GEELY

吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 0175)

REDEFINING MOMENTS

Interim Report

2018

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CORPORATE INFORMATION

Executive Directors:

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

Non-executive Director:

Mr. Carl Peter Edmund Moriz Forster

Independent Non-executive Directors:

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

Audit Committee:

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

Remuneration Committee:

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

Nomination Committee:

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

Company Secretary:

Mr. Cheung Chung Yan, David

Auditor:

Grant Thornton Hong Kong Limited

Legal Advisor on Hong Kong Law:

Sidley Austin

Legal Advisor on Cayman Islands Law:

Maples and Calder

Principal Bankers in Hong Kong (in alphabetical order):

Bank of America, N.A.
China CITIC Bank International Limited
Citibank, N.A., Hong Kong Branch
ING Bank N.A., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Principal Bankers in the People's Republic of China (in alphabetical order):

Bank of China Limited
China Everbright Bank Company Limited
Industrial Bank Company Limited

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Hong Kong

Investor & Media Relations:

Prime International Consultants Limited

Listing Information:

The Stock Exchange of Hong Kong Limited
Stock Code: 0175

Company's Website:

http://www.geelyauto.com.hk

INDEPENDENT REVIEW REPORT

Grant Thornton
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To the Board of Directors of Geely Automobile Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report of Geely Automobile Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 4 to 38 which comprises the condensed consolidated statement of financial position as at 30 June 2018 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

22 August 2018

Chiu Wing Ning
Practising Certificate No.: P04920

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Note)
Revenue	3	**53,708,605**	39,423,646
Cost of sales		**(42,871,336)**	(31,869,514)
Gross profit		**10,837,269**	7,554,132
Other income	4	**768,588**	661,410
Distribution and selling expenses		**(2,269,447)**	(1,737,487)
Administrative expenses, excluding share-based payments		**(1,608,650)**	(1,180,592)
Share-based payments	21	**(8,046)**	(14,023)
Finance income/(cost), net	5(a)	**17,393**	(9,266)
Share of results of associates		**(5,295)**	13,986
Share of results of joint ventures	12	**243,532**	21,598
Profit before taxation	5	**7,975,344**	5,309,758
Taxation	6	**(1,239,446)**	(923,370)
Profit for the period		**6,735,898**	4,386,388
Attributable to:			
Equity holders of the Company		**6,670,023**	4,343,563
Non-controlling interests		**65,875**	42,825
Profit for the period		**6,735,898**	4,386,388
Earnings per share			
Basic	8	**RMB74.33 cents**	RMB48.77 cents
Diluted	8	**RMB72.65 cents**	RMB47.68 cents

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 10 to 38 are integral parts of this interim financial report. Details of dividends payable to equity holders of the Company are set out in note 7.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Note)
Profit for the period	**6,735,898**	4,386,388
Other comprehensive income (after tax of RMBNil) for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**46,304**	7,118
Total comprehensive income for the period	**6,782,202**	4,393,506
Attributable to:		
Equity holders of the Company	**6,715,853**	4,350,626
Non-controlling interests	**66,349**	42,880
Total comprehensive income for the period	**6,782,202**	4,393,506

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 10 to 38 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**As at 30 June 2018 RMB'000 (Unaudited)**	As at 31 December 2017 RMB'000 (Audited) (Note)
Non-current assets			
Property, plant and equipment	9	**16,557,951**	14,052,943
Intangible assets	10	**12,079,748**	10,551,773
Land lease prepayments		**2,145,612**	2,123,909
Goodwill		**16,079**	16,079
Interests in associates	11	**415,142**	369,360
Interests in joint ventures	12	**5,559,062**	4,435,530
Available-for-sale financial assets		**–**	21,650
Financial assets at fair value through profit or loss		**10,800**	–
Deferred tax assets		**603,654**	401,325
		37,388,048	31,972,569
Current assets			
Land lease prepayments		**46,796**	47,810
Inventories	13	**6,505,599**	6,027,312
Trade and other receivables	14	**29,160,089**	33,478,308
Income tax recoverable		**709**	4,072
Pledged bank deposits		**2,033**	36,043
Bank balances and cash		**16,171,425**	13,414,638
		51,886,651	53,008,183
Current liabilities			
Trade and other payables	16	**45,196,713**	47,532,529
Bank borrowings	17	**1,323,686**	1,296,460
Income tax payable		**1,040,353**	1,072,958
		47,560,752	49,901,947
Net current assets		**4,325,899**	3,106,236
Total assets less current liabilities		**41,713,947**	35,078,805

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

	Note	**As at 30 June 2018 RMB'000 (Unaudited)**	As at 31 December 2017 RMB'000 (Audited) (Note)
CAPITAL AND RESERVES			
Share capital	18	**164,402**	164,286
Reserves		**38,853,910**	34,302,761
Equity attributable to equity holders of the Company		**39,018,312**	34,467,047
Non-controlling interests		**409,939**	343,787
Total equity		**39,428,251**	34,810,834
Non-current liabilities			
Bonds payables	15	**1,969,522**	–
Deferred tax liabilities		**316,174**	267,971
		2,285,696	267,971
		41,713,947	35,078,805

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 10 to 38 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity holders of the Company									
	Share capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Statutory reserve RMB'000 (Unaudited)	Translation reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Accumulated profits RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Balance at 1 January 2017	162,708	6,212,325	164,790	170,420	(138,153)	478,714	17,386,423	24,437,227	249,022	24,686,249
Profit for the period	–	–	–	–	–	–	4,343,563	4,343,563	42,825	4,386,388
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	7,063	–	–	7,063	55	7,118
Total comprehensive income for the period	–	–	–	–	7,063	–	4,343,563	4,350,626	42,880	4,393,506
Transactions with owners:										
Share issued under share option scheme	931	262,933	–	–	–	(76,208)	–	187,656	–	187,656
Equity settled share-based payments	–	–	–	–	–	14,023	–	14,023	–	14,023
Transfer upon forfeiture of share options	–	–	–	–	–	(273)	273	–	–	–
Final dividend declared and approved in respect of the previous year (note 7)	–	–	–	–	–	–	(964,665)	(964,665)	–	(964,665)
Total transactions with owners	931	262,933	–	–	–	(62,458)	(964,392)	(762,986)	–	(762,986)
Balance at 30 June 2017	163,639	6,475,258	164,790	170,420	(131,090)	416,256	20,765,594	28,024,867	291,902	28,316,769
Balance at 31 December 2017	**164,286**	**6,641,202**	**164,790**	**179,587**	**(123,575)**	**381,898**	**27,058,859**	**34,467,047**	**343,787**	**34,810,834**
Impact on initial application of HKFRS 9 (note 2)	**-**	**-**	**-**	**-**	**-**	**-**	**(34,313)**	**(34,313)**	**(197)**	**(34,510)**
Adjusted balance at 1 January 2018	**164,286**	**6,641,202**	**164,790**	**179,587**	**(123,575)**	**381,898**	**27,024,546**	**34,432,734**	**343,590**	**34,776,324**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**6,670,023**	**6,670,023**	**65,875**	**6,735,898**
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	**-**	**-**	**-**	**-**	**45,830**	**-**	**-**	**45,830**	**474**	**46,304**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**45,830**	**-**	**6,670,023**	**6,715,853**	**66,349**	**6,782,202**
Transactions with owners:										
Share issued under share option scheme	**116**	**32,284**	**-**	**-**	**-**	**(9,893)**	**-**	**22,507**	**-**	**22,507**
Equity settled share-based payments	**-**	**-**	**-**	**-**	**-**	**8,046**	**-**	**8,046**	**-**	**8,046**
Transfer upon forfeiture of share options	**-**	**-**	**-**	**-**	**-**	**(1,920)**	**1,920**	**-**	**-**	**-**
Final dividend declared and approved in respect of the previous year (note 7)	**-**	**-**	**-**	**-**	**-**	**-**	**(2,160,828)**	**(2,160,828)**	**-**	**(2,160,828)**
Total transactions with owners	**116**	**32,284**	**-**	**-**	**-**	**(3,767)**	**(2,158,908)**	**(2,130,275)**	**-**	**(2,130,275)**
Balance at 30 June 2018	**164,402**	**6,673,486**	**164,790**	**179,587**	**(77,745)**	**378,131**	**31,535,661**	**39,018,312**	**409,939**	**39,428,251**

The notes on pages 10 to 38 are integral parts of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Note)
Cash flows from operating activities			
Profit before taxation		**7,975,344**	5,309,758
Adjustments for non-cash items		**1,057,219**	864,494
Operating profit before working capital changes		**9,032,563**	6,174,252
Net changes in working capital		**(1,936,818)**	2,891,954
Cash generated from operations		**7,095,745**	9,066,206
Income taxes paid		**(1,419,331)**	(922,224)
Net cash generated from operating activities		**5,676,414**	8,143,982
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,830,298)**	(876,223)
Additions of intangible assets	10	**(2,140,824)**	(1,511,501)
Additions of land lease prepayments		**(44,089)**	(6,666)
Proceeds from disposal of property, plant and equipment		**1,048**	18,533
Proceeds from disposal of intangible assets	10	**18,459**	6,115
Change in pledged bank deposits		**34,010**	25,898
Net cash inflow on disposal of an associate		**–**	13,860
Additional capital injection in a joint venture	12	**(880,000)**	–
Additional capital injection in an associate		**(51,077)**	(27,592)
Interest received		**68,447**	47,546
Net cash used in investing activities		**(4,824,324)**	(2,310,030)
Cash flows from financing activities			
Proceeds from issuance of shares upon exercise of share options		**22,507**	187,656
Proceeds from issuance of bonds, net of transaction costs	15	**1,927,161**	–
Repayment of bank borrowings		**–**	(174,375)
Interest paid		**(49,413)**	(54,830)
Net cash generated from/(used in) financing activities		**1,900,255**	(41,549)
Net increase in cash and cash equivalents		**2,752,345**	5,792,403
Cash and cash equivalents at the beginning of the period		**13,414,638**	15,045,493
Effect of foreign exchange rate changes		**4,442**	(63,460)
Cash and cash equivalents at the end of the period, represented by bank balances and cash		**16,171,425**	20,774,436

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 10 to 38 are integral parts of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The interim financial report (the "Interim Financial Report") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 22 August 2018.

The Interim Financial Report is presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

The accounting policies and methods of computation used in the preparation of the Interim Financial Report are consistent with those used in the annual financial statements for the year ended 31 December 2017 except for the adoption of the new and amended Hong Kong Financial Reporting Standards ("HKFRSs") as disclosed in note 2.

The Interim Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company and its subsidiaries' (together referred to as the "Group") annual financial statements for the year ended 31 December 2017.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES

2.1 New and amended HKFRSs adopted as at 1 January 2018

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") are relevant to the Group's financial statements.

The Group has early adopted the amendments to HKFRS 9 "Prepayment Features with Negative Compensation" at the same time as the adoption of HKFRS 9 as at 1 January 2018.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 2.1(a) for HKFRS 9 and note 2.1(b) for HKFRS 15.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9:

	As at 31 December 2017	**Impact on initial application of HKFRS 9** (note 2.1(a))	**As at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Trade and other receivables	33,478,308	(37,993)	33,440,315
Total current assets	**53,008,183**	**(37,993)**	**52,970,190**
Deferred tax assets	401,325	3,483	404,808
Total non-current assets	**31,972,569**	**3,483**	**31,976,052**
Net assets	**34,810,834**	**(34,510)**	**34,776,324**
Reserves	34,302,761	(34,313)	34,268,448
Equity attributable to equity holders of the Company	**34,467,047**	**(34,313)**	**34,432,734**
Non-controlling interests	343,787	(197)	343,590
Total equity	**34,810,834**	**(34,510)**	**34,776,324**

Further details of these changes are set out in sub-sections (a) and (b) of this note.

(a) HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

(a) ***HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"*** *(Continued)*

The following table summarises the impact of transition to HKFRS 9 on accumulated profits, non-controlling interersts and the related tax impact as at 1 January 2018.

	RMB'000
Accumulated profits	
Recognition of additional expected credit losses on financial assets measured at amortised cost	(37,993)
Related taxation	3,483
Net decrease in accumulated profits as at 1 January 2018	(34,510)
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests as at 1 January 2018	(197)

Further details of the nature and effect of the changes of the previous accounting policies and the transition approach are set out below:

(i) *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

(a) *HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"* *(Continued)*

(i) *Classification of financial assets and financial liabilities (Continued)*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount as at 31 December 2017	Reclassificaion	Remeasurement	HKFRS 9 carrying amount as at 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets carried at amortised cost				
Trade and other receivables	33,478,308	–	(37,993)	**33,440,315**
Financial assets measured at FVPL				
Unlisted equity securities (note)	–	21,650	–	**21,650**
Financial assets classified as available-for-sale financial assets under HKAS 39 (note)	21,650	(21,650)	–	**–**

Note: Under HKAS 39, unlisted equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

(a) HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation" *(Continued)*

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including bank balances and cash, pledged bank deposits and trade and other receivables).

Financial assets measured at fair value, including unlisted equity securities measured at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls on bank balances and cash, pledged bank deposits and trade and other receivables are discounted using effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

(a) ***HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"*** *(Continued)*

(ii) *Credit losses (Continued)*

Measurement of ECLs (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

***(a) HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"** (Continued)*

(ii) Credit losses (Continued)

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

(a) ***HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"*** *(Continued)*

(ii) *Credit losses (Continued)*

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB37,993,000, which decreased accumulated profits by RMB34,313,000 and non-controlling interests by RMB197,000 and increased gross deferred tax assets by RMB3,483,000 as at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	–
Additional credit loss recognised as at 1 January 2018 on trade receivables	37,993
Loss allowance as at 1 January 2018 under HKFRS 9	37,993

(iii) *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in accumulated profits as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessment has been made on the basis of the facts and circumstances that existed as at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(b) ***HKFRS 15***

Sales of automobiles and automobile parts and components

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue", which covered revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction contracts", which specified the accounting for construction contracts.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.1 New and amended HKFRSs adopted as at 1 January 2018 *(Continued)*

(b) ***HKFRS 15*** *(Continued)*

Sales of automobiles and automobile parts and components (Continued)

Revenue are generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers when the customers obtain control of the promised goods in the contract.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under "Trade and other payables" as receipts in advance from customers in the condensed consolidated statement of financial position.

The directors of the Company consider that the adoption of HKFRS 15 has no material impact on the Group's financial position and results of operations.

2.2 Issued but not yet effective HKFRSs

In the current period, the HKICPA has issued a number of new and amended HKFRSs but not yet effective. Except for the amendments to HKFRS 9 "Prepayment Features with Negative Compensation", which have been adopted at the same time as HKFRS 9, the Group has not early adopted any new or amended standards in preparing this Interim Financial Report.

The Group has the following updates to the information provided in the last annual financial statements in respect of HKFRS 16 "Leases", which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16 "Leases" ("HKFRS 16")

As discussed in the last annual financial statements, currently the Group classifies leases into operating leases. The Group enters into some leases as the lessor and others as the lessee. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

2. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

2.2 Issued but not yet effective HKFRSs *(Continued)*

HKFRS 16 "Leases" ("HKFRS 16") *(Continued)*

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for office and factory premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease. However, based on an initial assessment, the Group expects that the adoption of HKFRS 16 will not materially affect the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue from sales of automobiles and automobile parts and components, net of discounts and value-added taxes ("VAT") or related sales taxes, was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers when the customers obtain control of the promised goods in the contract. Sales were mainly made to customers located in the People's Republic of China (the "PRC").

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

4. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants and subsidies (note)	**691,971**	500,643
Gain on disposal of scrap materials	**11,328**	16,196
Gain on disposal of an associate	**–**	1,192
Net foreign exchange gain	**–**	89,181
Rental income	**14,280**	12,821
Sundry income	**51,009**	41,377
	768,588	661,410

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

5. PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
			(Note)
(a)	**Finance income and costs**		
	Finance costs		
	Effective interest expense on senior notes	**–**	2,917
	Coupon expense on senior notes	**–**	53,368
	Effective interest expense on bonds payables (note 15)	**1,691**	–
	Coupon expense on bonds payables	**30,683**	–
	Interest on bank borrowings wholly repayable within five years	**18,680**	527
		51,054	56,812
	Finance income		
	Bank and other interest income	**(68,447)**	(47,546)
	Net finance (income)/costs	**(17,393)**	9,266
(b)	**Staff costs (including directors' emoluments)**		
	Salaries, wages and other benefits	**2,466,241**	1,788,690
	Retirement benefit scheme contributions	**158,743**	117,789
	Equity settled share-based payments	**8,046**	14,023
		2,633,030	1,920,502
(c)	**Other items**		
	Cost of inventories	**42,871,336**	31,869,514
	Depreciation	**582,051**	439,584
	Impairment loss on trade and other receivables	**–**	–
	Net foreign exchange loss/(gain)	**115,793**	(89,181)
	Amortisation of land lease prepayments	**23,400**	23,985
	Amortisation of intangible assets	**594,390**	411,775
	Research and development costs	**223,479**	123,051
	Net loss on disposal of property, plant and equipment	**21,546**	10,808

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

6. TAXATION

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC enterprise income tax	**1,392,143**	870,622
– Overseas tax	**–**	897
– Over-provision in prior years	**(2,054)**	(2,481)
	1,390,089	869,038
Deferred tax	**(150,643)**	54,332
	1,239,446	923,370

Hong Kong profits tax has not been provided as the Hong Kong incorporated companies within the Group had no estimated assessable profits in Hong Kong for the six months ended 30 June 2018 and 2017.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period based on the existing legislation, interpretations and practises in respect thereof. The PRC enterprise income tax rate is 25% (six months ended 30 June 2017: 25%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group obtained the High and New Technology Enterprises qualification. Accordingly, they enjoyed a preferential income tax rate of 15% for the six months ended 30 June 2018 (six months ended 30 June 2017: 15%).

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

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

7. DIVIDENDS

During the current period, a final dividend for the year ended 31 December 2017 of HK$0.29 per ordinary share (six months ended 30 June 2017: HK$0.12 per ordinary share), amounting to approximately RMB2,160,828,000 (six months ended 30 June 2017: RMB964,665,000), has been declared and approved by the shareholders at the annual general meeting of the Company. The 2017 final dividend was paid in July 2018 and is reflected as dividends payable in the Interim Financial Report.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the period is based on the profit attributable to equity holders of the Company of RMB6,670,023,000 (six months ended 30 June 2017: RMB4,343,563,000) and the weighted average number of ordinary shares of 8,974,042,761 shares (2017: 8,905,566,319 shares), calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	**8,970,514,540**	8,882,861,540
Effect of shares options exercised	**3,528,221**	22,704,779
Weighted average number of ordinary shares at 30 June	**8,974,042,761**	8,905,566,319

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period is based on the profit attributable to equity holders of the Company of RMB6,670,023,000 (six months ended 30 June 2017: RMB4,343,563,000) and the weighted average number of ordinary shares of 9,181,127,007 shares (2017: 9,110,706,420 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares (basic) at 30 June	**8,974,042,761**	8,905,566,319
Effect of deemed issue of shares under the Company's share options scheme	**207,084,246**	205,140,101
Weighted average number of ordinary shares (diluted) at 30 June	**9,181,127,007**	9,110,706,420

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately RMB3,109,697,000 (six months ended 30 June 2017: RMB1,507,582,000). Property, plant and equipment with net book value of approximately RMB22,594,000 (six months ended 30 June 2017: RMB29,341,000) were disposed of during the period, resulting in a net loss on disposal of approximately RMB21,546,000 (six months ended 30 June 2017: RMB10,808,000).

10. INTANGIBLE ASSETS

During the period, additions to intangible assets by acquisition and capitalisation in respect of development costs amounted to approximately RMB2,140,824,000 (six months ended 30 June 2017: RMB1,511,501,000).

Intangible assets with net book value of approximately RMB18,459,000 (six months ended 30 June 2017: RMB6,115,000) were disposed of during the period, no gain or loss on disposal was resulted.

11. INTERESTS IN ASSOCIATES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Share of net assets	**418,491**	372,709
Goodwill	**663**	663
Impairment loss recognised	**(4,012)**	(4,012)
	415,142	369,360

During the six months ended 30 June 2018, Closed Joint Stock Company BELGEE ("BELGEE") effected an increase in registered capital whereby the Group and other investors injected additional capital to BELGEE amounting to Belarusian ruble ("BYN") 15,350,000 (equivalent to approximately RMB51,077,000) and BYN18,018,000 (equivalent to approximately RMB60,405,000), respectively. Upon the completion of the capital increase, the registered capital of BELGEE was changed from BYN97,565,000 (equivalent to approximately RMB394,249,000) to BYN130,933,000 (equivalent to approximately RMB505,731,000). As a result of such an increase in registered capital, the Group's equity interests in BELGEE were increased from 31.7% to 35.4% and the Group is still able to exert significant influence over the financial and operating activities of BELGEE. Accordingly, the Group continues to account for such investment as an associate.

12. INTERESTS IN JOINT VENTURES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Share of net assets	**5,559,062**	4,435,530
Represented by:		
Cost of unlisted investments	**5,350,000**	4,470,000
Unrealised gain on disposal of a subsidiary to a joint venture	**(14,943)**	(14,943)
Share of post-acquisition results and other comprehensive income/(expense)	**224,005**	(19,527)
	5,559,062	4,435,530

Details of the Group's principal joint ventures at 30 June 2018 are as follows:

Name of joint venture	Place of establishments and operations	Form of business structure	Particulars of registered capital	Proportion of ownership interest held by the Group 30 June 2018	Proportion of ownership interest held by the Group 31 December 2017	Principal activities
Genius Auto Finance Company Limited# ("Genius AFC") 吉致汽車金融有限公司	PRC	Incorporated	RMB2,000,000,000 (31 December 2017: RMB900,000,000)	**80%**	80%	Vehicles financing business
LYNK & CO Investment Co., Ltd.# ("LYNK & CO Investment") 領克投資有限公司	PRC	Incorporated	RMB7,500,000,000	**50%**	50%	Manufacturing and sales of vehicles under the "Lynk & Co" brand

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

During the six months ended 30 June 2018, the registered capital of Genius AFC had been increased by RMB1,100,000,000 from RMB900,000,000 as at 31 December 2017 to RMB2,000,000,000 as at 30 June 2018 whereby the Company and the joint venture partner injected additional capital in proportional to their existing shareholding to Genius AFC amounted to RMB880,000,000 and RMB220,000,000, respectively.

12. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of Genius AFC and LYNK & CO Investment, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the condensed consolidated statement of financial position, are disclosed below:

	LYNK & CO Investment		**Genius AFC**	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited)
Non-current assets	**6,879,377**	6,666,672	**400,334**	347,162
Current assets	**6,078,647**	5,339,868	**15,306,699**	10,053,066
Current liabilities	**(4,950,198)**	(4,576,894)	**(13,596,720)**	(9,480,666)
Non-current liabilities	**(236,317)**	–	**–**	–
Net assets	**7,771,509**	7,429,646	**2,110,313**	919,562
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	**622,623**	743,202	**1,157,707**	514,635
Current financial liabilities (excluding trade and other payables and provisions)	**–**	–	**(12,243,846)**	(8,293,777)
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	–	**–**	–

	LYNK & CO Investment Six months ended 30 June	**Genius AFC Six months ended 30 June**	
	2018 RMB'000 (Unaudited)	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
Revenue	**7,358,921**	**571,607**	158,090
Profit for the period	**341,863**	**90,751**	26,998
Other comprehensive income for the period	**–**	**–**	–
Total comprehensive income for the period	**341,863**	**90,751**	26,998
Dividend received from the joint ventures	**–**	**–**	–
The above profits for the period including the following:			
Depreciation and amortisation	**(274,160)**	**(3,864)**	(2,898)
Interest income	**3,452**	**563,353**	154,764
Interest expense	**(15)**	**(240,237)**	(31,885)
Income tax expense	**(109,692)**	**(30,250)**	(8,992)

12. INTERESTS IN JOINT VENTURES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the Group's interests in joint ventures recognised in the condensed consolidated statement of financial position:

	LYNK & CO Investment		**Genius AFC**	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited)
Net assets of the joint ventures	**7,771,509**	7,429,646	**2,110,313**	919,562
The Group's effective interests in the joint ventures	**50%**	50%	**80%**	80%
The Group's share of the net assets of the joint venture	**3,885,755**	3,714,823	**1,688,250**	735,650
Unrealised gain on disposal of a subsidiary to a joint venture	**(14,943)**	(14,943)	**–**	–
Carrying amount of the Group's interests in joint ventures	**3,870,812**	3,699,880	**1,688,250**	735,650

13. INVENTORIES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Raw materials	**1,297,177**	1,317,330
Work in progress	**468,179**	382,784
Finished goods	**4,740,243**	4,327,198
	6,505,599	6,027,312

14. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 June 2018 RMB'000 (Unaudited)**	As at 31 December 2017 RMB'000 (Audited)
Trade and notes receivables			
Trade receivables, net of loss allowance			
– Third parties		**346,176**	377,966
– Associates		**371,143**	271,002
– A joint venture		**38,587**	–
– Related companies controlled by the substantial shareholder of the Company		**518,484**	51,733
	(a)	**1,274,390**	700,701
Notes receivables	(b)	**23,509,655**	28,790,926
		24,784,045	29,491,627
Deposits, prepayment and other receivables			
Prepayment to suppliers			
– Third parties		**523,776**	129,080
– Related companies controlled by the substantial shareholder of the Company		**5,375**	847,093
		529,151	976,173
Deposits paid for acquisition of property, plant and equipment		**357,586**	600,692
VAT and other taxes receivables		**3,097,638**	1,877,788
Utility deposits and other receivables		**374,551**	208,595
		4,358,926	3,663,248
Amounts due from related companies controlled by the substantial shareholder of the Company	(c)	**17,118**	323,433
		4,376,044	3,986,681
		29,160,089	33,478,308

14. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0 – 60 days	**372,197**	167,875
61 – 90 days	**71,980**	7,689
Over 90 days	**247,293**	67,476
	691,470	243,040

For overseas customers, the Group allows credit periods ranged from 30 days to 720 days. The following is an ageing analysis of the trade receivables of the overseas customers, based on invoice date and net of loss allowance, at the reporting date:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0 – 60 days	**241,370**	102,041
61 – 90 days	**137,905**	84,174
91 – 365 days	**154,949**	155,309
Over 365 days	**48,696**	116,137
	582,920	457,661

(b) Notes receivables

All notes receivables are denominated in RMB. As at 30 June 2018 and 31 December 2017, all notes receivables were guaranteed by established banks in the PRC and have maturities of less than six months from the reporting date.

(c) Amounts due from related companies

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

Except for trade and other receivables of RMBNil (31 December 2017: RMB140,027,000) which is expected to be recovered after one year from the reporting date, all other trade and other receivables are expected to be recovered or recognised as an expense within one year.

15. BONDS PAYABLES

On 18 January 2018, the Company announced the bonds issuance with an aggregate principal amount of United States dollars ("US$") 300,000,000 (equivalent to approximately RMB1,944,690,000) (the "Bonds"). The Bonds carried interest at 3.625% per annum, payable semi-annually in arrears on 25 January and 25 July, and the maturity date was 25 January 2023.

The Bonds were listed on Singapore Exchange Securities Trading Limited. They constitute direct, unconditional, unsubordinated and (subject to the terms and conditions of the Bonds) unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to the terms and conditions of the Bonds, at all times rank pari passu with all its other present and future unsecured and unsubordinated obligations.

The carrying amount of the Bonds at initial recognition net of transaction costs amounted to US$297,296,000 (equivalent to approximately RMB1,927,161,000) and the effective interest rate was 3.825% per annum. The Bonds were carried at amortised cost.

The movements of the Bonds for the period are set out below:

	As at 30 June 2018 RMB'000 (Unaudited)
Carrying amount	
Initial fair value on the date of issuance	**1,927,161**
Exchange differences	**40,670**
Interest expenses	**1,691**
At the end of the period	**1,969,522**

16. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade and notes payables			
Trade payables			
– Third parties		**28,666,182**	26,848,633
– Associates		**68,730**	1,252,227
– Related companies controlled by the substantial shareholder of the Company		**976,326**	2,492,942
	(a)	**29,711,238**	30,593,802
Notes payables	(b)	**234,890**	1,045,043
		29,946,128	31,638,845
Other payables			
Receipts in advance from customers			
– Third parties		**3,924,683**	7,980,480
– Related companies controlled by the substantial shareholder of the Company		**43,458**	3,992
		3,968,141	7,984,472
Deferred government grants which conditions have not been satisfied		**3,836,012**	3,379,500
Payables for acquisition of property, plant and equipment		**2,111,033**	1,074,740
Accrued staff salaries and benefits		**516,031**	908,966
VAT and other taxes payables		**121,420**	104,388
Dividends payable		**2,165,124**	–
Other accrued charges		**2,512,875**	2,430,232
		15,230,636	15,882,298
Amounts due to related companies controlled by the substantial shareholder of the Company	(c)	**19,949**	9,412
Amount due to ultimate holding company	(c)	**–**	1,974
		15,250,585	15,893,684
		45,196,713	47,532,529

16. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0 – 60 days	**25,193,825**	27,331,331
61 – 90 days	**2,646,672**	1,849,868
Over 90 days	**1,870,741**	1,412,603
	29,711,238	30,593,802

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

(b) Notes payables

All notes payables are denominated in RMB and are notes paid and/or payable to third parties for settlement of trade payables. As at 30 June 2018 and 31 December 2017, all notes payables have maturities of less than six months from the reporting date.

As at 30 June 2018, the Group pledged bank deposits of RMB2,033,000 (31 December 2017: RMB36,043,000) to secure the notes payables.

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

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

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

17. BANK BORROWINGS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Bank loans, unsecured	**1,323,686**	1,296,460

As at 30 June 2018 and 31 December 2017, the Group's bank borrowings were carried at amortised cost, repayable in October 2019 and interest-bearing at the London Interbank Offered Rates plus 1.05% per annum. Pursuant to the facility agreement, it will be an event of default if Mr. Li Shu Fu is (i) no longer the single largest beneficial shareholder of the Company, or (ii) no longer beneficially owns at least 25% of the issued share capital of the Company. In case of an event of default, the bank may by notice to the Company (a) cancel the loan facility, (b) declare that all or part of the loan, together with accrued interest, be immediately due and payable, and/or (c) declare that all or part of the loans be payable on demand.

18. SHARE CAPITAL

	Number of shares	**Nominal value RMB'000**
Authorised:		
Ordinary shares of HK$0.02 each		
At 31 December 2017 and 30 June 2018 (unaudited)	**12,000,000,000**	**246,720**
Issued and fully paid:		
Ordinary shares of HK$0.02 each		
At 1 January 2017	8,882,861,540	162,708
Shares issued under share option scheme	87,653,000	1,578
At 31 December 2017 and 1 January 2018	8,970,514,540	164,286
Shares issued under share option scheme	7,031,000	116
At 30 June 2018 (unaudited)	**8,977,545,540**	**164,402**

19. COMMITMENTS

Capital commitments

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Contracted but not provided for		
– purchase of property, plant and equipment	**2,412,583**	4,483,013
– investment in a joint venture	**293,436**	–
	2,706,019	4,483,013

On 24 April 2018, 浙江吉利羅佑發動機有限公司 Zhejiang Geely Luoyou Engine Company Limited# ("Zhejiang Engine"), an indirect 99% owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with AISIN AW Co., Ltd. ("AISIN AW"), a subsidiary of AISIN SEIKI Company Limited, pursuant to which the parties agreed to establish a joint venture company (the "JV Company") to principally engage in the manufacturing and sale of front-wheel drive 6-speed automatic transmissions and related parts and components. Pursuant to the terms of the Joint Venture Agreement, the JV Company will be owned as to 40% by Zhejiang Engine and as to 60% by AISIN AW. The registered capital of the JV Company will be US$117,000,000 (equivalent to approximately RMB733,590,000), and will be contributed as to 40% (US$46,800,000 or equivalent to approximately RMB293,436,000) in cash by Zhejiang Engine and as to 60% (US$70,200,000 or equivalent to approximately RMB440,154,000) in cash by AISIN AW. The board of directors of the JV Company will consist of five directors, of which two will be nominated by Zhejiang Engine and three will be nominated by AISIN AW. Unanimous resolution of all directors of the JV Company for certain key corporate matters is needed. Therefore, the JV Company is a joint venture company of the Group and its financial results will be accounted for in the consolidated financial statements of the Group using the equity method. As at 30 June 2018, the formation of the JV Company was not yet completed. Please refer to the Company's announcement dated 25 April 2018 for further details.

The English translation of the name of the company established in the PRC is for reference only. The official name of the company is in Chinese.

Operating lease commitments – as lessee

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Office and factory premises		
– Within one year	**10,614**	7,174
– In the second to fifth years inclusive	**13,361**	20,435
– After five years	**–**	110
	23,975	27,719

Leases are negotiated and rentals are fixed for an initial period of two to ten years (31 December 2017: two to ten years) with an option to renew the leases when all terms are renegotiated.

19. COMMITMENTS *(Continued)*

Operating lease commitments – as lessor

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Leasehold land and buildings		
– Within one year	**8,803**	7,021
– In the second to fifth years inclusive	**22,437**	23,849
– After five years	**15,741**	17,840
	46,981	48,710
Plant and machinery		
– Within one year	**4,001**	4,001
– In the second to fifth years inclusive	**16,004**	16,004
– After five years	**15,004**	17,004
	35,009	37,009
	81,990	85,719

Leases are negotiated and rental are fixed for an initial period of five to fourteen years (31 December 2017: five to fourteen years).

20. RETIREMENT BENEFITS SCHEME

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

For members of the MPF Scheme, the Group contributes 5% of the employees' relevant income to the scheme. Both the employer's and the employees' contributions are subject to a maximum of monthly relevant income of HK$30,000 (equivalent to RMB25,000) per employee. Contributions to the plan vest immediately.

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a fixed percentage of the employees' 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 subsidiaries in other overseas countries to defined contribution superannuation funds in accordance with the relevant laws and regulations in these countries.

For the six months ended 30 June 2018, the aggregate employer's contributions made by the Group and charged to the condensed consolidated income statement amounted to RMB158,743,000 (six months ended 30 June 2017: RMB117,789,000).

21. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has operated a share option scheme for eligible participants of the Group. Details of the terms of the scheme have been set out in the Group's annual financial statements for the year ended 31 December 2017.

2018 (Unaudited)

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June
Directors	18 January 2010 to 17 January 2020	4.07	37,500,000	–	(200,000)	–	37,300,000
	23 March 2012 to 22 March 2022	4.07	8,500,000	–	–	–	8,500,000
	9 January 2016 to 8 January 2020	2.79	14,750,000	–	(620,000)	–	14,130,000
			60,750,000	–	(820,000)	–	59,930,000
Employees	18 January 2010 to 17 January 2020	4.07	159,477,000	–	(5,561,000)	(125,000)	153,791,000
	21 April 2010 to 20 April 2020	4.07	4,710,000	–	–	(500,000)	4,210,000
	23 March 2012 to 22 March 2022	4.07	6,450,000	–	(100,000)	(400,000)	5,950,000
	9 January 2016 to 8 January 2020	2.79	8,820,000	–	(550,000)	–	8,270,000
	2 June 2016 to 1 June 2020	4.08	800,000	–	–	–	800,000
			180,257,000	–	(6,211,000)	(1,025,000)	173,021,000
Other eligible participants	2 June 2016 to 1 June 2020	4.08	11,450,000	–	–	–	11,450,000
	31 March 2018 to 30 March 2022	12.22	5,500,000	–	–	–	5,500,000
			16,950,000	–	–	–	16,950,000
			257,957,000	**–**	**(7,031,000)**	**(1,025,000)**	**249,901,000**

21. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

2017 (Unaudited)

	Exercisable period	Exercise price per share HK$	Outstanding at 1 January	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June
Directors	18 January 2010 to 17 January 2020	4.07	37,700,000	–	(200,000)	–	37,500,000
	23 March 2012 to 22 March 2022	4.07	8,500,000	–	–	–	8,500,000
	9 January 2016 to 8 January 2020	2.79	15,500,000	–	(750,000)	–	14,750,000
			61,700,000	–	(950,000)	–	60,750,000
Employees	18 January 2010 to 17 January 2020	4.07	224,505,000	–	(46,315,000)	(175,000)	178,015,000
	21 April 2010 to 20 April 2020	4.07	11,780,000	–	–	–	11,780,000
	23 March 2012 to 22 March 2022	4.07	7,250,000	–	(200,000)	–	7,050,000
	9 January 2016 to 8 January 2020	2.79	14,400,000	–	(830,000)	–	13,570,000
	2 June 2016 to 1 June 2020	4.08	1,000,000	–	–	–	1,000,000
			258,935,000	–	(47,345,000)	(175,000)	211,415,000
Other eligible participants	2 June 2016 to 1 June 2020	4.08	20,300,000	–	(3,425,000)	–	16,875,000
	31 March 2018 to 30 March 2022	12.22	–	5,500,000	–	–	5,500,000
			20,300,000	5,500,000	(3,425,000)	–	22,375,000
			340,935,000	5,500,000	(51,720,000)	(175,000)	294,540,000

During the six months ended 30 June 2018, the Group recognised a total expense of RMB8,046,000 (six months ended 30 June 2017: RMB14,023,000) in relation to share options granted by the Company and the share-based payment expenses were shown as a separate line item on the condensed consolidated income statement.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2018

22. MATERIAL RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of transactions	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Related companies (notes (a) and (b))			
Zhejiang Geely Automobile Company Limited# 浙江吉利汽車有限公司	Sales of complete knock down kits and sedan tool kits	**14,331,475**	13,846,546
	Claims income on defective materials purchased	**82,393**	71,719
	Purchase of complete buildup units	**14,978,160**	14,107,084
	Sub-contracting fee paid	**9,960**	31,188
	Claims paid on defective materials sold	**93,047**	83,592
Shenzhen Geely Automobile Sales Company Limited# 深圳吉利汽車銷售有限公司	Sales of complete buildup units (electric vehicles)	**33,752**	–
Zhejiang Geely Business Services Company Limited# 浙江吉利商務服務有限公司	Business travel services expense	**37,610**	–
Yaou Automobile Manufacturing (Taizhou) Company Limited# 亞歐汽車製造(台州)有限公司	Sales of powertrain and related components	**98,528**	–
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	**32,612,847**	22,418,354
	Sales of complete knock down kits (electric vehicles)	**174,334**	384,242
	Claims income on defective materials purchased	**88,973**	56,888
	Purchase of complete buildup units	**33,441,168**	24,211,266
	Claims paid on defective materials sold	**119,176**	68,329
Zhejiang Geely Automobile Parts and Components Company Limited# 浙江吉利汽車零部件採購有限公司	Claims income on defective materials purchased	**32,476**	25,210
	Purchase of automobile parts and components	**8,263,981**	7,341,282
Taizhou Haoqing Automobile Sales Services Company Limited# 台州豪情汽車銷售服務有限公司	Sales of complete buildup units	**–**	294,908
Hangzhou Geely New Energy Automobile Sales Company Limited# 杭州吉利新能源汽車銷售有限公司	Sales of complete buildup units (electric vehicles)	**1,475,309**	859,761
Viridi E-Mobility Technology (Suzhou) Co., Ltd.# 威睿電動汽車技術（蘇州）有限公司	Purchase of automobile parts and components	**19,327**	12,596
Associate			
BELGEE	Sales of automobile parts and components	**67,179**	–
Joint venture			
Kaiyue Auto Parts Manufacture (Zhangjiakou) Co., Ltd.# 凱悅汽車大部件製造(張家口)有限公司	Sales of powertrain and related components	**101,732**	–

22. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(a) The Group and the related parties are under the common control of the substantial shareholder of Zhejiang Geely Holding Group Company Limited# 浙江吉利控股集團有限公司, the Company's ultimate holding company.

(b) The Group does not have the automobile catalogue issued by the National Development Reform Commission in the PRC which is required to facilitate payment of the PRC consumption tax. The related parties referred to above have the relevant automobile catalogue licence and therefore the sales of complete knock down kits and sedan tool kits to and purchase of complete buildup units from related parties as set out above have been presented on a net basis in the condensed consolidated income statement (to the extent that they are back-to-back transactions) since the said related parties in effect only act as a channel to facilitate the payment of the PRC consumption tax. For the same reason, the related claims income from and claims expenses paid to these related parties have also been presented on a net basis as long as they are back-to-back transactions.

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

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

The carrying amounts of the financial instruments of the Group's carried at cost or amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017 due to their short-term maturities.

24. EVENTS AFTER THE REPORTING DATE

Acquisitions of Ningbo Jirun Automobile Components Company Limited# 寧波吉潤汽車部件有限公司 ("DMA Target"), Hangzhou Geely Automobile Company Limited# 杭州吉利汽車有限公司 ("DJD Target") and Guizhou Geely Automobile Components Company Limited# 貴州吉利汽車部件有限公司 ("GY Target")

On 18 July 2018, Zhejiang Jirun Automobile Company Limited# 浙江吉潤汽車有限公司 ("Jirun Automobile"), an indirect 99% owned subsidiary of the Company, and three fellow subsidiaries owned by the Company's ultimate holding company entered into acquisition agreements pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiaries have conditionally agreed to sell the entire equity interests of DJD Target, GY Target and DMA Target for total cash considerations of approximately RMB930,620,000, RMB1,074,309,000 and RMB1,169,399,000, respectively. The acquisition will be subject to, amongst others, the approval of the independent shareholders of the Company at the extraordinary general meeting. Please refer to the Company's announcement dated 18 July 2018 for further details.

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

25. COMPARATIVE FIGURES

The Group has initially applied HKFRS 9 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

2018 Interim Results

The Board of Directors (the "Board") of Geely Automobile Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018. These interim results have been reviewed by the Board's audit committee, comprising solely the independent non-executive directors of the Company, one of whom chairs the committee, and the Company's auditor, Grant Thornton Hong Kong Limited.

Overall Performance

The Group's performance in the first half of 2018 continued to beat the management's expectations. Although the competition in China's passenger vehicles market remains intense, the Group's sedan and Sport Utility Vehicle ("SUV") models demonstrated strong sales performance during the period. Total sales volume of passenger vehicles at Chinese indigenous brands exhibited a modest growth at 3.4% year-on-year ("YoY") during the period, compared with a 4.6% YoY growth of the overall Chinese passenger vehicle market in the same period, according to the data of China Association of Automobile Manufacturers ("CAAM Data"). Nonetheless, the Group's sales in the China market continued to grow strongly, with total sales volume up 44% YoY to 757,931 units in the first half of 2018. The Group's export sales volume also exhibited a strong rebound of 126% YoY to 8,699 units in the first half of 2018, as a result of the introduction of more updated products to the export markets. The Group sold a total of 766,630 units of vehicles (including the sales volume of LYNK & CO-branded vehicles sold by the Group's 50%-owned joint venture, namely LYNK&CO JV) in the first six months of 2018, achieved a 44% YoY growth over the same period in 2017. Total revenue (excluding the revenue of LYNK&CO JV) increased by 36% to RMB53.71 billion during the period. Profit attributable to the equity holders of the Company for the first half of 2018 was up 54% YoY to RMB6.67 billion. Gross margin ratio improved further during the period due to better product mix (i.e. higher proportion of higher-margin models) and economies of scale. The 31% increase in selling and distribution expenses was in line with the increase in revenue. The 35% increase in administrative expenses during the period was primarily attributable to the increase in amortization expenses as a result of the substantial investment in research and development over the past years. These, coupled with additional profit contribution from LYNK&CO JV during the period, resulted in the net profit growing faster than the overall revenue in the first six months of 2018. Diluted earnings per share (EPS) was up 52% to RMB72.65 cents.

Financial Resources

As a result of higher revenues and operating profits in the first half of 2018, the Group's financial position remained very strong at the end of June 2018. The Group's total cash level (bank balances and cash + pledged bank deposits) increased by 20% from the end of 2017 to RMB16.17 billion at the end of June 2018, while its total borrowings (including bank loans and the 5-year US$300 million 3.625% bonds due 2023 (the "Bonds")) increased by 154% to RMB3.29 billion compared with the same period. Net cash on hand (total cash level – total borrowings) increased to RMB12.88 billion, versus a net cash level of RMB12.15 billion six months ago. In addition, net notes receivables (bank notes receivables – bank notes payables) at the end of June 2018 amounted to RMB23.27 billion, which could provide the Group with additional cash reserves when needed through discounting the notes receivables with the banks.

Vehicle Manufacturing

The Group sold a total of 766,630 units of vehicles (including the sales volume of LYNK & CO-branded vehicles sold by the Group's 50%-owned joint venture, namely LYNK&CO JV) in the first half of 2018, up 44% YoY, helped by the continued good market demand for the Group's existing sedan, crossover and SUV models. Such promising sales volume growth was despite the Group's lack of new products for most of the times in the first half of 2018 as most of the Group's new model launches in 2018 would cluster towards the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's domestic sales volume in the first half of 2018 increased 44% YoY to 757,931 units (including the sales volume of LYNK & CO-branded vehicles sold by LYNK&CO JV), outperforming the overall passenger vehicle market in China, which was up only 4.6% YoY, according to CAAM Data. The Group's market share in China's overall passenger vehicle market increased significantly to 6.4% in the first half of 2018, according to the data published by the same organization. Export sales volume surged significantly by 126% to 8,699 units in the first half of 2018, as a result of the successful introduction of more updated models to the export markets and the improved macro-economic environment in some of its major export markets. Export sales, however, still only accounted for a tiny 1.1% of the Group's total sales volume in the first half of 2018, compared with 0.7% in the same period in 2017 and over 20% back in 2013.

In the first half of 2018, "Geely Boyue" (吉利博越) was the Group's most popular model, achieving sales volume of 127,088 units, an increase of 9% YoY, and accounting for 17% of the Group's total sales volume during the period. The Group's "Emgrand" series sedans, comprising "New Emgrand" and its new energy vehicle ("NEV") versions were also a key contributor to the overall sales volume. The combined sales volume of "Emgrand" series sedans was 115,408 units, which was down 2% YoY and constituted 15% of the Group's overall sales volume during the period.

Following the launch of two highly successful mid-size SUV models namely "Geely Boyue" (吉利博越) and "Vision SUV" (遠景SUV) over the past few years, the Group continued to expand its products offering in the SUV segment by introducing a few new compact SUV models like "Vision X3" (遠景X3), "Vision S1" (遠景S1) and "Vision X1" (遠景X1) last year. Besides, two brand new SUV models would be launched in the second half of 2018 to further enrich the Group's product portfolio in the SUV segment. The aggregate sales volume of the Group's SUV models including "Geely Boyue" (吉利博越), "Vision SUV" (遠景SUV), "Vision X3" (遠景X3), "Vision S1" (遠景S1) and "Vision X1" (遠景X1) amounted to 318,949 units, up 78% YoY and accounted for 42% of the Group's total sales volume in the first half of 2018. The combined sales volume of crossover model "Emgrand GS" and its NEV version was 84,484 units, up 45% YoY during the same period. As a result of the launch of a few new lower-priced compact SUV models in the second half of 2017 and the exclusion of the higher-priced LYNK & CO-branded vehicles from the calculation, the Group's average ex-factory selling price in the first half of 2018 was maintained at around the same level during the same period last year.

Over the past few years, the Group further enhanced its sales and marketing system in China, enabling it to provide better sales and after-sales services to its customers. The Group's products are currently sold under the "Geely" brand and the "LYNK & CO" brand (through an independent distribution channel under the LYNK&CO JV), targeting at different market segments. "Geely" brand is the Group's main stream mass market brand, while "LYNK & CO" is a joint-venture brand between the Group and Volvo Car Corporation ("VCC"), targeting at global premium market. At the end of June 2018, the Group and LYNK&CO JV had more than 940 dealers and 130 dealers, respectively, in China.

New Products

New energy vehicles would be the Group's focus in new products offering in 2018. The Group launched a new "Borui GE" model, which is only available in new energy versions: either MHEV ("mild hybrid electric vehicle(s)") version or PHEV ("plugin-hybrid-electric vehicle(s)") version. A crossover EV ("electric vehicle(s)") model, namely "Emgrand GSe" was also introduced to the China market in June 2018. The Group's 50%-owned LYNK & CO JV launched its second model: a crossover vehicle called "02" in June 2018.

In the remainder of 2018, the Group plans to significantly increase its new model offerings in the new energy sector. The Group also plans to enter the high end MPV market in China by launching its first ever MPV ("multi-purpose vehicle(s)") in the second half of 2018. According to the Group's preliminary plan, the following new products are expected to be offered to the market before the end of 2018:

Under the "Geely" brand:

- A new version of mid-size SUVs under the "Boyue" family;
- A new A0 segment SUV to supplement the Group's current SUV model portfolio;
- A brand new A segment sedan with good fuel efficiency;
- Two pure electric vehicle models;
- The Group's first MPV model;
- Upgraded versions of existing major models; and
- new NEV version for existing major models.

Under the "LYNK & CO" brand:

- "03"; and
- "PHEV" for "01", "02" & "03".

With the launches of more NEV models in 2018 and the expected promulgation of more government policies to encourage the use of NEVs in China, we expect the sales of NEVs to account for a significantly larger proportion of our total sales volume in the coming few years.

New Energy Vehicles Strategy

The Group announced and started to implement its NEV ("New Energy Vehicle") strategy named "Blue Geely Initiatives" in November 2015. "Blue Geely Initiatives" is a 5-year campaign demonstrating the Group's dedication to transformation into the industry leader in NEV technologies. The initiative's target is to ensure that up to 90% of the Group's total sales volume would be in the form of new energy vehicles by 2020.

Expanding our NEV products offering will be the core focus of the Group in 2018, during which NEV version will be added to all the Group's major product line. So far the NEV versions for both Borui (known as Borui GE) and Emgrand GS Crossover (known as Emgrand GSe) were launched in the China market. Both received strong market acceptance and their sales performance well exceeded the management's original expectations.

Since the commercial launch of the Group's first EV model "Emgrand EV" in 2015, "Emgrand EV" had consistently ranked amongst the best-selling full size electric vehicle model in China over the past few years. The Group has established good customer recognition in China for the quality and performance of its electric vehicles. In the remainder of the year 2018, the Group plans to launch two additional new EV models and to further speed up the pace of NEV products offering for most of its major vehicle model lines. This should put the Group in a better position to achieve the ambitious target set under the "Blue Geely Initiatives". In the first half of 2018, the Group sold a total of 14,362 units of NEV models, up 71% from the same period in 2017.

Genius AFC

Genius Auto Finance Company Limited ("Genius AFC"), the Group's 80%-owned vehicle financing joint -venture formed with BNP Paribas Personal Finance, commenced operation in September 2015. Located in Shanghai, Genius AFC's core business is the provision of auto wholesales financing solutions to auto dealers, and retail financing solutions to end customers, mainly supporting the three key auto brands in Geely Holding Group, including "Geely", "LYNK & CO" and "Volvo Car". Helped by the substantial growth in the sales volume of the Group and the increase in retail financing businesses, Genius AFC's auto finance business registered significant growth in the first half of 2018 with its total loan book growing 48% from the end of 2017 to RMB14.34 billion by 30 June 2018. With a healthy level of interest rate spread and a negligibly low default rate as a result of enhanced sales management and effective risk control, Genius AFC achieved good earnings performance in the first half of 2018 with net profit increasing 236% YoY to RMB90.75 million during the period.

Despite the increasing competition from other financial institutions like commercial banks and financial leasing companies and the challenges during the deleveraging and liquidity management process in China, limiting Genius AFC's ability to grow its loan book, Genius AFC is still on track to achieve its annual target steadily for 2018.

To support the continued growth of Genius AFC's auto finance business, Genius AFC's registered capital was increased from RMB900 million to RMB2 billion in early 2018. The Group contributed 80% (or RMB880 million) of the new capital injection according to its shareholding in Genius AFC.

LYNK&CO JV

LYNK & CO Investment Co., Ltd. ("LYNK&CO JV"), established in October 2017, is an indirect 50%-owned joint venture of the Group (the remaining interests were held as to 20% by our parent Zhejiang Geely Holding Group Company Limited ("Geely Holding", together with its subsidiaries, "Geely Holding Group"), and as to 30% by a subsidiary of Volvo Car Corporation or "VCC"), which is majority-owned by Geely Holding). The LYNK&CO JV was set up to facilitate the development, manufacture, sales and servicing of high-end passenger vehicles in both the China and international market under the "LYNK & CO" brand.

Positioned as a global brand with state-of-the-art design and manufacturing capabilities, LYNK&CO JV aims to target at the premium mobility market segment globally through the provision of both passenger vehicles and mobility services. The innovative business model of LYNK&CO JV is supported by new vehicle models developed from Compact Modular Architecture ("CMA"), which is jointly developed by Geely Holding and Volvo Car and licenced to the LYNK&CO JV.

MANAGEMENT DISCUSSION AND ANALYSIS

The first vehicle model called "01" under the LYNK&CO JV was offered to the China market at the end of 2017.

In the first half of 2018, the total sales volume of the LYNK&CO JV amounted to 46,252 units, all of which were initial ramp up contribution solely from "01", exceeding the management's expectations. Encouraged by the strong feedback to the LYNK&CO brand, two more new models under the LYNK&CO JV: "02" and "03" are expected to be launched in the remainder of 2018. Despite its first full six months' operation and the initial manufacturing capacity constraints, LYNK&CO JV managed to post a net profit of RMB341.86 million in the first half of 2018. In view of Chinese consumers' current preference over physical dealer shops to support sales and services, LYNK&CO JV has so far set up a dealer network with over 130 stores in China.

Exports

The Group exported a total of 8,699 units of vehicles in the first six months of 2018, up 126% from the same period last year, and accounted for 1.1% of the Group's total sales volume during the period. The improved export sales performance mainly helped by the Group's introduction of more updated products to its export markets and the gradual economic recovery at some of its export markets in the Eastern Europe, Middle East and South America. "Geely Boyue" and "Kingkong" were the Group's most popular export models in terms of sales volume in the first half of 2018. Total export sales volume of "Geely Boyue" and "Kingkong" amounted to 6,318 units and accounted for 73% of the Group's total export sales volume during the first six months of 2018. At the end of June 2018, the Group exported its products to 24 countries through 24 sales agents and 297 sales and service outlets.

Developing countries located in the Eastern Europe, Middle East and South America were the most important markets for the Group's exports in the first half of 2018. In addition to export of vehicles from China, the Group also assembles some models sold overseas using contract manufacturing arrangements with local partners.

Acquisitions of 100% interests in Hangzhou Geely Automobile Company Limited (杭州吉利汽車有限公司 or "Hangzhou Geely DJD"), Guizhou Geely Automobile Components Company Limited (貴州吉利汽車部件有限公司 or "Guizhou Geely GY") and Ningbo Jirun Automobile Components Company Limited (寧波吉潤汽車部件有限公司 or "Ningbo Jirun DMA")

On 18 July 2018, the Group agreed to acquire the entire registered capitals of Hangzhou Geely DJD, Guizhou Geely GY and Ningbo Jirun DMA from three group companies of its parent Geely Holding for RMB930,620,464.36, RMB1,074,308,970.43 and RMB1,169,398,629.60, respectively. The considerations for these acquisitions were determined with reference to the net asset value and the valuation premium of the relevant properties of Hangzhou Geely DJD, Guizhou Geely GY and Ningbo Jirun DMA as at 31 May 2018 and would be funded by internal resources of the Group. As at the date of this report, the acquisitions have not yet been completed. The acquisitions would be put forward at the extraordinary general meeting to be held on 4 September 2018 for approval by the independent shareholders of the Company.

The acquisitions would provide an opportunity for the Group to expand its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as to enhance the production capabilities of the Group for the manufacture of mid-end to high-end electric vehicles, sedans, sport utility vehicles and multi-purposes vehicles. It is anticipated that after completion of the acquisitions and the commencement of commercial production, the new models to be built at these plants will expand the Group's products offering and enhance the overall competitive strength of the Group's products in the market and will become one of the key drivers of the Group's future profitability. It is currently expected that the commercial production of the Guizhou Geely GY will commence in the third quarter of 2018 and that of Hangzhou Geely DJD and Ningbo Jirun DMA will commence in the fourth quarter of 2018. Upon completions of the acquisitions, Hangzhou Geely DJD, Guizhou Geely GY and Ningbo Jirun DMA will become the indirectly 99% owned subsidiaries of the Company and the financial statements of which will be consolidated into the financial statements of the Group.

Issuance of US$300 million 3.625% Bonds Due 2023

In January 2018, the Company issued US$300 million bonds bearing an interest rate of 3.625% per annum payable semi-annually in arrears due 2023 (the "Bonds") commencing on 25 July 2018, raising the net proceeds of around US$297,296,000 (equivalent to approximately RMB1,927,161,000).

As at the date of this report, the net proceeds of the Bonds have been utilized as below:

	RMB'000
Finance costs	57,179
General corporate purposes	9,227
Total	66,406

Formation of a joint venture company on powertrain business

On 24 April 2018, 浙江吉利羅佑發動機有限公司 (Zhejiang Geely Luoyou Engine Company Limited or "Zhejiang Engine"), an indirect 99%-owned subsidiary of the Company, entered into a joint venture agreement with AISIN AW Co., Ltd. (愛信AW株式會社 or "AISIN AW"), a company incorporated in Japan, a subsidiary of AISIN SEIKI Company Limited, a company incorporated in Japan and the shares of which are listed on the Tokyo Stock Exchange (stock code: 7259), pursuant to which the parties agreed to establish a joint venture company to principally engage in the manufacture and sales of front-wheel drive 6-speed automatic transmissions and related parts and components (the "Products"). The joint venture company will be owned as to 40% by Zhejiang Engine and as to 60% by AISIN AW. The registered capital of the joint venture company will be US$117,000,000 (equivalent to approximately RMB733,590,000), and will be contributed as to 40% (US$46,800,000 or equivalent to approximately RMB293,436,000) in cash by Zhejiang Engine and as to 60% (US$70,200,000 or equivalent to approximately RMB440,154,000) in cash by AISIN AW.

The formation of the joint venture company should leverage on the strength, resources and expertise of both parties in the manufacturing of automatic transmissions and related parts and components in the PRC, which in turn will ensure a stable supply of the Products to the Group in the future in order to cater the Group for the increasing demand for advanced transmissions with efficient performance for its product offerings as well as to meet the more stringent regulatory requirement on fuel consumption standards. As at the date of this report, the joint venture company is still in the course of undergoing relevant statutory procedures for business registration in the PRC.

Outlook

China's passenger vehicle market experienced an obvious slowdown in the first half of 2018, led by the SUV sector, the key driver for growth over the past few years. Demand for SUVs in China shifted from very rapid growth over the past few years to negative growth towards the middle of 2018. The sedan market, however, remained relatively stable at single digit growth throughout the period. The intense market competition in China, the high base in terms of sales volume in corresponding period last year and the elimination of purchase tax subsidies for fuel efficient vehicles at the beginning of 2018 are believed to be the key reasons behind the slowdown of demand. The recent China-US trade dispute has resulted in additional uncertainties and has put further pressure on the passenger vehicle market in China since mid-2018. These could cause the slowdown to continue in the remainder of 2018. Longer-term, the competition in China's automobile market will continue to intensify amid the transformation from conventional vehicles to NEVs and intelligent/connected vehicles, and the gradual relaxation of foreign investment in China's automobile industry.

MANAGEMENT DISCUSSION AND ANALYSIS

On the positive front, the Group's overall competitiveness and management capabilities have strengthened significantly over the past few years following its successful strategic transformation to improve brand image, product quality, customer service satisfaction, technology and innovation, as reflected by the encouraging market acceptance for the Group's new products and the continual increase in its market share in China. Also, the Group's financial position remained strong as a result of good operational cash inflow over the past few years. This should enable the Group to continue investing for the future and respond to the rapid market changes.

The Group has broadened its product portfolio through more quality offerings across different segments, including sedan, SUV and crossover, leading to higher sales volume, better economies of scale and enhanced brand recognition. In the remainder of 2018, the Group plans to launch its first MPV model, which should provide the Group with additional momentum for growth. More new SUV models are scheduled to be launched in the second half of 2018, enabling the Group to offer SUV models in every sub-segment of the important SUV sector in China. So far in 2018, the Group's performance has exceeded the management's original expectations. All the Group new product launches have been well accepted by the market, while its existing products continued to sell very well despite a generally weaker market in China during the same period. The Group's market share in China's passenger vehicle market increased further from 5% in 2017 to 6.4% in the first half of 2018, making the Group the third largest passenger vehicle manufacturer in China only after Volkswagen and General Motors in terms of sales volume. In view of an even stronger new products pipeline ahead, the Group should be in a good position to secure higher market share in the China's passenger vehicle market in the near future.

With substantial efforts and resources invested in the research and development, together with the continuous technological collaboration with VCC over the past few years, the Group is on track to become one of the most innovative companies in the automobile sector, offering our customers with intelligent vehicles, which are smarter, more fuel-efficient, safer and fully connected. The launches of the Group's "iNTEC" technology platform in 2017 and "GKUI" customer interface platform in March 2018 and the extensive application of these technologies in our products should facilitate the Group to address the radical technological changes and customers' needs in the automobile sector. On the NEV front, the Group would significantly increase the proportion of new energy vehicles in its sales volume by adding new energy version models for most of its major product lines in the remainder of the year.

Further, additional growth could be generated by the upcoming launch of two more new models developed from CMA, which are jointly developed by Geely Holding and VCC, under the new "LYNK & CO" brand in the second half of 2018. The "LYNK & CO" brand, which emphasizes key brand concepts like "personalized"; "open platform" and "full connectivity", are key parts of the Group's strategy to expand into the premium vehicle segment in the global market.

Despite recent uncertainties caused by the trade friction between China and the USA, the devaluation of RMB against US dollar since June 2018 and the slowdown in passenger vehicle demand growth in China, the timely transformation of the Group over the past few years should have made the Group well positioned to meet these challenges. With the Group's negligible dependence on imported components and exports sales, the impact of current trade dispute on the Group's operation should be minimal.

With the strong sales performance of the Group's products in the first half of 2018 and the good market feedback for the upcoming new models to be launched in the remainder of the year, the Group's management team is very confident to achieve and believes it is likely to exceed the full year sales volume target of 1,580,000 units in 2018. The Group is on track of becoming a leading global automobile group with good reputation and integrity, winning respects from our customers, targeting to reach the total sales volume of 2 million units on or before 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure and Treasury Policies

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and Hong Kong and the credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, shareholders' loan from its parent Geely Holding Group and fund raising exercises in the capital market. As at 30 June 2018, the Group's shareholders' fund amounted to approximately RMB39.0 billion (As at 31 December 2017: approximately RMB34.5 billion). Upon exercise of share options, 7.031 million new shares were issued by the Group during the six months ended 30 June 2018.

Exposure to Foreign Exchange Risk

During the six months ended 30 June 2018, the Group's operations were principally related to domestic sales of automobiles and related automobile parts and components in the Mainland China and the Group's assets and liabilities were mainly denominated in RMB, the functional currency of the Group's key subsidiaries.

In terms of export operations, most of the Group's export sales were denominated in United States Dollars (US$) during the period. Despite the Group has taken a more conservative approach to contain financial risks in the export markets recently, the Group would face foreign exchange risk when export business gets more frequent, particularly in emerging markets if it had local subsidiaries, associates or joint ventures in overseas export markets. The devaluation of local currencies in overseas markets could result in foreign exchange losses and affect the Group's competitiveness and therefore its sales volume in these markets. To mitigate the foreign exchange risk, the Group has embarked on plans to increase the proportion of its costs in local currencies to engage in local business activities. Also, to compensate for higher costs in export markets, the Group has speeded up the renewal of its export models, and has started to streamline its export operations displaying comparative advantages with an aim to achieve higher customer satisfaction, better operating efficiency and economies of scale in its export markets.

The Group was also exposed to foreign exchange risks through interest-bearing borrowing and bonds payables that were denominated in US$ during the period.

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

Liquidity and Financial Resources

As at 30 June 2018, the Group's current ratio (current assets/current liabilities) was 1.09 (As at 31 December 2017: about 1.06) and the gearing ratio of the Group was 8.4% (As at 31 December 2017: 3.8%) which was calculated on the Group's total borrowings (including the bank loans and the 5-year US$300 million 3.625% bonds due 2023 (the "Bonds") but excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests). Total borrowings (including the bank loans, the Bonds but excluding trade and other payables) as at 30 June 2018 amounted to approximately RMB3.3 billion (as at 31 December 2017: approximately RMB1.3 billion) were the Group's bank loans and the Bonds. At the end of June 2018, the Group's total borrowings were denominated in US$. They aligned with the currency mix of the Group's revenues from export business, which were mainly denominated in US$. For the Bonds, they were unsecured, interest-bearing and repaid on maturity. Should other opportunities arise requiring additional funding, the Board believes the Group is in a good position to obtain such financing.

Employees' Remuneration Policy

As at 30 June 2018, the total number of employees of the Group was about 47,500 (As at 31 December 2017: approximately 41,600). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2018, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding (%)
		Long position	Short position	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporations	3,964,448,000	–	44.16
Mr. Li Shu Fu	Personal	23,140,000	–	0.26
Mr. Yang Jian	Personal	14,475,000	–	0.16
Mr. Li Dong Hui, Daniel	Personal	4,200,000	–	0.05
Mr. Gui Sheng Yue	Personal	14,300,000	–	0.16
Mr. An Cong Hui	Personal	16,280,000	–	0.18
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.05
Ms. Wei Mei	Personal	4,170,000	–	0.05
Mr. Lee Cheuk Yin, Dannis	Personal	550,000	–	0.006
Mr. Yeung Sau Hung, Alex	Personal	350,000	–	0.004

(II) Interests and short positions in the underlying shares of the Company

Name of director	Nature of interests	Number or attributable number of shares Long position	Short position	Approximate percentage or attributable percentage of shareholding (%)
Shares Options				
Mr. Yang Jian	Personal	9,000,000 (Note 2)	–	0.10
Mr. Li Dong Hui, Daniel	Personal	3,500,000 (Note 3)	–	0.04
Mr. Gui Sheng Yue	Personal	11,500,000 (Note 2)	–	0.13
Mr. Gui Sheng Yue	Personal	6,000,000 (Note 4)	–	0.07
Mr. An Cong Hui	Personal	4,700,000 (Note 2)	–	0.05
Mr. Ang Siu Lun, Lawrence	Personal	11,000,000 (Note 2)	–	0.12
Mr. Ang Siu Lun, Lawrence	Personal	5,000,000 (Note 4)	–	0.06
Ms. Wei Mei	Personal	900,000 (Note 2)	–	0.01
Ms. Wei Mei	Personal	5,000,000 (Note 3)	–	0.06
Mr. Carl Peter Edmund Moriz Forster	Personal	1,000,000 (Note 4)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	100,000 (Note 2)	–	0.001
Mr. Lee Cheuk Yin, Dannis	Personal	250,000 (Note 4)	–	0.003
Mr. Yeung Sau Hung, Alex	Personal	100,000 (Note 2)	–	0.001
Mr. Yeung Sau Hung, Alex	Personal	250,000 (Note 4)	–	0.003
Mr. An Qing Heng	Personal	630,000 (Note 4)	–	0.007
Mr. Wang Yang	Personal	1,000,000 (Note 4)	–	0.01

Notes:

(1) Proper Glory Holding Inc. ("Proper Glory") and its concert parties in aggregate hold securities' interest of 3,964,448,000 shares (excluding those held directly by Mr. Li Shu Fu), representing approximately 44.16% of the issued share capital of the Company as at 30 June 2018. 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 and as to 32% by Geely Group Limited.

(2) The interest relates to share options granted on 18 January 2010 by the Company to the Directors. The share options are exercisable at a subscription price of HK$4.07 for each Share during the period from 18 January 2010 to 17 January 2020. The percentage of shareholding is calculated on the basis that (i) 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 30 June 2018.

(3) The interest relates to share options granted on 23 March 2012 by the Company to the Directors. The share options are exercisable at a subscription price of HK$4.07 for each Share during the period from 23 March 2012 to 22 March 2022. The percentage of shareholding is calculated on the basis that (i) 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 30 June 2018.

(4) The interest relates to share options granted on 9 January 2015 by the Company to the Directors. The share options are exercisable at a subscription price of HK$2.79 for each Share during the period from 9 January 2016 to 8 January 2020. The percentage of shareholding is calculated on the basis that (i) 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 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Name of director	Name of the associated corporations	Number of shares in the associated corporations Long position	Short position	Approximate percentage of shareholding (%)
Mr. Li Shu Fu	Proper Glory Holding Inc.	(Note 1)	–	(Note 1)
Mr. Li Shu Fu	Geely Group Limited	50,000	–	60
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 Ruhoo Automobile Company Limited	(Note 8)	–	(Note 8)
Mr. Li Shu Fu	Hunan Geely Automobile Components Company Limited	(Note 9)	–	(Note 9)
Mr. Li Shu Fu	Chengdu Gaoyuan Automobile Industries Company Limited	(Note 10)	–	(Note 10)
Mr. Li Shu Fu	Jinan Geely Automobile Company Limited	(Note 11)	–	(Note 11)
Mr. Li Shu Fu	Baoji Geely Automobile Components Company Limited	(Note 12)	–	(Note 12)
Mr. Li Shu Fu	Shanxi Geely Automobile Components Company Limited	(Note 13)	–	(Note 13)
Mr. Li Shu Fu	Zhejiang Jirun Chunxiao Automobile Components Company Limited	(Note 14)	–	(Note 14)

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) Proper Glory Holding Inc. is a private company incorporated in the British Virgin Islands and is owned as to 68% by Zhejiang Geely Holding Group Company Limited ("Geely Holding") and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is owned as to 60% by Mr. Li Shu Fu, as to 35.85% by Mr. Li Xu Bing, a brother of Mr. Li Shu Fu, and as to 4.15% by Mr. An Cong Hui, an executive director of the Company. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

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

(3) Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities.

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

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

(6) Zhejiang Jirun Automobile Company Limited ("Zhejiang Jirun") is incorporated in the PRC and is 1%-owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities.

(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 beneficially wholly owned by Mr. Li Shu Fu and his associate.

(8) Zhejiang Ruhoo Automobile 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 beneficially wholly owned by Mr. Li Shu Fu and his associate.

(9) 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 beneficially wholly owned by Mr. Li Shu Fu and his associate.

(10) 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%-owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Zhejiang Geely is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities. Shanghai Maple Automobile is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(11) 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%-owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Zhejiang Geely is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities. Shanghai Maple Automobile is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(12) Baoji Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities.

(13) Shanxi Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities.

(14) Zhejiang Jirun Chunxiao Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities.

Save as disclosed above, as at 30 June 2018 none of the directors nor the chief executives of the Company or their associates had or was deemed to have any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV and the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which are required, (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which are required, (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of listed issuers contained in the Listing Rules.

Directors' Right to Acquire Shares

As at 30 June 2018 the directors and chief executive of the Company have the following options to subscribe for the shares of the Company under the Company's old share option scheme approved and adopted on 31 May 2002 (the "Old Share Option Scheme") and the Company's new share option scheme approved and adopted on 18 May 2012 (the "New Share Option Scheme"):

Name of Director	**Outstanding options as at 30 June 2018**	**Date of grant**	**Exercise period**	**Exercise price per share** HK$
Mr. Yang Jian	9,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Li Dong Hui, Daniel	3,500,000	23.3.2012	23.3.2012 – 22.3.2022	4.07
Mr. Gui Sheng Yue	11,500,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Gui Sheng Yue	6,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. An Cong Hui	4,700,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Ang Siu Lun, Lawrence	11,000,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Ang Siu Lun, Lawrence	5,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Ms. Wei Mei	900,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Ms. Wei Mei	5,000,000	23.3.2012	23.3.2012 – 22.3.2022	4.07
Mr. Carl Peter Edmund Moriz Forster	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. Lee Cheuk Yin, Dannis	100,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Lee Cheuk Yin, Dannis	250,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. Yeung Sau Hung, Alex	100,000	18.1.2010	18.1.2010 – 17.1.2020	4.07
Mr. Yeung Sau Hung, Alex	250,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. An Qing Heng	630,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
Mr. Wang Yang	1,000,000	9.1.2015	9.1.2016 – 8.1.2020	2.79
	59,930,000			

MANAGEMENT DISCUSSION AND ANALYSIS

Share Option Scheme

The Old Share Option Scheme that was approved and adopted on 31 May 2002 was valid and effective for a period of ten years from the date of adoption. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2012, the New Share Option Scheme was adopted by the Company. The New Share Option Scheme replaced the Old Share Option Scheme. After the adoption of the New Share Option Scheme, the Old Share Option Scheme was terminated and no further options can be granted under it.

Pursuant to the New Share Option Scheme, the Company may grant options to inter alia, directors and employees of the Company and its subsidiaries and other participants to subscribe for shares of the Company. Further details of the New Share Option Scheme were disclosed in the Company's 2017 annual report.

Based on the Company's records as at 30 June 2018, except disclosed in the section headed "Directors' Right to Acquire Shares" above, 189,971,000 share options were granted by the Company to the employees and other eligible participants and remain outstanding.

Interim Dividend

At a meeting of the Board held on 22 August 2018, the Board resolved not to pay an interim dividend to the Company's shareholders (2017: Nil).

Connected Transactions

During the period, the Group had the following material transactions with connected parties:

Name of connected parties	Nature of transactions	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Related companies (notes (a) and (b))			
Zhejiang Geely Automobile Company Limited[#] 浙江吉利汽車有限公司	Sales of complete knock down kits and sedan tool kits	**14,331,475**	13,846,546
	Claims income on defective materials purchased	**82,393**	71,719
	Purchase of complete build up units	**14,978,160**	14,107,084
	Sub-contracting fee paid	**9,960**	31,188
	Claims paid on defective materials sold	**93,047**	83,592
Shenzhen Geely Automobile Sales Company Limited[#] 深圳吉利汽車銷售有限公司	Sales of complete build up units (electric vehicles)	**33,752**	–
Zhejiang Geely Business Services Company Limited[#] 浙江吉利商務服務有限公司	Business travel services expense	**37,610**	–
Yaou Automobile Manufacturing (Taizhou) Company Limited[#] 亞歐汽車製造(台州)有限公司	Sales of powertrain and related components	**98,528**	–

Name of connected parties	Nature of transactions	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Related companies (notes (a) and (b))			
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	**32,612,847**	22,418,354
	Sales of complete knock down kits (electric vehicles)	**174,334**	384,242
	Claims income on defective materials purchased	**88,973**	56,888
	Purchase of complete buildup units	**33,441,168**	24,211,266
	Claims paid on defective materials sold	**119,176**	68,329
Zhejiang Geely Automobile Parts and Components Company Limited# 浙江吉利汽車零部件採購有限公司	Claims income on defective materials purchased	**32,476**	25,210
	Purchase of automobile parts and components	**8,263,981**	7,341,282
Taizhou Haoqing Automobile Sales Services Company Limited# 台州豪情汽車銷售服務有限公司	Sales of complete buildup units	**–**	294,908
Hangzhou Geely New Energy Automobile Sales Company Limited# 杭州吉利新能源汽車銷售有限公司	Sales of complete buildup units (electric vehicles)	**1,475,309**	859,761
Viridi E-Mobility Technology (Suzhou) Co., Ltd.# 威睿電動汽車技術(蘇州)有限公司	Purchase of automobile parts and components	**19,327**	12,596
Associate			
BELGEE	Sales of automobile parts and components	**67,179**	–
Joint venture			
Kaiyue Auto Parts Manufacture (Zhangjiakou) Co., Ltd.# 凱悦汽車大部件製造(張家口)有限公司	Sales of powertrain and related components	**101,732**	–

Notes:

(a) The Group and the related parties are under the common control of the substantial shareholder of Zhejiang Geely Holding Group Company Limited# 浙江吉利控股集團有限公司, the Company's ultimate holding company.

(b) The Group does not have the automobile catalogue issued by the National Development Reform Commission in the PRC which is required to facilitate payment of the PRC consumption tax. The related parties referred to above have the relevant automobile catalogue licence and therefore the sales of complete knock down kits and sedan tool kits to and purchase of complete buildup units from related parties as set out above have been presented on a net basis in the condensed consolidated income statement (to the extent that they are back-to-back transactions) since the said related parties in effect only act as a channel to facilitate the payment of the PRC consumption tax. For the same reason, the related claims income from and claims expenses paid to these related parties have also been presented on a net basis as long as they are back-to-back transactions.

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

Facility Agreement with Covenant of the Controlling Shareholders

On 31 October 2017, the Company as the borrower entered into a facility agreement (the "Facility Agreement") with The Hongkong and Shanghai Banking Corporation Limited (the "Agent") as the coordinator and agent for a syndicate of banks pursuant to which a term loan facility in the principal amount of up to US$200,000,000 has been granted to the Company for a term of two years. The purpose of the loan facility is to refinance the existing indebtedness of the Group.

Pursuant to the Facility Agreement, it will be an event of default if Mr. Li Shu Fu is (i) no longer the single largest beneficial shareholder of the Company, or (ii) no longer beneficially owns at least 25% of the issued share capital of the Company. In case of an event of default, the Agent may by notice to the Company (a) cancel the loan facility, (b) declare that all or part of the loan, together with accrued interest, be immediately due and payable, and/or (c) declare that all or part of the loans be payable on demand.

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

As at 30 June 2018, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to the directors or the chief executives of the Company, the persons, other than the directors or the chief executives of the Company, who had interests or a short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and any other members of the Group and the amount of each of such persons' interests in such securities, together with any options in respect of such capital, were as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Substantial Shareholders

(as defined in the SFO)

Name	Nature of interests	Number of shares held Long position	Approximate percentage of shareholding (%)
Proper Glory Holding Inc. (Note 1)	Beneficial owner	2,636,705,000	29.37
Zhejiang Geely Holding Group Company Limited (Note 1)	Interest in controlled corporation	3,964,361,000	44.16
Geely Group Limited (Note 1)	Beneficial owner	87,000	0.001
	Interest in controlled corporation	2,636,705,000	29.37
Zhejiang Geely Automobile Company Limited (Note 2)	Beneficial owner	796,562,000	8.87

Notes:

(1) Proper Glory Holding Inc. ("Proper Glory") is a private company incorporated in the British Virgin Islands and is owned as to 68% by Zhejiang Geely Holding Group Company Limited ("Geely Holding") and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is owned as to 60% by Mr. Li Shu Fu, as to 35.85% by Mr. Li Xu Bing, a brother of Mr. Li Shu Fu, and as to 4.15% by Mr. An Cong Hui, an executive director of the Company. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

(2) Zhejiang Geely Automobile Company Limited ("Zhejiang Geely") is a private company incorporated in the PRC and is owned as to (i) 88.32% by Mr. Li Shu Fu and his associate; and (ii) 11.68% by other Mr. Li Shu Fu's interested entities.

Mr. Li Shu Fu is a director of each of Proper Glory, Geely Holding, Zhejiang Geely and Geely Group Limited. Mr. Yang Jian is a director of each of Geely Holding and Zhejiang Geely. Mr. Li Dong Hui, Daniel is a director of Geely Holding. Mr. An Cong Hui is a director of each of Geely Holding and Zhejiang Geely.

Save as disclosed above, as at 30 June 2018, the directors and the chief executives of the Company are not aware of any other person (other than the directors and the chief executives of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and of any other member of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

Corporate Governance

The Company has complied with the code provisions ("CPs") of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2018, except for CP E.1.2 as explained below:

CP E.1.2 provides that the chairman of the Board (the "Chairman") and the chairman of respective Board committees should attend the annual general meeting of the Company. During the period ended 30 June 2018, the Chairman did not attend the annual general meeting of the Company in person due to conflict of his schedules and other prior business engagement in the PRC. If the Chairman could not attend the general meeting of the Company in person, he would assign an executive director, who does not have a material interest in the businesses contemplating in the meeting and should report to him on any enquiries shareholders of the Company (the "Shareholders") might have, to attend such general meeting on his behalf. Further, the Company would facilitate a conference call for Shareholders and the directors who are unable to attend in person (including the Chairman) to discuss any specific enquiries with respect to the businesses contemplating in the general meeting. Through these measures, views of the Shareholders would be properly communicated to the Board as a whole. In addition, the external auditor will be invited to attend the annual general meeting of the Company to answer questions about the conduct of the audit, the preparation and content of the auditor's report, accounting policies and auditor's independence.

The Company held its annual general meeting on 25 May 2018. Due to conflict of his schedules and other prior business engagement in the PRC, the Chairman was unable to attend the general meeting physically. One independent non-executive director and two executive directors and the Company's external auditor attended and answered questions raised by the Shareholders at the meeting physically. The Chairman, one non-executive director, two other independent non-executive directors and three other executive directors attended the meeting via conference call.

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

Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes, risk management systems and internal controls. As at 30 June 2018, the audit committee comprises Messrs. Lee Cheuk Yin, Dannis, Yeung Sau Hung, Alex, An Qing Heng and Wang Yang who are the independent non-executive directors of the Company.

Appreciation

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

ON BEHALF OF THE BOARD
Li Shu Fu
Chairman

Hong Kong
22 August 2018