安全
環保
節能

Annual Report 2011

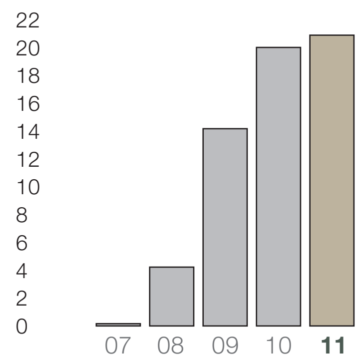
吉利汽車控股有限公司
GEELY AUTOMOBILE HOLDINGS LIMITED

(Stock Code : 0175)

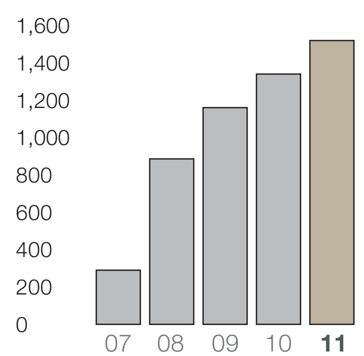
CONTENTS

KEY FIGURES

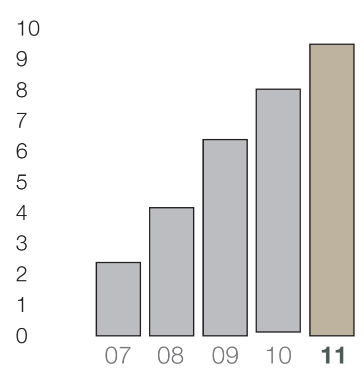
Turnover
(RMB'Billion)



Profit attributable to equity holders of the Company
(RMB'Million)



Equity attributable to equity holders of the Company
(RMB'Billion)



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

	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	**20,964,931**	20,099,388	14,069,225	4,289,037	131,720
Profit before taxation	**2,183,208**	1,900,323	1,550,460	917,922	307,373
Taxation	**(467,359)**	(350,612)	(231,432)	(51,869)	(1,606)
Profit for the year	**1,715,849**	1,549,711	1,319,028	866,053	305,767
Attributable to:					
Equity holders of the Company	**1,543,437**	1,368,437	1,182,740	879,053	302,527
Non-controlling interests	**172,412**	181,274	136,288	(13,000)	3,240
	1,715,849	1,549,711	1,319,028	866,053	305,767
Assets and liabilities					
Total assets	**27,596,758**	23,974,343	18,802,189	10,150,969	2,920,351
Total liabilities	**(17,446,643)**	(14,896,666)	(11,705,669)	(5,368,488)	(373,281)
Total equity	**10,150,115**	9,077,677	7,096,520	4,782,481	2,547,070
Represented by:					
Equity attributable to equity holders of the Company	**9,582,200**	8,021,882	6,375,613	4,197,862	2,343,845
Non-controlling interests	**567,915**	1,055,795	720,907	584,619	203,225
	10,150,115	9,077,677	7,096,520	4,782,481	2,547,070

	Formula	2011	2010 (Restated)	Change in Percentage Increase/ (Decrease)
For the year				
Turnover (RMB'000)		**20,964,931**	20,099,388	4
Profit attributable to equity holders of the Company (RMB'000)	(1)	**1,543,437**	1,368,437	13
Per share				
Basic earning per share (RMB Cents)		**20.72**	18.59	11
Diluted earning per share (RMB Cents)		**19.20**	17.15	12
Dividend per share (HK Cents)		**2.8**	2.6	8
NAV per share (RMB)	(2)/(5)	**1.28**	1.08	19
At year end				
Equity attributable to equity holders of the Company (RMB'000)	(2)	**9,582,200**	8,021,882	19
Total assets (RMB'000)	(3)	**27,596,758**	23,974,343	15
Borrowings (RMB'000)	(4)	**4,901,325**	4,141,993	18
Number of shares in issue	(5)	**7,457,460,450**	7,440,755,450	0
Share price during the year				
– High (HK$)		**3.90**	5.16	(24)
– Low (HK$)		**1.42**	2.29	(38)
Financial ratios				
Gearing ratio = (Borrowings/Equity attributable to equity holders of the Company)	(4)/(2)	**51.2%**	51.6%	(1)
Return on total assets	(1)/(3)	**5.6%**	5.7%	(2)
Return on equity attributable to equity holders of the Company	(1)/(2)	**16.1%**	17.1%	(6)

LETTER TO SHAREHOLDERS

The profit attributable to equity holders for 2011 was RMB1.54 billion, representing an increase of 13% over 2010, mainly helped by improved product mix, lower share-based payments to employees and faster growth in subsidy incomes. Excluding non-cash expenses related to share-based payments to employees, underlying profit attributable to shareholders increased by 2% to RMB1.68 billion.

Business Overview

Growth in China's sedan market slowed down considerably in 2011 after two exceptionally strong years in 2009 and 2010, principally driven by the Chinese Government's short-term stimulation programme to promote economy sedans in a bid to sustain economic growth in China. The expiration of the automobile stimulation programme at the end of 2010 and tighter monetary policy in China combined to suppress demand for economy sedans in China. Despite these, the Group successfully overcame these challenges and continued to achieve solid growth in 2011. With a new focus on quality and sustainable growth, the Group continued to implement major structural changes during the year, changing management structure from product line management to product brand management, thus further optimizing operating efficiency, enhancing brand and product image, and improving customers' services. While the growth of the Chinese sedan market slowed down significantly in 2011, recovery in our major export markets continued throughout the year, resulting in an encouraging 93% growth in our export volume to 39,600 units in 2011.

The Group sold a total of 421,611 units of sedans in 2011, up 1% from 2010, of which 9% or 39,600 units were sold abroad, up 93% from last year. In the Chinese market, the Group's sales volume was down 3% from 2010 to 382,011 units in 2011, mainly due to slower sales of older, smaller sized and cheaper models. As a result, sales volume at both GLEagle division and Englon division decreased 11% and 5% respectively from 2010. Sales volume at Emgrand division, which featured the Group's newer and higher-priced models, however, grew 47% to 106,676 units, accounting for 25% of the Group's total sales volume.

Financial Review

Overall, the Group's performance in 2011 remained satisfactory with total revenue increased by 4% to RMB21.0 billion for the year ended 31 December 2011. Profit attributable to the equity holders of the Company grew faster by 13% to RMB1.54 billion. The 2011 results were despite the start-up costs of the new automatic transmissions plants in Xiangtan, the still small scale production at 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. The Group's product mix continued to improve in 2011. Our flagship mid-size sedan model "EC7", which is retailing at RMB75,800 to RMB109,800, has become the Group's most popular model in terms of sales volume. Total net profit of the Group was up 11%

from RMB1.55 billion in 2010 to RMB1.72 billion in 2011. After non-controlling interests, net profit attributable to shareholders of the Company was up 13% from RMB1.37 billion in 2010 to RMB1.54 billion in 2011. Despite heavy investments in new and upgraded capacity, new models and technologies, and new brand and distribution channel development, the Group's financial position stayed at healthy level with net debt to equity ratio at a comfortable 16% at the end of 2011.

Dividend

The Board recommends the payment of a final dividend of HK2.8 cents per share for 2011 (2010: HK2.6 cents).

Prospects

There has been sign of recovery in China's sedan market since the end of 2011. With the 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. Assuming the recovery continued in the remainder of the year, combined with more new product launches and addition of more upgraded production facilities, the Group is well positioned to achieve faster growth in 2012. Against a background of continuing growth in China's automobile market and an obvious surge in demand for affordable vehicles in our major export markets, I believe 2012 would be a fruitful year for the Group.

Key challenges to the Group in 2012 include increased competitive pressure from other indigenous brands in China, which has grown rapidly over the past few years. The emergence of increasing number of joint-venture indigenous brands in China is also expected to create additional competition in China's sedan market by offering more affordable vehicles with good design and quality to the China market. Some disruption to operations could happen as the Group started to implement a new management system and structure in 2011, shifting management of the Group through individual brand companies rather than product lines, aiming to speed up the Group's response to changes in market conditions and significantly enhance the Group's operating efficiency, and thus its competitiveness. Motor vehicles sales in most parts of the World market remains fragile given the high level of uncertainties 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, general consumer perception over the Group's product brands and vehicles has continued to improve over the past few years, after major investment and effort by the Group in enhancing product quality and after sales services. The commencement of production of automatic transmissions at our plant in Xiangtan at the end of 2011 has enabled the Group to offer more sedan models equipped with automatic transmissions in the near future. Our other focus in 2012 is to further expand our export sales, which remain at small scales at the moment, but offer huge growth potential for the Group's products over longer-term.

To facilitate the cooperation between the Group and Volvo Car Corporation ("Volvo Car"), which is majority owned by the Group's parent, the "Volvo-Geely Dialogue and Cooperation Committee" was set up in November 2010. After several rounds of discussion, I am pleased to inform you that both companies had fixed the general direction and framework of the cooperation and had identified the projects and areas that both companies could work together. I am confident that the cooperation between Volvo Car and the Group could further strengthen the Group's competitiveness in the future.

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 2011 and to our shareholders for their continued support.

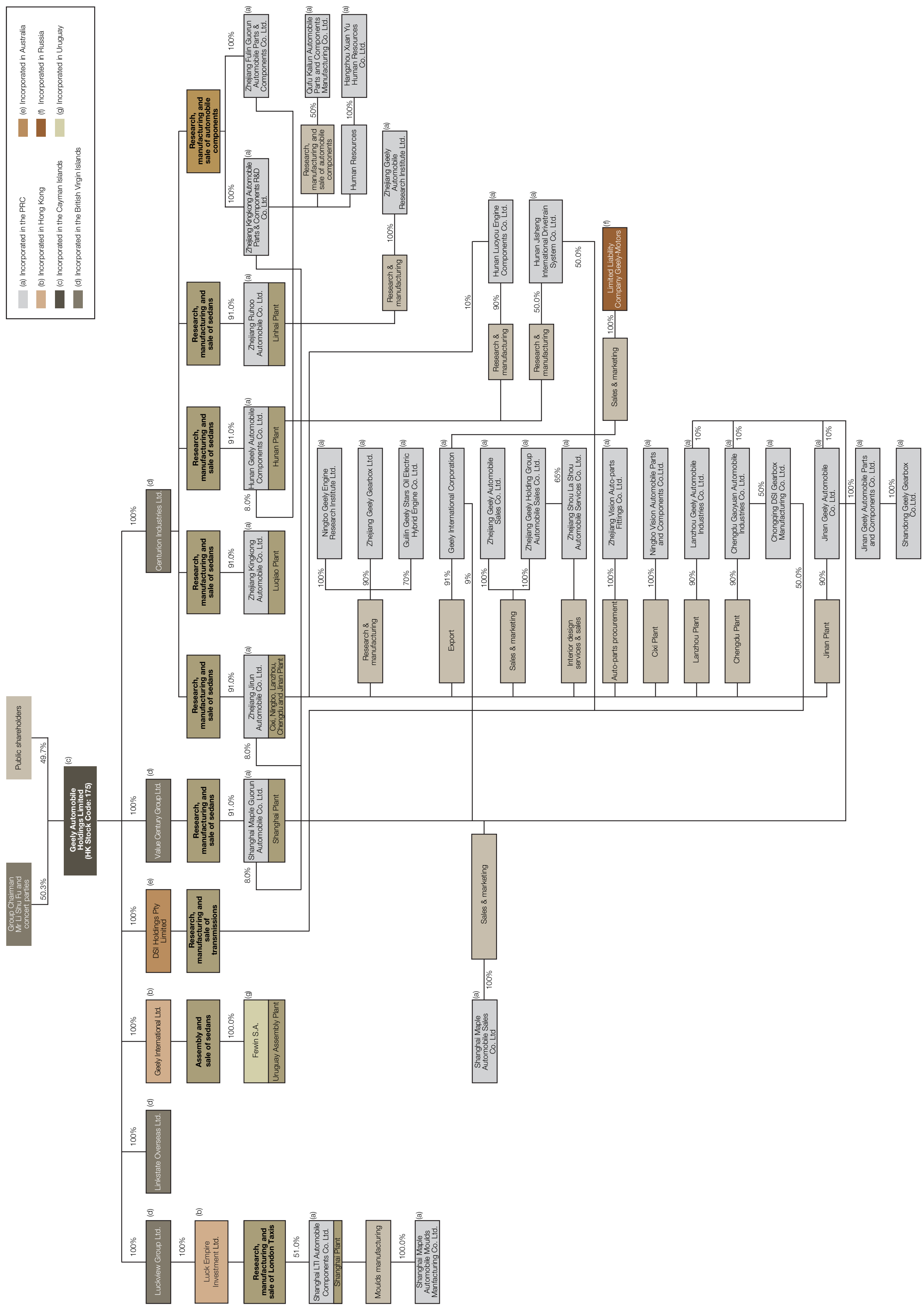
Li Shu Fu
Chairman

22 March 2012

Management Report

ORGANISATION CHART

(At 31 December 2011)



Management Report

PERFORMANCE & GOVERNANCE

GLEagle GC7

Emgrand EC7

Englon SC3

Overall Performance

The Group sold a total of 421,611 units of vehicles in 2011, similar to the level achieved in 2010. This compared with a 6.6% growth in China's sedan sales volume, and a 2.5% growth in China's overall motor vehicle sales volume during the same period. Total revenues grew by 4% from RMB20.1 billion in 2010 to RMB21.0 billion in 2011, as a combined result of 4.6% growth of sales revenue of vehicles and 0.4% growth in the sales revenue of parts and components. The Group's profit attributable to the equity holders was up 13% to RMB1.54 billion in 2011, as a result of improved product mix, lower share-based payments to employees and higher subsidy incomes.

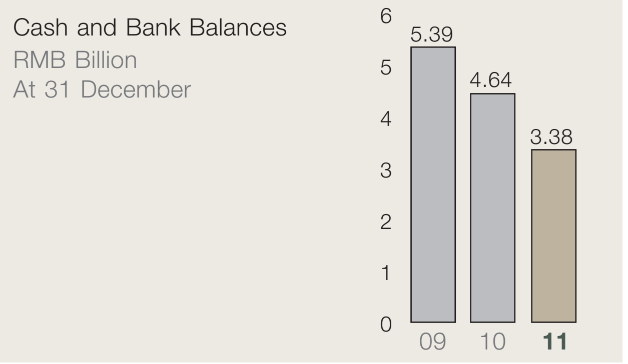
Acquisition of Additional Stakes in Key Operating Subsidiaries

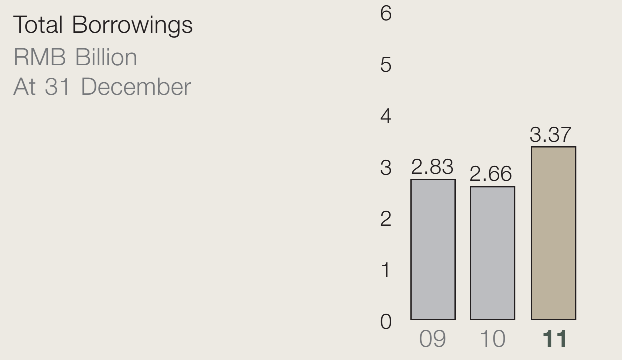
To further streamline its corporate structure and to increase its share of results of its key business of manufacturing and sales of automobile and automobile parts, the Group agreed to acquire an additional 8% stakes in each of its five key operating subsidiaries: Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple Guorun"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong"), Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") and Hunan Geely Automobile Components Company Limited ("Hunan Geely") 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 RMB817 million in cash. The consideration was determined with reference to the net asset values of the 8% stakes in each of these five operating subsidiaries as at 30 September 2011. The acquisition was completed in phases from the end of December 2011 up to February 2012 and was funded by the Group's cash reserves. After the acquisition, the Group's interests in these operating subsidiaries were increased from 91% to 99%.

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 for the Group amounted to about RMB2 billion in 2011, 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) increased by about RMB1,066 million during 2011 to reach RMB1,458 million at the end of 2011 as a combined result of higher revenues during the year and thus higher notes receivable, at the end of 2011, and the higher inventories to secure supply of vehicles ahead of the peak season in January 2012. As a result, the Group's total cash level (cash and bank balances + pledged bank deposits) decreased by 27% to RMB3,384 million, while its total borrowings increased by 27% to RMB3,375 million. These, combined with total convertible bonds outstanding at RMB1,527 million, resulted in a net debt position at RMB1,517 million at the end of 2011 versus a net cash of RMB494 million a year ago. Despite this, the Group's net debt to equity ratio stood at a healthy level of 16% at the end of 2011.





Budgeted capital expenditures of the Group amount to about RMB1 billion in 2012, 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 Cixi plant, the Jinan plant, the Xiangtan plant, the Chengdu plant, the Lanzhou plant and the Ningbo plant, and the financing of the construction of new production facilities for automatic transmissions at Chongqing and Jining of Shandong province. 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

The Group sold a total of 421,611 units of vehicles in 2011, slightly above the level achieved in 2010. Strong demand for mid and larger-size sedan models like Emgrand "EC7" and "EC8" and a rapid increase in exports more than offset the drop in the sales of older models like "Free Cruiser" and "Vision". The Group's domestic sales volume in 2011 was down 3% from the previous year to 382,011 units, compared with the 6.6% increase in the sales volume of China's overall sedan market during the same period. Exports sales volume recovered strongly and was up 93% to 39,600 units and accounted for close to 10% of the Group's total sales volume in 2011.

The Group conducts its business in China under three independent brand divisions: "GLEagle", "Emgrand" and "Englon", all of which equipped with their own management teams, production facilities and distribution network. At the end of December 2011, the Group's three independent sales networks in China comprised a total of 976 shops, including 570 exclusive franchisee stores and 406 4S stores. In the exports markets, the Group still markets its products under "Geely" brand and sells its products through 63 sales agents and 351 second tier shops in 52 countries.

Amongst the Group's three brand divisions in China: "GLEalge", "Emgrand" and "Englon", "GLEagle" branded vehicles remains the most important in terms of sales volume and accounted for 42% of the Group's total sales volume in 2011. "Emgrand" branded vehicles, however, achieved the fastest growth in sales volume in 2011.

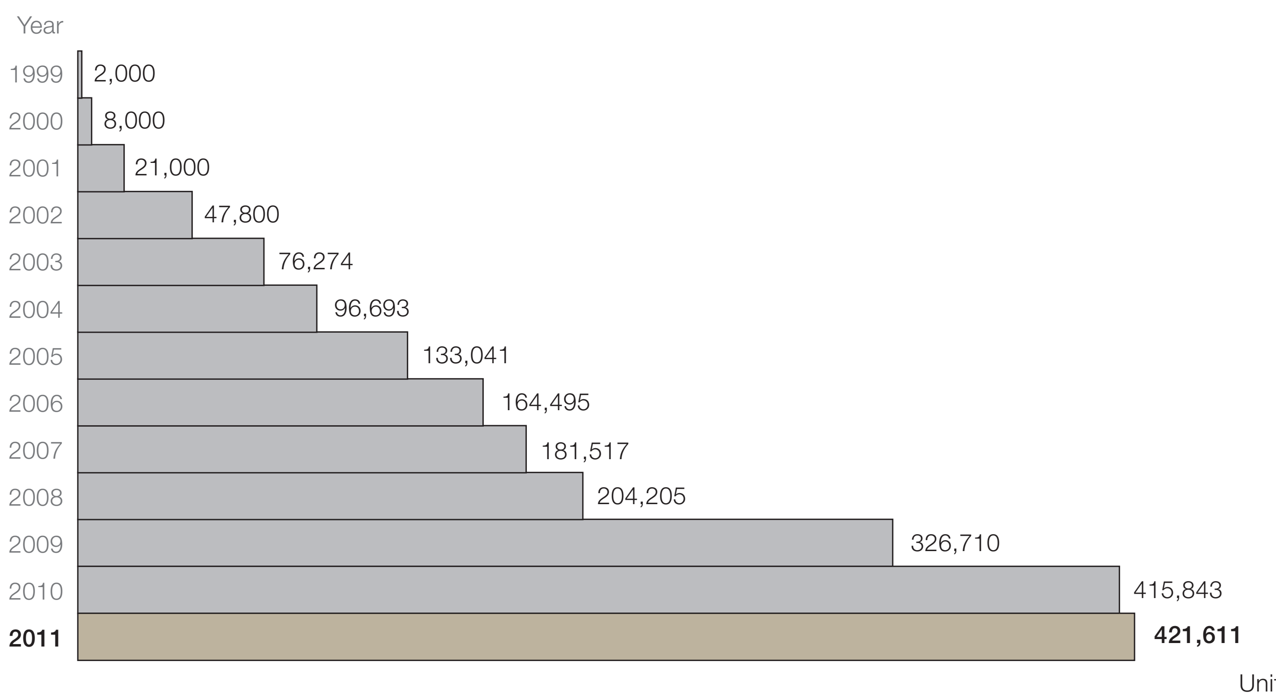
Management Report
PERFORMANCE & GOVERNANCE

Demand for Emgrand "EC7" continued to be very strong, making the model the Group's best selling model in 2011, accounting for 22% of the Group's total sales volume during the period. This was despite the major demand constraints caused by the lack of AT (automatic transmissions) versions during the period and the shortage of supply caused by the capacity constraints at Ningbo plant II, where EC7 is produced. Sales volume of "Free Cruiser" and "Vision", both grouped under "GLEagle" brand, however, declined by 13% and 19% respectively, ahead of the planned launches of their upgraded models.

Despite of the Group's first entry into the large size sedan market, Emgrand "EC8" continued to receive good market response, achieving an average monthly sales volume of close to 1,300 units in 2011. Demand for "EC8" started to pick up at the beginning of 2012 with a monthly sales volume of over 2,200 units in the first two months of 2012. As a result of the continued positive shift in product mix during the period, driven by the strong sales volume growth of "EC7", the Group's ex-factory average sales price improved further to RMB46,153 per unit in 2011, up 3% from last year.

In 2011, Emgrand "EC8" achieved a 5-star rating with high scores (49.6 points) in C-NCAP crash test, making it one of the best scoring models amongst the 150 models ever tested by C-NCAP. This is after Geely "Panda" achieved a 5-star rating (45.3 points) in the C-NCAP crash test in 2009 and after the Group's Emgrand "EC-7" achieved a 5-star rating (46.8 points) in the C-NCAP crash test in 2010. The Group's achievements in upgrading the safety standards of its vehicles were further endorsed by Euro NCAP in November 2011, when the Group's Emgrand "EC7" received a 4-star rating in crash-tests organized by Euro NCAP, making it the highest rated vehicles from China rated by the organisation.

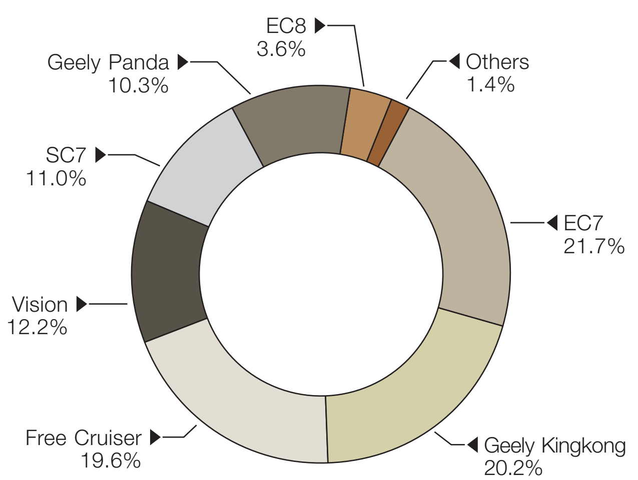
Annual Sales Volume



The Three Brand Divisions in China

Brand	Models	2011 Sales Volume	Number of Shops At end 2011
GLEagle	Free Cruiser Geely Panda Vision GX2 GC7 GX7	177,730	336
Emgrand	EC7 EC7-RV EC8	106,676	245
Englon	Kingkong TX4 SC7 SC5-RV	137,205	395

Breakdown of Sales Volume by Models in 2011



Models	Sales Volume (Unit)
EC7	91,693
Geely Kingkong	84,969
Free Cruiser	82,702
Vision	51,478
SC7	46,349
Geely Panda	43,250
EC8	14,983
Others	6,187
Total	**421,611**

Management Report

PRODUCTION PLANTS

The Group started the mass production of its new 6-speed automatic transmissions at its new plant in Xiangtan in August 2011. The new automatic gearbox was first installed in the Group's new mid-size model: GLEagle "GC7", which was launched in the China market in December 2011. Market response to "GC7" and its new 6-speed automatic transmissions has been encouraging so far. The Group will gradually expand the production volume of the automatic gearboxes in its Xiangtan plant and plans to install the automatic transmissions in other mid-size models of the Group in 2012. In addition to Xiangtan plant, which has an annual production capacity of 100,000 units per shift, the Group is building another two plants for automatic transmissions in Jining, Shandong province and Chongqing city.

In 2011, the Group had achieved its overall quality control targets by reducing the amount of warranty claims per car and lowering the product defect rates considerably. To further enhance the quality of the Group's products, the Group and Geely Holding Group set up close to 20 automobile parts joint-ventures with major international automobile parts manufacturers like Faurecia of France, Visteon of USA, Hsin Chong of Taiwan, Yazaki and Tachi-S of Japan, and Mando of Korea.

Existing Production Facilities

Name	Interests	Usable Annual Production Capacity (Units Per Shift)	Models
Linhai plant	99.0%	75,000	GLEagle Panda (1.0L, 1.3L)
Luqiao plant	99.0%	100,000	Englon Kingkong (1.5L) Englon SC5 (1.5L)
Ningbo plant	99.0%	160,000	Free Cruiser (1.3L, 1.5L) Emgrand EC7 (1.8L) Emgrand EC7-RV (1.5L, 1.8L)
Lanzhou plant	99.0%	25,000	Free Cruiser (1.3L, 1.5L)
Xiangtan plant	99.0%	50,000	Vision (1.5L, 1.8L) GLEagle GC7 (1.8L)
Shanghai plant (Phase II)	99.0%	60,000	Englon SC7 (1.5L, 1.8L)
Shanghai plant (Phase I) (Lessee: Shanghai LTI)	99.0% 51.0%	10,000	TX4 (2.4L, 2.5L diesel)
Jinan plant	99.0%	60,000	EC8 (2.0L, 2.4L)
Chengdu plant	99.0%	60,000	GX7 (1.8L)
	Total	**600,000**	

NEW PRODUCTS

In the coming year, the Group plans to launch the following new models:

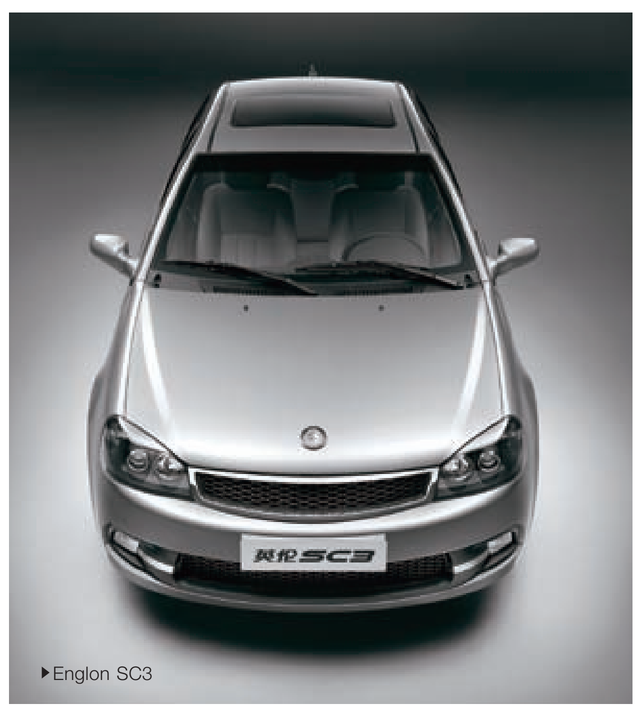
GLEagle Brand:	
1.	"GC7" mid-size sedan
2.	"GX7" mid-size SUV
Emgrand Brand:	
1.	"EX8" mid-size SUV
2.	"EV8" MPV
Englon Brand:	
1.	"SC3" economy sedan
2.	"SX7" SUV
3.	"SC6" basic sedan

In addition, the Group plans to introduce new version of "EC7" and "EC8" equipped with new engines and new transmissions, and upgraded version of "Free Cruiser", "Geely Panda", "Vision", "SC5-RV" in 2012. A new and more sophisticated 6-speed manual gearbox will be put into production and first installed in "GC7" and "Vision" models. The Group's new 6-speed automatic gearbox was first installed in "GC7" and was launched at the end of last year. The new automatic gearboxes will be installed in more models like "SC7", "GX7" and "SX7" in 2012. The Group also plans to offer CNG ("Compressed Natural Gas") engines for "EC7", "Kingkong" and "SC7" in 2012.

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 new models planned for 2012 should be able to demonstrate significant improvement in their design, quality and safety.


GLEagle GX7

Emgrand EX8


Englon SC3

Management Report

Exports

The Group exported 39,600 units of sedans in 2011, up 93% from 2010, and accounted for 9% of the Group's total sales volume. The Group's share of China's total exports of sedans decreased slightly from 11.5% in 2010 to 10.6% in 2011. "Geely KingKong", "Geely Panda", "Free Cruiser" and "EC7" were the most popular export models in terms of sales volume in 2011, which together accounting for 87% of the Group's total export sales volume during the period. Developing countries in Eastern Europe, Middle East and Central and South America remained the most important markets for the Group's exports. Amongst which, the most important export destinations in terms of sales volume were Ukraine, Russia, Saudi Arabia, Iraq and Chile.

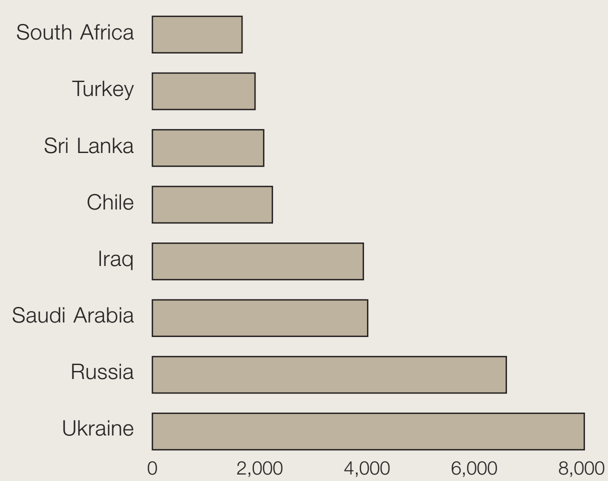
The Group's exports performance continued to improve in 2011, with monthly export volume averaging 4,369 units in the second half of 2011, significantly higher than the average monthly export volume of 2,231 units in the first half of the year. Average monthly export volume improved further to 5,500 units in the first two months of 2012. This, together with the major effort to restructure the Group's export channels and to open up new markets, should bode well for continued strong growth in the Group's export volume in 2012.

At the end of 2011, the Group exported its products to 52 countries through 63 sales agents and 351 second tier shops in these countries. The Group also assembles some models sold overseas using contract manufacturing arrangements with local partners in Russia, Ukraine, Indonesia, Taiwan and Egypt, Sri Lanka, Ethiopia and Iraq.

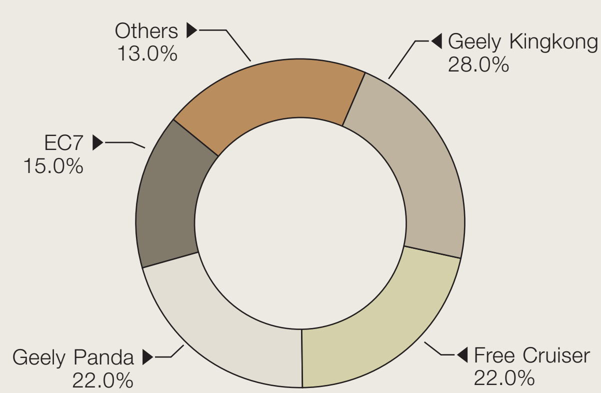
Compliance with Government Regulations

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. Production of some models in compliance with "Euro V" emission standards is scheduled to start in 2012.

Top Export Destinations in 2011



Breakdown of Export Volume by Models in 2011



DSI Holdings Pty Limited ("DSIH")

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). DSIH's net profit after tax was A$2.0 million on revenue of A$134 million for the year ended 31 December 2011. DSIH manufactured and sold about 75,000 sets of automatic gearboxes in 2011, as a result of a better-than-expected sales volume growth of 6-speed Front-wheel-drive (FWD) automatic gearboxes to its current customers.

In 2012, there exist both challenges and opportunities for DSIH and its joint ventures with other members of the Group in China: newly applied fuel consumption standards in China could prompt some recently developed customers to re-consider their launching schedule in order to ensure the compliance of their products with the new standards. This should result in some delay of the originally planned sales to these customers. In view of the rapid growth of demand for more fuel efficient automatic transmissions in China, DSIH, together with its joint ventures in China, have initiated the development of a lighter 6-speed automatic gearbox. In addition, DSIH's success in localisation of some 30 major components in China should make its products more competitive going forward and should allow the company to serve its customers more efficiently in the future.

Despite the challenges and the initial costs related to its new manufacturing base in China, DSIH remains positive towards its business prospects in the future. DSIH has established strong capabilities in localisation of components in China. This should enable the company to improve the cost competitiveness of its products, and thus allow it to develop new customers in China more efficiently. The first joint venture of DSIH in China – Hunan Jisheng International Drivetrain System Co., Ltd. ("Hunan Jisheng") – started mass production in August 2011. Another joint venture in Chongqing and 100%-owned plant in Jining of Shandong Province will also be launched in the coming years. Also, Hunan Jisheng is currently working with a number of third party car manufacturers for the supply of automatic transmissions to these customers.

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 lower cost and for the production of other higher-end saloon cars for sale to the domestic and the world market. In addition, Shanghai LTI started to supply SKD kits and components to MBH for the assembly of TX4 models for sales in the UK market in November 2010.

Shanghai LTI sold a total of 2,220 vehicles and SKD kits in 2011, up 115% from 2010. Most of TX4 vehicles from Shanghai LTI were exported to overseas countries. Demand for TX4 has been below the original expectations due to the lack of petroleum automatic transmissions version, which is important for generating demand in market outside Europe, and the continued difficult UK trading condition. As a result, Shanghai LTI continued to operate below the breakeven level and recorded a net loss of RMB21 million on revenue of RMB175 million in 2011. The management at Shanghai LTI is reviewing different alternatives to expand the sales volume of TX4 models in both the China and oversea markets, aiming at improving the company's profitability in the near future.

What Next?

With the significant improvement in brand image, product and service quality, the Group's overall competitiveness has strengthened significantly over the past few years, thus putting the Group in a much stronger position to meet any new market challenges in the future. Major investments in upgraded production facilities, new product platforms, and sophisticated technologies like automatic transmissions should have enabled the Group to achieve sustainable growth in the longer-term. As a result of the effort spent by the Group in the past few years to 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.

Motor vehicle sales in most parts of the world market have been weakening since last year and have shown little sign of improvement so far this year. In view of the high level of uncertainties in most of the major economies, and the possible slower economic growth and continued tight monetary policy in China, the Group's management team decided to maintain its conservative stance, implementing more stringent cost control and more cautious capital investment strategy. As a result, the Group's Board of Directors set our 2012 sales volume target at 460,000 units, up 9% from 2011, which is slightly higher than the level of projected growth of China's sedan market by the China Association of Automobile Manufacturers.

Management Report

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 and fund raising exercises in the capital market. As at 31 December 2011, the Group's shareholders' funds amounted to approximately RMB9.6 billion (As at 31 December 2010: approximately RMB8.0 billion). The Company issued around 16.7 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 the Group's assets and liabilities are mainly denominated in Renminbi, the functional currency of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group's current ratio (current assets/current liabilities) was about 1.13 (As at 31 December 2010: 1.33 (restated)) and the gearing ratio of the Group was about 51.2% (As at 31 December 2010: 51.6%) which was calculated on the Group's total borrowings to total shareholders' equity. As at 31 December 2011, 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 healthy net debt level, 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 2011. 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 2011, the Group had to prepay these inventories to its suppliers towards the end of 2011. 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 2011, the receipts in advance from customers represented almost 18% (As at 31 December 2010: 23%) of the total current liabilities. Accordingly, the net effect of the above resulted in a decrease in current ratio at the end of year 2011 over the previous year.

Total borrowings (excluding trade and other payables) as at 31 December 2011 amounted to approximately RMB4.9 billion (As at 31 December 2010: approximately RMB4.1 billion) were mainly the Company's convertible bonds and bank borrowings. For the Company's convertible bonds, they are unsecured, interest-bearing and repayable on early redemption or maturity. For the bank borrowings, they are mostly secured, interest-bearing and repayable on maturity. The slight 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 2011. 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 2011, the total number of employees of the Group was about 17,288 (As at 31 December 2010: 17,102). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Li Shu Fu, aged 48, joined the Group on 9 June 2005 as the Chairman and Executive Director, and is responsible for the overall strategic planning, board leadership, corporate governance and formulation of the corporate policies of the Group. Mr. Li holds a Master's 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, a controlling shareholder of the Company). Geely Holding and its subsidiaries are principally engaged in the manufacturing and sales of automobiles in the PRC. Mr. Li has over 25 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 organisation in China.

Mr. Yang Jian, aged 50, joined the Group on 9 June 2005 as an Executive Director, and is responsible for assisting the Chairman in board leadership and corporate governance of the Group. Mr. Yang is also the chairman of the five 99%-owned key operating subsidiaries of the Group, namely, Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun"), 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 and holds Senior Economist and Senior Engineer designations. 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 in the PRC. Mr. Yang was appointed as the Vice Chairman of the Board with effect from 1 July 2008.

Mr. Gui Sheng Yue, aged 48, joined the Group on 9 June 2005 as an Executive Director and is responsible for the overall administration, risk management and compliance of the Group. He is also the chairman of DSI Holdings Pty Limited, a wholly-owned subsidiary of the Company. Mr. Gui has over 25 years of 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 Xi'an Jiaotong University and a Master's 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 51, joined the Group on 23 February 2004 as an 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. Liu Jin Liang, aged 47, joined the Group on 9 June 2005 as an Executive Director. Mr. Liu is responsible for the domestic motor vehicles sales, development of customer service and brand management, and domestic and international logistics management of complete buildup units (CBUs). Mr. Liu is also a vice president of Geely Holding. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial enterprise 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 15 years of experience in sales and marketing of motor vehicles, brand building, development of logistics management, development of customer service and enterprise operation management in China.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Dr. Zhao Fuquan, aged 48, joined the Group on 17 November 2006 as an Executive Director. Dr. Zhao is also a vice president of Geely Holding, head of Zhejiang Geely Technology Centre, president of Zhejiang Geely Automobile Research Institute Limited and president of Zhejiang Automotive Engineering Institute. Dr. Zhao was granted a Doctorate in Engineering Science from Hiroshima University in Japan and had years of on-the-job working 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. 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.

Ms. Wei Mei, aged 43, joined the Group on 17 January 2011 as an Executive Director. Ms. Wei is a 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's Degree in Management and a Bachelor's 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.

Mr. Li Dong Hui, Daniel, aged 42, joined the Group on 23 May 2011 as an Executive Director. Mr. Li is a vice president and CFO of Geely Holding since April 2011 and is responsible for the overall strategic planning on the Group's finance, investments and financing activities. Mr. Li is also a director of DSI Holdings Pty Limited, a wholly-owned subsidiary of the Company. Mr. Li has extensive professional and senior managerial experiences with both the PRC and sino-foreign multinational companies, particularly in the fields of accounting management, financing structure, strategic planning and business development. Prior to joining Geely Holding, he held key finance and accounting management positions as vice president, CFO, general manager and business development director in the PRC companies including Guangxi Liugong Machinery Company Ltd. (2010), Danfoss (Tianjin) Ltd. (1996) and China Academy of Post and Telecommunication (1991), and sino-foreign multinational companies including headquarter of Cummins Inc., and its China Division (2006-2009), BMW Brilliance Automotive Ltd (2001-2005), ASIMCO Braking System (Guangzhou) Co., Ltd. and ASIMCO Braking System (Zhuhai) Co., Ltd. (1997-2001). Mr. Li graduated from the Kelley School of Business of Indiana University in the USA with a Master's Degree in Business Administration in 2010 and graduated from the Beijing Institute of Machinery in the PRC with a Master's Degree in Management Engineering with a major in Financial Management in 1997. Also, Mr. Li graduated from the Renmin University of China in the PRC with a Bachelor's Degree in Philosophy in 1991. Mr. Li is also a non-executive director of Manganese Bronze Holdings Plc (London Stock Exchange Code: MNGS).

Mr. An Cong Hui, aged 42, joined the Group on 30 December 2011 as an Executive Director, and is responsible for the overall administration of the Group. Mr. An has been a vice president of Geely Holding since 2003, and has been appointed as the president of Geely Holding with effect from 29 December 2011. Mr. An is currently a director of the principal operating subsidiary, namely Zhejiang Jirun, and certain subsidiaries of the Group. Mr. An was previously in charge of the overall operation under the "Emgrand" brand line following the implementation of multi-brand strategy by the Group and production of gearboxes, engines and drivetrain systems of the Group. Mr. An has extensive professional knowledge and senior managerial experience in the automotive industry, particularly in the field of automotive engineering. He joined Geely Holding since 1996 after graduation from the Hubei University of Economic and Management with a Diploma in Contemporary Accounting. From 1996 to now, Mr. An has held various key positions in Geely Holding including chief engineering officer and general manager.

NON-EXECUTIVE DIRECTORS

Mr. Yin Da Qing, Richard, aged 62, joined the Group on 9 June 2005 as an Executive Director and he has been re-designated to a Non-executive Director of the Company with effect from 30 December 2011. Mr. Yin has about 40 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. Wang Yang, aged 37, joined the Group as a 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 49, joined the Group as an 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) between the periods from 23 August 2003 to 8 July 2010 and 29 April 2011 to 20 October 2011. 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 41, joined the Group as an 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 19 years of experience in accounting and auditing field. Mr. Lee is an independent non-executive director of Tiangong International Company Limited (HK Stock Code: 826). He was an executive director of both Guojin Resources Holdings Limited (HK Stock Code: 630) and AMVIG Holdings Limited (HK Stock Code: 2300) and a non-executive director of Kam Hing International Holdings Limited (HK Stock Code: 2307).

Mr. Yeung Sau Hung, Alex, aged 62, joined the Group as an 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 of 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Fu Yu Wu, aged 67, joined the Group as an Independent Non-executive Director on 30 December 2011. Mr. Fu has been the executive vice president and secretary-general of Society of Automotive Engineers of China since 1999. Mr. Fu has extensive professional and management experience in the automotive industry, particularly in the field of automotive engineering. He joined FAW Group immediately after his graduation from the Department of Machinery of the Beijing Institute of Machinery (currently known as Beijing Information Science & Technology University) with a Bachelor's Degree in Machinery in 1970. From 1970 to 1990, Mr. Fu served the Harbin Transmission Factory of FAW Group in various key engineering positions, including assistant director, executive vice director and chief engineer. From 1990 to 1999, Mr. Fu worked at the Harbin Automotive Industry Corporation as vice president and was later promoted to the position of president.

SENIOR MANAGEMENT

Mr. Zhang Yi, Ian, aged 49, joined the Group on 1 March 2010 and is responsible for risks assessment and internal control in China operations of the Group. Mr. Zhang holds a Bachelor of Engineering Degree with a major in Internal Combustion Engine from Xi'an Jiaotong University and a Master's Degree in Business Administration from Sino-Canadian Joint MBA Program. Prior to joining the Group, Mr. Zhang worked in various senior management positions with 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 57, 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's 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 36, joined the Group as the Financial Controller and Company Secretary on 17 May 2005. He is also a director of DSI Holdings Pty Limited, a wholly-owned subsidiary of the Company. 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 14 years of experience in auditing, accounting and financial management.

CORPORATE GOVERNANCE REPORT

Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "We") continue to strive for a high standard of corporate governance with an emphasis on upholding a strong and balanced board of directors of the Company (the "Board") and maintaining a transparent and creditable communication channel with the shareholders of the Company (the "Shareholders").

In 2011, save for code provision E.1.2, the Company complied with all of the code provisions ("CPs") and adopted some of the recommended best practices ("RBPs") of the Code on Corporate Governance Practices (collectively the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") promulgated by the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(A) CORPORATE GOVERNANCE DEVELOPMENT PROGRESS

We believe that a good corporate governance system and structure would enhance both business performance and Shareholder value of the Company. Besides endeavoring to achieve a high level of corporate governance, we commit to maintaining sustainable development and growth, and to enhancing our corporate governance framework and business practices.

For the year ended 31 December 2011, we strengthened our corporate governance standard mainly by the following measures:

Items accomplished

1. Granted the Internal Audit Charter as internal practice guidance
2. Accomplished the second phase of the development of internal control system
3. Comprehensively reviewed and early adopted the amendments to the Code which have been made effective on 1 January 2012
4. Established the Nomination Committee of the Board with reference to the Code
5. Continued to make contributions towards corporate social responsibility activities to become a top corporate citizen in a pragmatic manner
6. Continued to provide professional training to directors and senior management
7. Published the "Shareholders' Communication Policy" and "Memorandum & Articles of Association" on the Company's website
8. Expanded the scope of disclosure on internal control and risk management

Future plans

1. Establish an effective whistle-blowing mechanism
2. Strengthen and optimize the risk-based internal control system
3. Periodically review the Company's existing corporate governance practices and consider for adoption of more RBPs to achieve excellence in corporate governance with public recognition
4. Separately prepare the internal control and risk management report and corporate social responsibility report

CORPORATE GOVERNANCE REPORT

The paragraphs below describe how the Code is applied and give considered reasons for deviations, if any, from the Code.

(B) DIRECTORS

The Board

The Company is being headed by the Board effectively through its strong leadership in the strategic orientations and balanced control over the overall management of the business operations as delegated to the management from time to time as required by its business needs. The Board members take decisions objectively in the best interests of the Company and Shareholders as a whole and are collectively responsible for directing and supervising the Company's affairs.

The Listing Rules require the Board to include at least three independent non-executive directors and one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Board comprises four independent non-executive directors, namely Mr. Lee Cheuk Yin, Dannis (a member of American Institute of Certified Public Accountant), Mr. Song Lin, Mr. Yeung Sau Hung, Alex and Mr. Fu Yu Wu. In addition, the Company's strict compliance with all of the CPs (save for CP E.1.2) and adoption of some of the RBPs in the period under review are summarized in the following paragraphs.

Composition of the Board

As at 31 December 2011, the Board comprised 9 executive directors, 2 non-executive directors and 4 independent non-executive directors, whose names are expressly identified by category in corporate communications of the Company.

The following illustrates the membership and structure of the Board and the three Board committees as at 31 December 2011 (the Company has maintained on its website (http://www.geelyauto.com.hk) and on the Stock Exchange's website (http://www.hkexnews.hk) an updated list of its directors identifying their role and function and whether they are independent non-executive directors for Shareholders' inspection if they so wish):

Name of Directors	Position(s)	Date of Initial Appointment	Date of Last Re-election	Major duties/experience/skills
Mr. Li Shu Fu	Chairman, ED[1]	9 June 2005	18 May 2011	Directs overall corporate strategic direction, board leadership and corporate governance of the Group
Mr. Yang Jian	Vice Chairman, ED[1]	9 June 2005	25 May 2010	Assists the Chairman in board leadership and corporate governance of the Group
Mr. Gui Sheng Yue	Chief Executive Officer, ED[1], member of NC[6]	9 June 2005	18 May 2011	Oversees administrative management (Hong Kong and overseas), risk management, compliance and internal controls of the Group
Mr. Ang Siu Lun, Lawrence	ED[1]	23 February 2004	25 May 2009	Oversees international business development, capital market and investor relations activities of the Group
Mr. Liu Jin Liang	ED[1]	9 June 2005	25 May 2010	Oversees domestic motor vehicles sales, development of customer service and brand management, and domestic and international logistics management of complete buildup units (CBUs) of the Group
Dr. Zhao Fuquan	ED[1]	17 November 2006	25 May 2010	Oversees research and development activities of the Group
Ms. Wei Mei	ED[1], member of RC[5]	17 January 2011	18 May 2011	Oversees human resources management of the Group
Mr. Li Dong Hui, Daniel	ED[1]	23 May 2011	N/A	Oversees accounting, investments and financing activities of the Group
Mr. An Cong Hui	ED[1]	30 December 2011	N/A	Oversees operational and risk management (China) of the Group
Mr. Yin Da Qing, Richard	NED[2]	9 June 2005	25 May 2010	Provides independent advice on financial controls to the Board
Mr. Wang Yang	NED[2]	15 September 2010	18 May 2011	Provides independent advice on corporate finance, investments and merger & acquisitions to the Board
Mr. Lee Cheuk Yin, Dannis	INED[3], chairman of AC[4], member of RC[5] & member of NC[6]	28 June 2002	18 May 2011	Provides independent advice on financial and auditing activities to the Board
Mr. Song Lin	INED[3], member of AC[4]	27 September 2004	18 May 2011	Provides independent advice on corporate management, business development and strategic deployment to the Board
Mr. Yeung Sau Hung, Alex	INED[3], chairman of RC[5], member of AC[4] & member of NC[6]	6 June 2005	25 May 2009	Provides independent advice on corporate finance and investment to the Board
Mr. Fu Yu Wu	INED[3], chairman of NC[6], member of AC[4] & member of RC[5]	30 December 2011	N/A	Provides independent advice on automobile industry and strategic deployment to the Board

Note:

[1] ED: Executive Director.
[2] NED: Non-executive Director.
[3] INED: Independent Non-executive Director.
[4] AC: Audit Committee.
[5] RC: Remuneration Committee.
[6] NC: Nomination Committee.

CORPORATE GOVERNANCE REPORT

The directors of the Company (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 management with viewpoints and advices in all material aspects for effective decision-making. For Directors' biographical information, please refer to pages 17 to 20 of this annual report.

The composition of the Board is reviewed regularly to ensure that it has a good balance of expertise, skills and experience which can meet the requirements of the business operations of the Company. The Board established the Nomination Committee on 30 December 2011. When considering nomination of a new director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, and specifically, the evidence supporting their independence when considering nomination of an independent non-executive Director, before nominating the candidates with high caliber to the Board for selection and appointment. For details of the Nomination Committee, please refer to page 26 of this report.

Board Meetings, Proceedings and Practices

As required by business needs, the Company held a total of 8 regular Board meetings, 23 ad-hoc Board meetings, 4 meetings of the Audit Committee, 6 meetings of the Remuneration Committee and 1 meeting of the Nomination Committee during the year.

The regular meetings of the Board and Board committees are primarily attended by the majority of Directors in person or by means of other electronic communication. All regular Board meetings of the Company are convened and constituted in accordance with the requirements of the Code.

	Attendance rate for meetings				
Name of Directors	**Regular Board Meetings**	**Ad-hoc Board Meetings**	**AC Meetings**	**RC Meetings**	**NC Meetings**
Executive Directors					
Mr. Li Shu Fu *(Chairman)*	8/8	23/23	–	–	–
Mr. Yang Jian *(Vice Chairman)*	8/8	23/23	–	–	–
Mr. Gui Sheng Yue *(CEO)*[1]	7/8	23/23	–	1/1	1/1
Mr. Ang Siu Lun, Lawrence	7/8	23/23	2/4	–	–
Mr. Liu Jin Liang	7/8	23/23	–	–	–
Dr. Zhao Fuquan	6/8	23/23	–	–	–
Ms. Wei Mei[2]	7/7	23/23	–	5/5	–
Mr. Li Dong Hui, Daniel[3]	4/5	9/9	1/4	–	–
Mr. An Cong Hui[4]	1/1	–	–	–	–
Non-executive Directors					
Mr. Yin Da Qing, Richard[5]	6/8	23/23	–	–	–
Mr. Wang Yang	8/8	23/23	–	–	–
Independent Non-executive Directors					
Mr. Lee Cheuk Yin, Dannis	8/8	23/23	4/4	6/6	1/1
Mr. Song Lin	4/8	23/23	1/4	1/6	–
Mr. Yeung Sau Hung, Alex	8/8	23/23	4/4	6/6	1/1
Mr. Fu Yu Wu[6]	1/1	–	1/1	1/1	1/1

Note:

1 Mr. Gui Sheng Yue ceased to be a member of the Remuneration Committee with effect from 17 January 2011.
2 Ms. Wei Mei was appointed as an Executive Director on 17 January 2011.
3 Mr. Li Dong Hui, Daniel was appointed as an Executive Director on 23 May 2011.
4 Mr. An Cong Hui was appointed as an Executive Director on 30 December 2011.
5 Mr. Yin Da Qing, Richard was re-designated as a Non-executive Director on 30 December 2011.
6 Mr. Fu Yu Wu was appointed as an Independent Non-executive Director, chairman of Nomination Committee, and member of Audit and Remuneration Committees on 30 December 2011.

The company secretary of the Company ("Company Secretary") plays an important role in enhancing the Company's corporate governance standards, which can be complex, change frequently and should be tailored to the Company's business needs. Directors should obtain advice and services from the Company Secretary for any updates and developments in corporate governance, applicable laws and regulations when necessary.

The Company Secretary, as delegated by the Chairman, is responsible for preparing the meeting agenda, serving notice to the Board at least 14 days before the regular meetings or at a reasonable time for other ad-hoc meetings, and providing relevant Board papers to the Directors at least 3 days before the meetings, so as to ensure that the Directors receive adequate, complete and reliable information in a timely manner for effective decision making as CP A.2.3 stipulates.

The Company Secretary also ensures that the Board meetings are convened and constituted in accordance with all applicable laws, regulations and the procedural requirements set out in the Company's Articles of Association at all times. In order to keep the discussions among Board members be properly recorded before the resolutions are passed at the Board meetings, the Company Secretary will take minutes of the meetings and circulate them to Directors for comments at a reasonable time after the meetings. After incorporating Directors' comments, the executed version of which will be maintained by the Company Secretary and be open for Directors' inspection during normal office hours.

Insurance for Directors and Senior Management

The Company has arranged 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 as stipulates in RBP A.1.9.

Chairman and Chief Executive Officer

CP A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual to ensure a balance of power and authority. The roles of Chairman and Chief Executive Officer of the Company were taken by Mr. Li Shu Fu ("Mr. Li") and Mr. Gui Sheng Yue respectively.

The Chairman is primarily responsible for the management of the Board. Mr. Li has delegated the responsibility of drawing up agenda for each Board meeting to the Company Secretary before circulating it to the Directors for comments, where appropriate, agenda items proposed by other Directors will be included in the agenda for the Board's further discussion in the meeting so as to make sure that the Board meetings are effectively carried out. The Chief Executive Officer is primarily responsible for the daily operations of the Group with the assistance from other executive Directors and senior management. Their division of responsibilities were clearly established and set out in writing.

The Chairman has also endorsed the Company Secretary to draw up a Shareholders' Communication Policy to ensure appropriate steps are taken to provide effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole. For the communication with Shareholders, please refer to pages 33 to 35 of this report.

Relation of the Board Members

None of the members of the Board has any connections (including financial, business, family relationship and other material/related relationships) with each other (including between the Chairman and the Chief Executive Officer).

CORPORATE GOVERNANCE REPORT

Non-executive Directors

Mr. Yin Da Qing, Richard was re-designated (from executive Director) on 30 December 2011, and Mr. Wang Yang was appointed on 15 September 2010, as the non-executive Directors and both entered into a term of service of three years with the Company under a formal letter of appointment, which is the same as the other independent non-executive Directors. The non-executive Directors will retire by rotation at least once every three years and offer themselves for re-election in accordance with the Company's Articles of Association.

Appointments and Re-election

CPs A.4.1 and A.4.2 stipulate that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Article 116 of the Company's Articles of Association, at each annual general meeting, one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that each director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting.

Pursuant to Article 99 of the Company's Articles of Association, for Directors appointed by the Board from time to time to either fill a casual vacancy or as an addition to the Board, the Directors so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or the next following annual general meeting of the Company (in the case of an addition to their number) and shall then be eligible for re-election at that meeting provided that any Director who so retires shall not be taken into account in determining the number of Directors who are to retire at such meeting by rotation pursuant to Article 116.

In the period under review, pursuant to Article 116 of the Company's Articles of Association, Mr. Ang Siu Lun, Lawrence, Mr. Liu Jin Liang, Mr. Yin Da Qing, Richard and Mr. Yeung Sau Hung, Alex, shall retire by rotation and offer themselves for re-election by Shareholders at the forthcoming annual general meeting. In addition, pursuant to Article 99 of the Company's Articles of Association, Mr. Li Dong Hui, Daniel, Mr. An Cong Hui, and Mr. Fu Yu Wu, shall retire and be eligible for re-election by Shareholders at the forthcoming annual general meeting.

Nomination Committee

The Board established a Nomination Committee on 30 December 2011. The committee adopted a specific written terms of reference which clearly lay out its role, duties and authority as CP A.4.5 stipulates (such term of reference could be retrieved from the websites of both the Company and the Stock Exchange for Shareholders' inspection if they so wish) to ensure the committee has sufficient resources to discharge its duties during the year.

The committee comprises three independent non-executive Directors, namely Mr. Fu Yu Wu as chairman, Mr. Lee Cheuk Yin, Dannis and Mr. Yeung Sau Hung, Alex, and an executive Director, Mr. Gui Sheng Yue, to ensure that the committee comprises a majority of independent non-executive directors.

The committee held one meeting for its adoption of specific written terms of reference upon establishment during the year. The attendance record, on a named basis, at the meeting is set out in the table on page 24 of this report. The Nomination Committee will review the composition of the Board on a regular basis after its establishment so as to ensure that the Board has a good balance of expertise, skills and experience which can meet the requirements of the business needs of the Company. When considering nomination of a new director, the committee will take into account the qualification, ability, working experience, leadership, professional ethics and independence (as the case may be) of the candidates before nominating the candidates with high caliber to the Board for selection and appointment.

Responsibilities of Directors

CP A.5 stipulates that every director is required to keep abreast of his responsibilities and conduct as a director under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements, business activities and development of the listed issuer; and non-executive directors should have the same duties of care and skill and fiduciary duties as executive directors under the essence of unitary nature of the board.

Ms. Wei Mei, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui, whom were appointed as the executive Directors, and Mr. Fu Yu Wu, whom was appointed as an independent non-executive Director, had all received a comprehensive, formal and tailored induction training to ensure that they have a proper understanding of the operations and business of the Company and that they are fully aware of their responsibilities and conduct as a director under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements.

The independent non-executive Directors, namely Mr. Lee Cheuk Yin, Dannis, Mr. Song Lin, Mr. Yeung Sau Hung, Alex and Mr. Fu Yu Wu, were invited to serve on the Audit, Remuneration, and Nomination Committees. All of the executive, non-executive and independent non-executive Directors kept good attendance to the Board meetings and Board committee meetings in the period under review.

Continuing Professional Development

RBP A.5.5 states that all directors should participate in continuous professional development arranged and funded by the issuer. The record of Directors' training each year is maintained by the Company Secretary. In November 2011, most of the Directors signed up for a training session on directorships, continuing connected transactions, price-sensitive information and insider dealing conducted by an independent professional legal adviser on Hong Kong law and the Listing Rules appointed by the Company.

The Board has also put in place procedures for Directors to seek independent professional training, apart from the training session provided by the Company, to assist them in discharging their duties upon reasonable request. As such, the Directors shall submit their applications with details of the curriculum and course fees to the Chief Executive Officer of the Company in advance. Once the training is considered acceptable under the Listing Rules standard, the course fees shall then be fully reimbursed when valid receipts are provided.

Directors' securities transactions

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 to the Listing Rules as its own Code for Securities Transactions by Officers. Having made specific enquiry, all Directors of the Company have confirmed their compliance during the year ended 31 December 2011 with the required standards set out in the Model Code. The detail of Directors' holding of the Company's securities is set out on pages 38 to 39 of this annual report.

In addition, the Board had established a set of written guidelines for senior management in respect of their dealings in the securities of the Company for their strict compliance. The Company issues notices to all Directors, senior management and relevant employees reminding them to comply with the guidelines 60 days prior to the publication of the annual results, 30 days prior to the publication of the interim results, and any time when they are in possession of or privy to any unpublished price-sensitive information before it is properly disclosed.

Supply of and Access to Information

CP A.6 stipulates the Directors should be provided in a timely manner with appropriate information in such form and of such quality that will enable them to make an informed decision and to discharge their duties and responsibilities.

CORPORATE GOVERNANCE REPORT

In regard to notice, intended agenda, related Board papers and materials, the management is required to provide complete, reliable and timely information and provide briefing to the Board with respect to the matters and issues under contemplation. The Company also keeps the Board members well informed of the latest developments of the execution of the respective matters and issues in a timely manner. In addition to regular Board meetings, the Company also provides the Directors with reports in relation to management accounts, sales volume, news releases, investor relations activities and share price performance on a regular basis.

(C) REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Level and Make-up of Remuneration and Disclosure

Based upon individual performance and contribution to the Group and under the principles of the Company's remuneration policy in place, the remuneration package of the Directors and senior management are made up of the following two tiers: 1) on short-term basis – basic monthly salaries and discretionary year-end bonus; and 2) on long-term incentive basis – share options scheme and retirement benefits.

The diversified remuneration package can reflect the market value of the relevant duties of the Directors and senior management; encourage relevant Directors and senior management to achieve the corporate goal; attract and retain the experienced human resources of the Group; and provide competitive retirement protection.

Remuneration Committee and Remuneration of Directors

To ensure that the Remuneration Committee comprises a majority of independent non-executive Directors and is chaired by an independent non-executive Director, Ms. Wei Mei ceased to be the committee chairman (but remains a member of the committee) and Mr. Yeung Sau Hung, Alex was appointed as the committee chairman on 30 December 2011. The committee currently comprises three independent non-executive Directors and one executive Director, including Mr. Yeung Sau Hung, Alex as chairman, Mr. Lee Cheuk Yin, Dannis, Mr. Fu Yu Wu and Ms. Wei Mei.

During the year in regard to the amendments to the Code promulgated by the Stock Exchange, the committee adopted a revised written terms of reference which clearly lay out its role, duties and authority (such term of reference could also be retrieved from the websites of both the Company and the Stock Exchange for Shareholders' inspection if they so wish) to ensure the committee to have sufficient resources to discharge its duties.

During the year, the Remuneration Committee held six meetings. The attendance record, on a named basis, at the meeting is set out in the table on page 24 of this report. The Remuneration Committee had considered the following proposals and made recommendation to the Board during the year:

- Annual salary review and discretionary bonus payment of Directors and senior executives;
- Review and renewal of the terms of letters of appointment and service contracts engaged with the existing Board members; and
- Adoption of the revised terms of reference to align it with the amendments to the Code and associated Listing Rules promulgated by the Stock Exchange which shall come into effect on 1 April 2012.

For details on Directors' remuneration, please refer to pages 89 to 90 in this annual report.

(D) ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors were provided with major financial information and the related information of the Company as would enable them to make an informed assessment before the publication of the interim and the annual results.

The Directors acknowledge that they are responsible for overseeing the preparation of financial statements of each financial period, which should give a true and fair view of the operating results and financial conditions of the Company; and that there should be a statement by the auditors about their reporting responsibilities in the interim reports as detailed in the independent review report and a summary of change, if any, in the corporate governance practices the Company adopted during the relevant accounting period, and in the annual reports as detailed in the auditors' report and corporate governance report. In the period under review, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. In preparing the financial reports for the year ended 31 December 2011, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable, and prepared accounts on a going concern basis.

Grant Thornton Jingdu Tianhua ("Jingdu Tianhua"), the independent auditor of the Company has declared its reporting responsibilities regarding the consolidated financial statements for the year ended 31 December 2011 in the independent auditors' report.

The Directors acknowledged that their responsibility to present a balanced, clear and understandable assessment extended to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Aside from the above, the Company has announced the latest monthly sales volume figures for reference of the public since January 2010 on a voluntary basis in order to further enhance the level and transparency of corporate governance of the Company.

Internal Control

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

During the year, Project Management Office ("PMO"), formed by Internal Audit Department of the Company and a professional consulting agent, underwent the second phase of internal control system development, which included two critical tasks: (1) comprehensive risk assessment focusing on Shareholder value management; (2) information technology ("IT") general control and application control review.

The Company has been improving the internal control system through eight fundamental Enterprises Risk Management ("ERM") elements (internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring) in accordance with the ERM model of the Committee of Sponsoring Organisations of the Treadway Commission in order to transfer internal audit's expertise to management practice and enhance our frontline managements' capability in its own day-to-day operation with risk consciousness and effective controlling.

CORPORATE GOVERNANCE REPORT

Details of internal control work of the Company during the year and the future plans are as follows:

Elements of ERM	Work during the year	Future plans
Internal environment	Strengthened the management's awareness and knowledges in internal control by organising specific trainings (including directorship, price-sensitive information, connected transactions) for the management. Reviewed the control environment factors in the organisation structure, human resources, terms of reference of the Audit Committee, Remuneration Committee, and Nomination Committee.	Continue to maintain proper control environment, establish well strctured and clearly defined organisation framework, promote the high moral standard of the corporate culture and compliance with the existing risk management system among the management and staff. Provide training to concerned executives and senior management.
Objective setting and event identification	Conducted a comprehensive review in terms of Shareholder value which align with the Group's mission and objectives, and the process of assigning strategic target to the Group's business operation; differentiated and priorized the opportunities and risks faced by the Group on top-down approach.	Continue to review the Group's goals and objectives which reflect the Shareholder value and update the opportunities and risks analysis.
Risk assessment, risk response and control activities	PMO performed internal audit and provided recommandation in designated projects in the core business cycles of the Company. Updated the comprehensive risk map according to the change of business environment and operation. Reviewed IT general control and application control in the core business cycles. Published the 'Guideline on Disclosure of Price-sensitive and Inside Information' for relevant and specified person, and the "Notice of Prohibition on Dealing in any Securities of the Company before Financial Results".	Initiate recommended activities in core business cycles according to assessed risks. Conduct a complete control self assessment in IT general control and application control across the Group. Undergo risk management by diversified means and update the risk map continuously.
Information and communication	Initiated thorough risk assessment of information system and enterprise resouce planning ("ERP"), and accomplished the information system audit plan to ensure its decision-making supports capability. Introduced a new ERP security accredication system to ensure the security and confidentiality of information system.	Commence audit activities relating to information system and would review the audit scope annually. Set up an anonymous reporting mechanism with designated email to ensure proper communication between stakeholders, the Board and management, and enhance the internal reporting functionality.
Monitoring	Identified the persons-in-charge of risk in various business cycles through internal audit during the year to conduct continuous monitoring.	Continue to strengthen the three-parties monitoring model through business cycle re-engineering and internal audit, to enhance the self-awareness and sense of internal control of the persons-in-charge of the risk.

The Internal Audit Department would independently review the effectiveness of the above-mentioned internal control of the Group. The review reports would be submitted to the Audit Committee and the Board quarterly and on an ad-hoc basis. At the same time, to ensure proper communication, Internal Audit Department would meet with the senior management monthly to report the details of internal control work.

During the year, the Audit Committee and the Board have reviewed and approved the internal audit and risk management report. The Board also rectified the effectiveness of internal control system and risk management functionality of the Group in accordance with Appendix 14 "Code of Corporate Goverance Practice" of the Listing Rules.

Audit Committee

The Audit Committee comprises only independent non-executive Directors, namely Mr. Lee Cheuk Yin, Dannis as chairman, Mr. Song Lin, Mr. Yeung Sau Hung, Alex and Mr. Fu Yu Wu.

During the year in regard to the amendments to the Code promulgated by the Stock Exchange, the committee adopted a revised written terms of reference which clearly lay out its role, duties and authority (such term of reference could also be retrieved from the websites of both the Company and the Stock Exchange for Shareholders' inspection if they so wish) to ensure the committee to have sufficient resources to discharge its duties.

During the year, the Audit Committee held four meetings. The attendance record, on a named basis, at the meeting is set out in the table on page 24 of this report. The Audit Committee had considered the following businesses and made recommendation to the Board during the year:

- Reviewed the Company's audited annual results for the year ended 31 December 2010 including the major accounting issues raised by the external auditors;
- Reviewed the Company's interim results for the six months ended 30 June 2011;
- Approved the annual audit fee for the year ended 31 December 2011;
- Reviewed the internal control work conducted by the internal audit department and the charter granted to it; and
- Adopted the revised terms of reference to align it with the amendments to the Code and associated Listing Rules promulgated by the Stock Exchange which shall come into effect on 1 April 2012.

External Auditors and their 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.

In 2011, there was no disagreement between the Board and the Audit Committee on the re-appointment of Jingdu Tianhua, their fees and terms of engagement. Jingdu Tianhua has incorporated its practice and therefore will practise in the name of Grant Thornton Hong Kong Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Grant Thornton Hong Kong Limited as the auditors of the Company.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2011, the remuneration for the provision of audit services by Jingdu Tianhua and other professional accounting firms to the Group is as follows:

	2011 RMB'000	2010 RMB'000
Fees breakdown by accounting firms		
Grant Thornton		
Annual audit	–	–
Interim review	–	370
	–	370
Jingdu Tianhua		
Annual audit	2,040	2,198
Interim review	387	–
	2,427	2,198
Other professional CPA firms		
Annual audit of subsidiaries	2,586	1,733
Total	5,013	4,301

(E) DELEGATION BY THE BOARD

Management Functions

The Board is mainly responsible for formulating and approving the business strategies, objectives, policies and plans of the Company, and monitoring the execution of the Company's strategies. It is also responsible for overseeing the operating and financial performance of the Company and establishing appropriate risk control policies and procedures in order to ensure that the strategic objectives of the Company are materialized. In addition, the Board is also responsible for improving the corporate governance structure and enhancing communications with the Shareholders.

The Board has delegated the responsibilities of the execution of strategies and decision making for day-to-day operation of the Company to the management team headed by the Chief Executive Officer. Every material business decision in regard to business development, overseas investment projects, major commitment and financing decisions are subject to the review and approval of the Board.

Board Committees

The Company has established written terms of reference for the three committees, namely Audit, Remuneration and Nomination Committees of the Board. Details on the duties of the committees have been set out in the websites of both the Company and the Stock Exchange.

(F) COMMUNICATION WITH SHAREHOLDERS

Effective Communication

CP E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Due to business commitment in the PRC, Mr. Li Shu Fu, Chairman of the Board, was unable to attend the annual general meeting in person. Yet he has appointed Mr. Ang Siu Lun, Lawrence, an executive Director, whom should report to him on any enquiries Shareholders might have, as his proxy to attend the meeting. Further, the Company would facilitate a conference call for Shareholders and the Chairman to discuss any specific enquiries with respect to the businesses contemplated in the general meetings if they so wish.

The Company held its annual general meeting on 18 May 2011. Mr. Ang Siu Lun, Lawrence, an executive Director, Mr. Lee Cheuk Yin, Dannis, an independent non-executive Director and the chairman of the Audit Committee, and Jingdu Tianhua, the Company's external auditors, attended the annual general meeting and answered questions raised by the Shareholders.

To approve the discloseable and connected transactions in relation to the agreements made between members of Geely Holding and members of the Group regarding the transfer of 8% interest in the registered capital of the five key operative subsidiaries of the Company proposed by the Board, the Company held an extraordinary general meeting on 29 December 2011. Mr. Ang Siu Lun, Lawrence, an executive Director, Mr. Lee Cheuk Yin, Dannis, an independent non-executive Director, Mr. Yeung Sau Hung, Alex, an independent non-executive Director, and the Company's financial advisers, attended the extraordinary general meeting and answered questions raised by the Shareholders.

Shareholders' Rights

The Company has also posted the procedures for nomination of director by Shareholders, as part of its Shareholders' Communication Policy, on its website for Shareholders' inspection if they so wish. Apart from proposing a person for election as a director of the Company, an extraordinary general meeting may be convened at the request of the Shareholders under the following conditions:

1) On the written requisition of any two or more Shareholders holding as at the date of deposit of the requisition not less than 10 per cent of the paid-up capital of the Company which carries the right of voting at general meetings of the Company;

2) The requisition must specify the objects of the meeting, be signed by the requisitionists, and be deposited at Room 2301, 23/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, the principal place of business of the Company in Hong Kong;

3) If the Board does not within 21 days from the date of deposit of the requisition proceed to convene the meeting to be held within a further 21 days, the requisitionists representing more than one-half of their total voting rights in aggregate may convene the general meeting themselves, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition;

4) The requisitionists must convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company;

5) If the Board fails to give Shareholders sufficient notice (i.e. not less than 21 days for the annual general meetings and/or for passing of special resolution(s) at the extraordinary general meetings, or not less than 14 days for passing of ordinary resolution(s) at the extraordinary general meetings), the meeting is deemed not to have been duly convened.

CORPORATE GOVERNANCE REPORT

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:

- Published 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 published the monthly report of sales volume figures on a voluntary basis;

- Engaged 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;

- Conducted active exchange with institutional investors and analysts by a team led by an executive Director;

- Attended the investment forums regularly; and

- Conducted face-to-face communication with the Shareholders at the general meetings of the Company by the Directors.

Voting by Poll

Rule 13.39(4) of Listing Rules stipulates that any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Procedural and administrative matters are those that: (i) are not on the agenda of the general meeting or in any supplementary circular to members; and (ii) which relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all shareholders a reasonable opportunity to express their views.

The chairman of the general meetings shall ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from the Shareholders on voting by poll to ensure that the Shareholders are familiar with the procedures.

The Company's Memorandum and Articles of Association

No alterations have been made to the Company's Memorandum and Articles of Association in the period under review.

At the forthcoming annual general meeting, the Company proposes to amend its Memorandum and Articles of Association to align it with the changes to the Listing Rules, amendments to the Code and associated Listing Rules, and Companies Law *(2011 Revision)* of Cayman Islands as detailed as follows:

(i) recent changes made to the Listing Rules permitting a listed company to send corporate communications to its Shareholders in an electronic format, conditional upon, among other things, its constitutional documents contain provision to that effect;

(ii) amendments to the Code and associated Listing Rules promulgated by the Stock Exchange which shall come into effect on 1 April 2012; and

(iii) certain minor housekeeping amendments for Companies Law *(2011 Revision)* in Cayman Islands.

Upon the Shareholders' approval at the forthcoming annual general meeting, new amended and restated Memorandum and Articles of Association would be adopted by the Company.

DIRECTORS' REPORT

The Directors present their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement and consolidated statement of comprehensive income on page 56 and page 57, respectively of the annual report. The directors recommend the payment of a final dividend of HK2.8 cents per share to the shareholders on the register of members on 31 May 2012, amounting to approximately RMB183,833,000.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2012 to 18 May 2012, both dates inclusive, during which period no transfer of shares will be registered. In order to establish entitlements of attending and voting at the forthcoming annual general meeting of the Company to be held on 18 May 2012, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at 18/F., Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wan Chai, Hong Kong, for registration not later than 4:00 p.m. on 15 May 2012 (Hong Kong Time).

The register of members of the Company will be closed from 29 May 2012 to 31 May 2012, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at 18/F., Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wan Chai, Hong Kong, for registration not later than 4:00 p.m. on 28 May 2012 (Hong Kong Time).

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 3 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 15 and note 16, 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 Cixi of Zhejiang 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 and the Company are set out in the consolidated statement of changes in equity on page 60 and the movement of reserves of the Company on page 125 of the annual report, respectively.

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
Dr. Zhao Fuquan
Ms. Wei Mei (Appointed on 17 January 2011)
Mr. Li Dong Hui, Daniel (Appointed on 23 May 2011)
Mr. An Cong Hui (Appointed on 30 December 2011)

Non-executive directors:

Mr. Yin Da Qing, Richard (Re-designated on 30 December 2011)
Mr. Wang Yang

Independent non-executive directors:

Mr. Song Lin
Mr. Lee Cheuk Yin, Dannis
Mr. Yeung Sau Hung, Alex
Mr. Fu Yu Wu (Appointed on 30 December 2011)

Pursuant to Article 116 of the Company's Articles of Association, Mr. Ang Siu Lun, Lawrence, Mr. Liu Jin Liang, Mr. Yin Da Qing, Richard and Mr. Yeung Sau Hung, Alex shall retire by rotation and offer themselves for re-election at the forthcoming annual general meeting. In addition, pursuant to Article 99 of the Company's Articles of Association, Mr. Li Dong Hui, Daniel, Mr. An Cong Hui and Mr. Fu Yu Wu shall retire and be eligible for re-election at the forthcoming annual general meeting. 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' REPORT

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

As at 31 December 2011, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interest and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Capacity	Number of 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	–	50.30
Mr. Yang Jian	Personal	8,000,000	–	0.11
Mr. Gui Sheng Yue	Personal	11,800,000	–	0.16
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.06
Dr. Zhao Fuquan	Personal	6,000,000	–	0.08
Mr. Liu Jin Liang	Personal	6,000,000	–	0.08
Mr. Yin Da Qing, Richard	Personal	6,600,000	–	0.09
Mr. Yeung Sau Hung, Alex	Personal	500,000	–	0.01

Name of director	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
Dr. Zhao Fuquan	Personal	22,000,000 (Note 2)	–	0.30
Mr. Liu Jin Liang	Personal	9,000,000 (Note 2)	–	0.12
Ms. Wei Mei	Personal	3,000,000 (Note 2)	–	0.04
Mr. An Cong Hui	Personal	9,000,000 (Note 2)	–	0.12
Mr. Yin Da Qing, Richard	Personal	11,000,000 (Note 2)	–	0.15
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 50.30% of the issued share capital of the Company as at 31 December 2011. 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 2011.

DIRECTORS' REPORT

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

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

Notes:

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

(2) Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.

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

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

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

(6) Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun") (formerly known as "Zhejiang Geely Automobile Company Limited") is incorporated in the PRC and is 1%-owned by Zhejiang Geely. Zhejiang Geely 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 1%-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 1%-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 Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

(12) Jinan Geely Automobile Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

(13) Lanzhou Geely Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1% directly owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, as at 31 December 2011, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' REPORT

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

As at 31 December 2011, 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	–	33.02
Geely Holding (Note 1)	Interest in controlled corporation	3,751,072,000	–	50.30
Zhejiang Geely (Note 2)	Beneficial owner	776,408,000	–	10.41
Geely Group Ltd. (Note 1)	Beneficial owner	87,000	–	0.001
	Interest in controlled corporation	2,462,400,000	–	33.02
The Goldman Sachs Group, Inc.	Interest in controlled corporation	1,297,974,003	–	17.41
Gehicle Investment Holdings (Delaware) LLC	Beneficial owner	1,144,958,578	–	15.35
Gehicle Investment Parallel Holdings	Beneficial owner	152,991,322	–	2.05

Note:

1. 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 owned by Mr. Li Shu Fu and his associate.

2. Zhejiang Geely is a private company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, the Company had not been notified of any other person (other than the directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 31 December 2011 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' 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.

	Exercisable Period	Exercise price per share HK$	Outstanding at 1.1.2011	Transferred upon director's appointment during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011
Director							
Mr. Ang Siu Lun, Lawrence	18.1.2010 – 17.1.2020	4.07	11,000,000	–	–	–	11,000,000
Mr. Gui Sheng Yue	18.1.2010 – 17.1.2020	4.07	11,500,000	–	–	–	11,500,000
Mr. Yang Jian	18.1.2010 – 17.1.2020	4.07	12,000,000	–	–	–	12,000,000
Mr. Liu Jin Liang	18.1.2010 – 17.1.2020	4.07	9,000,000	–	–	–	9,000,000
Mr. Yin Da Qing, Richard	18.1.2010 – 17.1.2020	4.07	11,000,000	–	–	–	11,000,000
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
Ms. Wei Mei*	18.1.2010 – 17.1.2020	4.07	–	3,000,000	–	–	3,000,000
Mr. An Cong Hui**	18.1.2010 – 17.1.2020	4.07	–	9,000,000	–	–	9,000,000
Mr. Song Lin	18.1.2010 – 17.1.2020	4.07	1,000,000	–	–	–	1,000,000
Mr. Lee Cheuk Yin, Dannis	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	10.7.2006 – 16.5.2011	0.93	2,070,000	–	(1,990,000)	(80,000)	–
	18.09.2007 – 17.9.2012	1.06	7,500,000	–	(2,500,000)	–	5,000,000
	8.5.2008 – 7.5.2013	0.92	43,250,000	–	(12,215,000)	(1,000,000)	30,035,000
	18.1.2010 – 17.1.2020	4.07	431,350,000	(12,000,000)	–	(21,650,000)	397,700,000
	21.4.2010 – 20.4.2020	4.07	15,900,000	–	–	–	15,900,000
			579,570,000	–	(16,705,000)	(22,730,000)	540,135,000

* Ms. Wei Mei has been appointed as an executive director of the Company with effect from 17 January 2011.

** Mr. An Cong Hui has been appointed as an executive director of the Company with effect from 30 December 2011.

DIRECTORS' REPORT

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 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.

CONNECTED TRANSACTIONS & 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 connected transactions and continuing connected transactions with disclosure requirements under the Listing Rules during the year were listed below and some of these transactions are also set out in note 35 to the consolidated financial statements.

CONNECTED TRANSACTIONS

1. Acquisition of 100% Interest in the Registered Capital of Ningbo Vision

Pursuant to the equity transfer agreement dated 21 January 2011, Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun") entered into a transaction with Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") and Zhejiang Geely Holding Group Company Limited ("Geely Holding") to respectively transfer an 90% and 10% interests in the registered capital of Ningbo Vision Automobile Parts and Components Company Limited ("Ningbo Vision") to Zhejiang Jirun at a consideration of RMB437,342,000. The completion of the acquisition of the 100% interest in the registered capital of Ningbo Vision took place by end of April 2011.

2. Acquisition of 100% Interest in the Registered Capital of Shandong Geely

Pursuant to the equity transfer agreement dated 21 January 2011, Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun") entered into a transaction with Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") and Zhejiang Geely Holding Group Company Limited ("Geely Holding") to respectively transfer an 90% and 10% interests in the registered capital of Shandong Geely Gearbox Company Limited ("Shandong Geely") to Zhejiang Jirun at a consideration of RMB20,000,000. The completion of the acquisition of the 100% interest in the registered capital of Shandong Geely took place by end of March 2011.

3. Acquisition of Land Use Right of the Land from Zhejiang Haoqing

Pursuant to the sales and purchase agreement dated 21 January 2011, the Group agreed with Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing") for the acquisition of land use right of the land located in Xiangtan City, Hunan Province, the PRC at a total consideration of RMB24,208,000. The transaction has not been completed as at 31 December 2011.

4. **Disposal of Land Use Right of the Land to Zhongjia Auto**

Pursuant to the sales and purchase agreement dated 8 September 2011, the Group agreed with Zhongjia Automobile Manufacturing (Chengdu) Company Limited ("Zhongjia Auto") for the disposal of land use right of the land located in Chengdu City, Sichuan Province, the PRC at a total consideration of RMB80,897,800.

5. **Acquisition of 8% Interest in the Registered Capital of Zhejiang Jirun**

Pursuant to the equity transfer agreement dated 25 November 2011, Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") entered into a transaction with Zhejiang Kingkong Automobile Parts and Components R&D Company Limited ("Zhejiang Kingkong R&D") to transfer an 8% interest in the registered capital of Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun") to Zhejiang Kingkong R&D at a consideration of RMB350,477,000. The completion of the acquisition of the 8% interest in the registered capital of Zhejiang Jirun took place by end of December 2011.

6. **Acquisition of 8% Interest in the Registered Capital of Shanghai Maple**

Pursuant to the equity transfer agreement dated 25 November 2011, Shanghai Maple Automobile Company Limited ("Shanghai Maple Automobile") entered into a transaction with Zhejiang Kingkong R&D to transfer an 8% interest in the registered capital of Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple") to Zhejiang Kingkong R&D at a consideration of RMB116,590,900. The completion of the acquisition of the 8% interest in the registered capital of Shanghai Maple Guorun took place by end of December 2011.

7. **Acquisition of 8% Interest in the Registered Capital of Hunan Geely**

Pursuant to the equity transfer agreement dated 25 November 2011, Zhejiang Haoqing entered into a transaction with Zhejiang Fulin Guorun to transfer an 8% interest in the registered capital of Hunan Geely Automobile Components Company Limited ("Hunan Geely") to Zhejiang Fulin Guorun at a consideration of RMB135,009,700. The completion of the acquisition of the 8% interest in the registered capital of Hunan Geely took place by end of December 2011.

8. **Acquisition of 8% Interest in the Registered Capital of Zhejiang Kingkong**

Pursuant to the equity transfer agreement dated 25 November 2011, Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing") entered into a transaction with Zhejiang Fulin Guorun Automobile Parts and Components Company Limited ("Zhejiang Fulin Guorun") to transfer an 8% interest in the registered capital of Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") to Zhejiang Fulin Guorun at a consideration of RMB162,805,100. Nevertheless, the completion of the acquisition of the 8% interest in the registered capital of Zhejiang Kongkong took place in February 2012.

9. **Acquisition of 8% Interest in the Registered Capital of Zhejiang Ruhoo**

Pursuant to the equity transfer agreement dated 25 November 2011, Zhejiang Haoqing entered into a transaction with Zhejiang Fulin Guorun to transfer an 8% interest in the registered capital of Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") to Zhejiang Fulin Guorun at a consideration of RMB52,581,400. Nevertheless, the completion of the acquisition of the 8% interest in the registered capital of Zhejiang Ruhoo took place in February 2012.

DIRECTORS' REPORT

The following transactions between certain connected parties and the Group has been entered into is ongoing for which relevant announcement 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 RMB174.651 million which, did not exceed the annual cap of RMB1,951.172 million for the year ended 31 December 2011 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 RMB174.651 million which, did not exceed the annual cap of RMB1,951.172 million for the year ended 31 December 2011 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 27 November 2009, 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 RMB17,676.227 million for sales of CKDs and sedan tool kits which did not exceed the annual cap of RMB34,132.674 million for sales of CKDs and sedan tool kits for the year ended 31 December 2011 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 RMB17,676.227 million for sales of CKDs and sedan tool kits which did not exceed the annual cap of RMB34,132.674 million for sales of CKDs and sedan tool kits for the year ended 31 December 2011 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 process 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 RMB24,439.474 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services which did not exceed the annual cap of RMB48,781.702 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services for the year ended 31 December 2011 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 RMB24,439.474 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services which did not exceed the annual cap of RMB48,781.702 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services for the year ended 31 December 2011 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") agrees 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 manufacture and 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 RMB493.6 million which, did not exceed the annual cap of RMB900 million for the year ended 31 December 2011 as approved by the Stock Exchange and the Independent Shareholders.

DIRECTORS' REPORT

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 RMB493.6 million which, did not exceed the annual cap of RMB900 million for the year ended 31 December 2011 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") agrees 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 RMB9.215 million which, did not exceed the annual cap of RMB10.194 million for the year ended 31 December 2011 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 RMB9.215 million which, did not exceed the annual cap of RMB10.194 million for the year ended 31 December 2011 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 RMB9.27 million for sales of R&D products and services which did not exceed the annual cap of RMB117.801 million for sales of R&D products and services for the year ended 31 December 2011 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 RMB9.27 million for sales of R&D products and services which did not exceed the annual cap of RMB117.801 million for sales of R&D products and services for the year ended 31 December 2011 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") agreed to (a) sell to Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") the processed automobile parts and components; and (b) purchase of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions from 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 RMB33.503 million for sales of processed automobile parts and components and purchases of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions which did not exceed the annual cap of RMB1,394.752 million for sales of processed automobile parts and components and purchases of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions for the year ended 31 December 2011 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 RMB33.503 million for sales of processed automobile parts and components and purchases of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions which did not exceed the annual cap of RMB1,394.752 million for sales of processed automobile parts and components and purchases of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions for the year ended 31 December 2011 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 RMB81.793 million for sales of CBUs which did not exceed the annual cap of RMB264 million for sales of CBUs for the year ended 31 December 2011 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 RMB81.793 million for sales of CBUs which did not exceed the annual cap of RMB264 million for sales of CBUs for the year ended 31 December 2011 as approved by the Stock Exchange and the Independent Shareholders.

DIRECTORS' REPORT

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 RMB0.698 million for the purchase of imported TX4 after-sales car parts which did not exceed the annual cap of RMB30 million for the purchase of imported TX4 after-sales car parts for the year ended 31 December 2011 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 RMB0.698 million for the purchase of imported TX4 after-sales car parts which did not exceed the annual cap of RMB30 million for the purchase of imported TX4 after-sales car parts for the year ended 31 December 2011 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 2011.

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 45% and 34%, 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 2% 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 21 to 35 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, Yeung Sau Hung, Alex, Fu Yu Wu 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.

DIRECTORS' REPORT

In August 2010, Geely Holding has completed the acquisition of Volvo Car Corporation, which manufactures of 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, Geely Holding has provided an irrevocable undertaking to the Company on 27 March 2011 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

Grant Thornton Jingdu Tianhua has incorporated its practice and therefore will practise in the name of Grant Thornton Hong Kong Limited. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Grant Thornton Hong Kong Limited as the auditors of the Company.

On behalf of the Board

Li Shu Fu
Chairman
22 March 2012

ACCOUNTS

INDEPENDENT AUDITORS' REPORT

GrantThornton
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 56 to 131, which comprise the consolidated balance sheet as at 31 December 2011, 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.

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.

Grant Thornton
京都天华

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 2011 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

22 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Turnover/Revenue	7	**20,964,931**	20,099,388
Cost of sales		**(17,144,820)**	(16,379,349)
Gross profit		**3,820,111**	3,720,039
Other income	9	**1,041,119**	818,775
Distribution and selling expenses		**(1,359,337)**	(1,190,087)
Administrative expenses, excluding share-based payments		**(962,980)**	(922,880)
Share-based payments	33	**(137,150)**	(273,437)
Finance costs	10	**(211,356)**	(244,785)
Share of results of associates	19	**(7,199)**	(7,302)
Profit before taxation		**2,183,208**	1,900,323
Taxation	11	**(467,359)**	(350,612)
Profit for the year	10	**1,715,849**	1,549,711
Attributable to:			
Equity holders of the Company		**1,543,437**	1,368,437
Non-controlling interests		**172,412**	181,274
		1,715,849	1,549,711
Earnings per share			
Basic	13	**RMB20.72 cents**	RMB18.59 cents
Diluted	13	**RMB19.20 cents**	RMB17.15 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Profit for the year	**1,715,849**	1,549,711
Other comprehensive income:		
Exchange differences on translation of foreign operations recognised	**(23,493)**	46,487
Loss arising on revaluation of available-for-sale financial assets	**(174)**	–
Total comprehensive income for the year	**1,692,182**	1,596,198
Attributable to:		
Equity holders of the Company	**1,519,770**	1,414,924
Non-controlling interests	**172,412**	181,274
	1,692,182	1,596,198

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	15	**6,795,825**	5,467,494
Intangible assets	16	**2,221,745**	1,448,593
Goodwill	18	**6,222**	6,222
Interests in associates	19	**83,719**	–
Available-for-sale financial assets	23	**3,636**	–
Prepaid land lease payments	17	**1,479,575**	1,367,701
		10,590,722	8,290,010
Current assets			
Prepaid land lease payments	17	**37,582**	33,782
Inventories	20	**1,357,506**	986,595
Trade and other receivables	21	**12,214,691**	9,912,961
Financial assets at fair value through profit or loss	22	**12,225**	12,947
Available-for-sale financial assets	23	**–**	100,000
Tax recoverable		**109**	2,391
Pledged bank deposits		**353,532**	242,582
Bank balances and cash		**3,030,391**	4,393,075
		17,006,036	15,684,333
Current liabilities			
Trade and other payables	25	**12,114,356**	10,508,069
Taxation		**338,768**	173,591
Borrowings	26	**2,531,639**	1,096,669
		14,984,763	11,778,329
Net current assets		**2,021,273**	3,906,004
Total assets less current liabilities		**12,611,995**	12,196,014

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
CAPITAL AND RESERVES			
Share capital	28	**139,573**	139,279
Reserves	29	**9,442,627**	7,882,603
Equity attributable to equity holders of the Company		**9,582,200**	8,021,882
Non-controlling interests		**567,915**	1,055,795
Total equity		**10,150,115**	9,077,677
Non-current liabilities			
Convertible bonds	24	**1,526,760**	1,483,012
Borrowings	26	**842,926**	1,562,312
Deferred taxation	27	**92,194**	73,013
		2,461,880	3,118,337
		12,611,995	12,196,014

The consolidated financial statements on pages 56 to 131 were approved and authorised for issue by the Board of Directors on 22 March 2012 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 2011

	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 and warrant reserve RMB'000	Fair value reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	136,993	3,334,306	88,059	21,134	89,211	31,007	232,864	–	2,442,039	6,375,613	720,907	7,096,520
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
Dividends 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
Profit for the year	–	–	–	–	–	–	–	–	1,543,437	1,543,437	172,412	1,715,849
Other comprehensive income:												
Exchange differences on translation of foreign operations recognised	–	–	–	–	(23,493)	–	–	–	–	(23,493)	–	(23,493)
Loss arising on revaluation of available-for-sale financial assets	–	–	–	–	–	–	–	(174)	–	(174)	–	(174)
Total comprehensive income for the year	–	–	–	–	(23,493)	–	–	(174)	1,543,437	1,519,770	172,412	1,692,182
Transactions with owners:												
Utilisation of reserve	–	–	–	(213)	–	–	–	–	213	–	–	–
Shares issued under share option scheme	294	16,189	–	–	–	(2,633)	–	–	–	13,850	–	13,850
Disposal of partial interest in a subsidiary (without losing control) (note 41)	–	–	–	–	–	–	–	–	179	179	1,571	1,750
Acquisition of additional equity interest in subsidiaries (note 41)	–	–	–	–	–	–	–	–	59,785	59,785	(661,863)	(602,078)
Recognition of share-based payments	–	–	–	–	–	137,150	–	–	–	137,150	–	137,150
Transfer upon forfeiture of share options	–	–	–	–	–	(165)	–	–	165	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	(170,416)	(170,416)	–	(170,416)
Total transactions with owners	294	16,189	–	(213)	–	134,352	–	–	(110,074)	40,548	(660,292)	(619,744)
At 31 December 2011	**139,573**	**3,475,208**	**88,059**	**17,401**	**112,205**	**417,886**	**232,864**	**(174)**	**5,099,178**	**9,582,200**	**567,915**	**10,150,115**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Cash flows from operating activities			
Profit for the year before taxation		**2,183,208**	1,900,323
Adjustments for:			
Depreciation and amortisation		**641,910**	504,380
Interest income		**(44,084)**	(52,357)
Dividend income		**(822)**	–
Finance costs		**211,356**	244,785
Share of results of associates		**7,199**	7,302
Loss on disposal of property, plant and equipment		**3,530**	4,949
Gain on disposal of intangible assets		**(515)**	(1,903)
Gain on disposal of prepaid land lease payments		**(5,641)**	–
Net foreign exchange losses		**3,139**	16,911
Gain on disposal of available-for-sale financial assets		**(1,620)**	–
Unrealised loss/(gain) on financial instruments at fair value through profit or loss that are classified as held for trading (listed investments held for trading)		**722**	(738)
Share-based payment expenses		**137,150**	273,437
Operating profit before working capital changes		**3,135,532**	2,897,089
Inventories		**(363,179)**	(343,225)
Trade and other receivables		**(2,321,805)**	(2,896,749)
Trade and other payables		**1,038,118**	2,539,364
Cash from operations		**1,488,666**	2,196,479
Income taxes paid		**(280,726)**	(213,978)
Net cash from operating activities		**1,207,940**	1,982,501
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,420,269)**	(1,529,406)
Proceeds from disposal of property, plant and equipment		**199,406**	193,523
Addition of prepaid land lease payments		**(8,327)**	(27,424)
Proceeds from disposal of prepaid land lease payments		**83,086**	5,927
Addition of intangible assets		**(768,305)**	(515,217)
Proceeds from disposal of intangible assets		**18,662**	57,403
Change in pledged bank deposits		**(110,950)**	651,710
Acquisition of subsidiaries	38/39	**(398,023)**	(134,475)
Acquisition of additional interest in subsidiaries		**(602,078)**	–
Proceeds on disposal of partial interest in a subsidiary (without losing control)		**1,750**	–
Investment in associates		**(90,918)**	–
Purchase of available-for-sale financial assets		**(753,810)**	(100,000)
Proceeds from disposal of available-for-sale financial assets		**851,620**	–
Interest received		**44,084**	52,357
Dividend received from financial assets at fair value through profit or loss (listed investments)		**822**	–
Net cash used in investing activities		**(2,953,250)**	(1,345,602)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000 (Restated)
Cash flows from financing activities		
Dividends paid	**(170,416)**	(148,352)
Proceeds from issuance of shares upon exercise of share options	**13,850**	106,260
Capital contribution from non-controlling shareholders	**–**	153,614
Short-term bank borrowings, net, in respect of bank borrowings arising from discounted bills	**–**	(47,754)
Proceeds from borrowings	**1,942,752**	1,118,000
Repayment of borrowings	**(1,227,168)**	(1,708,900)
Interest paid	**(166,192)**	(205,210)
Net cash from (used in) financing activities	**392,826**	(732,342)
Decrease in cash and cash equivalents	**(1,352,484)**	(95,443)
Cash and cash equivalents at beginning of year	**4,393,075**	4,498,155
Effect of foreign exchange rate changes	**(10,200)**	(9,637)
Cash and cash equivalents at end of year, represented by		
Bank balances and cash	**3,030,391**	4,393,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 2011, 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 41 to the consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the financial instruments classified as available-for-sale or as fair value through profit or loss are stated at their fair value as explained in the accounting policy set out in note 5(g).

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 5 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 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. Change in Accounting Policy

During the year, the Group changed its accounting policy for government grants. Government grants related to assets are now deducted from the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset by reducing the depreciation expense. Before the change in accounting policy, the government grants related to assets were included in non-current liabilities as deferred government grants and recognised as subsidy income (included in other income) over the useful life of the assets in the consolidated income statement.

Management believes that the new classification of deferred government grants gives a more relevant and reliable presentation of the results and financial position of the Group.

The change in accounting policy has been accounted for retrospectively and the consolidated financial statements have been restated. The effect on the consolidated financial statements is as follows:

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Decrease in property, plant and equipment	**372,080**	329,256
Decrease in trade and other payables	**37,720**	34,959
Decrease in deferred government grants	**334,360**	294,297

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Decrease in subsidy income from government (included in other income)	**40,008**	20,335
Decrease in depreciation expense (included in cost of sales)	**40,008**	20,335

The change in accounting policy does not affect the profit or loss or the net assets of the Group as at and for the years ended 31 December 2011 and 2010 and hence does not affect the calculation of earnings per share for the years.

The 2010 comparatives have been restated in these financial statements to reflect the above adjustments. This restatement would ordinarily require the presentation of a consolidated balance sheet as at 1 January 2010. However, the Group did not have any outstanding government grants related to assets as at 1 January 2010. As a result, the consolidated balance sheet as at 1 January 2010 is not presented as it is unchanged from that previously presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. Effects of Application of HKFRSs Not Yet Effective

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 27 (Amendments)	Separate Financial Statements (2011)[3]
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures (2011)[3]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2014
[5] Effective for annual periods beginning on or after 1 January 2015

HKAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income

The HKAS 1 (Amendments) requires an entity to group items presented in other comprehensive income into those that, in accordance with other HKFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

HKAS 27 (Amendments) – Separate Financial Statements (2011)

The requirements relating to separate financial statements are unchanged and are included in the amended HKAS 27. The other portions of HKAS 27 are replaced by HKFRS 10.

HKAS 28 (Amendments) – Investments in Associates and Joint Ventures (2011)

HKAS 28 is amended to be consistent with the requirements of HKFRS 10, HKFRS 11 and HKFRS 12.

HKFRS 9 – Financial Instruments

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.

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 Group is still assessing the impact of adopting HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. Effects of Application of HKFRSs Not Yet Effective *(Continued)*

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 replaces the consolidation guidance in HKAS 27 Consolidated and Separate Financial Statements and HK(SIC) – Int 12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under HKFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of HKFRS 10 is not expected to have any significant impact to the Group.

HKFRS 11 – Joint Arrangements

HKFRS 11 introduces new accounting requirements for joint arrangements, replacing HKAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, HKFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. The adoption of HKFRS 11 is not expected to have any significant impact to the Group.

HKFRS 12 – Disclosures of Interests in Other Entities

HKFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of HKFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The adoption of HKFRS 12 is not expected to have any significant impact to the Group.

HKFRS 13 – Fair Value Measurement

HKFRS 13 applies when another HKFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for certain exemptions. HKFRS 13 requires the disclosures of fair values through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. 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.

Non-controlling interests represent the equity in 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 non-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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

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, investment 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(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. Amortisation begins when the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management). 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(f) Foreign currencies *(Continued)*

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 differences 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 reclassified from equity to profit or loss as a reclassification adjustment 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(g) Financial instruments *(Continued)*

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. Any 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.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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, the cumulative loss that had been recognised in other comprehensive income 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 of impairment losses 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. 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 are divided into 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(g) Financial instruments *(Continued)*

Convertible bonds

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 component. A convertible bond which included such an equity component is classified as a compound 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(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.

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. The resulting impairment loss is recognised as an expense immediately. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(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.

Rental income receivable from operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(l) Taxation *(Continued)*

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 capital and 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 the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately in profit or loss.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Significant Accounting Policies *(Continued)*

(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 income 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.

The government grants relating to the purchase of prepaid land leases, intangible assets and property, plant and equipment for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the assets by way of reduced depreciation and amortisation expenses (note 3).

(q) Related parties

A party is considered to be related to the Group if:

(a) the party, is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 5, 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 18) 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 and related inputs used by the external valuers for financial instruments not quoted in an active market have been agreed with the directors.

In valuing the share-based payments realised in the Group's financial statements, the Company has used the Binomial Option Pricing model, which makes various assumptions on factors outside the Group's control, such as share price volatility and risk-free interest rates. Details of the options and assumptions used in deriving the share-based payments are disclosed in note 33.

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 21). A considerable amount of judgement 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 20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

(Continued)

Key sources of estimation uncertainty *(Continued)*

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.

Depreciation and amortisation

Property, plant and equipment and intangible assets with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation 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 and amortisation 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 investments in associates have suffered any impairment in accordance with HKAS 36. Details of the approach are stated in the respective accounting policies. The assessment of value in use requires an estimation of future cash flows, including expected dividends, from the investments 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.

Critical Accounting Judgements

Acquisitions

During the year, the Group acquired subsidiaries as set out in note 38. The Group determined whether the acquisitions are to be accounted for as acquisition of businesses or as acquisition of assets by reference to a number of factors including (i) whether the acquiree has relevant input, process or output; (ii) whether the acquiree has planned principal activities or is pursuing a plan to produce output and will be able to obtain access to customers.

7. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. Segment Information

The Group manages its businesses by business lines. 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 5 above. Segment profit represents the profit earned by each segment without allocation of corporate expenses, directors' emoluments, share of results of associates, interest income, interest expenses and taxation. Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, 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.

Information regarding the Group's reportable segments is set out below.

Consolidated income statement

For the year ended 31 December 2011

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Sales to external customers	20,170,835	794,096	–	–	20,964,931
Inter-segment	37,177	452,275	–	(489,452)	–
Total segment revenue	20,208,012	1,246,371	–	(489,452)	20,964,931
Segment results	2,495,723	28,027	–	–	2,523,750
Interest income	40,596	3,173	634	(319)	44,084
Finance costs	(116,061)	(408)	(95,206)	319	(211,356)
Corporate and other unallocated expenses	–	–	(166,071)	–	(166,071)
Share of results of associates	(7,199)	–	–	–	(7,199)
Profit before tax					2,183,208
Taxation					(467,359)
Profit for the year					1,715,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. Segment Information *(Continued)*

Consolidated balance sheet

At 31 December 2011

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
ASSETS					
Segment assets	26,103,677	1,327,610	188,614	(106,862)	27,513,039
Interests in associates	83,719	–	–	–	83,719
	26,187,396	1,327,610	188,614	(106,862)	27,596,758
LIABILITIES					
Segment liabilities	15,329,710	558,271	1,665,524	(106,862)	17,446,643

Other information

For the year ended 31 December 2011

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
Capital additions (note)	3,082,437	174,323	92	–	3,256,852
Amortisation of intangible assets	104,055	6,870	–	–	110,925
Amortisation of prepaid land lease payments	27,392	1,051	–	–	28,443
Depreciation of property, plant and equipment	448,128	54,352	62	–	502,542

Note: Capital additions include those arising from the acquisition of subsidiaries (note 38) and are presented before the deduction of the asset-related government grants received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. Segment Information *(Continued)*

Consolidated 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
Taxation					(350,612)
Profit for the year					1,549,711

Consolidated balance sheet

At 31 December 2010 (Restated)

	Automobiles and related parts and components RMB'000	Gearboxes RMB'000	Unallocated RMB'000	Eliminations RMB'000	Total RMB'000
ASSETS					
Segment assets	22,970,467	804,156	258,712	(58,992)	23,974,343
LIABILITIES					
Segment liabilities	13,148,872	278,243	1,528,543	(58,992)	14,896,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. Segment Information *(Continued)*

Other information

For the year ended 31 December 2010 (Restated)

	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 land lease payments	33,683	–	–	–	33,683
Depreciation of property, plant and equipment	351,538	35,752	–	–	387,290

Note: Capital additions include those arising from the acquisition of a subsidiary (note 39) and are presented before the deduction of the asset-related government grants received.

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, interests in associates, 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 interests in associates.

	2011 RMB'000	2010 RMB'000
Revenue from external customers		
Hong Kong, place of domicile	**–**	–
PRC	**18,923,680**	18,505,412
Australia	**75,950**	192,405
Europe	**595,012**	286,490
Korea	**803,571**	371,751
Other countries	**566,718**	743,330
	20,964,931	20,099,388

	2011 RMB'000	2010 RMB'000 (Restated)
Specified non-current assets		
Hong Kong, place of domicile	**124**	93
PRC	**10,204,925**	7,857,848
Australia	**382,037**	432,069
	10,587,086	8,290,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. Other Income

	2011 RMB'000	2010 RMB'000 (Restated)
Bank and other interest income	**44,084**	52,357
Dividend income from financial assets at fair value through profit or loss (listed investments)	**822**	–
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
Rental income (note 1)	**23,143**	14,589
Net claims income on defective materials purchased	**11,541**	–
Gain on disposal of scrap materials	**53,929**	48,669
Gain on disposal of prepaid land lease payments	**5,641**	–
Gain on disposal of intangible assets	**515**	1,903
Subsidy income from government (note 2)	**877,437**	640,291
Gain on disposal of available-for-sale financial assets	**1,620**	–
Sundry income	**22,387**	60,228
	1,041,119	818,775

Note:

1. Rental income net of outgoings for the year ended 31 December 2011 is RMB7,253,000 (2010: RMB10,081,000).

2. Subsidy income mainly relates to cash subsidies (excluding any asset-related subsidies) in respect of research and development activities from government which are either unconditional grants or grants with conditions having been satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. Profit for the Year

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

	2011 RMB'000	2010 RMB'000
Finance costs		
Effective interest expense on convertible bonds	**93,829**	90,941
Interest on bank borrowings wholly repayable within five years	**117,242**	153,416
Interest expenses paid to a non-controlling shareholder of a subsidiary of the Group	**285**	428
	211,356	244,785

	2011 RMB'000	2010 RMB'000
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**1,124,999**	786,448
Retirement benefit scheme contributions	**143,545**	57,284
Recognition of share-based payments	**137,150**	273,437
	1,405,694	1,117,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. Profit for the Year *(Continued)*

	2011 RMB'000	2010 RMB'000 (Restated)
Other items		
Cost of inventories recognised as expense (note)	**17,144,820**	16,379,349
Auditors' remuneration	**5,013**	4,301
Depreciation	**502,542**	387,290
Amortisation of prepaid land lease payments	**28,443**	33,683
Amortisation of intangible assets	**110,925**	83,407
Loss on disposal of property, plant and equipment	**3,530**	4,949
Net claims paid on defective materials sold	**–**	27,244
Net foreign exchange losses	**22,994**	21,897
Operating lease charges on premises	**10,954**	2,489
Research and development costs	**105,847**	97,637
Unrealised loss/(gain) on financial instruments at fair value through profit or loss that are classified as held for trading (investments held for trading)	**722**	(738)

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.

11. Taxation

	2011 RMB'000	2010 RMB'000
Current tax:		
PRC enterprise income tax	**415,846**	313,157
Other overseas tax	**977**	–
Underprovision in prior years	**31,362**	2,692
	448,185	315,849
Deferred taxation (note 27)	**19,174**	34,763
	467,359	350,612

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. Taxation *(Continued)*

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

	2011 **RMB'000**	2010 RMB'000
Profit before taxation	**2,183,208**	1,900,323
Tax at the PRC enterprise income tax rate of 25% (2010: 25%)	**545,802**	475,081
Tax effect of expenses not deductible in determining taxable profit	**152,851**	136,732
Tax effect of non-taxable income	**(46,486)**	(60,357)
Tax effect of unrecognised tax losses	**15,767**	21,800
Utilisation of previously unrecognised tax losses	**(75,300)**	(410)
Tax effect of different tax rates of entities operating in other jurisdictions	**21,720**	34,203
Deferred tax charge on distributable profits withholding tax (note 27)	**29,156**	34,966
Effect of tax exemption granted to the PRC subsidiaries	**(207,513)**	(294,095)
Underprovision in prior years	**31,362**	2,692
Tax expense for the year	**467,359**	350,612

The applicable tax rate is the PRC enterprise income tax rate of 25% (2010: 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 RMB29,156,000 (2010: RMB34,966,000) 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.

12. Dividends

A final dividend for the year ended 31 December 2010 of HK$0.026 per share amounting to approximately RMB170,416,000 were paid to the shareholders of the Company during the year.

A final dividend for the year ended 31 December 2011 of HK$0.028 per share amounting to approximately RMB183,833,000 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 2012 if it is approved by the shareholders in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. 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 RMB1,543,437,000 (2010: RMB1,368,437,000) and weighted average number of ordinary shares of 7,450,443,245 shares (2010: 7,362,781,505 shares), calculated as follows:

(i) Weighted average number of ordinary shares

	2011	2010
Issued ordinary shares at 1 January	**7,440,755,450**	7,310,855,450
Effect of shares issued upon exercise of share options	**9,687,795**	51,926,055
Weighted average number of ordinary shares at 31 December	**7,450,443,245**	7,362,781,505

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity holders of the Company of RMB1,637,266,000 (2010: RMB1,459,378,000) and the weighted average number of ordinary shares of 8,528,146,935 shares (2010: 8,511,197,705 shares), calculated as follows:

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

	2011 RMB'000	2010 RMB'000
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders)	**1,543,437**	1,368,437
After tax effect of effective interest on the liability component of convertible bonds	**93,829**	90,941
Earnings for the purpose of diluted earnings per share	**1,637,266**	1,459,378

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

	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,450,443,245**	7,362,781,505
Effect of deemed conversion of convertible bonds	**1,008,151,554**	1,001,277,412
Effect of deemed exercise of warrants	**39,403,557**	100,647,803
Effect of deemed issue of shares under the Company's share option scheme	**30,148,579**	46,490,985
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**8,528,146,935**	8,511,197,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. Directors' Remuneration and Employees' Emoluments

(a) Directors' remuneration

The emoluments paid or payable to each of the fifteen (2010: thirteen) directors are as follows:

2011

Name of director	Fees RMB'000	Salaries and bonus 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. An Cong Hui	–	–	–	–	–	17	17
Mr. Ang Siu Lun, Lawrence	–	1,837	–	11	1,848	3,853	5,701
Mr. Gui Sheng Yue	–	1,634	261	11	1,906	4,028	5,934
Mr. Fu Yu Wu	1	–	–	–	1	–	1
Mr. Lee Cheuk Yin, Dannis	106	–	–	–	106	350	456
Mr. Li Dong Hui, Daniel	5	–	–	–	5	–	5
Mr. Li Shu Fu	–	343	–	11	354	–	354
Mr. Liu Jin Liang	9	–	–	–	9	3,153	3,162
Mr. Song Lin	106	–	–	–	106	350	456
Mr. Wang Yang	106	–	–	–	106	–	106
Ms. Wei Mei	8	–	–	–	8	1,005	1,013
Mr. Yang Jian	9	–	–	–	9	4,203	4,212
Mr. Yeung Sau Hung, Alex	106	–	–	–	106	350	456
Mr. Yin Da Qing, Richard	9	–	–	–	9	3,853	3,862
Dr. Zhao Fuquan	9	–	–	–	9	3,853	3,862
	474	3,814	261	33	4,582	25,015	29,597

2010

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. Directors' Remuneration and Employees' Emoluments *(Continued)*

(a) Directors' remuneration *(Continued)*

No director waived any emoluments during the years ended 31 December 2011 and 2010.

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 5(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, three (2010: all) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The aggregate of the emoluments in respect of the other two (2010: nil) individuals are as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries and allowances	**6,453**	–
Retirement benefits scheme contributions	**252**	–
Share-based payment expense	**3,853**	–
	10,558	–

The emoluments of the two (2010: nil) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
HK$4,500,001 – HK$5,000,000	**1**	–
HK$7,000,001 – HK$7,500,000	**1**	–
	2	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. 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 2010	525,910	70,620	1,758,596	2,623,536	19,403	198,288	5,196,353
Acquisition of a subsidiary	175,500	–	–	774	–	2,358	178,632
Exchange differences	12,951	6,989	–	19,661	–	261	39,862
Additions (restated)	823,744	262	170,250	432,189	5,910	75,949	1,508,304
Transfer	(896,558)	–	536,675	355,912	–	3,971	–
Disposals	(65,444)	–	(12,032)	(154,296)	–	(17,830)	(249,602)
At 31 December 2010 (restated)	576,103	77,871	2,453,489	3,277,776	25,313	262,997	6,673,549
Acquisition of subsidiaries	537,972	–	–	1,419	–	2,385	541,776
Exchange differences	(1,906)	(3,180)	–	(14,122)	–	(228)	(19,436)
Additions	1,137,082	1,182	32,506	237,812	–	99,243	1,507,825
Transfer	(1,502,115)	–	557,193	920,280	5,446	19,196	–
Disposals	–	–	(112,980)	(127,096)	–	(13,653)	(253,729)
At 31 December 2011	**747,136**	**75,873**	**2,930,208**	**4,296,069**	**30,759**	**369,940**	**8,449,985**
DEPRECIATION							
At 1 January 2010	–	1,853	163,409	623,109	2,978	76,902	868,251
Exchange differences	–	183	–	1,419	–	42	1,644
Charge for the year (restated)	–	3,786	62,264	284,843	1,883	34,514	387,290
Disposals	–	–	(1,289)	(44,443)	–	(5,398)	(51,130)
At 31 December 2010 (restated)	–	5,822	224,384	864,928	4,861	106,060	1,206,055
Exchange differences	–	(351)	–	(3,173)	–	(120)	(3,644)
Charge for the year	–	3,796	79,244	367,815	2,123	49,564	502,542
Disposals	–	–	(3,681)	(38,806)	–	(8,306)	(50,793)
At 31 December 2011	**–**	**9,267**	**299,947**	**1,190,764**	**6,984**	**147,198**	**1,654,160**
NET BOOK VALUE							
At 31 December 2011	**747,136**	**66,606**	**2,630,261**	**3,105,305**	**23,775**	**222,742**	**6,795,825**
At 31 December 2010 (restated)	576,103	72,049	2,229,105	2,412,848	20,452	156,937	5,467,494

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 granted to the Group (note 26(a)) and to the Company's ultimate holding company (note 35(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. Intangible Assets

	Capitalised development costs RMB'000
COST	
At 1 January 2010	1,147,366
Exchange differences	1,518
Additions	516,303
Disposals	(55,502)
At 31 December 2010	1,609,685
Acquisition of subsidiaries	155,839
Exchange differences	(681)
Additions	747,018
Disposals	(18,147)
At 31 December 2011	**2,493,714**
AMORTISATION	
At 1 January 2010	77,687
Disposals	(2)
Charge for the year	83,407
At 31 December 2010	161,092
Exchange differences	(48)
Charge for the year	110,925
At 31 December 2011	**271,969**
NET BOOK VALUE	
At 31 December 2011	**2,221,745**
At 31 December 2010	1,448,593

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 impairment was necessary (2010: nil). The pre-tax discount rate used in measuring value in use was 6% (2010: 6%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. Prepaid Land Lease Payments

	2011 RMB'000	2010 RMB'000
The Group's prepaid land lease payments comprise:		
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	**1,517,157**	1,401,483
Analysed for reporting purposes as:		
Current assets	**37,582**	33,782
Non-current assets	**1,479,575**	1,367,701
	1,517,157	1,401,483
Opening net carrying amount	**1,401,483**	1,200,795
Additions	**27,559**	27,465
Acquisition of subsidiaries	**194,003**	212,833
Disposals	**(77,445)**	(5,927)
Annual charges of prepaid land lease payments	**(28,443)**	(33,683)
Closing net carrying amount	**1,517,157**	1,401,483

Certain of the Group's prepaid land lease payments have been pledged to secure borrowings granted to the Group (notes 26(a) and 26(e)) and to the Company's ultimate holding company (note 35(c)).

18. Goodwill

	2011 RMB'000	2010 RMB'000
Carrying amount		
Arising on acquisition of subsidiaries	**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, using an annual cash flow budget plan covering a five-year period with a long-term average growth rate of 12% (2010: 15%) per annum for the operation. A pre-tax discount factor of 6% (2010: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. Interests in Associates

	2011 RMB'000	2010 RMB'000
Share of net assets	**164,874**	81,818
Goodwill	**18,845**	18,182
Impairment loss recognised	**(100,000)**	(100,000)
	83,719	–
Represented by:		
Cost of investments in associates		
– Listed overseas	**197,788**	197,788
– Unlisted	**90,918**	–
	288,706	197,788
Share of post-acquisition losses and reserves	**(104,987)**	(97,788)
Impairment loss recognised	**(100,000)**	(100,000)
	83,719	–
Fair value of listed investments	**19,532**	36,714

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 given the difference between fair value less costs to sell and net carrying value is not significant to the Group.

At 31 December 2011, the Group had interests in the following associates:

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest 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
Mando (Ningbo) Automotive Parts Co., Ltd. 萬都(寧波)汽車零部件有限公司	PRC	US$38,261,186	35%	Manufacturing of automobile parts and components
Ningbo DIPO Traffic Facilities Co., Ltd. 寧波帝寶交通器材有限公司	PRC	US$4,189,100	18%	Not yet commenced business
Hangzhou Xuan You Network Technology Limited 杭州軒優網路技術有限公司	PRC	RMB1,000,000	29.5%	Provision of webpage design and related technology support services

Other than MBH, all associates are indirectly held by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. Interests in Associates *(Continued)*

The Group has significant influence over MBH and Ningbo DIPO Traffic Facilities Co., Ltd through the power to nominate representative on the board.

The summarised financial information in respect of the Group's associates are set out below:

	2011 RMB'000	2010 RMB'000
Total assets	**1,179,196**	751,128
Total liabilities	**(632,487)**	(405,850)
Net assets	**546,709**	345,278
Group's share of net assets of associates	**164,874**	81,818
Revenue	**944,643**	715,672
Loss for the year attributable to equity holders of the associates	**(47,779)**	(56,970)
Group's share of results of associates for the year	**(7,199)**	(7,302)

20. Inventories

	2011 RMB'000	2010 RMB'000
At costs:		
Raw materials	**681,515**	487,777
Work in progress	**288,160**	195,721
Finished goods	**387,831**	303,097
	1,357,506	986,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. Trade and Other Receivables

	Note	2011 RMB'000	2010 RMB'000
Trade and notes receivables			
Trade receivables			
– Third parties		**951,550**	962,228
– Related companies controlled by the substantial shareholder of the Company		**766,887**	487,846
	(a)	**1,718,437**	1,450,074
Notes receivable	(b)	**8,832,267**	6,073,987
		10,550,704	7,524,061
Deposit, prepayment and other receivables			
Prepayment to suppliers			
– Third parties		**106,201**	214,367
– Related companies controlled by the substantial shareholder of the Company		**499,927**	1,382,045
		606,128	1,596,412
Deposits paid for acquisition of property, plant and equipment		**237,203**	298,316
VAT and other taxes receivables		**614,733**	318,881
Utility deposits and other receivables		**191,524**	175,291
		1,649,588	2,388,900
Amounts due from related parties controlled by the substantial shareholder of the Company	(c)	**12,635**	–
Amount due from ultimate holding company	(c)	**1,764**	–
		1,663,987	2,388,900
		12,214,691	9,912,961

(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:

	2011 RMB'000	2010 RMB'000
0 – 60 days	**653,886**	588,080
61 – 90 days	**35,807**	55,170
Over 90 days	**155,219**	144,354
	844,912	787,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. 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:

	2011 RMB'000	2010 RMB'000
0 – 60 days	**244,832**	277,491
61 – 90 days	**155,982**	47,070
91 – 365 days	**268,161**	244,848
Over 1 year	**204,550**	93,061
	873,525	662,470

Of the total trade receivables balance at 31 December 2011, RMB514,051,000 (2010: RMB164,366,000) was due from the Group's largest customer. Other than the largest customer, there were four customers (2010: nil) 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:

	2011 RMB'000	2010 RMB'000
0 – 30 days past due	**77,712**	80,152
31 – 60 days past due	**36,285**	43,115
61 – 90 days past due	**18,526**	58,742
Over 90 days past due	**96,503**	11,938
	229,026	193,947

As at 31 December 2011, trade receivables of RMB1,489,411,000 (2010: RMB1,256,127,000) 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 RMB229,026,000 (2010: RMB193,947,000) 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.

(b) Notes receivable

All notes receivable were denominated in Renminbi and are primarily notes received from third parties for the year ended 31 December 2011 and 2010 respectively for settlement of trade receivable balances. At 31 December 2011 and 2010, all notes receivable were guaranteed by established banks in the PRC and have maturities of six months or less from 31 December.

The Group pledged RMB457,370,000 (2010: nil) notes receivable to banks to secure the Group's notes payable as at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. Trade and Other Receivables *(Continued)*

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

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

Except for trade and other receivables amounting to RMB83,558,000 (2010: RMB54,170,000) 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.

22. Financial Assets at Fair Value Through Profit or Loss

	2011 **RMB'000**	2010 RMB'000
Listed investments:		
– Equity securities listed outside Hong Kong	**12,225**	12,947

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

23. Available-for-sale Financial Assets

	2011 **RMB'000**	2010 RMB'000
Listed investment outside Hong Kong		
– Debt security	**2,286**	–
Unlisted investment:		
– Debt security	**–**	100,000
– Equity security	**1,350**	–
	1,350	100,000
	3,636	100,000
Included in non-current assets	**3,636**	–
Included in current assets	**–**	100,000
	3,636	100,000

The directors determined that the fair value of debt security is not materially different from the carrying amount as stated above. The unlisted equity security is stated at cost less impairment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. Convertible Bonds

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$1.9) per share, subject to adjustment in certain events. Upon the payment of final dividends for the year ended 31 December 2010, the conversion price of the CB2014 was changed to RMB1.651 (equivalent to HK$1.8742) from 30 June 2011 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.

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

	2011 RMB'000	2010 RMB'000
Liability component		
Carrying amount brought forward	**1,488,725**	1,449,150
Accrued effective interest charges	**93,829**	90,941
Interest paid during the year	**(48,665)**	(51,366)
	1,533,889	1,488,725
Liability component is represented by:		
Convertible bonds	**1,526,760**	1,483,012
Accrued interest included in trade and other payables (note 25)	**7,129**	5,713
	1,533,889	1,488,725

The principal amount outstanding at 31 December 2011 is RMB1,671 million (2010: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. Trade and Other Payables

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Trade and notes payables			
Trade payables			
– Third parties		**4,991,644**	4,619,345
– An associate		**101,020**	–
– Related parties controlled by the substantial shareholder of the Company		**1,288,583**	728,792
	(a)	**6,381,247**	5,348,137
Notes payable			
– Third parties		**1,005,189**	10,000
– Related parties controlled by the substantial shareholder of the Company		**–**	325,164
	(b)	**1,005,189**	335,164
		7,386,436	5,683,301
Other payables			
Accrued charges and other creditors			
Receipts in advance from customers			
– Third parties		**1,600,910**	2,739,679
– Related parties controlled by the substantial shareholder of the Company		**1,165,819**	15,680
		2,766,729	2,755,359
Deferred income related to government grants which conditions have not been satisfied		**34,190**	434,110
Payables for acquisition of property, plant and equipment		**718,615**	609,340
Accrued staff salaries and benefits		**240,338**	198,787
VAT and other taxes payables		**356,360**	205,612
Other accrued charges		**419,188**	612,347
		4,535,420	4,815,555
Amounts due to related parties controlled by the substantial shareholder of the Company	(c)	**185,062**	–
Amount due to ultimate holding company	(d)	**939**	–
Loan from a non-controlling shareholder of a subsidiary of the Group	(e)	**6,499**	9,213
		4,727,920	4,824,768
		12,114,356	10,508,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. 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:

	2011 **RMB'000**	2010 RMB'000
0 – 60 days	**5,120,325**	4,464,062
61 – 90 days	**700,064**	625,890
Over 90 days	**560,858**	258,185
	6,381,247	5,348,137

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

(b) Notes payable

At 31 December 2011 and 2010, 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) Amount due to ultimate holding company

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

(e) 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 2.78% to 6.56% (2010: 2.86% to 5.56%) per annum and repayable within one year.

Except for other payables amounting to RMB36,765,000 (2010: RMB33,148,000) which is expected to be payable after 1 year from the balance sheet date, all other trade and other payables are expected to be settled or recognised as income within 1 year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. Borrowings

	Note	2011 RMB'000	2010 RMB'000
Bank loans secured by the Group's assets	(a)	**2,068,965**	1,560,381
Bank loans guaranteed by the ultimate holding company	(b)	**691,319**	931,000
Other bank loans	(c)	**268,000**	167,600
Bank loans, unsecured	(d)	**331,281**	–
Total bank borrowings		**3,359,565**	2,658,981
Loan from government	(e)	**15,000**	–
		3,374,565	2,658,981

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

	2011 RMB'000	2010 RMB'000
On demand or within one year	**2,531,639**	1,096,669
In the second year	**691,926**	845,417
In the third to fifth year	**151,000**	716,895
	3,374,565	2,658,981
Less: amounts due within one year shown under current liabilities	**(2,531,639)**	(1,096,669)
	842,926	1,562,312

Note:

(a) These bank loans, together with notes payable, are secured by the Group's property, plant and equipment of RMB1,188,331,000 (2010: RMB896,554,000), prepaid land lease payments of RMB855,875,000 (2010: RMB502,856,000), notes receivable of RMB457,370,000 (2010: nil) (note 21(b)) and bank deposits of RMB353,532,000 (2010: RMB242,582,000) and carry interest at 5.32% to 6.98% (2010: 5.04% to 5.56%) per annum.

(b) These bank loans are guaranteed by the Company's ultimate holding company and carry interest at 3.37% to 6.9% (2010: 5.04% to 5.76%) per annum.

(c) Other bank loans represent bank loans obtained by a subsidiary of the Company which are guaranteed by other third parties and carry interest at 5.6% to 6.65% (2010: 5.31%) per annum.

(d) Unsecured bank loans carry interest at 2.26% to 6.65% (2010: nil) per annum.

(e) During the year ended 31 December 2011, the Group received an interest-free loan of RMB15 million from the government for financing the new plant construction. The loan is interest-free, secured by the Group's prepaid land lease payments of RMB24,962,000 and repayable on demand.

Of the above total borrowings, approximately RMB1,435,500,000 (2010: RMB1,318,600,000) and RMB1,939,065,000 (2010: RMB1,340,381,000) are fixed-rate borrowings and variable-rate borrowings respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. Deferred Taxation

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

	2011 RMB'000	2010 RMB'000
At 1 January	**73,013**	37,727
Exchange differences	**7**	523
Charge to the consolidated income statement (note 11)	**19,174**	34,763
At 31 December	**92,194**	73,013

Deferred tax assets in respect of provisions

	2011 RMB'000	2010 RMB'000
At 1 January	**17,965**	14,259
Exchange differences	**(850)**	1,581
Credit to the consolidated income statement	**4,062**	2,125
At 31 December	**21,177**	17,965

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

Deferred tax liabilities

	Undistributed profit of subsidiaries RMB'000	**Accelerated tax depreciation** RMB'000	**Total** RMB'000
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 1 January 2011	67,247	23,731	90,978
Exchange differences	–	(843)	(843)
Charge to the consolidated income statement	29,156	(5,920)	23,236
At 31 December 2011	**96,403**	**16,968**	**113,371**

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 RMB1,602 million (2010: RMB1,921 million).

At the balance sheet date, the Group has unused tax losses of approximately RMB168 million (2010: RMB324 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. Share Capital

	Number of shares	Nominal value RMB'000
Authorised:		
Ordinary shares of HK$0.02 each		
At 31 December 2010 and 31 December 2011	12,000,000,000	246,720
Issued and fully paid:		
Ordinary shares of HK$0.02 each		
At 1 January 2010	7,310,855,450	136,993
Shares issued under share option scheme	129,900,000	2,286
At 31 December 2010 and 1 January 2011	7,440,755,450	139,279
Shares issued under share option scheme	16,705,000	294
At 31 December 2011	7,457,460,450	139,573

During the year, options were exercised to subscribe for 16,705,000 ordinary shares in the Company at a consideration of approximately RMB13,850,000 of which approximately RMB294,000 was credited to share capital and the balance of RMB13,556,000 was credited to the share premium account. As a result of the exercise of options, RMB2,633,000 has been transferred from the share option reserve to the share premium account in accordance with the accounting policy set out in note 5(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 subsidiaries of the Group from/to Zhejiang Geely Holding Group Company Limited.

(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 5(f).

29. Reserves *(Continued)*

(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 5(m).

(f) Convertible bonds and warrant reserve

Convertible bonds and warrant 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 5(g) and the unexercised equity element of warrants issued by the Company.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial asset held at year end and is dealt with in accordance with the accounting policy in note 5(g).

(h) Accumulated profits

Accumulated profits represent accumulated net profit or losses less dividends paid plus other transfers to or from other reserves.

(i) Reserves of the Company

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,876,072,000 (2010: RMB2,290,702,000).

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB260,568,000 (2010: RMB391,685,000) which has been dealt with in the financial statements of the Company.

30. Major Non-cash Transaction

During the year ended 31 December 2011, the Group acquired certain property, plant and equipment, prepaid land lease payments and intangible assets, of which RMB718,615,000 (2010: RMB609,340,000), RMB33,293,000 (2010: RMB14,060,000) and nil (2010: RMB21,287,000) 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:

	2011 **RMB'000**	2010 RMB'000
Contracted but not provided for, net of deposits paid		
– purchase of property, plant and machinery	**865,210**	1,526,709
– purchase of intangible assets	**10,650**	–
– purchase of prepaid land lease payments	**24,208**	–
– investment in associates	**113,170**	–
– investment in available-for-sale financial assets	**5,400**	–
– acquisition of additional interests in subsidiaries	**215,386**	–
	1,234,024	1,526,709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	2011 RMB'000	2010 RMB'000
Office and factory premises		
Within one year	**8,396**	6,660
In the second to fifth year inclusive	**3,496**	6,174
After five years	**263**	5,218
	12,155	18,052
Other assets		
Within one year	**6,483**	1,544
In the second to fifth year inclusive	**5,159**	2,761
	11,642	4,305
	23,797	22,357

Leases are negotiated and rental are fixed for an average term of four (2010: 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 a fixed percentage of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group in respect of the retirement benefit scheme is to make the specified contributions.

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

For the year ended 31 December 2011, the aggregate employer's contributions made by the Group and charged to the consolidated income statement are RMB143,545,000 (2010: RMB57,284,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 SEHK on the date of the offer of grant; (ii) the average closing price of the shares as stated on the SEHK'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.

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For the year ended 31 December 2011

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:

2011

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Exercised during the year	Forfeited during the year	Transfer upon appointment	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. An Cong Hui	18 January 2010 to 17 January 2020	4.07	–	–	–	9,000,000	9,000,000		
Mr. Gui Sheng Yue	18 January 2010 to 17 January 2020	4.07	11,500,000	–	–	–	11,500,000		
Mr. Liu Jin Liang	18 January 2010 to 17 January 2020	4.07	9,000,000	–	–	–	9,000,000		
Ms. Wei Mei	18 January 2010 to 17 January 2020	4.07	–	–	–	3,000,000	3,000,000		
Mr. Yang Jian	18 January 2010 to 17 January 2020	4.07	12,000,000	–	–	–	12,000,000		
Mr. Yin Da Qing, Richard	18 January 2010 to 17 January 2020	4.07	11,000,000	–	–	–	11,000,000		
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. Lee Cheuk Yin, Dannis	18 January 2010 to 17 January 2020	4.07	1,000,000	–	–	–	1,000,000		
Mr. Song Lin	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		
			79,500,000	–	–	12,000,000	91,500,000		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. Share-based Payment Transactions *(Continued)*

Equity-settled share option scheme *(Continued)*

2011 *(Continued)*

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Exercised during the year	Forfeited during the year	Transfer upon appointment	Outstanding at 31 December	Exercise date	Weighted average share price at exercise date HK$
Employees	10 July 2006 to 16 May 2011	0.93	2,070,000	(1,990,000)	(80,000)	–	–	25 March 2011 to 4 May 2011	2.88
	18 September 2007 to 17 September 2012	1.06	7,500,000	(2,500,000)	–	–	5,000,000	19 May 2011 to 30 May 20111	3.1
	8 May 2008 to 7 May 2013	0.92	43,250,000	(12,215,000)	(1,000,000)	–	30,035,000	25 February 2011 to 14 October 2011	2.73
	18 January 2010 to 17 January 2020	4.07	431,350,000	–	(21,650,000)	(12,000,000)	397,700,000		
	21 April 2010 to 20 April 2020	4.07	15,900,000	–	–	–	15,900,000		
			579,570,000	(16,705,000)	(22,730,000)	–	540,135,000		

	At 1 January	Exercised	Forfeited	Transfer	At 31 December
	HK$	HK$	HK$	HK$	HK$
Weighted average exercise price per share	3.72	0.94	3.92	4.07	3.80

Weighted average remaining contractual life of options outstanding at 31 December 2011	7.5 years
Number of options exercisable at 31 December 2011	144,855,000
	HK$
Weighted average exercise price per share of options exercisable at 31 December 2011	3.29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. Share-based Payment Transactions *(Continued)*

Equity-settled share option scheme *(Continued)*

2010

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Transfer upon resignation	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 7 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		
Mr. Lee Cheuk Yin, Dannis	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		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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	Transfer upon resignation	Outstanding at 31 December	Exercise date	Weighted average share price at exercise date HK$
Directors										
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)	–	(8,000,000)	79,500,000		
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)	8,000,000	431,350,000		
	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$	HK$
Weighted average exercise price per share	0.93	4.07	0.93	3.74	4.07	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. Share-based Payment Transactions *(Continued)*

Equity-settled share option scheme *(Continued)*

No option was granted during the year ended 31 December 2011. During the year ended 31 December 2010, 515,800,000 options and 16,900,000 options were granted on 18 January 2010 and 21 April 2010 with estimated total fair values of approximately RMB893 million and RMB26 million respectively. The closing 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 RMB137,150,000 (2010: RMB273,437,000) for the year ended 31 December 2011 in relation to share options granted by the Company.

34. Warrants

As set out in note 24, 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 2010, the exercise price of the warrants were adjusted to RMB1.9986 (equivalent to HK$2.2687) per share from 30 June 2011 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 (2010: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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	2011 RMB'000	2010 RMB'000
Related companies (note 1)			
Zhejiang Geely Automobile Company Limited (Formerly known as "Zhejiang Geely Merrie Automobile Company Limited") (浙江吉利汽車有限公司 (前稱「浙江吉利美日汽車有限公司」))	Sales of complete knock down kits and sedan tool kits	**7,142,663**	6,370,985
	Sales of automobile parts and components	**2,975**	844
	Claims income on defective materials purchased	**53,020**	58,136
	Purchase of complete buildup units	**7,493,858**	6,678,538
	Purchase of automobile parts and components	**3,066**	128
	Sub-contracting fee paid	**22,719**	27,335
	Claims paid on defective materials sold	**56,002**	62,299
	Acquisition of property, plant and equipment	**4,312**	646
	Acquisition of subsidiaries/ additional interest in subsidiaries	**762,085**	–
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete and semi knock down kits and sedan tool kits	**2,581,436**	3,161,233
	Sales of automobile parts and components	**17,549**	72,875
	Claims income on defective materials purchased	**36,686**	30,726
	Purchase of complete buildup units	**2,499,488**	3,209,146
	Claims paid on defective materials sold	**36,514**	30,522
	Purchase of automobile parts and components	**795**	556
	Acquisition of property, plant and equipment	**304**	–
	Acquisition of additional interest in subsidiaries	**116,590**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. Connected and Related Party Transactions *(Continued)*

(a) Transactions *(Continued)*

Name of related parties	Nature of transactions	2011 RMB'000	2010 RMB'000
Related companies (note 1)			
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	**8,114,438**	7,313,453
	Sales of automobile parts and components	**1,139**	1,025
	Claims income on defective materials purchased	**95,904**	128,985
	Purchase of complete buildup units	**8,370,557**	7,542,908
	Purchase of automobile parts and components	**355**	79
	Sub-contracting fee paid	**79,552**	65,670
	Claims paid on defective materials sold	**92,533**	123,470
	Acquisition of property, plant and equipment	**94,244**	2,890
	Research and development services rendered	**9,270**	57,154
	Acquisition of additional interest in subsidiaries	**135,010**	18,000
	Sales of property, plant and equipment	**1,372**	82,854
	Rental income	**1,642**	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	**65**	244
	Claims income on defective materials purchased	**47,151**	104,446
	Purchase of automobile parts and components	**5,458,549**	7,514,542
	Claims paid on defective materials sold	**–**	1,652
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defective materials purchased	**10,052**	24,771
	Purchase of automobile parts and components	**511,583**	882,841
	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. Connected and Related Party Transactions *(Continued)*

(a) Transactions *(Continued)*

Name of related parties	Nature of transactions	2011 RMB'000	2010 RMB'000
Related companies (note 1)			
Taizhou Haoqing Automobile Sales Company Limited (Formerly known as "Taizhou Geely Automobile Sales Company Limited") (台州豪情汽車銷售有限公司 (前稱「台州吉利汽車銷售有限公司」))	Sales of automobile parts and components	**131**	–
	Sales of complete buildup units	**80,865**	53,050
Zhejiang Wisdom Electronics Equipment Company Limited (浙江智慧電裝有限公司)	Purchase of automobile parts and components	**23,917**	9,804
	Sales of property, plant and equipment	**–**	2,574
	Rental income	**551**	551
Hunan Geely Automobile Industries Company Limited (湖南吉利汽車工業有限公司)	Sub-contracting fee paid	**–**	234
	Acquisition of property, plant and equipment	**1,823**	–
Zhejiang Geely Automobile Industry School (浙江吉利汽車工業學校)	Rental income	**6,264**	1,679
Chengdu New Land Automobile Co., Ltd (成都新大地汽車有限責任公司)	Sales of complete knock down kits and sedan tool kits	**4,172**	–
	Purchase of complete buildup units	**2,979**	–
Zhongjia Automobile Manufacturing (Chengdu) Company Limited (中嘉汽車製造（成都）有限公司)	Rental income	**298**	–
	Sale of property, plant and equipment	**1,234**	–
	Sales of prepaid land lease payments	**80,898**	–
Non-controlling shareholder of the subsidiary			
Kailun (QuFu) Property Investment Limited (凱倫（曲阜）置業有限公司)	Loan advances	**–**	6,214
	Interest paid	**285**	428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. Connected and Related Party Transactions *(Continued)*

(a) Transactions *(Continued)*

Name of related parties	Nature of transactions	2011 RMB'000	2010 RMB'000
Associate			
Mando (Ningbo) Automotive Parts Company Limited (萬都（寧波）汽車零部件有限公司)	Purchase of automobile parts and components	**151,756**	–
	Sale of property, plant and equipment	**21,540**	–
	Rental income	**320**	–
	Sales of automobile parts and components	**2,530**	–
	Sale of intangible assets	**6,393**	–
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	**927**	315
	Acquisition of subsidiaries	**45,734**	162,000

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 units 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:

	2011 RMB'000	2010 RMB'000
Short-term benefits	**32,371**	29,201
Retirement benefits scheme contribution	**1,470**	1,432
Share-based payments	**137,150**	273,437
	170,991	304,070

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. Connected and Related Party Transactions *(Continued)*

(c) Pledge of assets

At 31 December 2011, certain prepaid land lease payments and property, plant and equipment with carrying amounts of RMB210,836,000 (2010: RMB194,475,000) and RMB131,635,000 (2010: RMB526,912,000) 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 RMB493,600,000 (2010: RMB420,000,000). During the year, the maximum guarantee provided by the Group was determined to be RMB493,600,000 (2010: RMB420,000,000).

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 the 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.

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

	2011 RMB'000	2010 RMB'000
Debt (i)	**4,901,325**	4,141,993
Equity (ii)	**9,582,200**	8,021,882
Debt to equity ratio	**51%**	52%

(i) Debt comprising borrowings and convertible bonds as detailed in notes 26 and 24 to the consolidated financial statements respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 21(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 (also disclosed under the below liquidity table). In addition, as set out in note 35(c) to the consolidated financial statements, certain of the Group's assets have been pledged and the Group also provided guarantee 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 countries that the Group operates.

Equity and debt price risk

The Group is exposed to the equity price changes arising from the equity and debt securities classified as available-for-sale financial assets.

The Group's listed investment is listed overseas. Decisions to buy or sell securities are based on the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least twice a year against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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
2011								
Loans and receivables								
Trade receivables	0.27	1,261,401	133,813	244,573	84,744	–	1,724,531	1,718,437
Notes receivable	–	1,003,615	1,184,792	6,643,860	–	–	8,832,267	8,832,267
Other receivables	–	101,593	4,146	11,348	2,185	–	119,272	119,272
Pledged bank deposits	3.14	115,946	21,271	227,275	–	–	364,492	353,532
Bank balances and cash	0.58	3,047,722	–	–	–	–	3,047,722	3,030,391
Financial assets at fair value through profit or loss	–	12,225	–	–	–	–	12,225	12,225
Available-for-sale financial assets	1.07	7	3	29	39	3,674	3,752	3,636
		5,542,509	1,344,025	7,127,085	86,968	3,674	14,104,261	14,069,760
Financial liabilities at amortised cost								
Trade payables	–	1,859,996	528,540	3,992,711	–	–	6,381,247	6,381,247
Notes payable	–	277,103	66,829	661,257	–	–	1,005,189	1,005,189
Other payables	–	426,647	25,609	95,797	36,765	–	584,818	584,818
Loan from a non-controlling shareholder of a subsidiary of the Group	6.06	564	32	6,263	–	–	6,859	6,499
Borrowings	6.10	308,883	393,561	1,949,023	619,011	269,307	3,539,785	3,374,565
Convertible bonds	6.58	8,232	4,116	37,732	50,081	1,762,665	1,862,826	1,526,760
		2,881,425	1,018,687	6,742,783	705,857	2,031,972	13,380,724	12,879,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

37. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

2010	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
Loans and receivables								
Trade receivables	0.25	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	–	83,138	19,834	22,127	1,747	–	126,846	126,846
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	–	369,259	9,135	37,605	33,148	–	449,147	449,147
Loan from a non-controlling shareholder of a subsidiary of the Group	5.56	323	55	12,362	–	–	12,740	9,213
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

Interest rate risk

The Group's fair value interest rate risk relates primarily to convertible bonds (note 24) and fixed-rate bank borrowings (note 26). 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 (note 26).

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.

At 31 December 2011, 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 RMB15 million (2010: RMB10 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

37. Financial Risk Management Objectives and Policies *(Continued)*

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.

	2011			2010		
	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	**29,034**	**80,221**	**93**	257,491	65,321	104
Trade and other receivables	**1,627**	**709,501**	**–**	–	580,093	–
Borrowings	**(127,600)**	**(25,319)**	**–**	(17,600)	–	–
Trade and other payables	**–**	**(36,132)**	**(691)**	–	(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**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Profit after tax/Retained earnings	**27,310**	22,243	**(4,848)**	11,994

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

37. Financial Risk Management Objectives and Policies *(Continued)*

Fair value of financial instruments *(Continued)*

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:

	2011		2010	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds	**1,526,760**	**1,542,567**	1,483,012	1,454,873

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

2011	**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	**12,225**	**–**	**–**	**12,225**
Available-for-sale financial assets	**–**	**2,286**	**–**	**2,286**
	12,225	**2,286**	**–**	**14,511**

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
Available-for-sale financial assets	–	100,000	–	100,000
	12,947	100,000	–	112,947

There was no transfer between instruments in Level 1 and Level 2 for the year ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. Acquisition of Assets and Liabilities Through Acquisition of Subsidiaries

On 21 January 2011, the Company entered into agreements with Zhejiang Geely Holding Group Company Limited and its subsidiary to acquire 100% interests in Ningbo Vision Automobile Parts and Components Company Limited ("Ningbo Vision") and Shandong Geely Gearbox Company Limited ("Shandong Geely") for 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. The acquisition of Ningbo Vision and Shandong Geely was completed during the year. Details of the acquisition have been set out in the Company's announcement dated 21 January 2011.

Ningbo Vision and Shandong Geely have not engaged in any operating activities, and did not have sufficient workforce and all necessary plant and equipment ready for production at the acquisition dates and the acquisition was accounted for as purchases of assets and liabilities of which no goodwill was recognised.

The assets and liabilities acquired in the acquisition of Ningbo Vision and Shandong Geely at the acquisition dates are as follows:

	Carrying amount RMB'000
The assets and liabilities acquired:	
Property, plant and equipment	541,776
Intangible assets	155,839
Prepaid land lease payments	194,003
Trade and other receivables	41,038
Inventories	7,732
Cash and cash equivalents	59,319
Trade and other payables	(542,365)
	457,342
Total consideration satisfied by:	
Cash	457,342
Net cash outflow arising on acquisition:	
Cash consideration paid	(457,342)
Bank balances and cash acquired	59,319
	(398,023)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. Business Combinations

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 follows:

	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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

40. Balance Sheet of the Company

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		**124**	93
Investments in subsidiaries	41	**293,697**	293,697
Investment in an associate		**97,788**	97,788
		391,609	391,578
Current assets			
Other receivables		**1,622**	1,040
Amounts due from subsidiaries	(a)	**3,861,827**	3,887,129
Bank balances and cash		**76,861**	195,175
		3,940,310	4,083,344
Current liabilities			
Other payables		**11,164**	27,931
Borrowings		**127,600**	17,600
		138,764	45,531
Net current assets		**3,801,546**	4,037,813
Total assets less current liabilities		**4,193,155**	4,429,391
Capital and reserves			
Share capital	28	**139,573**	139,279
Reserves	(b)	**2,526,822**	2,807,100
Total equity		**2,666,395**	2,946,379
Non-current liabilities			
Convertible bonds	24	**1,526,760**	1,483,012
		4,193,155	4,429,391

Note: (a) The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(b) The movement of reserves represents:

	2011 RMB'000	2010 RMB'000
At 1 January	**2,807,100**	2,969,726
Shares issued under share option scheme	**13,556**	103,974
Recognition of share-based payments	**137,150**	273,437
Loss for the year	**(260,568)**	(391,685)
Dividends paid	**(170,416)**	(148,352)
At 31 December	**2,526,822**	2,807,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Subsidiaries

Investments in subsidiaries represent unlisted shares at cost.

Name of company	Place of incorporation/ registration and operations	Issued and fully paid shares/ 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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Subsidiaries *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid shares/ registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
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
浙江吉潤汽車有限公司 (前稱「浙江吉利汽車有限公司」) Zhejiang Jirun Automobile Company Limited (formerly known as "Zhejiang Geely Automobile Company Limited")^	PRC	USD330,715,081	–	99% (note 1)	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	–	99% (note 1)	Research, development, production, marketing and sales of sedans and related automobile 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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Subsidiaries *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid shares/ registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
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% (note 1)	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% (note 1)	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
湖南吉利汽車部件有限公司 Hunan Geely Automobile Components Company Limited^	PRC	USD88,500,000	–	99% (note 1)	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

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For the year ended 31 December 2011

41. Subsidiaries *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid shares/ registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
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	–	65% (note 2)	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
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
湖南羅佑發動機部件有限公司 Hunan Luoyou Engine Components Company Limited#	PRC	RMB150,000,000	–	100%	Production of automobile components in the PRC
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Subsidiaries *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid shares/ registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
湖南吉盛國際動力傳動系統有限公司 Hunan Jisheng International Drivetrain System Company Limited# ^	PRC	RMB34,028,029	–	100%	Production of automobile components in the PRC
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 sales of related automobile components in the PRC
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變速箱製造有限公司 Chongqing DSI Gearbox Manufacturing Company Limited# ^	PRC	RMB16,000,000	–	100%	Not yet commenced business
寧波遠景汽車零部件有限公司 Ningbo Vision Automobile Parts and Components Company Limited#	PRC	RMB96,000,000	–	100%	Research, development, production, marketing and sales of related automobile components in the PRC
山東吉利變速器有限公司 Shandong Geely Gearbox Company Limited#	PRC	RMB100,000,000	–	100%	Not yet commenced business
杭州軒宇人力資源有限公司 Hangzhou Xuan Yu Human Resources Co. Ltd.#	PRC	RMB500,000	–	100%	Not yet commenced business
Limited Liability Company "Geely-Motors"	Russia	RUB10,000	–	100%	Marketing and sales of sedans in Russia
Fewin S.A.	Uruguay	USD200,000	–	100%	Not yet commenced business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Subsidiaries *(Continued)*

* 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.

Note:

1. During the year, the Group entered into agreements with Zhejiang Geely Holding Group Company Limited and its subsidiaries to acquire additional 8% interest in Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple Guorun"), Hunan Geely Automobile Components Company Limited ("Hunan Geely"), Zhejiang Jirun Automobile Company Limited (formerly known as "Zhejiang Geely Automobile Company Limited") ("Zhejiang Jirun"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong") and Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo"), increasing each of its equity interest from 91% to 99%, at a cash consideration of RMB116,591,000, RMB135,010,000, RMB350,477,000, RMB162,805,000 and RMB52,581,000 respectively. Details of the acquisition have been set out in the Company's announcement dated 25 November 2011.

   The acquisition of additional 8% interest in Shanghai Maple Guorun, Hunan Geely and Zhejiang Jirun were completed during the year.

   Subsequent to the year end, the remaining acquisition of additional 8% interest in Zhejiang Kongkong and Zhejiang Ruhoo were completed.

2. During the year, the Group entered into an agreement with certain third parties to dispose 35% interest in Zhejiang Shou La Shou Automobile Services Company Limited, reducing its equity interest to 65%. The proceeds on partial disposal (without losing control) of RMB1,750,000 were satisfied by cash.

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. Liu Jin Liang
Dr. Zhao Fuquan
Ms. Wei Mei
(Appointed on 17 January 2011)
Mr. Li Dong Hui, Daniel
(Appointed on 23 May 2011)
Mr. An Cong Hui
(Appointed on 30 December 2011)

Non-executive Directors:

Mr. Wang Yang
Mr. Yin Da Qing, Richard
(Re-designated on 30 December 2011)

Independent Non-executive Directors:

Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex
Mr. Fu Yu Wu
(Appointed on 30 December 2011)

Audit Committee:

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

Remuneration Committee:

Mr. Yeung Sau Hung, Alex
(Appointed as Committee's Chairman on 30 December 2011)
Ms. Wei Mei
Mr. Lee Cheuk Yin, Dannis
Mr. Fu Yu Wu

Nomination Committee:

Mr. Fu Yu Wu
(Appointed as Committee's Chairman on 30 December 2011)
Mr. Gui Sheng Yue
Mr. Yeung Sau Hung, Alex
Mr. Lee Cheuk Yin, Dannis

Company Secretary:

Mr. Cheung Chung Yan, David

Auditors:

Grant Thornton Jingdu Tianhua

Legal Advisor on Hong Kong Law:

Sidley Austin

Legal Advisor on Cayman Islands Law:

Maples and Calder

Principal Bankers in Hong Kong:

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

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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

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