materials sold	49,174	48,621
	Acquisition of property, plant and equipment	2,009	672
	Research and development services rendered	49	334
	Acquisition of intangible assets	-	926
	Sales of property, plant and equipment	-	109
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	49	-
	Claims income on defective materials purchased	11,724	13,582
	Purchase of automobile parts and components	2,749,673	2,050,014
	Acquisition of property, plant and equipment	856	1,758
Taizhou Haoqing Automobile Sales Company Limited# 台州豪情汽車銷售有限公司	Sales of complete buildup units	159,942	82,957
	Sales of automobile parts and components	2,542	1,266
	Claims paid on defective materials sold	696	673
Shanghai LTI Automobile Components Company Limited# 上海英倫帝華汽車部件有限公司	Rental income	3,759	3,809
	Sales of automobile parts and components	2	3
	Purchase of automobile parts and components	3,492	1,485
	Claims paid on defective materials sold	-	58

MANAGEMENT DISCUSSION AND ANALYSIS

Connected parties	Nature of transactions	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Zhejiang Jirun Chunxiao Automobile Components Company Limited# (note (c)) 浙江吉潤春曉汽車部件有限公司	Sales of automobile parts and components	-	52,135
	Purchase of automobile parts and components	-	10,185
Hunan Jisheng International Drivetrain System Company Limited# (note (d)) 湖南吉盛國際動力傳動系統有限公司	Sales of automobile parts and components	-	10
	Purchase of automobile parts and components	-	46,880
	Claims income on defective materials purchased	-	3,376
Ningbo Geely Automobile Research Development Co., Ltd.# 寧波吉利汽車研究開發有限公司	Sales of complete knock down kits and sedan tool kits	790	-
	Sales of automobile parts and components	3,642	-
Hangzhou Geely New Energy Automobile Sales Company Limited# 杭州吉利新能源汽車銷售有限公司	Sales of complete buildup units	595,322	-
	Purchase of complete buildup units	2,250	-
Associates			
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	212,867	616,187
Faurecia Emissions Control Technologies (Ningbo) Co., Ltd.# 佛吉亞排氣控制技術(寧波)有限公司	Purchase of automobile parts and components	83,825	-
Ningbo DIPO Traffic Facilities Co., Ltd.# 寧波帝寶交通器材有限公司	Purchase of automobile parts and components	5,305	-
Closed Joint Stock Company BELGEE	Sales of complete buildup units	52,127	145
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	42,525	3,365
	Sales of complete buildup units	-	4,804

The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (a) 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.
- (b) The Group does not have the automobile catalogue issued by the National Development Reform Commission in the PRC which is required to facilitate payment of the PRC consumption tax. The related parties referred to above have the relevant automobile catalogue licence and therefore the sales of complete knock down kits and sedan tool kits to and purchase of complete buildup units from related parties as set out above have been presented on a net basis in the condensed consolidated income statement (to the extent that they are back-to-back transactions) since the said related parties in effect only act as a channel to facilitate the payment of the PRC consumption tax. For the same reason, the related claims income from and claims expenses paid to these related parties have also been presented on a net basis as long as they are back-to-back transactions.
- (c) Zhejiang Jirun Chunxiao Automobile Components Company Limited has been acquired by the Group as a 99% owned subsidiary in May 2015. The transactions in 2015 represented sale and purchases before the acquisition.
- (d) In May 2015, the Company's ultimate holding company has disposed of Hunan Jisheng International Drivetrain System Company Limited ("Hunan Jiseng") to an independent third party. Subsequently, Hunan Jisheng is no longer a related company of the Group. The transactions in 2015 represented sales, purchases and claims income before the disposal.

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

As at 30 June 2016, 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	2,471,200,000	–	–	28.07
Geely Holding (Note 1)	Interest in controlled corporation	3,759,872,000	–	–	42.71
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	2,471,200,000	–	–	28.07
JPMorgan Chase & Co.	Interest in controlled corporation	700,702,941	–	–	7.96
		–	33,310,000	–	0.38
		–	–	231,616,532	2.63
Citigroup Inc.	Interest in controlled corporation	456,435,455	–	–	5.19
		–	282,855,051	–	3.21
		–	–	213,365,901	2.42

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. Proper Glory Holding Inc. (“Proper Glory”) is a private company incorporated in the British Virgin Islands and is owned as to 68% by Zhejiang Geely Holding Group Company Limited (“Geely Holding”) and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
2. 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.

As at 30 June 2016, Mr. Li Shu Fu is a director of each of Proper Glory, Geely Holding, Zhejiang Geely and Geely Group Limited. Mr. Yang Jian is a director of each of Geely Holding and Zhejiang Geely. Mr. An Cong Hui is a director of each of Geely Holding and Zhejiang Geely.

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 2016 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period ended 30 June 2016.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 June 2016, except for CPs E.1.2 and A.6.7 as explained below:

CP E.1.2 stipulates that the chairman of the board, whereas CP A.6.7 provides that the non-executive directors (including the independent non-executive directors) of the company, should attend the general meetings of the company. However, with the conference call facility being made available by the Company, 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 of directors of the Company (the “Board”) was unable to attend the extraordinary general meeting of the Company held on 18 February 2016 in Hong Kong (“EGM”). Nevertheless, three independent non-executive directors attended the EGM via conference call. At the annual general meeting of the Company held on 27 May 2016 in Hong Kong (“AGM”), one independent non-executive director attended the AGM in person whilst the non-executive director and three independent non-executive directors attended via conference call in the absence of Mr. Li. The Board believes that the directors who participate in the general meetings via conference call are still able to directly conduct discussion with the Company’s shareholders on questions they have and such shareholders’ views would be properly channeled to the Board as a whole. In order to ensure that the shareholders’ questions about the proposed resolutions of the general meetings were properly addressed, representatives of the Company’s financial advisers attended the EGM in person; and representatives of the Company’s external auditors attended 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2016, the audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Yeung Sau Hung, Alex, 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
18 August 2016