Annual Report

2010

吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Stock Code : 0175)

“Quality Geely
Through Globalization”

Interim Report 2010

Annual Report 2010

COVER
STORY

“One Group; Multi–brand; Shared Platform”

CONTENTS

Personality · Style · Passion

GLEagle GX2

全球鹰
GLEAGLE

GLEAGLE

Creating our Future

KEY FIGURES

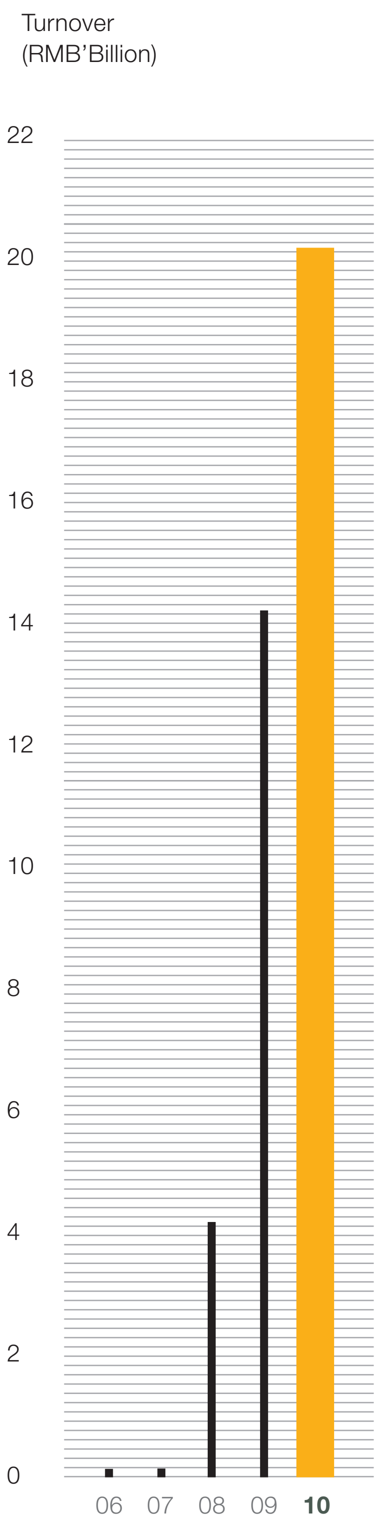
FIVE YEAR FINANCIAL SUMMARY

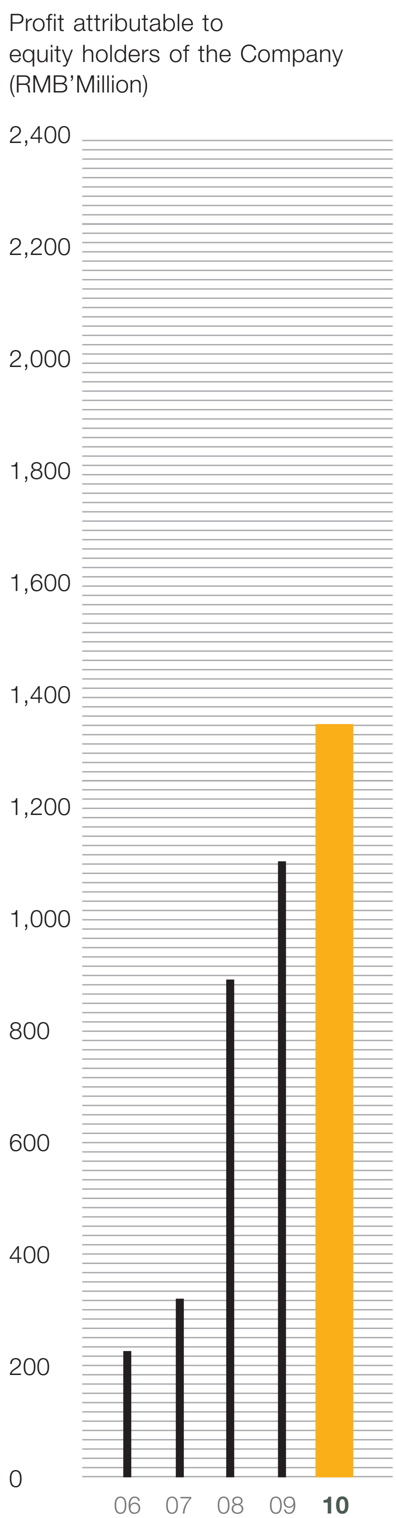
A SUMMARY OF THE RESULTS AND THE ASSETS AND LIABILITIES OF THE GROUP FOR THE LAST FIVE FINANCIAL YEARS, AS EXTRACTED FROM THE AUDITED FINANCIAL STATEMENTS, IS SET OUT BELOW:

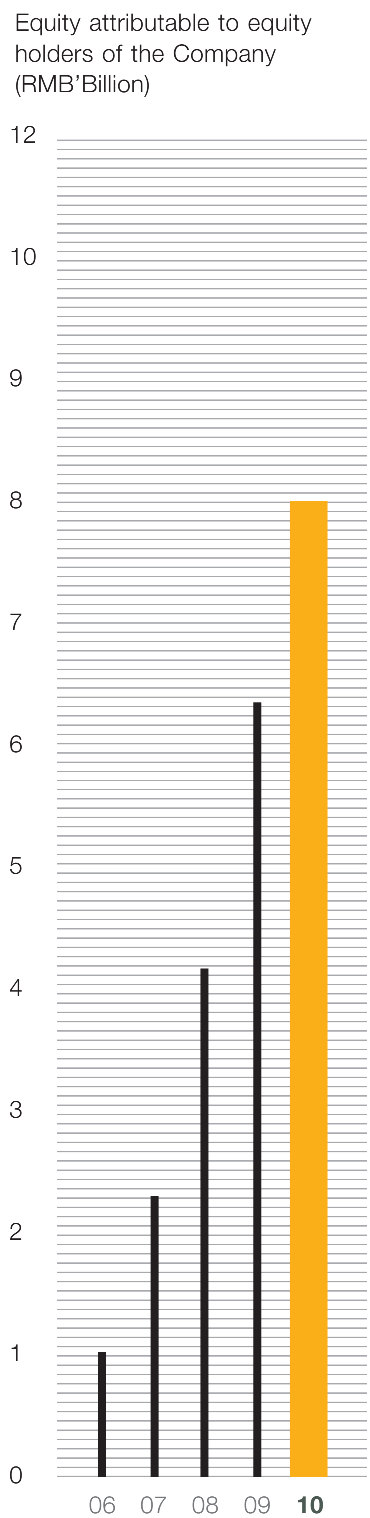
The Group

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Turnover/Revenue	20,099,388	14,069,225	4,289,037	131,720	127,006
Profit before taxation	1,900,323	1,550,460	917,922	307,373	215,734
Taxation	(350,612)	(231,432)	(51,869)	(1,606)	(1,585)
Profit for the year	1,549,711	1,319,028	866,053	305,767	214,149
Attributable to:					
Equity holders of the Company	1,368,437	1,182,740	879,053	302,527	208,752
Non-controlling interests	181,274	136,288	(13,000)	3,240	5,397
	1,549,711	1,319,028	866,053	305,767	214,149
Assets and Liabilities					
Total assets	24,303,599	18,802,189	10,150,969	2,920,351	1,844,068
Total liabilities	(15,225,922)	(11,705,669)	(5,368,488)	(373,281)	(794,142)
Total equity	9,077,677	7,096,520	4,782,481	2,547,070	1,049,926
Represented by:					
Equity attributable to equity holders of the Company	8,021,882	6,375,613	4,197,862	2,343,845	1,030,157
Non-controlling interests	1,055,795	720,907	584,619	203,225	19,769
	9,077,677	7,096,520	4,782,481	2,547,070	1,049,926

	Formula	2010	2009	Change in Percentage Increase/ (Decrease)
For the year				
Turnover (RMB'000)		20,099,388	14,069,225	43
Profit attributable to equity holders of the Company (RMB'000)	(1)	1,368,437	1,182,740	16
Per share				
Basic earning per share (RMB Cents)		18.59	17.08	9
Diluted earning per share (RMB Cents)		17.15	16.66	3
Dividend per share (HK Cents)		2.6	2.3	13
NAV per share (RMB)	(2)/(5)	1.08	0.87	24
At year end				
Equity attributable to equity holders of the Company (RMB'000)	(2)	8,021,882	6,375,613	26
Total assets (RMB'000)	(3)	24,303,599	18,802,189	29
Borrowings (RMB'000)	(4)	4,141,993	4,269,788	(3)
Number of shares in issue	(5)	7,440,755,450	7,310,855,450	2
Share price during the year				
– High (HK$)		5.16	4.84	7
– Low (HK$)		2.29	0.55	316
Financial ratios				
Gearing ratio = (Borrowings/Equity attributable to equity holders of the Company)	(4)/(2)	52%	67%	(23)
Return on total assets (%)	(1)/(3)	6%	6%	–
Return on equity attributable to equity holders of the Company	(1)/(2)	17%	19%	(11)


Turnover
(RMB'Billion)
22
20
18
16
14
12
10
8
6
4
2
0
06
07
08
09
10


Profit attributable to
equity holders of the Company
(RMB'Million)
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
06
07
08
09
10


Equity attributable to equity
holders of the Company
(RMB'Billion)
12
10
9
8
7
6
5
4
3
2
1
0
06
07
08
09
10

Classic · Trust · Care

Englon Automobile

Family + Safety + Content

英伦汽车
Englon Automobile

Englon SC5-RV

Li Shu Fu
Chairman

LETTER
TO SHAREHOLDERS

On behalf of the Board of Directors (the "Board") of Geely Automobile Holdings Limited (the "Company"), I am pleased to present to you the 2010 results of the Company and its subsidiaries (collectively, the "Group").

Financial Review

The Group kept up its growth momentum throughout 2010 and achieved the performance targets set at the beginning of the year. The strong performance was partly helped by the Chinese Government's policies to promote economy sedans, but also as a result of the Group's improving brand and product image.

While the Chinese sedan market continued to experience exceptionally strong growth in 2010, recovery in our major export markets remained slow throughout the year. Despite this, the Group's performance in 2010 was very encouraging with total sales volume increased by 27% to 415,843 units and revenue increased by 43% to RMB20.1 billion for the year ended 31 December 2010. Profit attributable to the equity holders of the Company amounted to RMB1.37 billion, representing an increase of 16% over 2009. Key drivers to profit growth in 2010 included significant increase in sales volume, improvement in product mix and thus resulting in better margins during the period. The strong 2010 results were despite the start-up costs for the construction of two automatic transmissions plants in Xiangtan and Chongqing and two new manufacturing plants in Jinan and Chengdu, and the additional expenses related to the development of three new product brands and their associated distribution networks during the year. Excluding non-cash expenses related to the recognition of share-based payments to employees, the underlying profit attributable to shareholders was RMB1.64 billion, representing 38% increase from 2009.

Dividend

The Board recommends the payment of a final dividend of HK2.6 cents per share for 2010 (2009: HK2.3 cents).

Headquarters Building in Hangzhou

Business Overview

China's sedan demand continued to grow at a fast pace in 2010, despite the reduction in tax incentives offered to smaller size vehicles since the beginning of 2010. Total sales volume of passenger vehicles in China in 2010 increased by 33% over the previous year to a total of 13.8 million units in 2010, according to figures from the China Association of Automobile Manufacturers ("CAAM"), making China the largest passenger vehicle market in the World in 2010. Amongst which, multi-purpose-vehicles ("MPV") and sport-utilities-vehicles ("SUV") grew at a much faster pace at 79% and 101% respectively, compared with the 27% growth achieved by the sedan segment during the period. Cost pressure also intensified during the year due to higher inflation in China and rising commodities prices during 2010.

Despite those challenges and difficulties like the shortage of production capacity and weaker than expected export demand, the Group still managed to capitalize on the strong demand in the domestic market and maintained its domestic market share and achieved another record year in terms of sales volume and profitability in 2010. The strong result of the Group was helped by its successful migration to the "Multi-brand Strategy" and the full implementation of the "Platform Strategy" in product development, resulting in significant improvement in the Group's brand images, customer satisfactions, product quality and reliability during 2010.

The Group sold a total of 415,843 units of sedans in 2010, up 27% from 2009, of which 5% or 20,555 units were sold abroad, up 6% from 2009. In the Chinese market, the Group's sales volume was up 29% over last year to 395,288 units in 2010, in line with the overall growth in China's sedan market during the same period. The Group's profit margin improved slightly in 2010, helped by better product mix and economies of scales. Total net profit of the Group was up 17% from RMB1.32 billion in 2009 to RMB1.55 billion on 43% growth in revenues, both are record highs in the Group's history. After the non-controlling interests, net profit attributable to shareholders of the Company was up 16% from RMB1.18 billion in 2009 to RMB1.37 billion in 2010.

SC5-RV

GX2

Inside SC5-RV

GX2

Prospects

Like previous years, 2011 should be full of opportunities and challenges. With the very positive results of its "Strategic Transformation" in the areas of brand image, product quality, technology and innovation, the Group's competitive advantages have improved significantly, putting the Group in a strong position to meet new market challenges in the future and to benefit substantially from new opportunities in the global automobile industry, thereby enabling the management to further enhance returns to the Company's shareholders.

The Group will continue to focus on the upgrading and expansion of its automobile businesses, to accelerate the development of its three new brands: "GLEagle", "Englon" and "Emgrand" and their distribution networks, and to expand its operations further into the global market, with an aim to become a leading supplier for the safest, the most environmental friendly and the most energy efficient vehicles in the World. To achieve this, the Group will continue to invest heavily in the research and development of new product platforms, new technologies and new models in a bid to narrow the technology gap between the Group and the major international automobile companies. Substantial effort has been spent in the areas of quality control, technology development and innovation, parts and component procurement, marketing and distribution and customer services to further strengthen the Group's brand image and overall competitiveness.

I believe 2011 would be a very critical year for the Group, which is in the midst of major transition from a regional player to a global company, shifting its focus from growth and technology competence to overall quality, brand and sustainability. Key challenges to the Group in 2011 include increased cost pressure in China due to higher inflation, the high bases for comparison in the previous years, higher overall cost base due to the addition of two new plants in Jinan and Chengdu, higher overheads and expenses caused by the establishment and subsequent development of three new brands and their associated sales networks, and the planned entry of more competitive market segments like larger size sedans and SUV markets in 2011. Motor vehicles sales in most parts of the World market remains fragile given the high level of uncertainties

EC8

in most of the major economies. As a result, our exports business could continue to face major challenges given the fierce competition and our relatively short history of operation in our major export markets.

On the positive front, the demand for sedans in China remained steady so far in 2011. With China's still very low penetration rate for motor vehicles, I believe China's motor vehicle market would remain one of the best performing markets in the World in the coming years. Further, the Chinese government has promulgated new incentives in 2010 to promote fuel-efficient and environmental friendly economy sedans. All of these should bode well for the demand for the Group's products. The timely acquisition of DSI in 2009 has significantly enhanced the competitiveness of our products, enabling the Group to offer a full range of sedan models equipped with automatic transmissions starting from mid-2011. Our other focus in 2011 is to spend major effort to enhance our export sales, which remain at small scales at the moment, but offer huge growth potential for the Group's products over longer-term.

With the successful completion of the initial phase of our "Strategic Transformation" and the substantial investment in new products and technologies over the past few years, I firmly believe that the Group is well positioned to achieve its long-term target of becoming a leading international automobile group with reputation and integrity, winning respects from its customers. Finally, I would like to pay tribute to all our staff for their hard work and achievements during 2010 and to our shareholders for their continued support.

Li Shu Fu
Chairman

23 March 2011

Solid · Strength · Excellence

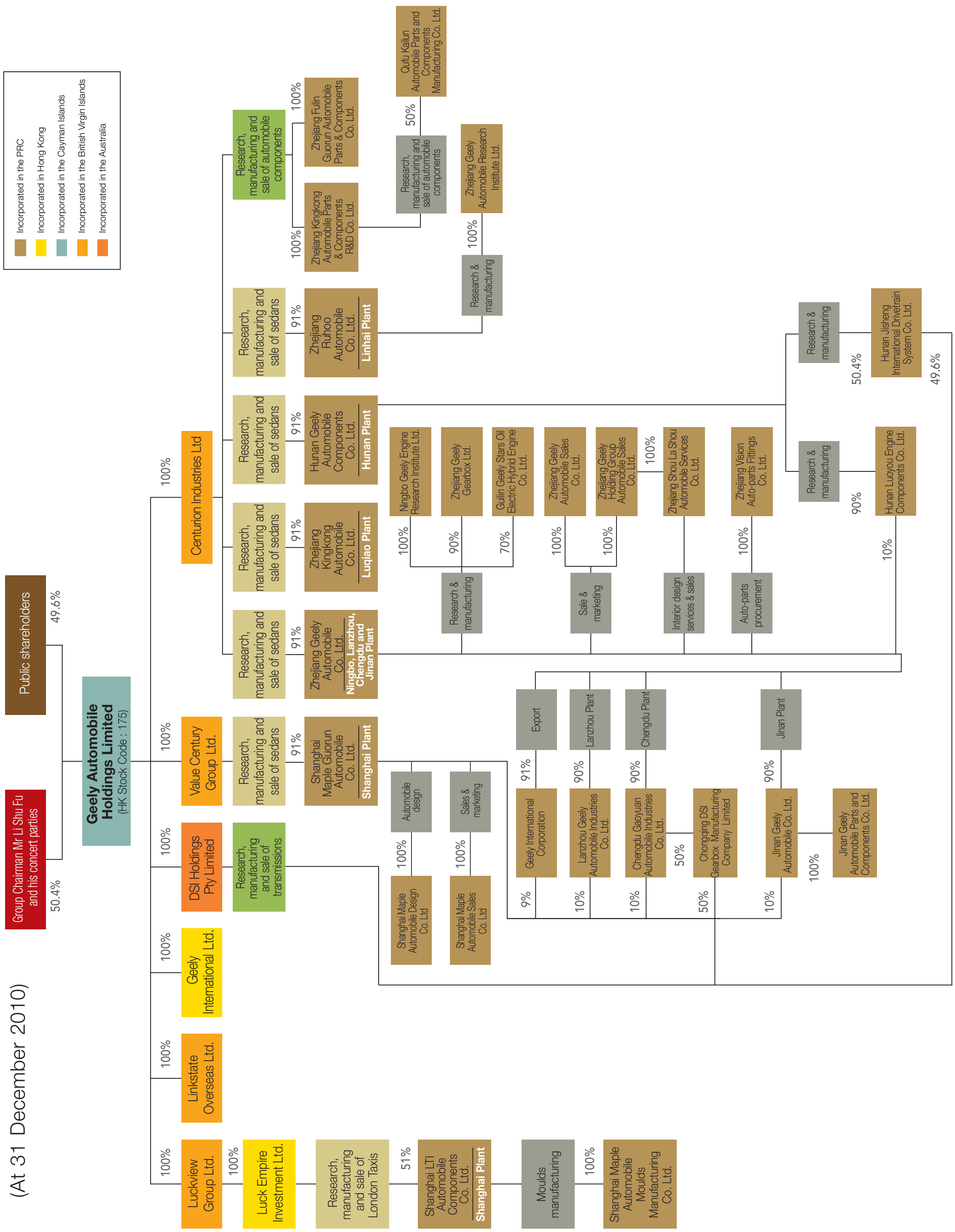
Emgrand EC8

帝豪
EMGRAND

EMGRAND

Chinese Wisdom,
World Quality

ORGANISATION
CHART



PERFORMANCE
& GOVERNANCE

The Group sold a total of 415,843 units of vehicles in 2010, up 27% from 2009.

Overall Performance

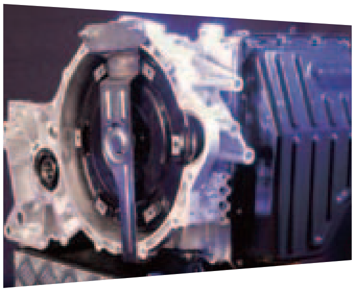
The Group continued to deliver a good set of results in 2010 with both its sales volume and net profit reaching record high, despite higher base for comparison in previous year, thanks to the exceptional strength of China's sedan market during the year, and the significant improvement in the Group's product and service quality. The "Strategic Transformation" implemented since mid-2007 has significantly enhanced the Group's capabilities to deliver sustainable growth under uncertain economic and market conditions.

The Group sold a total of 415,843 units of vehicles in 2010, up 27% from 2009. This compared with a 27% growth in China's sedan sales volume, and 33% growth in China's overall passenger vehicle (sedans+SUVs+MPVs) sales volume during the same period. Total revenues grew rapidly by 43% from RMB14.1 billion in 2009 to RMB20.1 billion in 2010 mainly due to strong growth of the Group's sales volume in China market and the continued improvement in product mix towards higher priced models. The Group's profit attributable to the equity holders was up 16% to RMB1.37 billion in 2010, as a result of higher vehicles sales volume, stable product prices and production costs and despite non-cash expense of RMB273 million related to the recognition of share-based payments to employees. If this non-cash expenses was excluded, underlying net profit attributable to shareholders would have increased by a higher 38% to RMB1.64 billion.

Acquisition of Cixi Plant

To further expand the Group's automobile manufacturing capacity to meet the rising demand for its products, the Group, via its 91%-owned subsidiary Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), agreed to acquire the entire 100% interest in Ningbo Vision Automobile Parts and Components Company Limited ("Ningbo Vision"), which is constructing a new manufacturing plant in Cixi of Hangzhou Bay New Zone in Zhejiang province ("Cixi Plant"), from the Group's parent Zhejiang Geely Holding Group Company Limited ("Geely Holding") and its subsidiaries (collectively, "Geely Holding Group") for a total consideration of RMB437 million in cash. The consideration was determined with reference to the net asset value of the plant as at 31 December 2010. The acquisition has been completed in March 2011 and will be funded by the Group's cash reserves.

Volvo-Geely Dialogue and Cooperation Committee



DSI 6AT FWD Gearbox

Ningbo Vision has a registered capital of RMB96 million. The first phase of the Cixi plant is scheduled to be completed by the end of 2011 and to start trial production in 2012. The first phase of the plant will have an annual production capacity of 120,000 units of sedans and 120,000 units of petroleum engines. The first model to be produced by Cixi plant will be the EC7 mid-size sedan.

Acquisition of Shandong Geely Gearbox Company Limited

To upgrade and expand the Group's automatic gearbox production, the Group, via its 91%-owned subsidiary Jinan Geely Automobile Parts and Components Company Limited ("Jinan Geely"), agreed to acquire the entire 100% interest in Shandong Geely Gearbox Company Limited ("Shandong Geely") from the Group's parent Geely Holding Group for a total consideration of RMB20 million in cash, which is based on the net asset value of Shandong Geely as at 31 December 2010.

Shandong Geely is constructing a modern manufacturing plant ("Shandong Gearbox plant") for automatic transmissions in Jining New & High-tech Development Zone in Shandong province. First phase of the Shandong Gearbox plant is scheduled to be completed by the end of 2011 and will have an initial production capacity of 100,000 units per annum. The first product to be produced by Shangdong Gearbox plant will be 6-speed FWD ("front-wheel-drive") automatic transmissions.

Establishment of "Volvo-Geely Dialogue and Cooperation Committee"

The Group and Volvo Car Corporation ("VCC") set up the "Volvo-Geely Dialogue and Cooperation Committee ("DCC")" to steer the future communication and joint efforts of both parties in November 2010. The DCC is a forum between both parties to exchange ideas and information relating to the manufacturing and supply of automotive products, the development of new products and related technologies, marketing and distribution of these products to potential customers, and talent training and cultivation. The DCC should facilitate discussion between both parties, with an aim to make the best use of Volvo's cutting-edge technology in safety and environmental care, and Geely's insights for Chinese market and customers, to develop automotive products, technologies and markets.

Financial Resources

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 Hong Kong and the payment 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, bank borrowings and fund raising exercises in the international capital market.

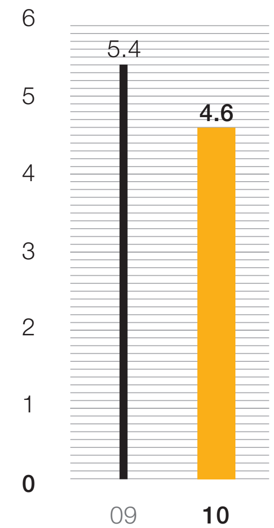
Total capital expenditures in 2010 for the Group amounted to RMB1.6 billion in 2010, which was in line with the budgeted amount at the beginning of the year. Working capital (inventories + trade and other receivables – trade and other payables) also increased by about RMB900 million during 2010 as a combined result of higher revenues during the year and the higher amount of prepayments to suppliers to secure supply of raw materials and components during the peak season towards the end of the year. These had resulted in a lower level of net cash position (bank balances & cash + pledged bank deposits – bank borrowings – convertible bonds) at RMB494 million at the end of 2010 versus RMB1.1 billion a year ago. Despite this, the Group's total value of cash and bank balances was maintained at a healthy level of RMB4.6 billion at the end of 2010. Total bank borrowings (excluding bills payable and convertible bonds outstanding) also decreased from RMB2.8 billion a year to RMB2.7 billion at the end of 2010. Total principal amount of convertible bonds outstanding at the end of 2010 was RMB1.7 billion.

Budgeted capital expenditures of the Group amount to about RMB2.0 billion in 2011, including the funding for the research and development of new vehicle models, new engines and gearboxes, the expansion and upgrading of production facilities at the Jinan plant, the Lanzhou plant, the Ningbo plant and the Xiangtan plant, and the financing of the construction of new production facilities at Cixi and Chengdu. The Group plans to fund its capital expenditures from its operational cash flow, its cash reserve, additional bank borrowings, and fund raising exercises in the international capital market. As at the date of this report, the Company has no definite plan or schedule on raising funds in the international capital market.

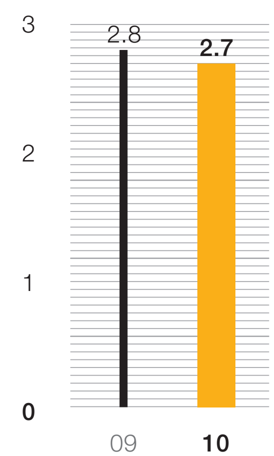
Vehicle manufacturing (91% interests)

The Group sold a total of 415,843 units of vehicles in 2010, up 27% from 2009, 4% above the Group's 2010 sales volume target of 400,000 units. The good performance was mainly due to the strong demand for its new mid-size sedan models like "EC7" and "SC7" and the better than expected sales of its small-size model "Geely Panda", which more than offset the 84% drop in sales of the old "Maple" branded vehicles, where production officially ceased in mid-2010. The Group's domestic sales volume in 2010 was up 29% from the previous year to 395,288 units, compared with the 27% increase in the sales volume of China's overall sedan market during the same period. Exports sales volume grew 6% from the previous year to 20,555 units and accounted for 5% of the Group's total sales volume in 2010.

Cash and Bank Balances (Including Pledged Bank Deposits)
RMB Billion
At 31 December



Total Bank Borrowings (Excluding Convertible Bonds)
RMB Billion
At 31 December



4S Store under GLEAGLE Brand

"Free Cruiser" and "Geely Kingkong" remained the Group's best-selling models in 2010, accounting for 23% and 20% respectively of the Group's total sales volume during the period. Sales volume of "Free Cruiser", however, declined 14% from the previous year, while the sales volume of "Geely Kingkong" was only maintained at previous year level, ahead of the planned launches of their upgraded models in 2011 and as a result of the disruption caused by major restructuring of the "Geely" and "Maple" branded distribution networks to pave way for the transition of the Group's product brand from "Geely" and "Maple" to the three new brands: "GLEagle", "Englon" and "Emgrand". In 2010, the Group successfully launched five new models including EC8 large size sedans, marking the Group's first entry to the large size sedan market, GX2 hatchback, and SC5-RV. Amongst which, EC8 received the best market response with monthly sales volume of EC8 reaching one thousand units only a few months after its official launch.

As a result of the shift of the Group's sales from low-priced models like "Maple" and "Free Cruiser" to higher-priced models like "EC7" and "SC7", and the new addition of more high-priced models like EC8 series of large size sedans in the Group's product line, the Group ex-factory average sales price improved significantly in 2010, rising 12% to RMB45,000 level during 2010. Higher-priced models like "Vision", "EC7" and "SC7", which are retailing at between RMB56,000 to RMB160,000, accounted for 46% of the Group's total sales volume in 2010, compared with only 22% in 2009.

After "Geely Panda" achieved a 5-star rating (45.3 points) in the C-NCAP crash test in 2009, the Group's "EC-7" also achieved a 5-star rating (46.8 points) in the fourth batch of C-NACP crash test in 2010, making the model the safest local brand mid-size sedans in China.

By the end of 2010, the Group together with its parent Geely Holding owns a total of 1,822 technology patents. The number of the Group's R&D staff totaled 2,381 at the end of 2010, representing close to 14% of the total number of staff of the Group, reflecting the Group's emphasis on R&D capabilities.

4S Store under Emgrand brand

4S Store under the Englon Brand

In 2010, the Group had achieved its overall quality control targets by reducing the amount of warranty claims per car by 30% and lowering the product defect rates by 20%. The major restructuring of the Group's suppliers of automobile parts and components continued in 2010, including the introduction of a new evaluation and management system for all the Group's suppliers, the elimination of some suppliers that failed to satisfy the Group's new quality requirements and the building up of the Group's core supplier base. In 2010, a total of 58 suppliers were disqualified and eliminated from the Group's list of suppliers. During the same time, the Group added 12 quality companies to its supplier list. Following the signing of global strategic alliance contract with Johnson Controls of USA, Geely Holding signed a strategic cooperation agreement with Faurecia of France to facilitate the cooperation between the two companies on auto interior products. The target of the Group in the area of quality control in 2011 is to further reduce the amount of warranty costs per car by 20% and to cut product defect rates by another 50%.

Sales and Marketing

The Group started to implement the "Multi-brand Strategy" in 2008, aiming to improve the Group's overall brand images and to enable tailored-made products, services and brand positioning for different customer groups. Up to the end of 2010, all the three new brands: "GLEagle", "Englon" and "Emgrand" and their associated distribution networks and supporting infrastructures had been officially launched and established. The migration of existing dealers under the old brands and the hiring of new dealers to support the new brands had largely completed by the end of 2010.

In 2010, around 40% of the Group's sales volume was already marketed directly using the three new brands. Products sold under the new brands achieved higher retail prices than comparable models under the old brands, reflecting good market acceptance and recognition of the three new brands by Chinese customers and the initial success achieved by the Group's "Multi-brand Strategy".

Key Features and Attributes of Three New Brands

Brand	Models	2010 Sales Volume	Number of Shops At end 2010	Key Features/Attributes
GLEagle	Geely Panda GX2 Free Cruiser Vision	199,198	363	Personality, Style, Passion, Leisure, Fun Core Value: "Creating for the Future"
Englon	Kingkong SC7 SC5	138,619	463	Classic, Rational, Mature, Family, Trust Core Value: "Rational and Low Profile"
Emgrand	EC7 EC8	72,660	212	Solid, Strength, Excellence, Elegance Core Value: "Chinese Wisdom, World Quality"

By the end of 2010, the Group had established three independent distribution and service networks under its three product brands in China, totaling 1,038 shops, comprising 697 independent exclusive franchise stores and 341 4S stores. In 2011, the Group will continue to expand its sales and distribution network, focusing on county and village level market.

To cope with an increasingly competitive market in China, the Group has adopted a more proactive approach towards the management and supervision of their distribution and service networks in China, aiming at further improving customer satisfaction and market coverage. The initial results of the new strategy have been very encouraging with the Group achieving major improvement in the J.D. Power Sales Satisfaction Index Study ("SSI") in 2010, moving up into the medium satisfaction category in the study and ranking higher than most of the other local brands in China.

Figure : Annual sales volume

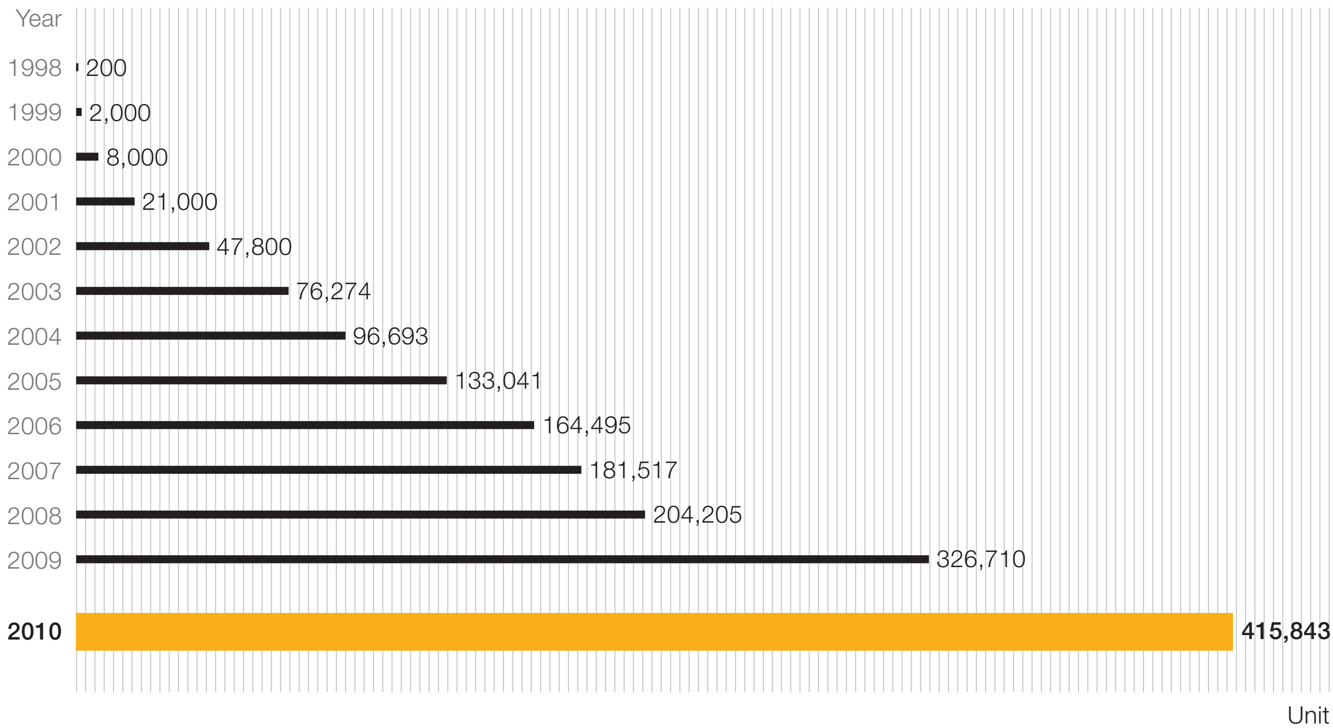
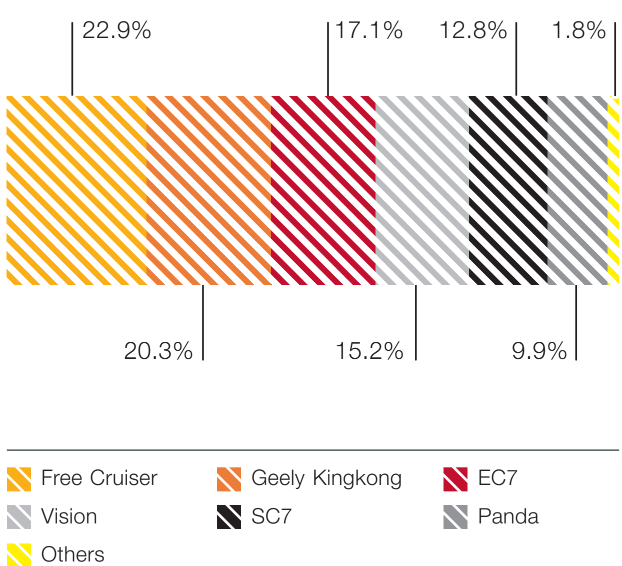


Figure : Breakdown of sales volume by models in 2010



Models	Sales volume (Unit)
Free Cruiser	95,189
Geely Kingkong	85,063
EC7	71,360
Vision	63,421
SC7	53,124
Panda	40,588
Others	7,098
	Total 415,843

PRODUCTION
PLANTS

Production Plants

The Group owns eight automobile manufacturing facilities in Ningbo, Shanghai, Linhai, Luqiao, Xiangtan, Lanzhou, Jinan and Chengdu with a total usable annual production capacity of 560,000 units per shift by the end of 2010. With the exception of Lanzhou plant, which is not equipped with stamping facilities, the other seven production plants are all fully-integrated plants, comprising stamping, welding, painting and assembly facilities, with supporting production facilities including four engines plants located in Ningbo, Shanghai and Linhai with a total annual production capacity of 450,000 units of engines, two gearbox plant in Ningbo and Australia with an annual production capacity of 600,000 units of gearboxes at the end of 2010. The Group has agreed to acquire a new sedan manufacturing plant under construction in Cixi of Hangzhou Bay New Zone. The completion of the first phase of the project by the end of 2011 will add another 120,000 unit annual production capacity to the Group. The Group also started to expand the annual production capacity of the Lanzhou plant from 25,000 units to 120,000 units. In addition, the Group is building three more automatic gearbox plants in Jining, Xiangtan and Chongqing to support the rapid expansion of the Group's sedan manufacturing capacity in the coming few years.

The Group's longer-term plan is to expand its total annual production capacity to 2 million units by the end of 2015. In addition to the expansion of existing plants, the capacity expansion target would be achieved through the planned construction of new plants in different locations in China and the setting up of manufacturing facilities in oversea countries, mainly through cooperation with local partners there. The Group has so far set up four SKD/CKD manufacturing arrangements in Russia, Ukraine, Indonesia and Taiwan. Details about the Group's eight existing production plants are summarized below:

Name	Interests	Usable Annual Production Capacity (units per shift)	Models
Linhai plant	91.0%	75,000	GLEagle Panda (1.0L, 1.3L)
Luqiao plant	91.0%	100,000	Geely Kingkong (1.5L) Englon SC5 (1.5L)
Ningbo plant	91.0%	150,000	Free Cruiser (1.3L, 1.5L) Emgrand EC7 (1.5L, 1.8L)
Xiangtan plant	91.0%	50,000	Vision (1.5L, 1.8L)
Shanghai plant (Phase II)	91.0%	60,000	Englon SC7 (1.5L, 1.8L)
Shanghai plant (Phase I) (Lessee: Shanghai LTI)	91.0% 51.0%	40,000	TX4 (2.4L, 2.5L diesel)
Lanzhou plant	91.0%	25,000	Free Cruiser (1.3L, 1.5L)
Chengdu plant	91.0%	30,000	EX7 (1.8L)
Jinan plant	91.0%	30,000	EC8 (2.0L, 2.4L)
	Total	**560,000**	

Jinan Plant

Development Plan for Jinan Plant

Capital Expenditures

Total capital expenditures of the Group's vehicle manufacturing operation amounted to approximately RMB1.6 billion in 2010, mainly for the funding of the expansion and upgrading of the eight existing plants, and the development of new products and new auto-related technologies. The capital expenditures were mainly funded by the operational cash flows, internal cash reserve and bank borrowings. Major capital expenditure projects completed in 2010 included the construction of the Jinan plant for the production of EC8 series of sedans, the construction of the Chengdu plant for the production of EX7, the Group's first SUV product, and the expansion and upgrading of the Xiangtan plant, the Ningbo plant and the Luqiao plant.

Press Shop

Assembly Line

Paint Shop

Welding Facilities

The budgeted capital expenditures of the Group's vehicle manufacturing operation is expected to amount to RMB2.0 billion in 2011. Major capital investment projects planned for 2011 include

1. The construction of the Cixi plant to expand the production of EC7 series of mid-size sedans;
2. The expansion of the production capacity of the Lanzhou plant from 25,000 units to 120,000 units per annum;
3. The last phase construction of the Chengdu plant to facilitate the production of EX7 series of SUVs;
4. The last phase construction of the Jinan plant to expand the production of EC8 series of large-size sedans;
5. The technological upgrading and expansion projects at the Ningbo, Luqiao and Xiangtan plants;
6. The construction of two automatic gearbox plants in Jining of Shandong province and Xiangtan of Hunan province for the production of 6-speed FWD automatic transmissions. Each of them would have an initial annual production capacity of 100,000 units of automatic gearboxes.

NEW
PRODUCTS

In 2011, the Group plans to launch 6-8 new models, including:

GLEagle Brand:
1. "GC3" economy sedan
2. "GC7" mid-size sedan
Enlgon Brand
1. "SC5" sedan
2. "SX5" SUV
3. "SV5" MPV
Emgrand Brand
1. "EX7" mid-size SUV

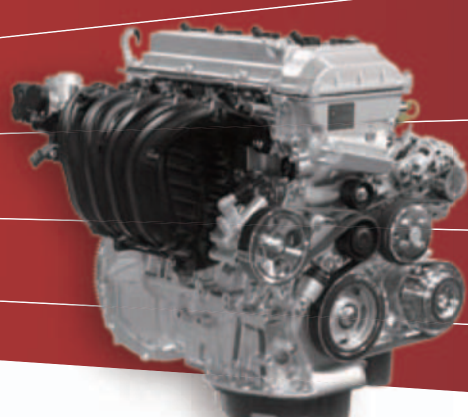
EX7

GC7

GC3

With the full employment of platform strategy in the Group's new product development since 2008, and the substantial investment in the past few years in the upgrading of our production facilities, quality control system and supplier base, the Group's 6-8 new models planned for 2011 should be able to demonstrate significant improvement in their design, quality and safety.

The Group's product development focuses now calls for the development of 5 core technology platforms, 15 product platforms and 42 brand new models by 2015, aiming at increasing the proportion of shared parts between different models up to 70-80% so as to achieve better economies of scale, much lower product development costs, shorter development cycle and easier and more effective quality control.


JLα-4G20 Engine


JLα-4G24 Engine

Exports

The Group exported 20,555 units of sedans in 2010, up 6% from 2009, and accounted for 5% of the Group's total sales volume. The Group's share of China's total exports of sedans, however decreased from 19% in 2009 to 11% in 2010. "Geely KingKong", "Free Cruiser" and "Geely Panda" were the most popular export models in terms of sales volume in 2010, accounting for 40%, 32% and 14% respectively of the Group's total export sales volume during the period. The Group's export volume remained at a low level in 2010 as the restructuring of the Group's distribution channels in major markets like Russia has yet to be completed. Despite additional demand from new markets like Taiwan, Turkey, Indonesia and Cuba, these were not enough to offset the low level of sales in Russia.

Developing countries in Middle East, Eastern Europe and Central and South America remained the most important markets for the Group's exports. The Group's exports performance has started to show obvious improvement in the second half of 2010, with monthly export volume averaging 3,700 units in the last quarter of 2010, significantly higher than the average monthly export volume of 1,300 units in earlier part of the year. This, together with the major effort to restructure the Group's export channels and to open up new markets, should bode well for continued improvement in the Group's export performance in 2011.

The Group exports its products to 36 countries through 36 exclusive sales agents and 344 sales and service outlets in these countries. The Group also assembles some of its models sold overseas using contract manufacturing arrangements with local partners in Russia, Ukraine, Indonesia and Taiwan.

Compliance with Government Regulations

To prepare for the Chinese government's increasingly stringent requirements on emission control and to prepare for large scale exports in the coming years, the Group has completed the upgrading of its products to comply with the "Guo IV" and Euro IV emission standards, which are now required in China and most of our export countries. The Group will continue to upgrade its products to meet more stringent safety, fuel efficient and emission requirements imposed by the Chinese government with the target of requiring all newly launched models to comply with "Guo V" and "Euro V" emission standards.

The Chinese government promulgated a new incentive programme in June 2010, offering RMB3,000 cash subsidies to buyers of passenger vehicles with engine size of 1.6L or below that fulfilled specific fuel-efficient requirements. By the end of 2010, six of the Group's models had been officially certified to meet the requirements and are qualified for the RMB3,000 cash subsidies.

DSI Holdings Pty Limited (100% interest)

DSI Holdings Pty Limited ("DSIH") is principally engaged in the design, development and manufacture of automatic transmissions in Australia, supplying major international automobile original equipment manufacturers like Ssangyong Motor Company (SYMC), Mahindra & Mahindra and Ford Motor Australia (Ford). After resuming supply of automatic gearboxes to SYMC in early 2010, DSIH's performance improved in 2010. With no bank borrowing and a strong cash position, DSIH managed to return to profitability during the year of 2010. DSIH's net profit after tax was A$3.1 million on revenue of A$103 million for the full year of 2010. DSIH manufactured and sold 59,495 sets of automatic gearboxes in 2010, which was slightly below its original full year sales volume target of 64,000 units, mainly due to the delay in SYMC's launch program during the year.

In 2011, DSIH sets its sales volume target at 73,000 units of automatic transmissions, up 23% from 2010, mainly due to the new order of 6-speed Front-wheel-drive (FWD) automatic transmissions to be delivered to SYMC in 2011. Despite the expected increase in sales in 2011, DSIH only expects steady earnings performance during the year due to the increase in quality assurance staff costs caused by the launch of new FWD automatic transmissions and the related depreciation charges for capital equipment. Despite this, DSIH is optimistic about its business in the medium to long term, after taking into consideration its ongoing expansion programmes in China.

To expand DSIH's sales in China and to improve the cost competitiveness of its products, the Group is building new manufacturing facilities for DSIH's products in China:

Entity	Products	Annual production capacity per shift (units)	Registered capital (RMB M)	Effective interest	Expected launch schedule
Hunan Jisheng (Xiangtan)	6-speed front-wheel-drive (FWD) automatic transmissions	100,000	170	95.5%	July 2011
Chongqing DSI (Chongqing)	Dual Clutch Transmissions (DCTs)	100,000	80	95.5%	April 2013
Shandong Geely Gearbox (Jining)*	6-speed front-wheel-drive (FWD) automatic transmissions	100,000	20	91.0%	December 2011
Total		**300,000**	**270**		

*: As announced by the Company on 21 January 2011, the Group would acquire another automatic transmission company, namely Shandong Geely Gearbox Company Limited ("Shandong Geely"), in Jining of Shandong province from its parent and the completion has taken place in March 2011.

Shanghai LTI (51% interest)

51%-owned Shanghai LTI Automobile Components Company Limited ("Shanghai LTI") is a production joint-venture between the Group and UK-listed Manganese Bronze Holdings PLC ("MBH"). Shanghai LTI was established in June 2007 to achieve volume production of the iconic London Taxies at a significant lower cost and for the production of other higher-end saloon cars for sale to the domestic and the World market.

Shanghai LTI started the production of the localized TX4 models in early 2009 and commenced commercial production and sales of TX4 in both the domestic and overseas markets on the passing of European homologation in the third quarter of 2009. Shanghai LTI sold a total of 1,033 TX4 vehicles and CKD kits in 2010, most of which were exported to overseas countries, including 730 sets of CKD kits for local assembly of TX4 by MBH in United Kingdom. Shanghai LTI plans to start production of automatic gearbox version of the petroleum engine TX4 in the second half of 2011. This, coupled with the average annual demand of 2,000 sets of CKD kits by MBH, should enable Shanghai LTI to achieve sales volume of over 3,000 units in 2011.

Owing to its still small scale of operations, Shanghai LTI recorded a net loss of RMB18 million on revenue of RMB112 million in 2010.

Shanghai LTI plant

WHAT
NEXT?

to set our 2011 sales volume target at 480,000 units, up 15% from 2010

The Group will embark on a new phase of "Strategic Transformation" in 2011, aiming to further strengthen our overall competitiveness. With the significant improvement in brand image, production and service quality achieved in the past few years, and the encouraging results to most of our new models last year, the Group should be in a much stronger position to meet any new market challenges and grow in the future.

With the effort spent in the past few years to further strengthen its export business, through continued improvement in distribution capabilities and revamping of its manufacturing arrangements in major export markets, the Group's export performance is set to improve in the coming years. This should provide the Group with a cushion to buffer any possible cyclical downturn in the China sedan market in the future, thus enabling the Group to sustain profit growth longer term.

Despite the Group's strong performance in the past few years, after taking into account the higher uncertainty in both domestic and world markets, the Group's Board of Directors decided to take a conservative stance and to set our 2011 sales volume target at 480,000 units, up 15% from 2010, which is slightly higher than the level of projected growth of China's sedan market by China Association of Automobile Manufacturers.

In the short to medium term, risks to our growth remain, in particular, the high uncertainty of the global economy, rising raw material prices, higher inflation and thus tightening monetary policies in China. All of which could pose significant challenges to the Group's operations in 2011. As a result, the Group will continue to implement major transformation in the coming years, shifting its focus from product line management to brand management, from technology competence to total quality focus, and from fast growth to sustainable growth, aiming at transforming the Group into a real global automobile manufacturer which is competitive internationally.


EC8

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 31 December 2010, the Group's shareholders' funds amounted to approximately RMB8.0 billion (As at 31 December 2009: approximately RMB6.4 billion). The Company issued 129.9 million ordinary shares upon exercise of share options during the year.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group's current ratio (current assets/current liabilities) was 1.33 (As at 31 December 2009: 1.37) and the gearing ratio of the Group was 52% (As at 31 December 2009: 67%) which was calculated on the Group's total borrowings to total shareholders' equity. As at 31 December 2010, the substantial increase in receivables (in particular, the notes receivable) was mainly due to (a) the continual strong sales momentum for the Group's models particularly in the fourth quarter of the current year (i.e. the traditional peak seasons for automobile industry) and the Group received huge amount of notes receivable from its customers during that period; and (b) thanks to the relatively low interest environment and ample internal cash reserve, the Group did not opt to discount these notes receivable without recourse but wait to hold them until maturity during most of the times in 2010. In addition, in order to secure an adequate supply of automobile parts & components (in particular, steel, out-sourced engines and other high-end electronic parts & components) from the Group's supply chain during the peak season in the fourth quarter of 2010, the Group had to prepay these inventories to its suppliers towards the end of 2010. Separately, the strong sales momentum for the Group's products also drove its dealers to pay in advance in order to secure adequate inventories at their sales premises at the year end. As at 31 December 2010, the receipts in advance from customers represented almost 23% (As at 31 December 2009: 16%) of the total current liabilities. Accordingly, the net effect of the above resulted in a slight decrease in current ratio at the end of year 2010 over the previous year.

Total borrowings (excluding trade and other payables) as at 31 December 2010 amounted to approximately RMB4.1 billion (As at 31 December 2009: approximately RMB4.3 billion) were mainly the Company's convertible bonds and bank borrowings. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on early redemption or maturity. For the bank borrowings, they were secured, interest-bearing and repaid on maturity. The decrease in gearing ratio during the year was mainly due to the increase in equity as a result of another record-high profit attained by the Group in the year of 2010. 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 31 December 2010, the total number of employees of the Group was about 17,102 (As at 31 December 2009: 12,282). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

EXECUTIVE DIRECTORS

Mr. Li Shu Fu, aged 47, joined the Group on 9 June 2005 as Chairman and Executive Director, and is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Li holds a Master degree in Engineering from Yan Shan University. Presently, Mr. Li is the controlling shareholder, founder, chairman of the board of Zhejiang Geely Holding Group Company Limited ("Geely Holding") (a company incorporated in the PRC, and is ultimately owned by Mr. Li and his associates). Geely Holding and its subsidiaries are principally engaged in manufacturing and sales of automobiles in the PRC. Mr. Li has over 20 years of experience in the investment and management of the automobile manufacturing business and real estate business in the PRC. Mr. Li is a member of the Chinese People's Political Consultative Conference. Mr. Li was accredited as one of the "50 Most Influential Persons in China's Automotive Industry in the 50 Years" by a pertinent organization in China.

Mr. Yang Jian, aged 49, joined the Group on 9 June 2005 as Executive Director, and is responsible for the overall administration of the Group. Mr. Yang is also the President of Geely Holding. Mr. Yang is also the chairman of the five 91%-owned subsidiaries of the Group, namely, Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong"), Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") and Hunan Geely Automobile Components Company Limited ("Hunan Geely"). Mr. Yang graduated from Zhejiang Radio and Television University with focus on production management; holds Senior Economist and Senior Engineer designations; and is an EMBA postgraduate student. Since joining Geely Holding in 1995, Mr. Yang was involved in a number of different job functions within the group including product R&D, engineering and construction, manufacturing, quality improvement, marketing and after-sales service to current overall responsibility for the operating and management of the Group. Mr. Yang was appointed as the Vice Chairman of the Company with effect from 1 July 2008.

Mr. Gui Sheng Yue, aged 47, joined the Group on 9 June 2005 as Executive Director and is responsible for the administration of the Company. Mr. Gui has over 20 years experience in administration and project management. Mr. Gui had also worked with China Resources (Holdings) Company Limited. Mr. Gui holds a Bachelor of Science degree in Mechanical Engineering from Xian Jiaotong University and a Master degree in Business Administration from University of San Francisco. Mr. Gui was appointed as the Chief Executive Officer of the Company with effect from 23 February 2006.

Mr. Ang Siu Lun, Lawrence, aged 50, joined the Group on 23 February 2004 as Executive Director and is mainly responsible for the international business development, capital market and investors' relationship of the Group. Mr. Ang holds a Bachelor of Science degree in Physics and Computer Science and a Master of Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Ang worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business. Mr. Ang is an Independent Non-executive Director of Genvon Group Limited (HK Stock Code: 2389) and a Non-executive Director of Honbridge Holdings Limited (HK Stock Code: 8137). Mr. Ang was also a Non-executive Director of Manganese Bronze Holdings Plc (London Stock Exchange Code: MNGS) until 24 June 2010.

Mr. Yin Da Qing, Richard, aged 61, joined the Group on 9 June 2005 as Executive Director. Mr. Yin is also the Vice President and Chief Financial Officer of Geely Holding. Mr. Yin has 35 years of experience in accounting and finance and held key executive positions in various Chinese and multinational companies in China including Dupont Textile, Dupont Agricultural Chemicals, Brilliance Holding and Shenyang Jinbei Passenger Vehicle Manufacturing Co. Ltd. Mr. Yin was accredited as one of “The 10 Most Outstanding Chief Financial Officers” in the PRC in year 2006. Mr. Yin is currently a part-time professor in Zhejiang Automobile Engineering Institute.

Mr. Liu Jin Liang, aged 44, joined the Group on 9 June 2005 as Executive Director. Mr. Liu is responsible for the overall operations of Shanghai Maple and Shanghai LTI Automobile Components Company Limited. Mr. Liu is also the Vice President of Geely Holding. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial management. Prior to joining Geely Holding in 1995, Mr. Liu held a number of management positions in several major hotels in China. Mr. Liu has about 10 years experience in the marketing and sales of motor vehicles in China.

Dr. Zhao Fuquan, aged 47, joined the Group on 17 November 2006 as Executive Director. Dr. Zhao is also the Vice President of Geely Holding, Head of Zhejiang Geely Technology Centre, President of Zhejiang Geely Automobile Research Institute Limited and President of Zhejiang Automobile Engineering Institute. Dr. Zhao is also the chairman of DSI Holdings Pty Limited. Dr. Zhao got a Doctorate degree in Engineering Science of Hiroshima University in Japan and has years of on-the-job work experience in Japan, United Kingdom and United States of America. Prior to joining Geely Holding, Dr. Zhao was the Research Executive of Technical Affairs of DaimlerChrysler and Vice President of Shenyang Brilliance JinBei Automobile Company Limited and General Manager of its Research & Development (R&D) Centre. Dr. Zhao, one of the main authors in international automobile magazines, has written 5 English books and has published more than 100 academic dissertation papers on automobile technology. Dr. Zhao was awarded many patents in his career and has won many prizes and awards, including CTO of the Year by China Automotive News in 2008. Dr. Zhao was accredited as a Fellow by the Society of Automotive Engineers (SAE) in April 2006. Dr. Zhao is currently a part-time professor in Tsinghua University, Jilin University, Tongji University and several other leading Chinese universities. Dr. Zhao was a Non-executive Director of Manganese Bronze Holdings Plc (London Stock Exchange Code: MNGS) until 24 June 2010.

Ms. Wei Mei, aged 42, joined the Group on 17 January 2011 as Executive Director. Ms. Wei is the Vice President of Geely Holding and is responsible for the human resources management of Geely Holding since June 2009. Ms. Wei holds a Doctoral Degree in Management from the Northwest A&F University, a Master Degree in Management and a Bachelor Degree in Science from the Ocean University of China. From 2003 to 2007, Ms. Wei was the Group Human Resources Director of Beiqi Foton Motor Co., Ltd. (“Foton Motor”) and focused on Foton Motor’s human resources management, control and training. Prior to that, Ms. Wei worked in the group of Qingdao Haier Co., Ltd. (“Qingdao Haier”) from 1991 to 2002 and served a number of positions in the Department of Integration and Dishwashers Business Unit of Qingdao Haier Refrigerator Co., Ltd., participating in the development, diversification and globalization of Qingdao Haier. Ms. Wei was in charge of organizational management, operation appraisal, quality system management and human resources and was also directing the operation management of Haier dishwashers and other small appliances.

NON-EXECUTIVE DIRECTOR

Mr. Wang Yang, aged 36, joined the Group as Non-executive Director on 15 September 2010. Mr. Wang holds a Bachelor of Engineering dual-degree in Management Engineering and Computer Science and a Master of Science degree in Management Science and Engineering from the Shanghai Jiaotong University. Mr. Wang used to work in Goldman Sachs ("Goldman Sachs") Principle Investment Area as a managing director. From 2006 to 2010, working in Goldman Sachs, he focused on private equity investments in China. During the period, he led the Goldman Sachs' US$245 million convertible bond investment transaction in the Company. Prior to that, Mr. Wang worked in China International Capital Corporation ("CICC") investment banking division as a vice president from 2002 to 2006, focusing on China-based companies' initial public offerings and restructurings. Mr. Wang served major state-owned enterprises in various sectors during this period. Prior to CICC's investment banking division, Mr. Wang worked in CICC's Private Equity Group from 2000 to 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Lin, aged 48, joined the Group as Independent Non-executive Director on 27 September 2004. Mr. Song holds a Bachelor's degree in Solid Mechanics from the University of Tong Ji in Shanghai, China. He is concurrently Chairman of China Resources (Holdings) Company Limited and China Resources National Corporation. Mr. Song is also a Non-executive Director of The Bank of East Asia (China) Limited. Mr. Song was previously the Chairman of China Resources Power Holdings Company Limited (HK Stock Code: 836) and China Resources Microelectronics Limited (HK Stock Code: 597) and resigned from such positions on 9 July 2010 and 4 June 2010, respectively. Mr. Song was also the Chairman of China Resources Enterprise, Limited (HK Stock Code: 291), China Resources Land Limited (HK Stock Code: 1109) and China Resources Logic Limited (now renamed as China Resources Gas Group Limited) (HK Stock Code: 1193) and an Independent Non-executive Director of China Merchants Bank Co., Ltd. (HK Stock Code: 3968).

Mr. Lee Cheuk Yin, Dannis, aged 40, joined the Group as Independent Non-executive Director on 28 June 2002. He obtained the Bachelor of Business Administration from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He possesses over 18 years of experience in accounting and auditing field. Mr. Lee is an Executive Director of Guojin Resources Holdings Limited (HK Stock Code: 630), a Non-Executive Director of Kam Hing International Holdings Limited (HK Stock Code: 2307) and an independent Non-Executive Director of Tiangong International Company Limited (HK Stock Code: 826). Mr. Lee was an Executive Director of AMVIG Holdings Limited (HK Stock Code: 2300) until 1 March 2010.

Mr. Yeung Sau Hung, Alex, aged 61, joined the Group as Independent Non-executive Director on 6 June 2005. Mr. Yeung is presently a managing partner of Wyndham Advisors Limited after his retirement from the role of Chief Executive Officer of DBS Vickers Hong Kong. Mr. Yeung is also a consultant to Sun Fook Kong Group, one of the leading construction companies in Hong Kong. Mr. Yeung is a MBA graduate from the University of Southern California and brings with him more than 30 years' experience in the financial services industry. His experience includes investment research, securities operations, equity sales, primary equities origination and syndication and general management. Prior to joining DBS Vickers Securities, Mr. Yeung was the Deputy Chairman of the management committee of a listed consumer electronics company for four years. Before that, he was the Country Head of Greater China Equities and the Managing Director of Deutsche Securities Hong Kong.

SENIOR MANAGEMENT

Mr. Zhang Yi, Ian, aged 48, joined the Group on 1 March 2010 as Assistant Vice President and is responsible for risks assessment and internal control in China operations of the Company. Mr. Zhang holds a Bachelor of Engineering degree with a major in Internal Combustion Engine from Xian Jiaotong University and a Master degree in Business Administration from Sino-Canadian Joint MBA Program. Prior to joining the Group, Mr. Zhang worked in a number of leading multinational automotive companies with extensive experience in strategic planning, business development, operations and compliance management. Mr. Zhang was appointed as the Vice President of the Company with effect from 5 November 2010.

Mr. Dai Yang, Daniel, aged 56, joined the Group as the Vice President (International Business) on 5 May 2005 and is mainly responsible for the investor relation and international business in Hong Kong. Mr. Dai holds a Master degree of Linguistics from Beijing Foreign Language Institute and a Bachelor's degree of Arts from Beijing Normal College. Mr. Dai started his career with China Resources (Holdings) Co. Ltd. in Hong Kong in 1986 and his last position at China Resources Group was an Assistant General Manager of China Resources Investment Co. Ltd. Then, Mr. Dai joined Da Fang Investment Co. Ltd. in Hong Kong as a General Manager. Prior to joining the Company, Mr. Dai has mainly focused his career on projects investment.

Mr. Cheung Chung Yan, David, aged 34, joined the Group as the Financial Controller and Company Secretary on 17 May 2005. Mr. Cheung holds a Bachelor's degree in Business Administration in Accounting from the Hong Kong University of Science and Technology in 1997. He is a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 10 years of experience in auditing, accounting and financial management.

Introduction

Geely Automobile Holdings Limited ("Geely Auto", "We" or the "Company") and its subsidiaries (collectively known as the "Group") understand that good corporate governance is the key to making excellent achievements of the Group. We undertake to maintain the best corporate governance level and continue to improve our corporate governance structure and practices with reference to the changing requirements of corporate governance development.

In this report, we will explain our actions to implement and strengthen the corporate governance level of the Company during the year and describe the plans and measures to be adopted in order to further enhance the level of corporate governance.

CORPORATE GOVERNANCE DEVELOPMENT PROGRESS

STRUCTURE ESTABLISHMENT	INFORMATION DISCLOSURE	SHAREHOLDERS' RIGHTS	EXCEEDING REQUIREMENTS
Accomplished events in prior years			
• Separate roles of chairman and chief executive officer • Establish the Audit Committee and Remuneration Committee and disclose its respective terms of reference on the Company website	• Publish corporate governance report	• Encourage shareholders to attend the annual general meeting • Engage a public relations company to make enquiries to the Company on behalf of shareholders	• Set up a chairman mailbox and email box to allow stakeholders of the Company to express their opinions, make recommendations, comments and requests
Accomplished events in the current year			
• Structure the risk-based internal control system based on the guidelines of COSO model	• Publish monthly report of sales volume figures • Disclose achievements of internal control and risk management	• Continue to maintain cordial communication with shareholders and regularly meet institutional investors and analysts	• Provide professional development training to directors and senior management
Future plans			
• Continue to optimize the risk-based internal control system • Consider to establish the Nomination Committee, Risk Management Committee and Corporate Governance Committee • Establish a comprehensive risk management system	• Separately prepare the audit committee report, remuneration committee report, internal control and risk management report and corporate social responsibility report	• Disclose the list of analysts that are tracking the business of the Company on the Company website	• Continue to make contributions towards corporate social responsibility and achieve good corporate governance in a pragmatic manner • Continue to review and adopt the code of recommended best practice as appropriate

CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2010, save for Code E.1.2 of the Code of Corporate Governance Practice, the Company has applied and complied with all other Code Provisions set out in the Code of Corporate Governance Practice (the "Code") under Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and the recommended best practices applicable to the Company as the standards and principles of corporate governance of the Company. These principles of corporate governance mainly include the following:

1. The Board is composed of directors who possess a variety of skills and is in a proactive and effective operation;
2. The Company endeavors to improve the functions of internal control and risk management system through an independent assessment mechanism in a prudent manner; and
3. The Company enhances the corporate transparency and information disclosure, to strengthen the communication with shareholders.

The Code E.1.2 sets out that the Chairman of the Board should attend the annual general meeting of the Company. Due to other commitment in China, the Chairman of the Board of the Company was unable to attend the annual general meeting held on 25 May 2010 in Hong Kong. In this regard, the executive Director and Chief Executive Officer of the Company attended the annual general meeting on behalf of the Chairman of the Board and actively responded to the questions raised by the shareholders after sufficient communication with the Chairman of the Board.

In addition, the Company adopted the recommended best practices of the Code in various aspects, including but not limited to:

1. The Company has made appropriate insurance arrangements for all Directors and will regularly review their insurance amount;
2. The Company has prepared and provided the latest list of Directors on the Company website, which clearly defines their respective roles and responsibilities and clearly states whether they are independent non-executive Directors; and
3. The Company has arranged professional development training in respect of any amendments to the Listing Rules, updates of accounting standards, tax planning arrangements and corporate governance for the Directors and senior management during the year.

SECURITIES TRANSACTION BY DIRECTORS AND RELEVANT EMPLOYEES

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the standards for securities transactions by the Directors of the Company. After specific confirmation by the Company with all Directors, each Director has fully complied with all requirements of the Model Code for the year ended 31 December 2010.

In addition, no trading of securities of the Company is allowed for designated employees that may possess undisclosed price-sensitive information relating to the Group and their business before the public announcement. During the year, the Company did not receive any reporting of non-compliance.

BOARD

Composition of the Board

As at 31 December 2010, the board of directors (the "Board") of the Company comprised seven executive Directors, one non-executive Director and three independent non-executive Directors. The Directors all possess advanced expertise and extensive experience in the automobile industry, commercial management and capital market operation. The Board, with its diverse composition, can provide the Board with viewpoints in all material aspects for effective decision-making.

The Board comprised the following members as at 31 December 2010:

Name of Directors	Position	Date of initial appointed as board member	Date of last re-election as Director	Major duties/ experience/skills
Mr. Li Shu Fu	Chairman/executive Director	9 June 2005	22 May 2008	Overall corporate strategic direction and corporate governance
Mr. Yang Jian	Vice Chairman/ executive Director	9 June 2005	25 May 2010	Administrative management, compliance and internal control
Mr. Gui Sheng Yue	Chief Executive Officer/executive Director	9 June 2005	22 May 2008	Operational management and risk management
Mr. Ang Siu Lun, Lawrence	Executive Director	23 February 2004	25 May 2009	International business development, capital market and investor relations
Mr. Yin Da Qing, Richard	Executive Director	9 June 2005	25 May 2009	Financial control
Mr. Liu Jin Liang	Executive Director	9 June 2005	25 May 2010	Sales and marketing
Dr. Zhao Fuquan	Executive Director	17 November 2006	25 May 2010	Research and development
Mr. Wang Yang	Non-executive Director	15 September 2010	N/A	Corporate finance, investment and merger & acquisition
Mr. Song Lin	Independent non-executive Director	27 September 2004	22 May 2008	Corporate management, business development and strategic deployment
Mr. Lee Cheuk Yin, Dannis	Independent non-executive Director	28 June 2002	22 May 2008	Finance, accounting and audit
Mr. Yeung Sau Hung, Alex	Independent non-executive Director	6 June 2005	25 May 2009	Corporate finance and investment

For directors' biographical information, please refer to the section "Directors and Senior Management Profiles" on pages 36 to 39 of this annual report and on the website of the Company.

There is no financial, business, family or other material or related relationship between the members of the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provisions of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Since 23 February 2006, the role of chairman has been undertaken by Mr. Li Shu Fu, whereas the role of chief executive officer has been undertaken by Mr. Gui Sheng Yue.

The Chairman and Chief Executive Officer have defined roles and written terms of reference to ensure a balance of power and authority.

The Chairman, as the leader of the Board, endeavors to supervise the effective operation of the Board. The Chairman is primarily responsible for formulating the overall corporate strategic directions of the Group and leading the Board to establish good corporate governance practice and procedures. The Chairman has set up the Chairman's mailbox and email box to strengthen the communication with the shareholders of the Company.

The Chief Executive Officer is responsible for the daily operations of the Group and leading the senior management to execute the strategies and plans set by the Board to ensure that the Group can meet its objectives.

NON-EXECUTIVE DIRECTORS

The non-executive Directors (including independent non-executive Directors) provide the Group with the skills and experience in various areas; make independent advice on the Group's strategies, policies, operating performance, resource allocation, accountability, major appointments and code of conduct through actively participating in the meetings of the Board and the board committees; and provide leadership and guidance if in times of potential conflict of interests so as to strengthen the protection and balance the interests of all shareholders.

On 15 September 2010, Mr. Wang Yang was appointed as a non-executive Director and entered into a formal letter of appointment for a term of three years, which is the same as other independent non-executive Directors. The non-executive Directors will retire by rotation at least every three years but will be eligible for re-election in accordance with the articles of association of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors during the year. Such three independent non-executive Directors possess excellent achievements and experience in different areas and one of which has appropriate accounting and related financial management expertise.

Pursuant to Rule 3.13 of the Listing Rules, the Company has received from each of the independent non-executive Directors an annual written confirmation for his independence for the year. Based on such confirmation letters, the Company considers that Mr. Song Lin, Mr. Lee Cheuk Yin, Dannis and Mr. Yeung Sau Hung, Alex are independent.

Each of the independent non-executive Directors is appointed for a specific term of 3 years, subject to retirement by rotation at least once every three years at the annual general meeting pursuant to the Company's Articles of Association.

During the year, the identity of independent non-executive Directors was stated in the corporate correspondence containing the names of all Directors of the Company. Moreover, the Company has prepared and provided the latest list of Directors on the Company website, which clearly defines their roles and responsibilities and states whether they are independent non-executive Directors.

Mr. Lee Cheuk Yin, Dannis has served as an Independent Non-executive Director since 28 June 2002 and he would serve the Company for more than 9 years from 28 June 2011 onwards. Nonetheless, the Company has received from Mr. Lee Cheuk Yin, Dannis a confirmation on independence pursuant to Rule 3.13 of the Listing Rules. Taking into account his independent status in the Board in the past years, and that he does not hold any executive functions or is not involved in the day-to-day management of the Company, the Directors consider Mr. Lee Cheuk Yin, Dannis to be independent under the Listing Rules despite the fact that if successfully re-elected in the forthcoming Annual General Meeting, he would have served the Company for more than 9 years from 28 June 2011 onwards.

Accordingly, the Directors would like to seek from the Shareholder an approval for the continuous appointment of Mr. Lee Cheuk Yin, Dannis as an Independent Non-executive Director at the forthcoming Annual General Meeting.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company does not have a nomination committee. However, in order to further enhance the level of corporate governance of the Company, the Company is investigating the timing to establish the nomination committee. The appointment, re-election and removal of the existing Directors are undertaken by the Board.

The composition and size of the Board is determined according to the scope and nature of business of the Group. Based on the Group's business development, the Board will discuss amongst members of the Board and make adjustments whenever necessary.

Appointment

The appointment of each new Director by the Board is subject to prudent election procedures and standards and depends primarily on the skills and experience of the newly elected Director as approved by the Board after sufficient discussion.

During the year, the Board made sufficient consideration and discussion regarding the appointment of Mr. Wang Yang as a non-executive Director of the Company. Mr. Wang Yang has been given a comprehensive, formal and tailored induction on the first occasion of his appointment and thereafter the necessary introduction and professional development so as to ensure that he has a proper understanding of the operations and business of the Group, and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable statutory requirements, and the business and regulatory policies of the Group.

Re-election

Each Director shall retire by rotation at least once every three years. For the retiring Directors, the Board will discuss their contribution and performance as considering factors for the proposed re-election of such Directors at the annual general meeting of the Company.

During the year, the Board has made sufficient consideration and discussion regarding the contribution and performance of Mr. Li Shu Fu, Mr. Gui Sheng Yue, Ms. Wei Mei, Mr. Wang Yang, Mr. Song Lin and Mr. Lee Cheuk Yin, Dannis and recommended their re-election. In particular, the Board has made an assessment on the independence of Mr. Song Lin and Mr. Lee Cheuk Yin, Dannis as one of the factors for their re-election.

Resignation or removal

For resignation or removal of Directors, the Board will disclose the reasons for resignation of such Directors in accordance with the Listing Rules.

During the year, the Board has published relevant announcements on the resignations of Mr. Xu Gang and Mr. Zhao Jie and fully explained the reason for such resignations.

DUTIES OF THE BOARD

The duties of the Board are to lead and monitor the operations of the Group so as to achieve the objectives in a responsible manner under the principle of openness, fairness and justice, in the most effective and transparent way, in the best interests of the Company with a view to maximizing the shareholders' value in the long-term.

The major duties of the Board and the tasks accomplished by the Board during the year are as follows:

Major duties	Tasks accomplished during the year
• Formulate the Group's long-term objectives and strategic directions	• Formulate the long-term objectives and strategic directions for the coming three to five years by transforming from "international strategies" to "global strategies"; from "technology advanced Geely" to "high-quality Geely"; from "fast growth" to "steady development"; from "product line management" to "brand line management"
• Structure the corporate culture and values of the Group	• Enhance the corporate culture and values by strengthening its technology, quality, brand, services and code of conduct
• Review the performance of the management	• Attend monthly management meetings to review the management's performance on operations, finance and compliance
• Supervise the development of corporate governance	• Enhance the transparency of the operating performance of the Company through preparation of monthly sales volume report; and examine the elements of becoming the best corporate governance enterprise
• Review the internal control and risk management system	• Introduce the risk-based internal control system through restructuring of the internal control and internal audit functions and make review and assessment based on scientific models
• Review and approve major financing projects	• Decline the invitation to subscribe the new ordinary shares from Manganese Bronze Holdings Plc, an associate of the Company
• Make decisions for acquisitions, mergers and disposals	• No acquisitions, mergers or disposals during the year
• Prepare and review the interim and annual results in accordance with appropriate accounting standards and applicable regulations	• Prepare and review the interim report for the six months ended 30 June 2010 and the annual report for the year ended 31 December 2009 and 2010 according to the requirements
• Formulate the appropriate dividend policies	• Formulate a set of dividend policies applicable to the Company
• Review the connected and discloseable transactions	• Conduct annual review of continuing connected transactions by the independent non-executive Directors
• Appoint, re-elect and remove Directors	• Appoint, re-elect Directors and accept resignation of Directors according to the stated procedures

Apart from the above mentioned tasks and individual tasks designated to the board committees, the Board has fully authorized and delegated duties to the executive Directors and senior management. Under full authorization of autonomous management, the Board has defined guidelines for and strict governance over the power of the management. Under such mechanism of authorization and regulation, the Board can exercise effective supervision to regulate the internal control as appropriate.

BOARD MEETINGS AND BOARD PRACTICES

The Board conducts no less than four meetings each year quarterly on a regular basis and on an ad-hoc basis, as required by business needs.

During the year, the Company held a total of 13 regular board meetings, 30 ad-hoc board meetings, 3 meetings of the Audit Committee and 4 meetings of the Remuneration Committee. The regular meetings of the Board and board committees are primarily attended by the majority of entitling Directors in person or by means of other electronic communication. All regular board meetings of the Company are in compliance with the requirements of the code provisions of the Code.

	Attendance rate			
Name of Directors	**Regular Board Meeting**	**Ad-hoc Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive Directors				
Mr. Li Shu Fu	13/13	30/30	–	–
Mr. Yang Jian	13/13	29/30	–	–
Mr. Gui Sheng Yue	13/13	30/30	–	4/4
Mr. Ang Siu Lun, Lawrence	13/13	30/30	–	–
Mr. Yin Da Qing, Richard	13/13	29/30	–	–
Mr. Liu Jin Liang	13/13	29/30	–	–
Dr. Zhao Fuquan	13/13	29/30	–	–
Mr. Zhao Jie[1]	11/13	28/30	–	–
Non-executive Directors				
Mr. Wang Yang[2]	2/13	4/30	–	–
Mr. Xu Gang[3]	5/13	6/30	–	–
Independent non-executive Directors				
Mr. Song Lin	13/13	30/30	2/3	–
Mr. Lee Cheuk Yin, Dannis	12/13	29/30	3/3	4/4
Mr. Yeung Sau Hung, Alex	12/13	29/30	3/3	4/4

1 Mr. Zhao Jie resigned as executive Director on 15 September 2010.
2 Mr. Wang Yang was appointed as non-executive Director on 15 September 2010.
3 Mr. Xu Gang resigned as non-executive Director on 1 April 2010.

The company secretary of the Company ("Company Secretary") is responsible for assisting the Chairman to prepare the meeting agenda. Other Directors may recommend to include other matters in the meeting agenda as appropriate. The Company Secretary gives the notice of board meeting to all Directors at least 14 days before the regular board meeting and circulates such meeting agenda and the relevant meeting documents 3 days before the regular board meeting. The Company Secretary shall also ensure that the board meeting is convened in accordance with the procedures and provide advice on rules of procedure to the Board. The Company Secretary shall take minutes of the meeting and maintain the final version after receiving comments from the Directors for their inspection.

All Directors may obtain advice and services from the Company Secretary. The Company Secretary shall provide updates on corporate governance and regulation. During the year, the Company Secretary provided updates on regulation to the Directors of the Company based on PN 740 – Auditor's Letter on Annual Audit of Continuing Connected Transactions under the Hong Kong Listing Rules prepared by the Hong Kong Institute of Certified Public Accountants.

CONTINUING PROFESSIONAL DEVELOPMENT

The Company has arranged professional development training in respect of amendments to the Listing Rules, updates of accounting standards, tax planning arrangements and corporate governance for the Directors and senior management during the year. The expenses arising from such professional development training programs are borne by the Company.

The Board has put in place procedures to seek independent professional advice upon reasonable request by the Directors to assist them in discharging their duties of the Company. Such expenses are borne by the Company.

INSURANCE FOR DIRECTORS AND SENIOR MANAGEMENT

The Company has arranged a liability insurance for the Directors and senior management to provide sufficient coverage based upon performance of duties by such persons. The insured amount is subject to regular review.

PROVISION AND USE OF INFORMATION

The management regularly provides the latest financial reporting and analyses to the Directors to allow them to make proper decision with sufficient information.

In addition, the correspondence of all members of senior management is maintained at the intranet of the Group where the Directors may make further enquiries from the senior management of the Company on their own accord.

BOARD COMMITTEES

In order to ensure sound corporate governance, the Board will delegate certain administrative and supervisory functions to two board committees, including the Audit Committee and the Remuneration Committee.

Each board committee has its designated terms of reference stating their authority and duties. Details of their terms of reference are set out on the website of the Company (http://www.geelyauto.com.hk).

Like the Board, the Company has provided sufficient resources to each board committee to ensure its duties being properly discharged.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lee Cheuk Yin, Dannis as Chairman, Mr. Song Lin and Mr. Yeung Sau Hung, Alex. During the year, the duties of the members were updated according to the latest requirements of the Code. The committee also held a total of 3 meetings. The attendance of members is set out on page 46.

The major duties of the Audit Committee and the tasks accomplished during the year are as follows:

Major duties	Tasks accomplished during the year
• Review and supervise the procedures for preparation of the financial reports and its completeness	• The committee discussed the accounting policies and standards applied in the interim report for the six months ended 30 June 2010 and the annual report for the year ended 31 December 2010 and the completeness of the information disclosed
• Discuss the material or unusual matters in financial reporting	• The committee thoroughly discussed the relevant matters according to the letter issued by the independent auditor and delegated the management to make relevant rectification measures
• Review the internal control report	• The committee monitored the effectiveness of the internal control and risk management system of the Group on an ongoing basis through the report of internal control of the Company
• Consider and approve the connected and discloseable transactions	• The committee completed the review of the continuing connected transactions
• Review the adequacy of resources in respect of accounting and financial reporting functions of the Company, the qualifications and experience of staff and the effectiveness of the internal audit functions of the Company	• The committee completed the review on such matters and did not identify any issues
• Review and monitor the independence of the independent auditor and the effectiveness of the audit procedures according to applicable standards	• The committee discussed the audit procedures with the independent auditor and received the confirmation letter of independence from the independent auditor
• Review the appointment of the independent auditor and approve its audit fee	• The committee reviewed the work performance of the independent auditor and approved the audit fee
	• The committee approved the appointment of Grant Thornton Jingdu Tianhua ("Jingdu Tianhua") as the independent auditor of the Company since 1 December 2010 which will hold office until the conclusion of the next annual general meeting of the Company due to the resignation of Grant Thornton ("Grant Thornton") as the independent auditor of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one executive Director and two independent non-executive Directors, including Mr. Gui Sheng Yue as Chairman, Mr. Lee Cheuk Yin, Dannis and Mr. Yeung Sau Hung, Alex. On 17 January 2011, Mr. Gui Sheng Yue resigned as the Chairman and member of the Remuneration Committee and Ms. Wei Mei was appointed as the Chairman and member of the Remuneration Committee on the same date. During the year, the duties of the members were updated according to the latest requirements of the Code. The committee also held a total of 4 meetings. The attendance of members is set out on page 46.

The major duties of the Remuneration Committee and the tasks accomplished during the year are as follows:

Major duties	Tasks accomplished during the year
• Review and determine the remuneration package of all Directors and senior management and make recommendations to the Board	• The committee reviewed the annual remuneration of the Directors and senior management with reference to the market trends and determined the discretionary bonus based on their individual performance • The committee reviewed and approved the grant of share options to the Directors and senior management of the Group
• Review, determine and approve the terms of compensation contract upon termination of duties or appointment	• The committee reviewed the terms of engagement of a new non-executive Director
• Review, determine and approve the compensation arrangements of the Directors regarding their dismissal or removal	• N/A

The remuneration package of the Directors and senior management include the following: 1) basic salaries; 2) discretionary bonus; 3) share options; and 4) retirement benefits. A diversified remuneration package can truly reflect the market value of the relevant duties; encourage the employees to achieve the highest standard; attract and retain the employees; and provide competitive retirement protection.

ACCOUNTABILITY AND AUDIT

The Audit Committee and the Board have reviewed and approved the consolidated financial statements for the year ended 31 December 2010. The Directors acknowledge they are accountable to the preparation of the accounts which can give a true and fair view of the financial status of the Group and have conducted a balanced, clear and comprehensive assessment on the performance, conditions and prospects of the Group. The Directors are not aware of any factors that would affect the ability of the Group to operate on a going-concern basis and prepare the accounts of the Group on a going-concern basis.

Jingdu Tianhua, the independent auditor of the Company has declared its reporting responsibilities regarding the consolidated financial statements for the year ended 31 December 2010 in the independent auditors' report.

Despite that the quarterly financial results of the Company are not published in accordance with the recommended best practices of the Code, the Company has announced the latest monthly sales volume figures for reference of the public since January 2010 in order to further enhance the level and transparency of corporate governance of the Company.

CHANGE OF AUDITOR AND REMUNERATION

As at 30 November 2010, Grant Thornton was the independent auditor of the Company. However, Grant Thornton entered into a merger agreement and would not be a member of Grant Thornton International Ltd ("Grant Thornton International") and Jingdu Tianhua was appointed as a member of Grant Thornton International in Hong Kong at the same time. After taking into consideration a number of factors, the Board decided to appoint Jingdu Tianhua as the independent auditor of the Company to fill the casual vacancy following the resignation of Grant Thornton since 1 December 2010.

For the year ended 31 December 2010, the remuneration for the provision of audit and non-audit services by Grant Thornton, Jingdu Tianhua and other professional CPA firm to the Group is as follows:

Fees breakdown by firm	**2010 RMB'000**	2009 RMB'000
Grant Thornton		
Annual audit	**–**	2,285
Non-audit service	**370**	370
	370	2,655
Jingdu Tianhua		
Annual audit	**2,198**	–
Other professional CPA firm		
Annual audit of an overseas subsidiary	**451**	460
Total	**3,019**	3,115
Fees breakdown by nature		
Annual audit	**2,649**	2,745
Non-audit service	**370**	370
Total	**3,019**	3,115

INTERNAL CONTROL

The Board is responsible for ensuring the internal control system of the Group is sound, comprehensive and effective.

During the year, the Group set up a team for the development of internal control system (the "Internal Control Team") to assist the Board to review and rationalize the functions of internal control system and risk management in a comprehensive manner.

The Internal Control Team improves the internal control system of the Group based on the internal control model of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") in the five fundamental internal control elements namely control environment, risk assessment, control activities, information and communication, and monitoring. During the year, the work details and the next step plans are as follows:

Elements of internal control	**Work for the year**	**Future plans**
Control environment	The Company has successfully raised the awareness on code of conduct in its corporate culture through continuous and specific training on internal control system	The Company will further review the control environment factors including organizational structure, human resources and terms of reference
Risk assessment and control activities	The Company has analyzed the comprehensive operating activities of the Group on risk-based approach; identified and assessed the risks in each business procedure and outline the risk map. Based on the risk assessment results, the Company has reviewed the adequacy and execution ability of the existing control activities to cope with the key business risks so as to rationalize the insufficient areas	The Company will regularly update the risk map and improve the control activities according to the changes in the internal and external environment to cope with the risks. In addition, in order to further enhance the risk management ability of the Group, we will further introduce a risk management framework after structuring the risk-based internal control system to manage risks with diversified and suitable tools.
Information and communication	The Company has introduced the information security certification to safeguard the security and confidentiality of information. In addition, the Company has maintained communication channels with stakeholders to ensure the information is communicated in a timely and effective manner.	The Company will commence audit activities relating to information system to ensure that the information system has sufficient decision-making ability
Monitoring	The Company has introduced a three parties monitoring model and identified person-in-charge of risk in each business process. In addition, the Company has strengthened the operation of the entire internal control system through continuous internal audit.	The Group will strengthen the internal audit to assess the internal control system in the course of business and will launch control self-assessment mechanism to strengthen the control functions.

During the year, the Audit Committee and the Board have received the report on internal control and risk management of the Group and conducted effective review on the internal control system and risk management functions of the Group. In addition, the Audit Committee and the Board have also formulated plans, objectives and timetable for the processes subject to rectification. The review covers all important aspects of control, including financial control, operational control, compliance control and risk management functions.

Moreover, in conducting the above review, the Audit Committee and the Board have paid special attention as to the adequacy of accounting and financial reporting resources and staff qualifications and the adequacy of training programs undertaken by the staff and the relevant budget.

INVESTOR RELATIONS

The Board considers that maintaining continuous and effective communication with shareholders is crucial to and is a key element of establishing shareholders' confidence and attracting new investors. Accordingly, the Company maintained a high level of transparency and open information disclosure through a wide range of channels during the year, including:

- Publish the interim report, annual report and announcements in accordance with the relevant requirements on the website of Stock Exchange and the website of the Company; and publish the monthly report of sales volume figures on a voluntary basis;
- Engage a public relations company as a portal for the shareholders to make enquiries about the Company, and introduce the latest business development of the Company to the public through interviews with the media;
- Conduct active exchange with institutional investors and analysts by a team led by an executive Director;
- Attend the investment forums regularly; and
- Conduct face-to-face communication with shareholders at the annual general meeting of the Company by the Directors.

The Company was granted the "Outstanding Listed Company Award for 2010" by Capital Weekly, a renowned investment magazine in Hong Kong during the year for its excellent performance of investor relations.

SHAREHOLDERS' RIGHTS

The Company welcomes and encourages the shareholders to attend its annual general meeting to allow face-to-face communication between the Board and the shareholders.

At the annual general meeting of the Company held on 25 May 2010, the Chairman of the Board of the Company was unable to attend it in Hong Kong due to his other commitment in China. In this regard, the executive Director and Chief Executive Officer of the Company attended the annual general meeting on behalf of the Chairman of the Board and actively responded to the questions raised by the shareholders after sufficient communication with the Chairman of the Board. At such meeting, resolutions were proposed separately for each independent matter, including the declaration of final dividend, re-election of Directors, re-appointment of independent auditor, grant of general mandate to issue and repurchase shares, and voted by way of poll, and obtained approval from the shareholders.

MATERIAL CHANGE IN ARTICLES OF ASSOCIATION

During the year, no material changes were made to the articles of association of the Company.

The Directors present their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement and consolidated statement of comprehensive income on page 71 and page 72, respectively of the annual report. The Directors now recommend the payment of a final dividend of HK0.026 per share to the Shareholders on the register of members of the Company on 18 May 2011, amounting to RMB170,258,000.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2011 to 18 May 2011, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividends and voting at the annual general meeting to be held on 18 May 2011, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 11 May 2011.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 4 of the annual report.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Details of movements during the year in the property, plant and equipment and intangible assets of the Group are set out in note 14 and note 15, respectively, to the consolidated financial statements. During the year, there was also a significant increase in the property, plant and equipment and intangible assets. Such increase was a combination of (a) the completion of acquisition of another manufacturing plant in Jinan of Shandong province, the PRC; and (b) the additions used for the research and development of new vehicle models, new engines and gearboxes; the expansion and upgrading of production facilities of the Group.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the consolidated financial statements.

RESERVES

Details of the movements during the year in the reserves of Group are set out in the consolidated statement of changes in equity on page 75 of the annual report.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Li Shu Fu *(Chairman)*
Mr. Yang Jian *(Vice Chairman)*
Mr. Gui Sheng Yue *(Chief Executive Officer)*
Mr. Ang Siu Lun, Lawrence
Mr. Liu Jin Liang
Mr. Yin Da Qing, Richard
Dr. Zhao Fuquan
Ms. Wei Mei (Appointed on 17 January 2011)
Mr. Zhao Jie (Resigned on 15 September 2010)

Non-executive Directors:

Mr. Wang Yang (Appointed on 15 September 2010)
Mr. Xu Gang (Resigned on 1 April 2010)

Independent Non-executive Directors:

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

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Li Shu Fu, Mr. Gui Sheng Yue, Ms. Wei Mei, Mr. Wang Yang, Mr. Lee Cheuk Yin, Dannis and Mr. Song Lin shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Independent Non-executive Directors all have a fixed term of 3-year service and will be subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

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

As at 31 December 2010, the interests and short positions of the Directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interests, and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

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

Name of Directors	**Capacity**	**Number of securities in the Company**		**Shareholding percentage (%)**
		Long position	*Short position*	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporation	3,751,159,000	–	50.41
Mr. Yang Jian	Personal	8,000,000	–	0.11
Mr. Gui Sheng Yue	Personal	8,000,000	–	0.11
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.06
Mr. Yin Da Qing, Richard	Personal	7,000,000	–	0.09
Dr. Zhao Fuquan	Personal	6,000,000	–	0.08
Mr. Liu Jin Liang	Personal	6,000,000	–	0.08
Mr. Yeung Sau Hung, Alex	Personal	500,000	–	0.01

Name of Directors	Capacity	Number of securities in the Company *Long position*	*Short position*	Shareholding percentage (%)
Share options				
Mr. Yang Jian	Personal	12,000,000 (Note 2)	–	0.16%
Mr. Gui Sheng Yue	Personal	11,500,000 (Note 2)	–	0.15%
Mr. Ang Siu Lun, Lawrence	Personal	11,000,000 (Note 2)	–	0.15%
Mr. Yin Da Qing, Richard	Personal	11,000,000 (Note 2)	–	0.15%
Dr. Zhao Fuquan	Personal	22,000,000 (Note 2)	–	0.30%
Mr. Liu Jin Liang	Personal	9,000,000 (Note 2)	–	0.12%
Mr. Song Lin	Personal	1,000,000 (Note 2)	–	0.01%
Mr. Yeung Sau Hung, Alex	Personal	1,000,000 (Note 2)	–	0.01%
Mr. Lee Cheuk Yin, Dannis	Personal	1,000,000 (Note 2)	–	0.01%

Note:

(1) Proper Glory Holding Inc. ("Proper Glory") and its concert parties in aggregate hold 3,751,159,000 shares, representing approximately 50.41% of the issued share capital of the Company as at 31 December 2010. Proper Glory is a private company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(2) This share option interest is also referred to in the section headed "Share Options" below. 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 as 31 December 2010.

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

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

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) 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 Merrie Automobile Company Limited ("Zhejiang Geely Merrie") is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(4) Shanghai Maple Automobile Company Limited ("Shanghai Maple Automobile") is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(5) Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing") is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(6) Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") is incorporated in the PRC and is 9%-owned by Zhejiang Geely Merrie. Zhejiang Geely Merrie is a private company incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.

(7) Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple") is incorporated in the PRC and is 9%-owned by Shanghai Maple Automobile. Shanghai Maple Automobile is a private company incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.

(8) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.

(9) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.

(10) Hunan Geely Automobile Components Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.

(11) Chengdu Gaoyuan Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Geely and as to 10% by Shanghai Maple. Zhejiang Geely and Shanghai Maple is 9% directly owned by Zhejiang Geely Merrie and Shanghai Maple Automobile, respectively. Both Zhejiang Geely Merrie and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

(12) Jinan Geely Automobile Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Geely and as to 10% by Shanghai Maple. Zhejiang Geely and Shanghai Maple is 9% directly owned by Zhejiang Geely Merrie and Shanghai Maple Automobile, respectively. Both Zhejiang Geely Merrie and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

(13) Lanzhou Geely Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Geely and as to 10% by Shanghai Maple. Zhejiang Geely and Shanghai Maple is 9% directly owned by Zhejiang Geely Merrie and Shanghai Maple Automobile, respectively. Both Zhejiang Geely Merrie and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, as at 31 December 2010, none of the Directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.

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

As at 31 December 2010, 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*	
Proper Glory (Note 1)	Beneficial owner	2,462,400,000	–	33.09
Geely Holding (Note 1)	Interest in controlled corporation	3,751,072,000	–	50.41
Zhejiang Geely Merrie (Note 2)	Beneficial owner	776,408,000	–	10.43
Geely Group Ltd. (Note 1)	Beneficial owner	87,000	–	0.001
	Interest in controlled corporation	2,462,400,000	–	33.09
The Goldman Sachs Group, Inc.	Interest in controlled corporation	1,297,974,003	–	17.44
Gehicle Investment Holdings (Delaware) LLC	Beneficial owner	1,144,958,578	–	15.39
Gehicle Investment Parallel Holdings	Beneficial owner	152,991,322	–	2.06

Note:

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 Merrie is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, the Company had not been notified of any other person (other than the Directors or the Chief Executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 31 December 2010 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year.

	Exercise Period	Exercise price per share HK$	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2010
Directors							
Mr. Ang Siu Lun, Lawrence	18.1.2010 – 17.1.2020	4.07	–	11,000,000	–	–	11,000,000
Mr. Gui Sheng Yue	8.5.2008 – 7.5.2013	0.92	8,000,000	–	(8,000,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	11,500,000	–	–	11,500,000
Mr. Yang Jian	8.5.2008 – 7.5.2013	0.92	8,000,000	–	(8,000,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	12,000,000	–	–	12,000,000
Mr. Liu Jin Liang	8.5.2008 – 7.5.2013	0.92	6,000,000	–	(6,000,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	9,000,000	–	–	9,000,000
Mr. Yin Da Qing, Richard	8.5.2008 – 7.5.2013	0.92	7,000,000	–	(7,000,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	11,000,000	–	–	11,000,000
Mr. Zhao Jie*	8.5.2008 – 7.5.2013	0.92	6,000,000	–	(6,000,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	8,000,000	–	–	8,000,000
Dr. Zhao Fuquan	8.5.2008 – 7.5.2013	0.92	11,000,000	–	–	–	11,000,000
	18.1.2010 – 17.1.2020	4.07	–	11,000,000	–	–	11,000,000
Mr. Song Lin	8.5.2008 – 7.5.2013	0.92	1,500,000	–	(1,500,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	1,000,000	–	–	1,000,000
Mr. Lee Cheuk Yin, Dannis	8.5.2008 – 7.5.2013	0.92	1,500,000	–	(1,500,000)	–	–
	18.1.2010 – 17.1.2020	4.07	–	1,000,000	–	–	1,000,000
Mr. Yeung Sau Hung, Alex	18.1.2010 – 17.1.2020	4.07	–	1,000,000	–	–	1,000,000
Continuous contract employees	5.8.2005 – 4.8.2010	0.70	1,800,000	–	(800,000)	(1,000,000)	–
	10.7.2006 – 16.5.2011	0.93	4,020,000	–	(1,850,000)	(100,000)	2,070,000
	18.09.2007 – 17.9.2012	1.06	17,500,000	–	(10,000,000)	–	7,500,000
	8.5.2008 – 7.5.2013	0.92	123,300,000	–	(79,250,000)	(800,000)	43,250,000
	18.1.2010 – 17.1.2020	4.07	–	439,300,000	–	(15,950,000)	423,350,000
	21.4.2010 – 20.4.2020	4.07	–	16,900,000	–	(1,000,000)	15,900,000
			195,620,000	532,700,000	(129,900,000)	(18,850,000)	579,570,000

* Mr. Zhao Jie has resigned as an Executive Director of the Company with effect from 15 September 2010.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions between the Group and other companies under the control of Mr. Li Shu Fu, the Chairman and Executive Director of the Company during the year are set out in note 35 to the consolidated financial statements.

Save as disclosed above, no contracts of significance to which the Company, its holding company or any of its subsidiaries, was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into certain related party transactions which also constitute connected transactions under the Listing Rules. All the continuing connected transactions (as defined under the Listing Rules) during the year were listed below and they are also set out in note 35 to the consolidated financial statements. The following transactions between certain connected parties and the Group have been entered into is ongoing for which relevant announcements had been made by the Company in accordance with the requirements of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

1. Supply and Purchase Agreement for Automobile Parts and Components, SKD Components and CKDs (without the imported engine, transmission and automobile parts) between Shanghai LTI and Shanghai Maple Automobile

Pursuant to the Supply and Purchase Agreement for Automobile Parts and Components, SKD Components and CKDs (without the imported engine, transmission and automobile parts) dated 27 November 2009, the Shanghai LTI Automobile Components Company Limited ("Shanghai LTI") agrees to supply to the Shanghai Maple Automobile Company Limited ("Shanghai Maple Automobile") and Shanghai Maple Automobile agrees to purchase from the Shanghai LTI, the automobile parts and components, SKD components and CKDs (without the imported engine, transmission and automobile parts) to be used in the LTI TX Series Products and saloon cars in accordance with product specification set out in the Supply and Purchase Agreement for Automobile Parts, Components and Sub-Assembly.

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB111 million which, did not exceed the annual cap of RMB1,051 million for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB111 million which, did not exceed the annual cap of RMB1,051 million for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

2. Services Agreement between the Company and Geely Holding

- ***Sales of CKDs and Sedan Tool Kits from the Group to the Geely Holding Group***

  Pursuant to the Services Agreement dated 17 September 2007, Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agrees to supply to the Zhejiang Geely Holding Group Company Limited ("Geely Holding") and its subsidiaries (collectively, the "Geely Holding Group"), Complete Knock Down Kits ("CKDs") and sedan tool kits in accordance with the product specifications set out in the Services Agreement.

  The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB16,807 million for sales of CKDs and sedan tool kits which did not exceed the annual cap of RMB22,622 million for sales of CKDs and sedan tool kits for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

  Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB16,807 million for sales of CKDs and sedan tool kits which did not exceed the annual cap of RMB22,622 million for sales of CKDs and sedan tool kits for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

- ***Sales of CBUs, automobile parts and components; and provision of process manufacturing services from Geely Holding Group to the Group***

  Pursuant to the Services Agreement dated 27 November 2009, Geely Holding Group agreed to sell to the Group the complete buildup units (CBUs), automobile parts and components; and provide process manufacturing services to the Group in accordance with the product and service specifications set out in the Services Agreement.

  The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB25,921 million for purchases of CBUs, automobile parts and components, and provision of process manufacturing services which did not exceed the annual cap of RMB35,692 million for purchases of CBUs, automobile parts and components, and provision of process manufacturing services for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

  Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB25,921 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services which did not exceed the annual cap of RMB35,692 million for purchases of CBUs, automobile parts and components, and provision of process manufacturing services for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

3. Loan Guarantee Agreement between the Company and Geely Holding

Pursuant to the Loan Guarantee Agreement dated 27 November 2009, Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agree to provide guarantees (including the pledge of certain lands, buildings and facilities of the subsidiaries) on loans obtained or to be obtained by the Zhejiang Geely Holding Group Company Limited ("Geely Holding") and its subsidiaries (collectively, the "Geely Holding Group") on behalf of the Group's subsidiaries in relation to the manufacturing, research and development of sedans of the Group.

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB420 million which did not exceed the annual cap of RMB1,000 million for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB420 million which, did not exceed the annual cap of RMB1,000 million for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

4. Lease Agreement between the Company, Geely Holding and Zhejiang Automotive Vocational and Technical College (previously known as "Zhejiang Economic Management College")

Pursuant to the Lease Agreement dated 27 November 2009, Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agree to lease properties located in Zhejiang Province, to the Zhejiang Geely Holding Group Company Limited ("Geely Holding") and its subsidiaries (collectively, the "Geely Holding Group"), and Zhejiang Automotive Vocational and Technical College (previously known as "Zhejiang Economic Management College").

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB5 million which, did not exceed the annual cap of RMB10 million for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB5 million which did not exceed the annual cap of RMB10 million for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

5. R&D Agreement between the Company and Geely Holding

Pursuant to the R&D Agreement dated 20 August 2009, Geely Holding and its subsidiaries (collectively, the "Geely Holding Group") agreed to sell to Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") the R&D products and services in accordance with the product and service specification set out in the R&D Agreement by the Company and Geely Holding and vice versa.

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB57 million for sales of R&D products and services which did not exceed the annual cap of RMB267 million for sales of R&D products and services for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB57 million for sales of R&D products and services which did not exceed the annual cap of RMB267 million for sales of R&D products and services for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

6. Services Agreement between the Company and Geely Holding

Pursuant to the Services Agreement dated 20 August 2009, Geely Holding and its subsidiaries (collectively, the "Geely Holding Group"), and Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agreed to (i) sell automobile parts and components, brakes, and pressing parts, engines and transmissions by the Group to the Geely Holding Group; and (ii) purchase of processed automobile parts and components by the Group from the Geely Holding Group.

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB10 million for (i) sale of automobile parts and components, brakes, and pressing parts, engines and transmissions; and (ii) purchase of processed automobile parts and components which did not exceed the annual cap of RMB1,791 million for sales of processed automobile parts and components for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB10 million for (i) sale of automobile parts and components, brakes, and pressing parts, engines and transmissions; and (ii) purchase of processed automobile parts and components which did not exceed the annual cap of RMB1,791 million for sales of processed automobile parts and components for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

7. CBU Agreement between the Company and Geely Holding

Pursuant to the CBU Agreement dated 20 August 2009, Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agreed to sell to Geely Holding and its subsidiaries (collectively, the "Geely Holding Group") the complete buildup units (CBUs), in accordance with the product and service specifications set out in the CBU Agreement.

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB53 million for sales of CBUs which did not exceed the annual cap of RMB180 million for sales of CBUs for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB53 million for sales of CBUs which did not exceed the annual cap of RMB180 million for sales of CBUs for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

8. Imported Parts Purchase Agreement between the Shanghai Maple Auto Sales and Shanghai Maple

Pursuant to the Imported Parts Purchase Agreement dated 27 November 2009, Shanghai Maple Automobile Sales Company Limited (the "Shanghai Maple Auto Sales") agreed to purchase from Shanghai Maple Automobile Company Limited (the "Shanghai Maple") the imported TX4 after-sales car parts, in accordance with the product and service specifications set out in the Imported Parts Purchase Agreement.

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole; and (d) had been determined to be RMB1 million for the purchase of imported TX4 after-sales car parts which did not exceed the annual cap of RMB20 million for the purchase of imported TX4 after-sales car parts for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB1 million for the purchase of imported TX4 after-sales car parts which did not exceed the annual cap of RMB20 million for the purchase of imported TX4 after-sales car parts for the year ended 31 December 2010 as approved by the Stock Exchange and the Independent Shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code for Securities Transactions by the Officers (the "Code"). All Directors of the Company have confirmed their compliance during the year with the required standards set out in the Model Code and the Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the Directors of the Company is decided by the Remuneration Committee, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases attributable to the Group's five largest suppliers and the largest supplier are 66% and 54%, respectively, of the Group's total purchases for the year. Zhejiang Geely Automobile Parts and Components Company Limited and Shanghai Maple Engine Company Limited, both are related companies controlled by the substantial shareholder of the Company, is the Group's first largest supplier and second largest supplier, respectively.

The percentage of sales attributable to the Group's five largest customers and the largest customer are 6% and 1% respectively, of the Group's total sales for the year.

Save as disclosed above, at no time during the year did the Directors, their associates, or Shareholders of the Company, which to the knowledge of the Directors own more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers or suppliers.

CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 40 to 52 of the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Corporate Governance Code as defined in the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Song Lin and Yeung Sau Hung, Alex who are the Independent Non-executive Directors of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08 of the Listing Rules requires at least 25% of the issued share capital of the Company to be held in public hands. Based on the information available and within the knowledge of the Directors as at the latest practicable date prior to the issue of the annual report, the Company has maintained the prescribed public float as required under the Listing Rules.

COMPETING BUSINESSES

The Group is principally engaged in the research, production, marketing and sales of sedans and related automobile components in the PRC.

Zhejiang Geely Holding Group Company Limited ("Geely Holding"), which is ultimately owned by Mr. Li Shu Fu ("Mr. Li"), the Company's Chairman, and his associates, has signed agreements or been in negotiations with local governments in the PRC and other entities to set up production plants for the manufacturing and distribution of Geely sedans. The potential production and distribution of Geely sedans by Zhejiang Geely Holding Group Company Limited will constitute competing businesses (the "Competing Businesses") to those currently engaged by the Group. Mr. Li has undertaken to the Company (the "Undertaking") that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the Independent Non-executive Directors, he will, and will procure his associates (other than the Group) to, sell to the Group all of the Competing Businesses and related assets, subject to compliance with applicable requirements of the Listing Rules and other applicable laws and regulations upon terms to be mutually agreed as fair and reasonable.

During the year, Geely Holding has completed the acquisition of Volvo Car Corporation, which manufactures Volvo cars, a range of family sedans, wagons and sport utility cars, and has 2,500 dealerships in 100 markets (the "Volvo Acquisition"). Although the Group is not a party to the Volvo Acquisition nor in any discussions with Geely Holding to cooperate with Geely Holding in relation to the Volvo Acquisition, but Geely Holding has provided an irrevocable undertaking to the Company on 27 March 2010 to the effect that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the Independent Non-executive Directors, Geely Holding will, and will procure its associates (other than the Group) to sell to the Group all or any part of the businesses and related assets of the Volvo Acquisition, and such transfer will be subject to the terms and conditions being fair and reasonable, and being in compliance with applicable requirements of the Listing Rules, other applicable laws and regulations and other necessary approvals and consents on terms to be mutually agreed.

AUDITORS

During the year, Grant Thornton resigned as auditors of the Company and Grant Thornton Jingdu Tianhua was appointed by the Directors to fill the casual vacancy.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Grant Thornton Jingdu Tianhua as the auditors of the Company.

On behalf of the Board

Li Shu Fu
Chairman
23 March 2011

Grant Thornton
京都天华

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 143, which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Grant Thornton
京都天华

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

23 March 2011

CONSOLIDATED
INCOME STATEMENT

for the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Turnover/Revenue	6	**20,099,388**	14,069,225
Cost of sales		**(16,399,684)**	(11,528,489)
Gross profit		**3,699,704**	2,540,736
Other income	8	**839,110**	431,530
Distribution and selling expenses		**(1,190,087)**	(764,563)
Administrative expenses		**(922,880)**	(516,793)
Share-based payments	33	**(273,437)**	(7,337)
Finance costs	9	**(244,785)**	(107,226)
Loss on early redemption of convertible bonds	23	**–**	(15,987)
Gain on deemed disposal of interest in an associate	18	**–**	5,245
Share of results of an associate	18	**(7,302)**	(15,145)
Profit before taxation		**1,900,323**	1,550,460
Taxation	10	**(350,612)**	(231,432)
Profit for the year	9	**1,549,711**	1,319,028
Attributable to:			
Equity holders of the Company		**1,368,437**	1,182,740
Non-controlling interests		**181,274**	136,288
		1,549,711	1,319,028
Earnings per share			
Basic	12	**RMB18.59 cents**	RMB17.08 cents
Diluted	12	**RMB17.15 cents**	RMB16.66 cents

CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Profit for the year	**1,549,711**	1,319,028
Other comprehensive income:		
Exchange differences on translation of foreign operations recognised	**46,487**	21,576
Total comprehensive income for the year	**1,596,198**	1,340,604
Attributable to:		
Equity holders of the Company	**1,414,924**	1,204,316
Non-controlling interests	**181,274**	136,288
	1,596,198	1,340,604

CONSOLIDATED
BALANCE SHEET

as at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**5,796,750**	4,328,102
Intangible assets	15	**1,448,593**	1,069,679
Goodwill	17	**6,222**	6,222
Interest in an associate	18	**–**	7,302
Prepaid land lease payments	16	**1,367,701**	1,171,473
		8,619,266	6,582,778
Current assets			
Prepaid land lease payments	16	**33,782**	29,322
Inventories	19	**986,595**	640,504
Trade and other receivables	20	**9,912,961**	6,144,929
Financial assets at fair value through profit or loss	21	**12,947**	12,209
Available-for-sale financial assets	22	**100,000**	–
Tax recoverable		**2,391**	–
Pledged bank deposits		**242,582**	894,292
Bank balances and cash		**4,393,075**	4,498,155
		15,684,333	12,219,411
Current liabilities			
Trade and other payables	24	**10,543,028**	7,328,825
Taxation		**173,591**	69,329
Bank borrowings, secured	25	**1,096,669**	1,509,635
		11,813,288	8,907,789
Net current assets		**3,871,045**	3,311,622
Total assets less current liabilities		**12,490,311**	9,894,400

CONSOLIDATED
BALANCE SHEET

as at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
CAPITAL AND RESERVES			
Share capital	28	**139,279**	136,993
Reserves	29	**7,882,603**	6,238,620
Equity attributable to equity holders of the Company		**8,021,882**	6,375,613
Non-controlling interests		**1,055,795**	720,907
Total equity		**9,077,677**	7,096,520
Non-current liabilities			
Convertible bonds	23	**1,483,012**	1,442,153
Long-term bank borrowings, secured	25	**1,562,312**	1,318,000
Deferred government grants	26	**294,297**	–
Deferred taxation	27	**73,013**	37,727
		3,412,634	2,797,880
		12,490,311	9,894,400

The consolidated financial statements on pages 71 to 143 were approved and authorised for issue by the Board of Directors on 23 March 2011 and are signed on its behalf by:

Li Shu Fu
Director

Gui Sheng Yue
Director

CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory and staff welfare reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	122,542	2,510,927	88,059	27,227	67,635	44,785	–	1,336,687	4,197,862	584,619	4,782,481
Profit for the year	–	–	–	–	–	–	–	1,182,740	1,182,740	136,288	1,319,028
Other comprehensive income:											
Exchange differences on translation of foreign operations recognised	–	–	–	–	21,576	–	–	–	21,576	–	21,576
Total comprehensive income for the year	–	–	–	–	21,576	–	–	1,182,740	1,204,316	136,288	1,340,604
Transactions with owners:											
Transfers	–	–	–	682	–	–	–	(682)	–	–	–
Utilisation of reserve	–	–	–	(6,775)	–	–	–	6,775	–	–	–
Issue of convertible bonds	–	–	–	–	–	–	232,864	–	232,864	–	232,864
Shares issued under share option scheme	4,419	170,971	–	–	–	(13,220)	–	–	162,170	–	162,170
Recognition of share-based payments	–	–	–	–	–	7,337	–	–	7,337	–	7,337
Transfer upon expiration of share options	–	–	–	–	–	(3,824)	–	3,824	–	–	–
Transfer upon forfeiture of share options	–	–	–	–	–	(4,071)	–	4,071	–	–	–
Issue of shares	10,032	652,408	–	–	–	–	–	–	662,440	–	662,440
Dividend paid	–	–	–	–	–	–	–	(91,376)	(91,376)	–	(91,376)
Total transactions with owners	14,451	823,379	–	(6,093)	–	(13,778)	232,864	(77,388)	973,435	–	973,435
At 31 December 2009	136,993	3,334,306	88,059	21,134	89,211	31,007	232,864	2,442,039	6,375,613	720,907	7,096,520
Profit for the year	–	–	–	–	–	–	–	1,368,437	1,368,437	181,274	1,549,711
Other comprehensive income:											
Exchange differences on translation of foreign operations recognised	–	–	–	–	46,487	–	–	–	46,487	–	46,487
Total comprehensive income for the year	–	–	–	–	46,487	–	–	1,368,437	1,414,924	181,274	1,596,198
Transactions with owners:											
Utilisation of reserve	–	–	–	(3,520)	–	–	–	3,520	–	–	–
Shares issued under share option scheme	2,286	124,713	–	–	–	(20,739)	–	–	106,260	–	106,260
Recognition of share-based payments	–	–	–	–	–	273,437	–	–	273,437	–	273,437
Transfer upon forfeiture of share options	–	–	–	–	–	(171)	–	171	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	153,614	153,614
Dividend paid	–	–	–	–	–	–	–	(148,352)	(148,352)	–	(148,352)
Total transactions with owners	2,286	124,713	–	(3,520)	–	252,527	–	(144,661)	231,345	153,614	384,959
At 31 December 2010	**139,279**	**3,459,019**	**88,059**	**17,614**	**135,698**	**283,534**	**232,864**	**3,665,815**	**8,021,882**	**1,055,795**	**9,077,677**

CONSOLIDATED
CASH FLOW STATEMENT

for the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Profit for the year before taxation		**1,900,323**	1,550,460
Adjustments for :			
Depreciation and amortisation		**524,715**	364,598
Interest income		**(52,357)**	(73,845)
Finance costs		**244,785**	107,226
Share of results of an associate		**7,302**	15,145
Loss on disposal of property, plant and equipment		**4,949**	7,419
Gain on disposal of intangible assets		**(1,903)**	–
Intangible assets write off		**–**	8,547
Gain on disposal of prepaid land leases		**–**	(8,754)
Net foreign exchange losses		**16,911**	15,311
Loss on early redemption of convertible bonds		**–**	15,987
Gain on deemed disposal of interest in an associate		**–**	(5,245)
Unrealised gain on financial instruments at fair value through profit or loss that are classified as held for trading (listed investments held for trading)		**(738)**	(1,748)
Share-based payment expenses		**273,437**	7,337
Operating profit before working capital changes		**2,917,424**	2,002,438
Inventories		**(343,225)**	(103,937)
Trade and other receivables		**(2,896,749)**	(2,665,932)
Trade and other payables		**2,519,029**	1,921,369
Cash from operations		**2,196,479**	1,153,938
Income taxes paid		**(213,978)**	(205,133)
Net cash from operating activities		**1,982,501**	948,805
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,529,406)**	(716,542)
Proceeds from disposal of property, plant and equipment		**193,523**	114,251
Addition of prepaid land lease payments		**(27,424)**	(16,938)
Proceeds from disposal of prepaid land lease payments		**5,927**	29,803
Addition of intangible assets		**(515,217)**	(395,870)
Proceeds from disposal of intangible assets		**57,403**	–
Change in pledged bank deposits		**651,710**	(40,344)
Acquisition of subsidiaries/businesses	38	**(134,475)**	(346,073)
Investment in an associate		**–**	(8,078)
Purchases of available-for-sale financial assets		**(100,000)**	–
Interest received		**52,357**	73,845
Net cash used in investing activities		**(1,345,602)**	(1,305,946)

for the year ended 31 December 2010

	2010	2009
	RMB'000	RMB'000
Cash flows from financing activities		
Dividends paid	**(148,352)**	(91,376)
Proceeds from issuance of shares	**–**	677,161
Share issuance costs	**–**	(14,721)
Proceeds from issuance of shares upon exercise of share options	**106,260**	162,170
Issuance of convertible bonds	**–**	1,669,363
Redemption of convertible bonds	**–**	(322,069)
Capital contribution from non-controlling shareholders	**153,614**	–
Short-term bank borrowings, net, in respect of bank borrowings arising from discounted bills	**(47,754)**	291,048
Proceeds from borrowings	**1,118,000**	2,650,354
Repayment of borrowings	**(1,708,900)**	(966,356)
Interest paid	**(205,210)**	(89,192)
Net cash (used in) from financing activities	**(732,342)**	3,966,382
(Decrease) increase in cash and cash equivalents	**(95,443)**	3,609,241
Cash and cash equivalents at beginning of year	**4,498,155**	889,408
Effect of foreign exchange rate changes	**(9,637)**	(494)
Cash and cash equivalents at end of year, represented by		
Bank balances and cash	**4,393,075**	4,498,155

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company is a public listed limited liability company incorporated in the Cayman Islands as an exempted limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The addresses of the registered office and principal place of business of the Company are disclosed in "Directory" to the annual report. At 31 December 2010, the directors consider the ultimate holding company of the Company to be Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司), which is incorporated in the People's Republic of China ("PRC").

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 40 to the consolidated financial statements.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out in note 4 below.

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 28 (Revised)	Investments in Associates
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HKFRS 3 (Revised) – Business Combinations

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

- Acquisition-related costs of the combination are recorded as an expense in the consolidated income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition.

- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.

- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

2. STATEMENT OF COMPLIANCE *(Continued)*

HKFRS 3 (Revised) – Business Combinations *(Continued)*

HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. For the year ended 31 December 2010, the adoption of HKFRS 3R changed the Group's accounting for the business combination during this year (see note 38) but did not result in material impacts on the Group's results for the year and its financial position as of 31 December 2010.

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

HKAS 27 (Revised) – Consolidated and Separate Financial Statements

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

HKFRSs (Amendments) – Improvements to HKFRSs 2009

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

3. EFFECTS OF APPLICATION OF HKFRSs NOT YET EFFECTIVE

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

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

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

Under HKFRS 9, all recognised financial assets that are within the scope of the HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

3. EFFECTS OF APPLICATION OF HKFRSs NOT YET EFFECTIVE *(Continued)*

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically under HKFRS 9, for all financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 24 (Revised) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in the revised standard do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the revised standard.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

(a) Basis of consolidation

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is an entity in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets. The Group elects to measure any non-controlling interest in the subsidiary at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets for all business combinations.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and equity holders of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(b) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

On disposal of a cash-generating unit or an associate, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(c) Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Interests in associates *(Continued)*

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Where necessary, adjustments are made to the financial statements of associates to bring their accounting policies in line with those used by the Group.

(d) Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The following useful lives are applied:

Capitalised development costs	5 to 10 years

Research and development costs

Costs associated with research activities are expensed in the consolidated income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is an intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange difference arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case such exchange differences are recognised in other comprehensive income. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(g) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Loans and receivables *(Continued)*

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but is not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to the consolidated income statement. Interest calculated using the effective interest method is recognised in the consolidated income statement.

For available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the consolidated income statement as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the consolidated income statement. The subsequent increase in fair value is recognised in the other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as financial assets at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a financial asset at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as a financial asset at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement includes any dividend or interest earned on the financial assets.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Other financial liabilities

Other financial liabilities (including bank borrowings and trade and other payables) are initially recognised at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

In the case that the conversion options are not settled by the exchange of a fixed amount of cash for a fixed number of equity instrument, the issuer recognises the convertible bonds as liabilities with embedded derivatives. Derivatives embedded in the financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. An embedded option-based derivative (such as a put, call, and conversion) is separated from its host contract on the basis of the stated terms of the option feature. At the date of issue, both the embedded derivatives and liability component are recognised at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

***Convertible bonds** (Continued)*

Issue costs are apportioned between the liability component and the conversion option derivative of the convertible bonds based on their relative fair value at the date of issue. The portion relating to the conversion option derivative is charged directly to the consolidated income statement and the remaining portion is deducted from the liability component.

A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debt. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

The liability component is subsequently measured at amortised cost, using the effective interest method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid (if any) is added to the carrying amount of the liability component. In the case that the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument, the embedded derivatives are subsequently measured at their fair values at each balance sheet date with changes in fair value recognised in consolidated income statement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity, if any, is recognised in the consolidated income statement.

For financial liabilities, they are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated income statement.

(h) Property, plant and equipment

Property, plant and equipment, other than freehold land and construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than freehold land and construction in progress) over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment, other than freehold land and construction in progress, are depreciated on a straight-line basis at the following useful lives:

Leasehold buildings	30 years
Buildings on freehold land	10 to 30 years
Plant and machinery	7 to 10 years
Leasehold improvements	Over the shorter of the lease terms and 3 years
Furniture and fixtures, office equipment and motor vehicles	5 to 10 years

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Freehold land is stated at cost less accumulated impairment losses.

(i) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(j) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and related sales taxes.

Income from sales of automobiles and automobile parts and components is recognised when the products are delivered and title has been passed.

Claim income on defective materials purchased is recognised when the claim has been made to and confirmed by relevant suppliers.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

(m) Equity-settled share-based transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in the consolidated income statement with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

If the share options granted are cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong, the state-managed retirement benefit scheme in the People's Republic of China and defined contribution superannuation funds in other overseas countries are charged as expenses as they fall due.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(p) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of prepaid land leases and property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight line basis over the expected lives of the related assets.

(q) Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill (note 17) is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Fair value of financial instruments

As described in note 37 to the consolidated financial statements, the valuation techniques applied by the external valuers for financial instruments not quoted in an active market have been agreed with the directors. The directors use their judgement to determine whether valuation techniques applied are appropriate to the circumstances of the Group.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the trade and other receivables (note 20). A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance will be required.

Allowance for inventories

The Company's management reviews the condition of inventories, as stated in note 19 to the consolidated financial statements, at each balance sheet date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Impairment of long lived assets

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant estimation relating to the level of sales volume, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment of investments

The Company assesses annually and at each interim reporting date if an investment in an associate has suffered any impairment in accordance with HKAS 36. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause adjustments to their carrying amounts.

6. TURNOVER/REVENUE

Turnover/revenue represents the consideration received and receivable from sales, net of discounts, returns and related sales taxes, of automobiles and automobile parts and components.

The Group's customer base is diversified and no customer with whom the transactions has exceeded 10% of the Group's revenue.

7. SEGMENTS INFORMATION

The Group is principally engaged in manufacturing and trading of automobiles and automobile parts and related automobile components which account for the total turnover and trading profits of the Group for the current and prior years and no segment information has been presented in previous financial statements. After the acquisition of the automatic transmissions business (note 38) during the year ended 31 December 2009, the Group re-organised its management structure and business lines. As a result, the Group manages its businesses by business lines and starts to report segment information from the current year. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

Gearboxes: Manufacture and sale of gearboxes.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4 above. Segment profit represents the profit earned by each segment without allocation of corporate expenses, directors' emoluments, share of results of an associate, interest income, interest expenses and income tax expenses. Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate, deferred tax assets and other corporate assets. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

7. SEGMENTS INFORMATION *(Continued)*

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

Income statement

For the year ended 31 December 2010

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Sales to external customers	19,483,478	615,910	–	–	20,099,388
Inter-segment	8,692	404,078	–	(412,770)	–
Total segment revenue	19,492,170	1,019,988	–	(412,770)	20,099,388
Segment results	2,382,311	18,405	–	–	2,400,716
Interest income	49,003	3,125	229	–	52,357
Finance costs	(153,437)	–	(91,348)	–	(244,785)
Corporate and other unallocated expenses	–	–	(300,663)	–	(300,663)
Share of results of an associate	(7,302)	–	–	–	(7,302)
Profit before tax					1,900,323
Income tax expense					(350,612)
Profit for the year					1,549,711

Balance sheet

At 31 December 2010

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
ASSETS					
Segment assets	23,299,723	804,156	258,712	(58,992)	24,303,599
LIABILITIES					
Segment liabilities	13,478,128	278,243	1,528,543	(58,992)	15,225,922

7. SEGMENTS INFORMATION *(Continued)*

Other information

For the year ended 31 December 2010

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Capital additions (note)	**2,766,547**	**26,581**	**–**	**–**	**2,793,128**
Amortisation of intangible assets	**83,407**	**–**	**–**	**–**	**83,407**
Amortisation of prepaid lease payments	**33,683**	**–**	**–**	**–**	**33,683**
Depreciation of property, plant and equipment	**371,873**	**35,752**	**–**	**–**	**407,625**

Note: Capital additions include those arising from the acquisition of a subsidiary.

Income statement

For the year ended 31 December 2009 (Restated)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Sales to external customers	13,916,744	152,481	–	–	14,069,225
Inter-segment	1,416	388,990	–	(390,406)	–
Total segment revenue	13,918,160	541,471	–	(390,406)	14,069,225
Segment results	1,663,064	(15,141)	–	–	1,647,923
Interest income	71,554	1,845	446	–	73,845
Finance costs	(88,732)	(16)	(18,478)	–	(107,226)
Corporate and other unallocated income	–	–	(54,182)	–	(54,182)
Share of results of an associate	(15,145)	–	–	–	(15,145)
Gain on deemed disposal of interest in an associate	5,245	–	–	–	5,245
Profit before tax					1,550,460
Income tax expense					(231,432)
Profit for the year					1,319,028

7. SEGMENTS INFORMATION *(Continued)*

Balance sheet

At 31 December 2009 (Restated)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
ASSETS					
Segment assets	16,227,350	893,010	1,689,335	(14,808)	18,794,887
Interest in an associate	7,302	–	–	–	7,302
Total	16,234,652	893,010	1,689,335	(14,808)	18,802,189
LIABILITIES					
Segment liabilities	10,024,808	224,907	1,470,762	(14,808)	11,705,669

Other information

For the year ended 31 December 2009 (Restated)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Capital additions (note)	1,677,748	376,013	–	–	2,053,761
Amortisation of intangible assets	54,251	–	–	–	54,251
Amortisation of prepaid lease payments	26,551	–	–	–	26,551
Depreciation of property, plant and equipment	266,996	16,621	179	–	283,796

Note: Capital additions include those arising from the acquisition of subsidiaries/businesses (including goodwill of RMB6,222,000 in respect of automobiles and related parts and components segment).

7. SEGMENTS INFORMATION *(Continued)*

Geographical information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, interest in an associate, goodwill and prepaid land lease payments ("specified non-current assets"). The geographical location of customers is based on the location at which the services are provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and prepaid land lease payments, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interest in an associate.

	2010 **RMB'000**	2009 RMB'000
Revenue from external customers		
Hong Kong, place of domicile	**–**	–
PRC	**18,505,412**	13,363,686
Australia	**192,405**	91,610
Europe	**286,490**	386,191
Korea	**371,751**	55,209
Other countries	**743,330**	172,529
	20,099,388	14,069,225

	2010 **RMB'000**	2009 RMB'000
Specified non-current assets		
Hong Kong, place of domicile	**93**	103
PRC	**8,187,104**	6,173,867
Australia	**432,069**	401,506
The United Kingdom	**–**	7,302
	8,619,266	6,582,778

8. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Bank interest income	**52,357**	73,845
Unrealised gain on financial instruments at fair value through profit or loss that are classified as held for trading (listed investments held for trading)	**738**	1,748
Rental income (note 1)	**14,589**	15,422
Net claims income on defective materials purchased	**–**	43,217
Gain on disposal of scrap materials	**48,669**	50,442
Gain on disposal of prepaid land leases	**–**	8,754
Gain on disposal of intangible assets	**1,903**	–
Subsidy income from government (note 2)	**660,626**	216,080
Sundry income	**60,228**	22,022
	839,110	431,530

Note:

1: Rental income net of outgoings for the year ended 31 December 2010 is RMB10,081,000 (2009: RMB11,523,000)

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

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2010 RMB'000	2009 RMB'000
Finance costs		
Effective interest expense on convertible bonds	**90,941**	18,034
Interest on bank borrowings wholly repayable within five years	**153,416**	89,139
Interest expenses paid to a related party	**428**	53
	244,785	107,226
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**786,448**	520,001
Retirement benefit scheme contributions	**57,284**	36,064
Recognition of share-based payments	**273,437**	7,337
	1,117,169	563,402
Other items		
Cost of inventories recognised as expense (note)	**16,399,684**	11,528,489
Auditors' remuneration	**2,649**	2,745
Depreciation	**407,625**	283,796
Amortisation of prepaid land lease payments	**33,683**	26,551
Amortisation of intangible assets	**83,407**	54,251
Net foreign exchange losses	**21,897**	2,272
Intangible assets write off	**–**	8,547
Loss on disposal of property, plant and equipment	**4,949**	7,419
Operating leases charges on premises	**2,489**	6,017
Research and development costs	**97,637**	65,380
Net claims paid on defective materials sold	**27,244**	–

Note: Cost of inventories recognised as expense included staff costs, depreciation and amortisation expenses, operating lease charges and research and development costs, which amount is also included in the respective total amounts disclosed separately for each of these types of expenses.

10. TAXATION

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC enterprise income tax	**313,157**	221,824
Other overseas tax	**–**	1,747
Under (over)provision in prior years	**2,692**	(3,455)
	315,849	220,116
Deferred taxation (note 27)	**34,763**	11,316
	350,612	231,432

10. TAXATION *(Continued)*

Hong Kong profits tax has not been provided for the year as the companies within the Group had no estimated assessable profits in Hong Kong.

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

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

The tax charge for the year can be reconciled from the profit before taxation per consolidated income statement as follows:

	2010 RMB'000	2009 RMB'000
Profit before taxation	**1,900,323**	1,550,460
Tax at the PRC enterprise income tax rate of 25% (2009: 25%)	**475,081**	387,615
Tax effect of expenses not deductible in determining taxable profit	**136,732**	27,399
Tax effect of non-taxable income	**(60,357)**	(19,830)
Tax effect of unrecognised tax losses	**21,800**	12,011
Utilisation of previously unrecognised tax losses	**(410)**	(1,287)
Tax effect of different tax rates of entities operating in other jurisdictions	**34,203**	6,602
Deferred tax charge on distributable profits withholding tax (note 27)	**34,966**	24,263
Effect of tax exemption granted to the PRC subsidiaries	**(294,095)**	(201,886)
Under (over)provision in prior years	**2,692**	(3,455)
Tax expense for the year	**350,612**	231,432

The applicable tax rate is the PRC enterprise income tax rate of 25% (2009: 25%). The Group is also liable to withholding tax on dividends to be distributed from the Group's foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. Deferred tax liability of RMB34,966,000 (2009: RMB24,263,000) was recognised for the distributable profits not yet paid out as dividends that are generated by the PRC subsidiaries of the Company during the year.

11. DIVIDENDS

A final dividend for the year ended 31 December 2009 of HK$0.023 per share amounting to approximately RMB148,352,000 were paid to the shareholders during the year.

A final dividend for the year ended 31 December 2010 of HK$0.026 per share amounting to approximately RMB170,258,000 has been proposed by the Board of Directors after the balance sheet date. The proposed dividend will be accounted for as an appropriation of accumulated profits in the year ending 31 December 2011 if it is approved by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of RMB1,368,437,000 (2009: RMB1,182,740,000) and weighted average number of ordinary shares of 7,362,781,505 shares (2009: 6,926,525,450 shares), calculated as follows:

(i) *Weighted average number of ordinary shares*

	2010	2009
Issued ordinary shares at 1 January	**7,310,855,450**	6,489,755,450
Effect of new shares issued	**–**	334,191,781
Effect of shares issued upon exercise of share options	**51,926,055**	102,578,219
Weighted average number of ordinary shares at 31 December	**7,362,781,505**	6,926,525,450

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity holders of the Company of RMB1,459,378,000 (2009: RMB1,195,391,000) and the weighted average number of ordinary shares of 8,511,197,705 shares (2009: 7,175,028,650 shares), calculated as follows:

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

	2010 RMB'000	2009 RMB'000
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders)	**1,368,437**	1,182,740
After tax effect of effective interest on the liability component of convertible bonds	**90,941**	12,651
Earnings for the purpose of diluted earnings per share	**1,459,378**	1,195,391

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

	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,362,781,505**	6,926,525,450
Effect of deemed conversion of convertible bonds	**1,001,277,412**	136,770,274
Effect of deemed exercise of warrants	**100,647,803**	17,259,926
Effect of deemed issue of shares under the Company's share option scheme	**46,490,985**	94,473,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**8,511,197,705**	7,175,028,650

The effect of deemed conversion of convertible bonds redeemed during the year ended 31 December 2009 was anti-dilutive up to the date of redemption for the year ended 31 December 2010.

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The emoluments paid or payable to each of the thirteen (2009: twelve) directors are as follows:

2010

Name of director	Fees RMB'000	Salaries RMB'000	Rental allowance RMB'000	Contribution to retirement benefit scheme RMB'000	Sub-total RMB'000	Share based payment (note) RMB'000	Total RMB'000
Mr. Gui Sheng Yue	–	1,514	158	11	1,683	6,785	8,468
Mr. Ang Siu Lun, Lawrence	–	1,894	–	11	1,905	6,490	8,395
Mr. Zhao Jie	–	648	34	7	689	4,720	5,409
Dr. Zhao Fuquan	9	–	–	–	9	6,490	6,499
Mr. Li Shu Fu	–	369	–	11	380	–	380
Mr. Lee Cheuk Yin, Dannis	106	–	–	–	106	590	696
Mr. Yeung Sau Hung, Alex	106	–	–	–	106	590	696
Mr. Song Lin	106	–	–	–	106	590	696
Mr. Wang Yang	31	–	–	–	31	–	31
Mr. Liu Jin Liang	9	–	–	–	9	5,310	5,319
Mr. Xu Gang	2	–	–	–	2	–	2
Mr. Yang Jian	9	–	–	–	9	7,080	7,089
Mr. Yin Da Qing, Richard	9	–	–	–	9	6,490	6,499
	387	4,425	192	40	5,044	45,135	50,179

2009

Name of director	Fees RMB'000	Salaries RMB'000	Rental allowance RMB'000	Contribution to retirement benefit scheme RMB'000	Sub-total RMB'000	Share based payment (note) RMB'000	Total RMB'000
Mr. Gui Sheng Yue	–	1,332	151	11	1,494	290	1,784
Mr. Ang Siu Lun, Lawrence	–	1,332	–	11	1,343	218	1,561
Mr. Zhao Jie	–	647	–	11	658	218	876
Dr. Zhao Fuquan	9	–	–	–	9	399	408
Mr. Li Shu Fu	–	370	–	11	381	–	381
Mr. Lee Cheuk Yin, Dannis	106	–	–	–	106	54	160
Mr. Yeung Sau Hung, Alex	106	–	–	–	106	54	160
Mr. Song Lin	106	–	–	–	106	54	160
Mr. Liu Jin Liang	9	–	–	–	9	218	227
Mr. Xu Gang	9	–	–	–	9	–	9
Mr. Yang Jian	9	–	–	–	9	290	299
Mr. Yin Da Qing, Richard	9	–	–	–	9	254	263
	363	3,681	151	44	4,239	2,049	6,288

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' remuneration *(Continued)*

No director waived any emoluments during the years ended 31 December 2010 and 2009.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4(m) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Options" in the directors' report and in note 33 to the consolidated financial statements.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, all (2009: two) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above.

	2010 RMB'000	2009 RMB'000
Basic salaries and allowances	–	3,883
Retirement benefits scheme contributions	–	186
Share-based payment expense	–	109
	–	4,178

For the year ended 31 December 2009, their emoluments were all within HK$1,000,000 to HK$2,000,000.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture and fixtures, office equipment and motor vehicles RMB'000	Total RMB'000
COST							
At 1 January 2009	465,249	–	1,447,073	1,804,698	3,586	146,774	3,867,380
Acquisition of subsidiaries/ businesses	227,969	61,901	63,325	193,365	–	6,480	553,040
Exchange differences	8,591	8,577	–	22,758	–	321	40,247
Additions	442,867	142	28,408	352,832	423	41,337	866,009
Transfer	(560,800)	–	230,346	305,917	15,394	9,143	–
Disposals	(57,966)	–	(10,556)	(56,034)	–	(5,767)	(130,323)
At 31 December 2009	525,910	70,620	1,758,596	2,623,536	19,403	198,288	5,196,353
Acquisition of a subsidiary	175,500	–	–	785	–	3,122	179,407
Exchange differences	12,951	6,989	–	19,661	–	261	39,862
Additions	823,744	262	170,250	781,780	5,910	75,949	1,857,895
Transfer	(896,558)	–	536,675	355,912	–	3,971	–
Disposals	(65,444)	–	(12,032)	(154,296)	–	(17,830)	(249,602)
At 31 December 2010	**576,103**	**77,871**	**2,453,489**	**3,627,378**	**25,313**	**263,761**	**7,023,915**
DEPRECIATION							
At 1 January 2009	–	–	113,583	411,732	1,289	51,500	578,104
Acquisition of subsidiaries/businesses	–	–	4,592	9,367	–	1,045	15,004
Charge for the year	–	1,853	46,395	207,242	1,689	26,617	283,796
Disposals	–	–	(1,161)	(5,232)	–	(2,260)	(8,653)
At 31 December 2009	–	1,853	163,409	623,109	2,978	76,902	868,251
Acquisition of a subsidiary	–	–	–	11	–	764	775
Exchange differences	–	183	–	1,419	–	42	1,644
Charge for the year	–	3,786	62,264	305,178	1,883	34,514	407,625
Disposals	–	–	(1,289)	(44,443)	–	(5,398)	(51,130)
At 31 December 2010	**–**	**5,822**	**224,384**	**885,274**	**4,861**	**106,824**	**1,227,165**
NET BOOK VALUE							
At 31 December 2010	**576,103**	**72,049**	**2,229,105**	**2,742,104**	**20,452**	**156,937**	**5,796,750**
At 31 December 2009	525,910	68,767	1,595,187	2,000,427	16,425	121,386	4,328,102

The Group's freehold land is located outside Hong Kong. Certain of the Group's property, plant and equipment have been pledged to secure banking facilities grant to the Group (note 25(a)) and to the Company's ultimate holding company (note 35(c)).

15. INTANGIBLE ASSETS

	Capitalised development cost RMB'000
COST	
At 1 January 2009	675,909
Acquisition of subsidiaries/businesses	62,065
Exchange differences	1,867
Additions	416,072
Write off	(8,547)
At 31 December 2009	1,147,366
Exchange differences	1,518
Additions	516,303
Disposals	(55,502)
At 31 December 2010	**1,609,685**
AMORTISATION	
At 1 January 2009	18,754
Acquisition of subsidiaries/businesses	4,682
Charge for the year	54,251
At 31 December 2009	77,687
Disposals	(2)
Charge for the year	83,407
At 31 December 2010	**161,092**
NET BOOK VALUE	
At 31 December 2010	**1,448,593**
At 31 December 2009	1,069,679

The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

During the year, the Group carried out a review of the recoverable amount of its intangible assets based on their value in use, having regard to its ongoing programme of product development and research and development activities. The review led to the conclusion that no write off is necessary (2009: write off of RMB8,547,000 included in administrative expenses). The discount rate used in measuring value in use was 6% per annum.

16. PREPAID LAND LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
The Group's prepaid land lease payments comprise:		
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	**1,401,483**	1,200,795
Analysed for reporting purposes as:		
Current assets	**33,782**	29,322
Non-current assets	**1,367,701**	1,171,473
	1,401,483	1,200,795
Opening net carrying amount	**1,200,795**	1,078,356
Additions	**27,465**	16,898
Acquisition of subsidiaries/businesses	**212,833**	153,141
Disposals	**(5,927)**	(21,049)
Annual charges of prepaid land lease payments	**(33,683)**	(26,551)
Closing net carrying amount	**1,401,483**	1,200,795

Certain of the Group's prepaid land lease payments have been pledged to secure banking facilities grant to the Group (note 25(a)) and to the Company's ultimate holding company (note 35(c)).

17. GOODWILL

	2010 RMB'000	2009 RMB'000
Carrying amount		
Arising on acquisition of subsidiaries (note 38)	**6,222**	6,222

Goodwill is allocated to the cash generating unit of manufacturing of complete knock down kits in Lanzhou. The recoverable amount of goodwill was determined based on value-in-use calculations, which is based on an annual cash flow budget plan covering a five-year period with a long-term average growth rate of 15% per annum for the operation. A discount factor of 6% per annum was applied in the value in use model. The key assumptions include stable profit margins, which have been determined based on the expectations for market share after taking into consideration current economic environment and market forecast. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount.

18. INTEREST IN AN ASSOCIATE

	2010 RMB'000	2009 RMB'000
Share of net assets	**81,818**	89,120
Goodwill	**18,182**	18,182
Impairment loss recognised	**(100,000)**	(100,000)
	–	7,302
Represented by:		
Cost of investment in an associate listed overseas	**197,788**	197,788
Share of post-acquisition losses and reserves	**(97,788)**	(90,486)
Impairment loss recognised	**(100,000)**	(100,000)
	–	7,302
Fair value of listed investments	**36,714**	69,595
Movement of interest in an associate:		
Opening carrying amount	**7,302**	42,241
Share of results	**(7,302)**	(15,145)
Investment in associates	**–**	8,078
Exchange difference	**–**	(33,117)
Gain on deemed disposal of interest in an associate	**–**	5,245
Closing carrying amount	**–**	7,302

Having considered the significant drop in the market value of the shares in Manganese Bronze Holdings plc ("MBH") and the projected future profitability and cash flows of MBH, the impairment made in previous year is not reversed.

For the year ended 31 December 2009, the Group and other parties subscribed for additional shares in the associate. Therefore, the Group's interest in the associate decreases from 22.69% to 19.97% and hence a gain on deemed disposal amounting to RMB5,245,000 was recognised. The Group retains significant influence over the associate through representation on the board.

18. INTEREST IN AN ASSOCIATE *(Continued)*

At 31 December 2010, the Group had interest in the following associate:

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
Manganese Bronze Holdings plc	United Kingdom	£7,617,482	19.97%	UK-based speciality automotive and taxi services group

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

	2010 RMB'000	2009 RMB'000
Total assets	**751,128**	757,721
Total liabilities	**(405,850)**	(320,856)
Net assets	**345,278**	436,865
Group's share of net assets of associate	**81,818**	89,120
Revenue	**715,672**	781,797
Loss for the year attributable to equity holders of the associate	**(56,970)**	(76,646)
Group's share of results of associate for the year	**(7,302)**	(15,145)

19. INVENTORIES

	2010 RMB'000	2009 RMB'000
At costs:		
Raw materials	**487,777**	272,498
Work in progress	**195,721**	111,571
Finished goods	**303,097**	256,435
	986,595	640,504

20. TRADE AND OTHER RECEIVABLES

	Note	2010 RMB'000	2009 RMB'000
Trade and notes receivables			
Trade receivables			
– From third parties		**962,228**	558,769
– From related companies controlled by the substantial shareholder of the Company		**487,846**	179,686
	(a)	**1,450,074**	738,455
Notes receivable	(b)	**6,073,987**	4,432,019
		7,524,061	5,170,474
Deposit, prepayment and other receivables			
Deposit, prepayment and other receivables			
– Advance payment to suppliers		**1,591,310**	380,843
– Deposits paid for acquisition of property, plant and equipment		**298,316**	294,974
– Utility deposits and other receivables		**494,172**	275,403
		2,383,798	951,220
Amounts due from related parties	(c)	**5,102**	23,235
		9,912,961	6,144,929

(a) Trade receivables

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

	2010 RMB'000	2009 RMB'000
0 – 60 days	**588,080**	142,061
61 – 90 days	**55,170**	14,384
Over 90 days	**144,354**	102,216
	787,604	258,661

20. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

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

	2010	2009
	RMB'000	RMB'000
0 – 60 days	**277,491**	277,085
61 – 90 days	**47,070**	45,367
91 – 365 days	**244,848**	91,652
Over 1 year	**93,061**	65,690
	662,470	479,794

Of the total trade receivables balance at 31 December 2010, RMB164,366,000 (2009: RMB91,246,000) was due from the Group's largest customer. There were no other customers who represented more than 10% of the total balance of trade receivables.

The aged analysis of the Group's trade receivables that were past due as at the balance sheet dates but not impaired is as follows:

	2010	2009
	RMB'000	RMB'000
0 – 30 days past due	**80,152**	54,173
31 – 60 days past due	**43,115**	23,542
61 – 90 days past due	**58,742**	16,786
Over 90 days past due	**11,938**	1,657
	193,947	96,158

As at 31 December 2010, trade receivables of RMB1,256,127,000 (2009: RMB642,297,000) were neither past due nor impaired. These related to a large number of diversified customers for whom there was no recent history of default.

The Group does not charge interest on overdue balances. Included in the Group's trade receivables balance were debtors with a carrying amount of RMB193,947,000 (2009: RMB96,158,000) which were past due at the balance sheet date for which the Group has not provided for impairment loss. The Group did not hold any collateral over these balances. No material impairment has been made to the trade receivables balance. Receivables that were neither past due nor impaired were mainly due from large corporations with which the Group has long trading history and therefore these debtors are considered to have good credit quality.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Notes receivable

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

During the year, the Group has discounted notes receivable to banks in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of notes receivable and has recognised the cash received as secured short-term bank borrowings. At the balance sheet date, the Group did not have any outstanding discounted notes receivables and the associated financial liabilities (2009: RMB305,281,000 with effective interest rate of approximately 2.5% per annum). In addition, the Group did not pledge notes receivable to banks to secure the Group's notes payable as at 31 December 2010 (2009: RMB239,033,000).

(c) Amounts due from related parties

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

Except for trade and other receivables amounting to RMB54,170,000 (2009: RMB163,400,000) which is expected to be recovered after 1 year from the balance sheet date, all other trade and other receivables are expected to be recovered or recognised as an expense within 1 year.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 **RMB'000**	2009 RMB'000
Listed investments:		
– Equity securities listed outside Hong Kong	**12,947**	12,209

The fair value of the listed investments is based on the quoted market price available.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010 **RMB'000**	2009 RMB'000
Unlisted investment:		
– Debt security	**100,000**	–

The unlisted debt security is stated at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

23. CONVERTIBLE BONDS

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

On 22 September 2009, the Company entered into an agreement ("Subscription Agreement") pursuant to which certain investors ("Investors") have agreed to subscribe for convertible bonds and warrants (collectively, the "Instruments") of the Company. The Subscription Agreement was subsequently supplemented by agreements in which the Company and Investors agreed the redenomination of the Instruments from Hong Kong dollar to Renminbi. The Company currently has outstanding convertible bonds of RMB1,671 million (approximately HK$1,897 million) 3% coupon convertible bonds due 2014 ("CB 2014") and none of the convertible bonds has been converted since the issue date of 11 November 2009.

The CB 2014 are convertible into fully paid ordinary shares of HK$0.02 each of the Company at an initial conversion price of RMB1.67 (equivalent to HK$1.90) per share, subject to adjustment in certain events. Upon the payment of final dividends for the year ended 31 December 2009, the conversion price of the CB2014 was changed to RMB1.66 (equivalent to HK$1.8894) from 29 June 2010 in accordance with the provisions of CB 2014.

Redemption

The bondholders of CB 2014 have the option to require the Company to redeem any outstanding bonds held by them at any time on the third anniversary of the issue of the bonds and on each date falling at intervals of 6 months thereafter until the maturity date of the bonds.

Unless previously converted or redeemed, the CB 2014 will be redeemed at 100% of their outstanding principal amount on 11 November 2014.

The CB 2014 contains a liability component and a conversion option which is included in the equity of the Company.

23. CONVERTIBLE BONDS *(Continued)*

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

	2010 RMB'000	2009 RMB'000
Liability component		
Carrying amount brought forward	**1,449,150**	288,267
Issued during the year	**–**	1,436,499
Accrued effective interest charges	**90,941**	18,034
Redeemed during the year	**–**	(293,650)
Interest paid during the year	**(51,366)**	–
	1,488,725	1,449,150
Fair value of embedded derivative in respect of the put option and conversion option		
Carrying amount brought forward	**–**	37,770
Eliminated upon redemption	**–**	(37,770)
	–	–
Less: Fair value of embedded derivative in respect of the call option		
Carrying amount brought forward	**–**	25,338
Eliminated upon redemption	**–**	(25,338)
	–	–
	–	–
Liability component is represented by:		
Convertible bonds	**1,483,012**	1,442,153
Accrued interests included in trade and other payables	**5,713**	6,997
	1,488,725	1,449,150

The principal amount outstanding at 31 December 2010 is RMB1,671 million (2009: RMB1,671 million).

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

24. TRADE AND OTHER PAYABLES

	Note	2010 RMB'000	2009 RMB'000
Trade and notes payables			
Trade payables			
– To third parties		**4,619,345**	1,600,761
– To related parties controlled by the substantial shareholder of the Company		**728,792**	901,450
	(a)	**5,348,137**	2,502,211
Notes payable			
– To third parties		**10,000**	1,734,565
– To related parties controlled by the substantial shareholder of the Company		**325,164**	–
	(b)	**335,164**	1,734,565
		5,683,301	4,236,776
Other payables			
Accrued charges and other creditors			
– Receipts in advance from customers		**2,739,679**	1,460,015
– Deferred income related to government grants (note 26)		**469,069**	453,976
– Payables for acquisition of property, plant and equipment		**609,340**	280,851
– Accrued staff salaries and benefits		**198,787**	120,313
– Business and other taxes		**205,612**	95,410
– Other accrued charges		**612,347**	507,529
		4,834,834	2,918,094
Amounts due to related parties	(c)	**15,680**	902
Loan from a non-controlling shareholder of a subsidiary of the Group	(d)	**9,213**	3,053
Amount due to ultimate holding company	(e)	**–**	170,000
		4,859,727	3,092,049
		10,543,028	7,328,825

24. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2010 RMB'000	2009 RMB'000
0 – 60 days	**4,464,062**	2,191,688
61 – 90 days	**625,890**	211,281
Over 90 days	**258,185**	99,242
	5,348,137	2,502,211

Trade payables do not carry interest.

The average credit period on purchase of goods is 60 days.

(b) Notes payable

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

(c) Amounts due to related parties

The amounts due to related parties controlled by the substantial shareholder of the Company are unsecured, interest-free and have no fixed repayment terms.

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

Loan from a non-controlling shareholder of a subsidiary of the Group is unsecured, interest bearing at 2.86% to 5.56% (2009: 5.31%) per annum and repayable within one year.

(e) Amount due to ultimate holding company

The amount due to ultimate holding company was unsecured, interest-free and had no fixed repayment terms.

Except for other payables amounting to RMB33,148,000 (2009: nil) which is expected to be payable after 1 year from the balance sheet date, all other trade and other payables are expected to be recovered or recognised as expense within 1 year.

25. BANK BORROWINGS

	Note	2010 RMB'000	2009 RMB'000
Bank loans secured by the Group's assets	(a)	**1,560,381**	1,220,000
Bank loans guaranteed by the ultimate holding company	(b)	**931,000**	1,037,000
Other bank loans	(c)	**167,600**	522,881
Collateralised borrowings, secured	(d)	**–**	47,754
		2,658,981	2,827,635

25. BANK BORROWINGS *(Continued)*

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

	2010 RMB'000	2009 RMB'000
On demand or within one year	**1,096,669**	1,509,635
In the second year	**845,417**	485,000
In the third to fifth year	**716,895**	833,000
	2,658,981	2,827,635
Less: amounts due within one year shown under current liabilities	**(1,096,669)**	(1,509,635)
	1,562,312	1,318,000

Note:

(a) These bank loans, together with notes payable, are secured by the Group's property, plant and equipment of RMB896,554,000 (2009: RMB1,060,658,000), prepaid land lease payments of RMB502,856,000 (2009: RMB533,994,000), notes receivable of nil (2009: RMB305,281,000) (note 20(b)) and bank deposits of RMB242,582,000 (2009: RMB894,292,000) and carry interest at 5.04% to 5.56% (2009: 5.04% to 5.40%) per annum.

(b) These bank loans are guaranteed by the Company's ultimate holding Company and carry interest at 5.04% to 5.76% (2009: 4.05% to 5.40%) per annum.

(c) Other bank loans represent bank loans obtained by a subsidiary of the Company which are guaranteed by its fellow subsidiary within the Group and carry interest at 5.31% (2009: 1.83% to 5.40%) per annum.

(d) As at 31 December 2009, collateralised borrowings were secured by trade receivables of RMB68,220,000 and carried interest at 2% per annum.

Of the above total bank borrowings, approximately RMB1,318,600,000 (2009: RMB1,079,881,000) and RMB1,340,381,000 (2009: RMB1,747,754,000) are fixed-rate bank borrowings and variable-rate bank borrowings respectively.

26. DEFERRED GOVERNMENT GRANTS

Deferred government grants represents cash subsidies received in relation to the purchase of prepaid land leases and property, plant and equipment or projects of which conditions have not yet been satisfied. Current portion of RMB469,069,000 (2009: RMB453,976,000) has been included in trade and other payables (note 24).

27. DEFERRED TAXATION

The following is the deferred taxation recognised and movements thereon during the year:

	2010 **RMB'000**	2009 RMB'000
At 1 January	**37,727**	8,018
Acquisition of subsidiaries/businesses (note 38)	**–**	16,155
Exchange differences	**523**	2,238
Charge to the consolidated income statement (note 10)	**34,763**	11,316
At 31 December	**73,013**	37,727

Deferred tax assets in respect of provisions

	2010 **RMB'000**	2009 RMB'000
At 1 January	**14,259**	–
Acquisition of subsidiaries/businesses	**–**	14,536
Exchange differences	**1,581**	2,013
Credit (charge) to the consolidated income statement	**2,125**	(2,290)
At 31 December	**17,965**	14,259

The deferred tax assets have been offset against certain deferred tax liabilities on the balance sheet as they are related to the same group entity.

Deferred tax liabilities

	Undistributed profit of subsidiaries RMB'000	**Accelerated tax depreciation** RMB'000	**Total** RMB'000
At 1 January 2009	8,018	–	8,018
Acquisition of subsidiaries/businesses	–	30,691	30,691
Exchange differences	–	4,251	4,251
Charge (credit) to the consolidated income statement	24,263	(15,237)	9,026
At 1 January 2010	32,281	19,705	51,986
Exchange differences	–	2,104	2,104
Charge to the consolidated income statement	34,966	1,922	36,888
At 31 December 2010	67,247	23,731	90,978

Withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries based on the expected dividends payout ratio of these PRC subsidiaries. The unrecognised temporary differences attributable to the profits earned by the PRC subsidiaries amounting to approximately RMB1,921 million (2009: RMB1,301 million).

27. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of approximately RMB324 million (2009: RMB84 million) available for offset against future profits that may be carried forward for 5 years from the year of incurring the loss. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

28. SHARE CAPITAL

	Number of shares	Nominal value
		RMB'000
Authorised:		
Ordinary shares of HK$0.02 each		
At 31 December 2009 and 31 December 2010	12,000,000,000	246,720
Issued and fully paid:		
Ordinary shares of HK$0.02 each		
At 1 January 2009	6,489,755,450	122,542
Issue of shares for cash	570,000,000	10,032
Shares issued under share option scheme	251,100,000	4,419
At 31 December 2009 and 1 January 2010	7,310,855,450	136,993
Shares issued under share option scheme	129,900,000	2,286
At 31 December 2010	7,440,755,450	139,279

During the year, options were exercised to subscribe for 129,900,000 ordinary shares in the Company at a consideration of approximately RMB106,260,000 of which approximately RMB2,286,000 was credited to share capital and the balance of RMB103,974,000 was credited to the share premium account. RMB20,739,000 has been transferred from the share option reserve to the share premium account in accordance with the accounting policy set out in note 4(m).

29. RESERVES

(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value.

(b) Statutory and staff welfare reserve

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries incorporated in the PRC are required to maintain certain statutory reserves.

In addition, the directors of the Company's subsidiaries in the PRC have the discretion to maintain a reserve for staff welfare and bonus utilisation in accordance with the articles of the PRC entities.

(c) Capital reserve

Capital reserve represents differences between the consideration paid/received and the fair value of net assets acquired/disposed of by the associates of the Group from/to Zhejiang Geely Holding Group Company Limited.

29. RESERVES *(Continued)*

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(f).

(e) Share option reserve

Share option reserve represents the fair value of share options granted to employees recognised and is dealt with in accordance with the accounting policy set out in note 4(m).

(f) Convertible bonds reserve

Convertible bonds reserve represents the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 4(g).

(g) Reserves of the Company

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB2,290,702,000 (2009: RMB2,705,855,000).

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB391,685,000 (2009: RMB73,711,000) which has been dealt with in the financial statements of the Company.

30. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2010, the Group acquired certain property, plant and equipment, prepaid land lease and intangible assets, of which RMB609,340,000 (2009: RMB280,851,000), RMB14,060,000 (2009: RMB14,020,000) and RMB21,287,000 (2009: RMB20,202,000) respectively have not yet been settled as at the balance sheet date.

31. COMMITMENTS

Capital expenditure commitments

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

	2010 **RMB'000**	2009 RMB'000
Contracted for but not provided for, net of deposits paid		
– purchase of property, plant and machinery	**1,526,709**	845,790
– purchase of intangible assets	**–**	6,150
– acquisition of a subsidiary	**–**	180,000
	1,526,709	1,031,940

The increase of capital commitments was mainly attributable to the new plant construction and expansion of production facilities.

31. COMMITMENTS *(Continued)*

Operating lease commitments

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

	2010	2009
	RMB'000	RMB'000
Office and factory premises		
Within one year	**6,660**	6,620
In the second to fifth year inclusive	**6,174**	11,091
After five years	**5,218**	5,850
	18,052	23,561
Other assets		
Within one year	**1,544**	1,838
In the second to fifth year inclusive	**2,761**	1,330
	4,305	3,168
	22,357	26,729

Leases are negotiated and rental are fixed for an average term of four (2009: four) years.

32. RETIREMENT BENEFITS SCHEME

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

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

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 17% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group 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 year ended 31 December 2010, the aggregate employer's contributions made by the Group and charged to the consolidated income statement are RMB57,284,000 (2009: RMB36,064,000).

33. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31 May 2002, a share option scheme (the "Scheme") was adopted by the Company.

The Scheme was adopted for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the Scheme.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option schemes adopted by the Company in any twelve month period must not exceed 1% of the issued share capital of the Company.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 5 business days from the date of offer, the offer is delivered to that participant and the amount payable on acceptance of options is HK$1.

For those options granted prior to 1 January 2010, approximately 33% of the options will be automatically vested at the date of grant and the remaining 67% will be vested one year from the date of grant if the grantee remains as an employee of the Group. For those options granted after 1 January 2010, one-tenth of options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant.

The subscription price for the shares under the Scheme shall be a price determined by the directors, but not less than the highest of (i) the closing price of shares as stated on the Stock Exchange on the date of the offer of grant; (ii) the average closing price of the shares as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

No options may be granted under the Scheme after the date of the tenth anniversary of its adoption.

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

Equity-settled share option scheme *(Continued)*

The following table discloses details of the Company's share options under the Scheme held by directors and senior employees and movements in such holdings:

2010

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercise date	Weighted average share price at exercise date HK$
Directors									
Mr. Ang Siu Lun, Lawrence	18 January 2010 to 17 January 2020	4.07	–	11,000,000	–	–	11,000,000		
Mr. Gui Sheng Yue	8 May 2008 to 17 May 2013	0.92	8,000,000	–	(8,000,000)	–	–	7 December 2010	3.79
	18 January 2010 to 17 January 2020	4.07	–	11,500,000	–	–	11,500,000		
Mr. Yang Jian	8 May 2008 to 7 May 2013	0.92	8,000,000	–	(8,000,000)	–	–	2 June 2010	2.79
	18 January 2010 to 17 January 2020	4.07	–	12,000,000	–	–	12,000,000		
Mr. Liu Jin Liang	8 May 2008 to 7 May 2013	0.92	6,000,000	–	(6,000,000)	–	–	20 October 2010	3.77
	18 January 2010 to 17 January 2020	4.07	–	9,000,000	–	–	9,000,000		
Mr. Yin Da Qing, Richard	8 May 2008 to 7 May 2013	0.92	7,000,000	–	(7,000,000)	–	–	19 August 2010	2.78
	18 January 2010 to 17 January 2020	4.07	–	11,000,000	–	–	11,000,000		
Mr. Zhao Jie	8 May 2008 to 7 May 2013	0.92	6,000,000	–	(6,000,000)	–	–	31 March 2010	4.11
	18 January 2010 to 17 January 2020	4.07	–	8,000,000	–	–	8,000,000		
Dr. Zhao Fuquan	8 May 2008 to 7 May 2013	0.92	11,000,000	–	–	–	11,000,000		
	18 January 2010 to 17 January 2020	4.07	–	11,000,000	–	–	11,000,000		
Mr. Song Lin	8 May 2008 to 7 May 2013	0.92	1,500,000	–	(1,500,000)	–	–	31 December 2009	4.27
	18 January 2010 to 17 January 2020	4.07	–	1,000,000	–	–	1,000,000		

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

Equity-settled share option scheme *(Continued)*

2010 *(Continued)*

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercise date	Weighted average share price at exercise date HK$
Directors									
Mr. Lee Cheuk Yin, Dennis	8 May 2008 to 7 May 2013	0.92	1,500,000	–	(1,500,000)	–	–	11 October 2010	3.66
	18 January 2010 to 17 January 2020	4.07	–	1,000,000	–	–	1,000,000		
Mr. Yeung Sau Hung, Alex	18 January 2010 to 17 January 2020	4.07	–	1,000,000	–	–	1,000,000		
			49,000,000	76,500,000	(38,000,000)	–	87,500,000		
Employees	5 August 2005 to 4 August 2010	0.70	1,800,000	–	(800,000)	(1,000,000)	–	25 March 2010	4.03
	10 July 2006 to 16 May 2011	0.93	4,020,000	–	(1,850,000)	(100,000)	2,070,000	9 August 2010 to 6 December 2010	3.27
	18 September 2007 to 17 September 2012	1.06	17,500,000	–	(10,000,000)	–	7,500,000	25 October 2010	4.62
	8 May 2008 to 7 May 2013	0.92	123,300,000	–	(79,250,000)	(800,000)	43,250,000	12 January 2010 to 14 December 2010	3.09
	18 January 2010 to 17 January 2020	4.07	–	439,300,000	–	(15,950,000)	423,350,000		
	21 April 2010 to 20 April 2020	4.07	–	16,900,000	–	(1,000,000)	15,900,000		
			195,620,000	532,700,000	(129,900,000)	(18,850,000)	579,570,000		

	HK$	**HK$**	**HK$**	**HK$**	**HK$**
Weighted average exercise price per share	0.93	4.07	0.93	3.74	3.72
Weighted average remaining contractual life of options outstanding at 31 December 2010					8.3 years
Number of options exercisable at 31 December 2010					115,395,000
					HK$
Weighted average exercise price per share of options exercisable at 31 December 2010					2.34

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

Equity-settled share option scheme *(Continued)*

2009

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Exercised during the year	Lapsed during the year	Forfeited during the year	Outstanding at 31 December	Exercise date	Weighted average share price at exercise date HK$
Directors									
Mr. Ang Siu Lun, Lawrence	23 February 2004 to 22 February 2009	0.95	35,000,000	–	(35,000,000)	–	–		
	5 August 2005 to 4 August 2010	0.70	10,000,000	(10,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	6,000,000	(6,000,000)	–	–	–	22 September 2009	1.79
Mr. Gui Sheng Yue	5 August 2005 to 4 August 2010	0.70	23,000,000	(23,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	8,000,000	–	–	–	8,000,000		
Mr. Xu Gang	5 August 2005 to 4 August 2010	0.70	23,000,000	(23,000,000)	–	–	–	14 July 2009	1.61
Mr. Yang Jian	5 August 2005 to 4 August 2010	0.70	23,000,000	(23,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	8,000,000	–	–	–	8,000,000		
Mr. Liu Jin Liang	5 August 2005 to 4 August 2010	0.70	18,000,000	(18,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	6,000,000	–	–	–	6,000,000		
Mr. Yin Da Qing, Richard	5 August 2005 to 4 August 2010	0.70	16,000,000	(16,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	7,000,000	–	–	–	7,000,000		
Mr. Zhao Jie	5 August 2005 to 4 August 2010	0.70	18,000,000	(18,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	6,000,000	–	–	–	6,000,000		

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

Equity-settled share option scheme *(Continued)*

2009 *(Continued)*

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Exercised during the year	Lapsed during the year	Forfeited during the year	Outstanding at 31 December	Exercise date	Weighted average share price at exercise date HK$
Directors									
Dr. Zhao Fuquan	28 November 2006 to 27 November 2011	0.89	12,000,000	(12,000,000)	–	–	–	15 December 2009	4.40
	8 May 2008 to 7 May 2013	0.92	11,000,000	–	–	–	11,000,000		
Mr. Song Lin	10 July 2006 to 16 May 2011	0.93	1,000,000	(1,000,000)	–	–	–	14 December 2009	4.08
	8 May 2008 to 7 May 2013	0.92	1,500,000	–	–	–	1,500,000		
Mr. Lee Cheuk Yin, Dannis	10 July 2006 to 16 May 2011	0.93	1,000,000	(1,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	1,500,000	–	–	–	1,500,000		
Mr. Yeung Sau Hung, Alex	10 July 2006 to 16 May 2011	0.93	1,000,000	(1,000,000)	–	–	–	14 July 2009	1.61
	8 May 2008 to 7 May 2013	0.92	1,500,000	(1,500,000)	–	–	–	21 September 2009	1.79
			237,500,000	(153,500,000)	(35,000,000)	–	49,000,000		
Employees	5 August 2005 to 4 August 2010	0.70	86,600,000	(81,400,000)	–	(3,400,000)	1,800,000	2-14 July 2009	1.57
	10 July 2006 to 16 May 2011	0.93	9,420,000	–	–	(5,400,000)	4,020,000		
	28 November 2006 to 27 November 2011	0.89	3,000,000	(3,000,000)	–	–	–	11 December 2009	4.20
	18 September 2007 to 17 September 2012	1.06	28,500,000	(3,000,000)	–	(8,000,000)	17,500,000	22 September 2009	1.79
	8 May 2008 to 7 May 2013	0.92	141,900,000	(10,200,000)	–	(8,400,000)	123,300,000	14 July – 11 December 2009	3.04
	5 June 2008 to 4 June 2013	0.98	2,000,000	–	–	(2,000,000)	–		
			508,920,000	(251,100,000)	(35,000,000)	(27,200,000)	195,620,000		

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

Equity-settled share option scheme *(Continued)*

2009 *(Continued)*

	Outstanding at 1 January HK$	Exercised during the year HK$	Lapsed during the year HK$	Forfeited during the year HK$	Outstanding at 31 December HK$
Weighted average exercise price per share	0.84	0.73	0.95	0.87	0.93
Weighted average remaining contractual life of options outstanding at 31 December 2009					3.2 years
Number of options exercisable at 31 December 2009					195,620,000
					HK$
Weighted average exercise price per share of options exercisable at 31 December 2009					0.93

During the year, 515,800,000 options and 16,900,000 options were granted on 18 January 2010 and 21 April 2010 with estimated total fair values of approximately RMB893 million and RMB26 million respectively. The closing prices of the Company's shares immediately before the date on which the options were granted were HK$3.96 and HK$3.62 for option lots of 515,800,000 options and 16,900,000 options respectively. The exercise price of the share options granted is HK$4.07 per share for both option lots of 515,800,000 options and 16,900,000 options. The share options for option lots of 515,800,000 options and 16,900,000 options are valid for a period of 10 years from 18 January 2010 to 17 January 2020 and 21 April 2010 to 20 April 2020 respectively and one-tenth of options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant.

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

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

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

The Group recognised a total expense of RMB273,437,000 (2009: RMB7,337,000) for year ended 31 December 2010 in relation to share options granted by the Company.

34. WARRANTS

As set out in note 23, during the year ended 31 December 2009, the Company issued 299,526,900 warrants to certain investors with a subscription price of HK$1 for all the warrants. The warrants are convertible into fully paid ordinary shares of HK$0.02 each of the Company at an initial exercise price of RMB2.0262 (equivalent to HK$2.3) per share, subject to adjustment in certain events. Upon the payment of final dividends for the year ended 31 December 2009, the exercise price of the warrants were adjusted to RMB2.0148 (equivalent to HK$2.2871) per share from 29 June 2010 in accordance with the provisions of the warrants. The warrants are exercisable in part or in whole at any time from the issue date of the warrants on 11 November 2009 to the fifth anniversary of the issuance of the warrants and are freely transferable, but in minimum tranches of 250,000 warrants. The warrants have been classified as equity instruments of the Company.

During the year, none of the warrants issued has been exercised (2009: nil).

35. CONNECTED AND RELATED PARTY TRANSACTIONS

Certain transactions fell under the definition of continuing connected transactions under the Listing Rules are disclosed in Directors' Report.

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

(a) Transactions

Name of related parties	Nature of transactions	2010 RMB'000	2009 RMB'000
Related companies (note 1)			
Zhejiang Geely Merrie Automobile Company Limited (浙江吉利美日汽車有限公司)	Sales of complete knock down kits and sedan tool kits	**6,370,985**	3,365,296
	Sales of automobile parts and components	**844**	119,206
	Claims income on defective materials purchased	**58,136**	65,543
	Purchase of complete buildup unit	**6,678,538**	3,498,283
	Purchase of automobile parts and components	**128**	–
	Sub-contracting fee paid	**27,335**	3,000
	Claims paid on defective materials sold	**62,299**	63,226
	Acquisition of property, plant and equipment	**646**	1,650
	Acquisition of a subsidiary	**–**	10,594

35. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

Name of related parties	Nature of transactions	2010 RMB'000	2009 RMB'000
Related companies (note 1)			
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete knock down kits and sedan tool kits	**3,161,233**	1,556,005
	Sales of automobile parts and components	**72,875**	95,978
	Claims income on defective materials purchased	**30,726**	34,829
	Purchase of complete buildup unit	**3,209,146**	2,116,368
	Claims paid on defective materials sold	**30,522**	34,859
	Purchase of automobile parts and components	**556**	66,411
	Purchase of intangible assets	**–**	48,060
	Acquisition of a subsidiary	**–**	42,670
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	**7,313,453**	6,469,227
	Sales of automobile parts and components	**1,025**	2,810
	Claims income on defective materials purchased	**128,985**	82,831
	Purchase of complete buildup unit	**7,542,908**	6,715,905
	Purchase of automobile parts and components	**79**	106
	Sub-contracting fee paid	**65,670**	39,319
	Claims paid on defective materials sold	**123,470**	74,200
	Acquisition of property, plant and equipment	**2,890**	21,382
	Research and development services rendered	**57,154**	–
	Acquisition of a subsidiary	**18,000**	95,349
	Sales of property, plant and equipment	**82,854**	–
	Rental income	**670**	–
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	**244**	–
	Claims income on defective materials purchased	**104,446**	124,164
	Purchase of automobile parts and components	**7,514,542**	6,404,626
	Claims paid on defective materials sold	**1,652**	9,997

35. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

Name of related parties	Nature of transactions	2010 RMB'000	2009 RMB'000
Related companies (note 1)			
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defective materials purchased	**24,771**	33,761
	Purchase of automobile parts and components	**882,841**	928,671
	Claims paid on defective materials sold	**9,580**	–
Zhejiang Automotive Vocational and Technical College (浙江汽車職業技術學院)	Rental income	**1,639**	10,781
	Sales of leasehold buildings and prepaid land leases	**–**	82,580
Lanzhou Geely Automobile Industries Company Limited (蘭州吉利汽車工業有限公司)	Sales of automobile parts and components	**–**	58,388
Taizhou Geely Automobile Sales Company Limited (台州吉利汽車銷售有限公司)	Sales of automobile parts and components	**–**	921
	Sales of complete buildup units	**53,050**	2,555
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	**9,804**	2,825
	Sales of property, plant and equipment	**2,574**	–
	Rental income	**551**	–
Hunan Geely Automobile Industries Company Limited (湖南吉利汽車工業有限公司)	Sub-contracting fee paid	**234**	–
Zhejiang Geely Automobile Industry School (浙江吉利汽車工業學校)	Rental income	**1,679**	–
Shareholder of the subsidiary			
Kailun (QuFu) Property Investment Limited (凱倫置業(曲阜)有限公司)	Loan advances	**6,214**	3,000
	Interest paid	**428**	53
	Purchase of prepaid land leases	**–**	15,520
Ultimate holding company			
Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司)	Rental income	**460**	460
	Sales of complete knock down kits and sedan tool kits	**315**	694
	Acquisition of a subsidiary	**162,000**	4,741

35. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

Note 1: The Group and the related companies are under the common control of the substantial shareholder of the Company's ultimate holding company.

Note 2: 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 unit from related parties as set out above have been presented on a net basis in the 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.

(b) Compensation of key management personnel

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

	2010	2009
	RMB'000	RMB'000
Short-term benefits	**29,201**	14,531
Retirement benefits scheme contribution	**1,432**	601
Share-based payments	**273,437**	7,337
	304,070	22,469

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

(c) Pledge of assets

At 31 December 2010, certain prepaid land lease payments and property, plant and equipment with carrying amounts of RMB194,475,000 (2009: RMB195,810,000) and RMB526,912,000 (2009: RMB302,982,000) respectively, have been pledged to secure banking facilities granted to the Company's ultimate holding company and such pledge of assets is subject to the guarantee provided by the Group amounting to RMB420,000,000 (2009: RMB420,000,000). During the year, the maximum guarantee provided by the Group was determined to be RMB420,000,000 (2009: RMB770,000,000).

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt (which includes borrowings and convertible bonds) and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

Gearing ratio

The Group's Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital. The Group does not have a specific target gearing ratio determined as the proportion of debt to equity but closely monitors the fluctuations of the gearing ratio.

36. CAPITAL RISK MANAGEMENT *(Continued)*

Gearing ratio *(Continued)*

The gearing ratio at the balance sheet date was as follows:

	2010 RMB'000	2009 RMB'000
Debt (i)	**4,141,993**	4,269,788
Equity (ii)	**8,021,882**	6,375,613
Debt to equity ratio	**52%**	67%

(i) Debt comprising borrowings and convertible bonds as detailed in notes 25 and 23 to the consolidated financial statements respectively.

(ii) Equity includes all capital and reserves attributable to equity holders of the Company.

From the above calculation, the total debt as at 31 December 2010 did not drop much year over year. Rather, the decrease in the gearing ratio was mainly attributable to the increase in equity as a result of another record-high profit attained by the Group in the year of 2010.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to market risk (including interest rate risk and currency risk), credit and liquidity risks arises in the normal course of the Group's business. Market risk exposures are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

These risks are limited by the Group's financial management policies and practices described below.

Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic and business environment in which the customer operates. Normally, the Group does not obtain collateral from customers. In addition, most of the debtors have good credit quality as set out in note 20(a) to the consolidated financial statements.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, excluding financial assets at fair value through profit or loss, in the balance sheet after deducting any impairment allowance. In addition, as set out in note 35(c) to the consolidated financial statements, certain of the Group's assets have been pledged to secure banking facilities granted to the Company's ultimate holding company. The directors consider the Company's ultimate holding company has sufficient financial strength and the probability of default is low. The Group does not provide any other guarantees which would expose the Group to credit risk.

Bank balances and cash of the Group have been deposited into established banks in the PRC, Australia and Hong Kong.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial assets and financial liabilities, which are based on contractual undiscounted cash flows including interest and the contractual maturities.

	Weighted average effective interest rate %	0 to 60 days RMB'000	61 to 90 days RMB'000	91 days to 1 year RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount as at 31 December RMB'000
2010								
Loans and receivables								
Trade receivables	–	839,221	150,339	412,184	52,423	–	1,454,167	1,450,074
Notes receivable	–	1,568,774	625,306	3,879,907	–	–	6,073,987	6,073,987
Other receivables	–	82,859	19,834	17,304	1,747	–	121,744	121,744
Amounts due from related parties	–	279	–	4,823	–	–	5,102	5,102
Pledged bank deposits	2.25	247,987	–	–	–	–	247,987	242,582
Bank balances and cash	0.47	4,407,693	–	–	–	–	4,407,693	4,393,075
Financial assets at fair value through profit or loss	–	12,947	–	–	–		12,947	12,947
Available-for-sale financial assets	4.70	100,063	–	–	–	–	100,063	100,000
		7,259,823	795,479	4,314,218	54,170	–	12,423,690	12,399,511
Financial liabilities at amortised cost								
Trade payables	–	4,468,749	720,440	158,948	–	–	5,348,137	5,348,137
Notes payable	–	110,564	50,010	174,590	–	–	335,164	335,164
Other payables	–	353,579	9,135	37,605	33,148	–	433,467	433,467
Amounts due to related parties	–	15,680	–	–	–	–	15,680	15,680
Loan from a non-controlling shareholder of a subsidiary of the Group	5.56	323	55	12,362	–	–	12,740	9,213
Bank borrowings	5.25	22,515	132,317	1,110,117	1,179,513	396,524	2,840,986	2,658,981
Convertible bonds	6.58	8,232	4,116	62,430	50,081	1,762,665	1,887,524	1,483,012
		4,979,642	916,073	1,556,052	1,262,742	2,159,189	10,873,698	10,283,654

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	0 to 60 days RMB'000	61 to 90 days RMB'000	91 days to 1 year RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount as at 31 December RMB'000
2009								
Loans and receivables								
Trade receivables	–	173,203	96,052	305,800	163,400	–	738,455	738,455
Notes receivable	–	1,565,513	750,962	2,115,544	–	–	4,432,019	4,432,019
Other receivables	–	40,034	62,226	61,279	–	–	163,539	163,539
Amounts due from related parties	–	23,235	–	–	–	–	23,235	23,235
Pledged bank deposits	1.56	908,083	–	–	–	–	908,083	894,292
Bank balances and cash	0.37	4,493,695	20,987	–	–	–	4,514,682	4,498,155
Financial assets at fair value through profit or loss	–	12,209	–	–	–	–	12,209	12,209
		7,215,972	930,227	2,482,623	163,400	–	10,792,222	10,761,904
Financial liabilities at amortised cost								
Trade payables	–	332,447	506,731	1,663,033	–	–	2,502,211	2,502,211
Notes payable	–	197,599	61,529	1,475,437	–	–	1,734,565	1,734,565
Other payables	–	144,880	70,386	215,605	–	–	430,871	430,871
Amounts due to related parties	–	902	–	–	–	–	902	902
Amount due to ultimate holding company	–	170,000	–	–	–	–	170,000	170,000
Loan from a non-controlling shareholder of a subsidiary of the Group	5.31	–	–	3,161	–	–	3,161	3,053
Bank borrowings	4.55	452,764	80,655	1,073,382	485,000	833,000	2,924,801	2,827,635
Convertible bonds	6.58	8,232	4,117	37,732	50,081	1,812,608	1,912,770	1,442,153
		1,306,824	723,418	4,468,350	535,081	2,645,608	9,679,281	9,111,390

Interest rate risk

The Group's fair value interest rate risk relates primarily to convertible bonds (note 23) and fixed-rate bank borrowings (note 25). The Group does not apply any derivatives to hedge the fair value interest rate risk.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings in respect of discounting notes receivable (note 20(b)) variable-rate bank borrowings (note 25).

The interest rate profile of the Group as at the balance sheet date has been set out in the liquidity risk section of this note.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB10 million (2009: RMB13 million).

Currency risk

Majority of the Group's sales and purchases are conducted with currencies that are denominated in a currency which is also the functional currency of the operations to which they relate.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2010			2009		
	Hong Kong dollars RMB'000	**United States dollars RMB'000**	**British pounds RMB'000**	Hong Kong dollars RMB'000	United States dollars RMB'000	British pounds RMB'000
Bank balances and cash	**257,491**	**65,321**	**104**	1,687,744	336,703	541
Trade and other receivables	**–**	**580,093**	**–**	960	302,654	–
Bank borrowings	**(17,600)**	**–**	**–**	(17,600)	(47,745)	–
Trade and other payables	**–**	**(52,266)**	**–**	–	–	–

As the Group is mainly exposed to the effects of fluctuation in United States dollars/Hong Kong dollars, the following table indicates the approximate change in the Group's profit after tax and retained earnings. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rate. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the below table represent an aggregation of the effects on each of the Group entities' profit after tax and retained earnings measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

	Impact of United States dollars		**Impact of Hong Kong dollars**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Profit after tax/Retained earnings	**22,243**	22,185	**11,994**	69,769

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the carrying amounts of the Group's current financial assets, including trade and other receivables and bank balances and cash, and the Group's current financial liabilities, including bank borrowings, trade and other payables approximate their fair values due to their short maturities;
- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (including convertible bonds) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values:

	2010		2009	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds	**1,483,012**	**1,454,873**	1,442,153	1,478,230

The following table presents the carrying value of the Group's financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value of financial instruments *(Continued)*

2010	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Financial assets at fair value through profit or loss	**12,947**	**–**	**–**	**12,947**

2009	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss	12,209	–	–	12,209

There was no transfer between instruments in Level 1 and Level 2 for the year ended 31 December 2010 and 2009.

38. BUSINESS COMBINATIONS

For the year ended 31 December 2010

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

The net assets acquired in the acquisition of Jinan Geely are as follow:

	Carrying amount and fair value RMB'000
Net assets acquired:	
Property, plant and equipment	178,632
Prepaid land lease payments	212,833
Trade and other receivables	871,283
Inventories	2,866
Cash and cash equivalents	45,553
Trade and other payables	(661,139)
Bank borrowings	(470,000)
	180,028
Total consideration satisfied by:	
Cash	180,028
Net cash outflow arising on acquisition:	
Cash consideration paid	(180,028)
Bank balances and cash acquired	45,553
	(134,475)

The directors assessed that the differences between fair values and the carrying amounts of assets and liabilities are insignificant. No goodwill arose in the acquisition of Jinan Geely.

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

For the year ended 31 December 2009

Automatic transmissions business

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

38. BUSINESS COMBINATIONS *(Continued)*

For the year ended 31 December 2009 *(Continued)*

Chengdu Gaoyuan Automobile Industries Company Limited and Lanzhou Geely Automobile Industries Company Limited

On 27 October 2009, the Company entered into agreements with Zhejiang Geely Holding Group Company Limited to acquire 100% interests in Chengdu Gaoyuan Automobile Industries Company Limited ("Chengdu Gaoyuan"), Jinan Geely Automobile Company Limited and Lanzhou Geely Automobile Industries Company Limited ("Lanzhou Geely"). The acquisitions in Chengdu Gaoyuan Automobile Industries Company Limited and Lanzhou Geely Automobile Industries Company Limited were completed on 7 December 2009 and 8 December 2009 respectively. Details of the acquisitions have been set out in the Company's circular dated 17 November 2009.

The net assets acquired in the above transactions are as follows:

	Automatic transmissions business			Chengdu Gaoyuan and Lanzhou Geely			
	Carrying amount before combination RMB'000 (note 1)	**Adjustments** RMB'000 (note 1)	**Fair value** RMB'000	**Carrying amount before combination** RMB'000	**Fair value adjustment** RMB'000 (note 2)	**Fair value** RMB'000	**Total fair value** RMB'000
Net assets acquired:							
Property, plant and equipment	252,307	38,150	290,457	247,579	–	247,579	538,036
Intangible assets	–	13,475	13,475	43,908	–	43,908	57,383
Prepaid land lease payments	–	–	–	153,141	–	153,141	153,141
Trade and other receivables	43,082	17,497	60,579	578,163	–	578,163	638,742
Inventories	11,981	24,218	36,199	13,704	–	13,704	49,903
Cash and cash equivalents	–	–	–	100,977	–	100,977	100,977
Trade and other payables	(19,717)	(71,142)	(90,859)	(740,340)	–	(740,340)	(831,199)
Bank borrowings	–	–	–	(80,000)	–	(80,000)	(80,000)
Loan from a related company	–	–	–	(170,000)	–	(170,000)	(170,000)
Deferred taxation	6,043	(22,198)	(16,155)	–	–	–	(16,155)
	293,696	–	293,696	147,132	–	147,132	440,828
Goodwill (note 17)			–			6,222	6,222
			293,696			153,354	447,050
Total consideration satisfied by:							
Cash			293,696			153,354	447,050
Net cash outflow arising on acquisition:							
Cash consideration paid			(293,696)			(153,354)	(447,050)
Bank balances and cash acquired			–			100,977	100,977
			(293,696)			(52,377)	(346,073)

38. BUSINESS COMBINATIONS *(Continued)*

For the year ended 31 December 2009 *(Continued)*

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

Note 2: The directors assessed that the differences between fair values and carrying amounts of assets and liabilities are insignificant.

Goodwill arose because the consideration paid included amounts in relation to the revenue growth, future market development and the nature of the specialised industry of the businesses acquired.

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

39. BALANCE SHEET OF THE COMPANY

	2010 RMB'000	2009 RMB'000
Non-current assets		
Property, plant and equipment	**93**	103
Investments in subsidiaries	**293,697**	293,697
Investment in an associate	**97,788**	97,788
	391,578	391,588
Current assets		
Other receivables	**1,040**	960
Amounts due from subsidiaries	**3,887,129**	3,985,658
Bank balances and cash	**195,175**	199,274
	4,083,344	4,185,892
Current liabilities		
Other payables	**27,931**	11,009
Short-term borrowings	**17,600**	17,600
	45,531	28,609
Net current assets	**4,037,813**	4,157,283
Total assets less current liabilities	**4,429,391**	4,548,871
Capital and reserves		
Share capital	**139,279**	136,993
Reserves	**2,807,100**	2,969,725
Total equity	**2,946,379**	3,106,718
Non-current liabilities		
Convertible bonds	**1,483,012**	1,442,153
	4,429,391	4,548,871

40. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2010 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
Centurion Industries Limited	British Virgin Islands	USD1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
吉利國際貿易有限公司 Geely International Limited	Hong Kong	HK$2	100%	–	Inactive
浙江福林國潤汽車零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD15,959,200	–	100%	Research, production, marketing and sales of automobile parts and related components in the PRC
Linkstate Overseas Limited	British Virgin Islands	USD1	100%	–	Inactive
Luckview Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
帝福投資有限公司 Luck Empire Investment Limited	Hong Kong	HK$1	–	100%	Investment holding
DSI Holdings Pty Limited	Australia	A$54,563,403	100%	–	Design, development and manufacturing of automatic transmissions
上海英倫帝華汽車部件有限公司 Shanghai LTI Automobile Components Company Limited^	PRC	USD54,297,150	–	51%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC

40. SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
浙江金剛汽車零部件研究開發有限公司 Zhejiang Kingkong Automobile Parts & Components R&D Company Limited*	PRC	USD14,900,000	–	100%	Research and development of automobile parts and components in the PRC
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited^	PRC	USD330,715,081	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited^	PRC	USD121,363,600	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited#	PRC	RMB15,000,000	–	100%	Sales of automobile parts and components in the PRC
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited#	PRC	RMB20,000,000	–	100%	Marketing and sales of sedans in the PRC
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation#	PRC	RMB20,000,000	–	100%	Export of sedans outside the PRC

40. SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited#	PRC	RMB30,000,000	–	100%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited#	PRC	RMB10,000,000	–	100%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited#	PRC	RMB20,000,000	–	100%	Marketing and sales of sedans in the PRC
浙江陸虎汽車有限公司 Zhejiang Ruhoo Automobile Company Limited^	PRC	RMB418,677,000	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江金剛汽車有限公司 Zhejiang Kingkong Automobile Company Limited^	PRC	RMB413,000,000	–	91%	Research, development, production and sales of sedans and related automobile components in the PRC
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited#	PRC	RMB10,000,000	–	90%	Production of automobile components in the PRC

40. SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
湖南吉利汽車部件有限公司 Hunan Geely Automobile Components Company Limited^	PRC	USD88,516,570	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普汽車模具製造有限公司 Shanghai Maple Automobile Moulds Manufacturing Company Limited#	PRC	RMB40,000,000	–	100%	Production of moulds for automobile parts and components in the PRC
桂林吉星電子等平衡動力有限公司 Guilin Geely Stars Oil Electric Hybrid Engine Company Limited#	PRC	RMB80,000,000	–	70%	Research and development of electric hybrid engines in the PRC
浙江遠景汽配有限公司 Zhejiang Vision Auto-parts Fittings Company Limited#	PRC	RMB50,000,000	–	100%	Procurement of automobile parts and components in the PRC
浙江手拉手汽車服務有限公司 Zhejiang Shou La Shou Automobile Services Company Limited#	PRC	RMB5,000,000	–	100%	Sales of sedans and provision of automobile services
蘭州吉利汽車工業有限公司 Lanzhou Geely Automobile Industries Company Limited#	PRC	RMB120,000,000	–	100%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC

40. SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
成都高原汽車工業有限公司 Chengdu Gaoyuan Automobile Industries Company Limited#	PRC	RMB50,000,000	–	100%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普汽車設計有限公司 Shanghai Maple Automobile Design Company Limited#	PRC	RMB10,000,000	–	100%	Not yet commenced business
湖南羅佑發動機部件有限公司 Hunan Luoyou Engine Components Company Limited#	PRC	RMB33,300,000	–	100%	Not yet commenced business
曲阜凱倫汽車零部件製造有限公司 Qufu Kailun Automobile Parts and Components Manufacturing Company Limited#@	PRC	RMB20,000,000	–	50%	Research, development and production of automobile parts and components in the PRC
湖南吉盛國際動力傳動系統有限公司 Hunan Jisheng International Drivetrain System Company Limited#^	PRC	RMB15,868,200	–	100%	Not yet commenced business
濟南吉利汽車有限公司 Jinan Geely Automobile Company Limited#	PRC	RMB360,000,000	–	100%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC

40. SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
濟南吉利汽車零部件有限公司 Jinan Geely Automobile Parts and Components Company Limited#	PRC	RMB10,000,000	–	100%	Research, development, production, marketing and sales of related automobile components in the PRC
重慶DSI變速箱制造有限公司 Chongqing DSI Gearbox Manufacturing Company Limited#^	PRC	RMB16,000,000	–	100%	Not yet commenced business

* The Company's subsidiary in the PRC is wholly foreign-owned enterprise established for a period of 30 to 50 years.

^ The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30 to 50 years.

@ The Company has control over this subsidiary through contractual agreement with the non-controlling shareholder.

\# Translation of registered name in Chinese for identification purpose

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

41. POST BALANCE SHEET EVENTS

On 21 January 2011 the Company entered into an agreement with Zhejian Geely Holding Group Company Limited and its subsidiary for the acquisition of 100% interest in Ningbo Vision Automobile Parts and Components Company Limited ("Ningbo Vision") and Shandong Geely Gearbox Company Limited ("Shandong Geely") at cash considerations of RMB437.3 million and RMB20 million respectively. There is a further capital injection of RMB80 million for Shandong Geely immediately after the completion of its acquisition. As at the date of this report, the proposed acquisitions and the capital injection have been completed.

Ningbo Vision and Shandong Geely have not engaged in any operating activities at the acquisition date and the acquisitions were accounted for as purchases of assets and liabilities of which no goodwill was recognised.

The net assets acquired mainly comprise the following class of assets acquired and liabilities assumed, including property, plant and equipment, intangible assets, cash and bank deposits, trade and other receivables, inventories and trade and other payables of RMB414.3 million, RMB287 million, RMB10 million, RMB41 million, RMB1 million and RMB296 million respectively.

The Company also entered into an agreement with Zhejian Geely Holding Group Company Limited to purchase a land use right of a land located at Xiangtan City, in the Hunan Province of the PRC for a consideration in cash of RMB24.2 million.

Directory

Executive Directors:
Mr. Li Shu Fu *(Chairman)*
Mr. Yang Jian *(Vice Chairman)*
Mr. Gui Sheng Yue
(Chief Executive Officer)
Mr. Ang Siu Lun, Lawrence
Mr. Yin Da Qing, Richard
Mr. Liu Jin Liang
Dr. Zhao Fuquan
Ms. Wei Mei
(Appointed on 17 January 2011)
Mr. Zhao Jie
(Resigned on 15 September 2010)

Non-executive Director:
Mr. Wang Yang
(Appointed on 15 September 2010)
Mr. Xu Gang
(Resigned on 1 April 2010)

Independent Non-executive Directors:
Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

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

Remuneration Committee:
Ms. Wei Mei
(Appointed as Committee's Chairman on 17 January 2011)
Mr. Gui Sheng Yue
(Resigned from Committee's Chairman on 17 January 2011)
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex

Company Secretary:
Mr. Cheung Chung Yan, David

Auditors:
Grant Thornton Jingdu Tianhua

Legal Advisors on Hong Kong Law:
Sidley Austin

Legal Advisor on Cayman Islands Law:
Maples and Calder

Principal Bankers in Hong Kong:
Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited
CITIC Bank International Limited

Head Office and Principal Place of Business:
Room 2301, 23rd Floor,
Great Eagle Centre
23 Harbour Road, Wanchai,
Hong Kong
Telephone: (852) 2598 3333
Facsimile: (852) 2598 3399
Email: general@geelyauto.com.hk

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

Hong Kong Branch Share Registrars & Transfer Office:
Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place, 33 Lockhart Road,
Wanchai, Hong Kong.

Investor & Media Relations:
Prime International Consultants Limited

Design & Production:
HeterMedia Services Limited

Listing information:
The Stock Exchange of Hong Kong Limited
Stock Code: 0175

Company's Website:
http://www.geelyauto.com.hk

Designed & Produced by **HeterMedia Services Limited**

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

Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
香 港 灣 仔 港 灣 道 2 3 號 鷹 君 中 心 2 3 樓 2 3 0 1 室