吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 175)

FINANCIAL HIGHLIGHTS:

	Year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*%*
Revenue	**92,760,718**	53,721,576	73
Other income	**1,229,147**	1,130,124	9
Share-based payments	**(27,724)**	(42,192)	(34)
Gain on disposal of subsidiaries/ interests in joint ventures	**562,562**	375,697	50
Profit for the year	**10,735,389**	5,170,188	108
Profit attributable to equity holders of the Company	**10,633,715**	5,112,398	108
Earnings per share			
Basic (RMB)	**1.19**	0.58	105
Diluted (RMB)	**1.16**	0.57	104
Proposed final dividend (per ordinary share) (HK$)	**0.29**	0.12	142

The Board decides to recommend payment of a final dividend of HK$0.29 per ordinary share (2016: HK$0.12 per ordinary share), and such proposal is subject to approval by shareholders at the annual general meeting of the Company to be held on Friday, 25 May 2018 at 4:00 p.m. (Hong Kong Time).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	5	**92,760,718**	53,721,576
Cost of sales		**(74,779,337)**	(43,879,859)
Gross profit		**17,981,381**	9,841,717
Other income	6	**1,229,147**	1,130,124
Distribution and selling expenses		**(4,055,728)**	(2,502,713)
Administrative expenses, excluding share-based payments		**(2,922,798)**	(2,559,915)
Share-based payments		**(27,724)**	(42,192)
Finance costs, net	8(a)	**(35,233)**	(30,105)
Share of profits of associates		**39,211**	31,014
Share of results of joint ventures		**3,143**	(39,684)
Gain on disposal of subsidiaries	16	**562,562**	1,277
Gain on disposal of interests in joint ventures		**–**	374,420
Profit before taxation	8	**12,773,961**	6,203,943
Taxation	7	**(2,038,572)**	(1,033,755)
Profit for the year		**10,735,389**	5,170,188
Attributable to:			
Equity holders of the Company		**10,633,715**	5,112,398
Non-controlling interests		**101,674**	57,790
Profit for the year		**10,735,389**	5,170,188
Earnings per share			
Basic	10	**RMB1.19**	RMB0.58
Diluted	10	**RMB1.16**	RMB0.57

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**10,735,389**	5,170,188
Other comprehensive income/(expense) (after tax of RMBNil) for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations recognised	**14,680**	(224,910)
Total comprehensive income for the year	**10,750,069**	4,945,278
Attributable to:		
Equity holders of the Company	**10,648,293**	4,889,561
Non-controlling interests	**101,776**	55,717
Total comprehensive income for the year	**10,750,069**	4,945,278

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 *RMB'000*	2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**14,052,943**	10,650,313
Intangible assets		**10,551,773**	6,461,809
Land lease prepayments		**2,123,909**	2,002,895
Goodwill		**16,079**	6,916
Interests in associates		**369,360**	304,686
Interests in joint ventures		**4,435,530**	697,330
Available-for-sale financial assets		**21,650**	21,779
Deferred tax assets	*15*	**401,325**	188,107
		31,972,569	20,333,835
Current assets			
Land lease prepayments		**47,810**	42,875
Inventories		**6,027,312**	3,065,807
Trade and other receivables	*11*	**33,478,308**	29,040,631
Income tax recoverable		**4,072**	14,891
Pledged bank deposits		**36,043**	39,304
Bank balances and cash		**13,414,638**	15,045,493
		53,008,183	47,249,001
Current liabilities			
Trade and other payables	*12*	**47,532,529**	39,778,994
Bank borrowings		**1,296,460**	174,375
Income tax payable		**1,072,958**	676,830
		49,901,947	40,630,199
Net current assets		**3,106,236**	6,618,802
Total assets less current liabilities		**35,078,805**	26,952,637
CAPITAL AND RESERVES			
Share capital	*13*	**164,286**	162,708
Reserves		**34,302,761**	24,274,519
Equity attributable to equity holders of the Company		**34,467,047**	24,437,227
Non-controlling interests		**343,787**	249,022
Total equity		**34,810,834**	24,686,249
Non-current liabilities			
Senior notes	*14*	**–**	2,068,316
Deferred tax liabilities	*15*	**267,971**	198,072
		267,971	2,266,388
		35,078,805	26,952,637

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Company									
	Share capital *RMB'000* *(note 13)*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Translation reserve *RMB'000*	Share option reserve *RMB'000*	Accumulated profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2016	161,354	5,818,466	164,790	118,993	84,684	572,962	12,602,567	19,523,816	215,707	19,739,523
Profit for the year	–	–	–	–	–	–	5,112,398	5,112,398	57,790	5,170,188
Other comprehensive expense:										
Exchange differences on translation of foreign operations recognised	–	–	–	–	(222,837)	–	–	(222,837)	(2,073)	(224,910)
Total comprehensive income for the year	–	–	–	–	(222,837)	–	5,112,398	4,889,561	55,717	4,945,278
Transactions with owners:										
Transfer of reserves	–	–	–	51,427	–	–	(62,292)	(10,865)	–	(10,865)
Shares issued under share option scheme	1,354	393,859	–	–	–	(121,731)	–	273,482	–	273,482
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(1,214)	(1,214)
Equity settled share-based payments	–	–	–	–	–	42,192	–	42,192	–	42,192
Transfer upon forfeiture of share options	–	–	–	–	–	(14,709)	14,709	–	–	–
Dividends paid to equity holders of the Company *(note 9)*	–	–	–	–	–	–	(280,959)	(280,959)	–	(280,959)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(21,188)	(21,188)
Total transactions with owners	1,354	393,859	–	51,427	–	(94,248)	(328,542)	23,850	(22,402)	1,448
Balance at 31 December 2016	162,708	6,212,325	164,790	170,420	(138,153)	478,714	17,386,423	24,437,227	249,022	24,686,249

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017

	Attributable to equity holders of the Company									
	Share capital *RMB'000* *(note 13)*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Translation reserve *RMB'000*	Share option reserve *RMB'000*	Accumulated profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
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 year	-	-	-	-	-	-	10,633,715	10,633,715	101,674	10,735,389
Other comprehensive income:										
Exchange differences on translation of foreign operations recognised	-	-	-	-	14,578	-	-	14,578	102	14,680
Total comprehensive income for the year	-	-	-	-	14,578	-	10,633,715	10,648,293	101,776	10,750,069
Transactions with owners:										
Transfer of reserves	-	-	-	9,167	-	-	(9,167)	-	-	-
Shares issued under share option scheme	1,578	428,877	-	-	-	(116,598)	-	313,857	-	313,857
Equity settled share-based payments	-	-	-	-	-	27,724	-	27,724	-	27,724
Transfer upon forfeiture of share options	-	-	-	-	-	(7,942)	7,942	-	-	-
Disposal of subsidiaries *(note 16)*	-	-	-	-	-	-	-	-	(7,011)	(7,011)
Dividends paid to equity holders of the Company *(note 9)*	-	-	-	-	-	-	(960,054)	(960,054)	-	(960,054)
Total transactions with owners	1,578	428,877	-	9,167	-	(96,816)	(961,279)	(618,473)	(7,011)	(625,484)
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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit before taxation		**12,773,961**	6,203,943
Adjustments for:			
Depreciation and amortisation		**1,938,008**	1,654,261
Interest income	*8(a)*	**(127,057)**	(85,429)
Finance costs	*8(a)*	**162,290**	115,534
Share of profits of associates		**(39,211)**	(31,014)
Share of results of joint ventures		**(3,143)**	39,684
Gain on disposal of interests in an associate		**(1,192)**	–
Gain on disposal of interests in joint ventures		**–**	(374,420)
Net loss on disposal of property, plant and equipment	*8(c)*	**34,074**	42,727
Loss on disposal of intangible assets	*8(c)*	**–**	1,047
Net foreign exchange gain		**(4,105)**	(229,972)
Gain on disposal of subsidiaries	*16*	**(562,562)**	(1,277)
Gain on disposal of financial assets at fair value through profit or loss	*6*	**–**	(491)
Bargain purchase gain arising from acquisition of a subsidiary	*6*	**(3,402)**	–
Equity settled share-based payments		**27,724**	42,192
Write-down of inventories	*8(c)*	**–**	861
Impairment loss on interest in an associate	*8(c)*	**–**	3,349
Bad debts written off	*8(c)*	**67,371**	172,407
Operating profit before working capital changes		**14,262,756**	7,553,402
Inventories		**(2,870,040)**	(1,847,667)
Trade and other receivables		**(4,238,240)**	(12,740,277)
Trade and other payables		**6,597,957**	16,126,003
Cash generated from operations		**13,752,433**	9,091,461
Income taxes paid		**(1,758,931)**	(753,702)
Net cash generated from operating activities		**11,993,502**	8,337,759

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,451,567)**	(486,262)
Proceeds from disposal of property, plant and equipment		**55,790**	75,899
Proceeds from disposal of available-for-sale financial assets		**129**	–
Additions of land lease prepayments		**(240,128)**	(102,583)
Additions of intangible assets		**(3,949,951)**	(2,655,180)
Additional capital injection in an associate		**(38,131)**	–
Investment in a joint venture		**(3,750,000)**	–
Proceeds from disposal of intangible assets		**6,439**	12,625
Government grants received		**–**	757,643
Change in pledged bank deposits		**3,261**	1,229
Net cash outflows on acquisition of subsidiaries	*17*	**(1,728,634)**	(1,383,779)
Net cash inflows on disposal of subsidiaries	*16*	**1,040,728**	9,670
Proceeds from disposal of an associate		**13,860**	–
Proceeds from disposal of interests in joint ventures		**–**	1,110,231
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	17,609
Interest received		**127,057**	85,429
Net cash used in investing activities		**(11,911,147)**	(2,557,469)
Cash flows from financing activities			
Dividends paid	*9(b)*	**(960,054)**	(280,959)
Dividends paid to non-controlling interests		**–**	(21,188)
Proceeds from issuance of shares upon exercise of share options	*13*	**313,857**	273,482
Proceeds from bank borrowings	*18*	**1,296,460**	325,500
Repayments of bank borrowings	*18*	**(174,375)**	(162,750)
Redemption of senior notes	*18*	**(2,033,536)**	–
Interest paid	*18*	**(126,950)**	(104,627)
Net cash (used in)/generated from financing activities		**(1,684,598)**	29,458
Net (decrease)/increase in cash and cash equivalents		**(1,602,243)**	5,809,748
Cash and cash equivalents at the beginning of the year		**15,045,493**	9,166,926
Effect of foreign exchange rate changes		**(28,612)**	68,819
Cash and cash equivalents at the end of the year, represented by bank balances and cash		**13,414,638**	15,045,493

NOTES

For the year ended 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

1. GENERAL INFORMATION

Geely Automobile Holdings Limited ("**the Company**") was incorporated in the Cayman Islands as an exempted company with limited liability. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**"). As at 31 December 2017, the directors consider the immediate holding company of the Company is Proper Glory Holding Inc., which is incorporated in British Virgin Islands (the "**BVI**"). The ultimate holding company of the Company is Zhejiang Geely Holding Group Company Limited# 浙江吉利控股集團有限公司, which is incorporated in the People's Republic of China (the "**PRC**") and is beneficially owned by Mr. Li Shu Fu and his associates.

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.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

The HKICPA has issued certain new and amended HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND AMENDED HKFRSs

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. However, additional disclosure has been included in note 18 to satisfy the new disclosure requirements. Introduced by the amendments to HKAS 7 "Statement of Cash Flows: Disclosure Initiative" which require entities to provide disclosures enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

Issued but not yet effective HKFRSs

At the date of authorisation of the consolidated financial statements, the Group has not early applied the following new and amended HKFRSs relevant to the Group's operations that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective date not yet determined

The Group anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 9 "Financial Instruments" ("HKFRS 9")

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**"). HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

(a) *Classification and measurement*

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("**FVTPL**") and (3) fair value through other comprehensive income ("**FVTOCI**").

For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised costs will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group plans not to elect this designation option for any of the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the Group states the available-for-sale equity investments at cost less impairment loss. This change in policy will have no significant impact on the Group's net assets and total comprehensive income.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) *Impairment*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised.

Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. In the opinion of the directors of the Company, based on the historical experience and existing business model of the Group, the default rate of the outstanding balances with customers is low. Hence, the directors of the Company anticipate that the application of HKFRS 9 would not have material impact on the Group's future consolidated financial statements.

HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”)

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 “Leases” (“HKFRS 16”)

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.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties 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.

4. SEGMENT INFORMATION

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.

Geographical information

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

	2017	2016
	RMB'000	*RMB'000*
Revenue from external customers		
PRC	**92,168,021**	52,287,552
Europe	**180,560**	194,729
Middle East	**187,756**	583,354
Africa	**76,443**	236,041
Central and South America	**67,536**	217,672
Other countries	**80,402**	202,228
	92,760,718	53,721,576
Specified non-current assets		
Hong Kong, place of domicile	**232**	531
PRC	**31,442,068**	20,052,451
Other countries	**107,294**	70,967
	31,549,594	20,123,949

5. REVENUE

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

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

6. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Rental income	**25,215**	22,847
Gain on disposal of financial assets at fair value through profit or loss	**–**	491
Gain on disposal of scrap materials	**26,751**	8,705
Gain on disposal of an associate	**1,192**	–
Net claims income on defective materials purchased	**31,095**	–
Net foreign exchange gain	**89,974**	242,480
Bargain purchase gain arising from acquisition of a subsidiary *(note 17)*	**3,402**	–
Government grants and subsidies *(note)*	**905,300**	802,283
Sundry income	**146,218**	53,318
	1,229,147	1,130,124

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.

7. TAXATION

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax	**2,283,957**	1,131,039
Over-provision in prior years	**(118,079)**	(26,560)
	2,165,878	1,104,479
Deferred tax *(note 15)*	**(127,306)**	(70,724)
	2,038,572	1,033,755

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 years ended 31 December 2017 and 2016.

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 year based on the existing legislation, interpretations and practises in respect thereof. The PRC enterprise income tax rate is 25% (2016: 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 years ended 31 December 2017 and 2016.

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

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

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation	**12,773,961**	6,203,943
Tax at the PRC enterprise income tax rate of 25% (2016: 25%)	**3,193,490**	1,550,986
Tax effect of expenses not deductible	**207,029**	56,047
Tax effect of non-taxable income	**(11,152)**	(4,614)
Tax effect of unrecognised tax losses	**42,594**	128,857
Utilisation of previously unrecognised tax losses	**(38,438)**	(52,158)
Tax effect of different tax rates of entities operating in other jurisdictions	**(65,338)**	27,046
Deferred tax charge on distributable profits withholding tax *(note 15)*	**69,899**	23,245
Effect of tax concessions and lower tax rates for certain PRC subsidiaries	**(1,241,433)**	(669,094)
Over-provision in prior years	**(118,079)**	(26,560)
Tax expense for the year	**2,038,572**	1,033,755

The Group is also liable to withholding tax on dividends to be distributed from the Group's subsidiaries in the PRC in respect of its profits generated from 1 January 2008. Deferred tax liabilities of RMB69,899,000 (2016: RMB23,245,000) was recognised for the distributable profits not yet paid out as dividends that are generated by the PRC subsidiaries of the Company during the year.

8. PROFIT BEFORE TAXATION

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

	2017	2016
	RMB'000	*RMB'000*
(a) Finance income and costs		
Finance costs		
Effective interest expense on senior notes *(note 14)*	**8,908**	4,658
Coupon expense on senior notes	**96,714**	106,999
Loss on early redemption of senior notes	**52,015**	–
Interest on bank borrowings	**4,653**	3,877
	162,290	115,534
Finance income		
Bank and other interest income	**(127,057)**	(85,429)
Net finance costs	**35,233**	30,105
(b) Staff costs (including directors' emoluments) ***(note a)***		
Salaries, wages and other benefits	**4,241,354**	2,637,856
Retirement benefit scheme contributions	**269,085**	180,739
Equity settled share-based payments	**27,724**	42,192
	4,538,163	2,860,787
(c) Other items		
Cost of inventories *(note a)*	**74,779,337**	43,879,859
Auditor's remuneration	**7,443**	6,864
Depreciation *(note a)*	**742,679**	733,531
Amortisation of land lease prepayments	**48,072**	43,857
Amortisation of intangible assets	**1,147,257**	876,873
Net loss on disposal of property, plant and equipment *(note c)*	**34,074**	42,727
Loss on disposal of intangible assets *(note b)*	**–**	1,047
Net foreign exchange gain	**(89,974)**	(242,480)
Net claims (income)/paid on defective materials purchased	**(31,095)**	9,470
Operating leases charges on premises	**18,525**	22,463
Research and development costs	**331,241**	211,531
Impairment loss on interest in an associate	**–**	3,349
Bad debts written off	**67,371**	172,407
Write-down of inventories	**–**	861

Notes:

(a) Cost of inventories included RMB3,643,052,000 (2016: RMB2,379,447,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately for each of these types of expenses.

(b) No government grant received was included in loss on disposal of intangible assets (2016: RMB525,870,000).

(c) No government grant received was included in net loss on disposal of property, plant and equipment (2016: RMB231,773,000).

9. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year:

	2017	2016
	RMB'000	*RMB'000*
Final dividend proposed after the reporting date of HK$0.29 (2016: HK$0.12) per ordinary share	**2,159,774**	960,054

The final dividend proposed after the reporting date has not been recognised as a liability as at 31 December 2017.

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2017	2016
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.12 (2016: HK$0.038) per ordinary share	**960,054**	280,959

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of RMB10,633,715,000 (2016: RMB5,112,398,000) and weighted average number of ordinary shares of 8,932,151,751 shares (2016: 8,820,613,787 shares), calculated as follows:

Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares as at 1 January	**8,882,861,540**	8,801,986,540
Effect of shares options exercised	**49,290,211**	18,627,247
Weighted average number of ordinary shares as at 31 December	**8,932,151,751**	8,820,613,787

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB10,633,715,000 (2016: RMB5,112,398,000) and the weighted average number of ordinary shares (diluted) of 9,155,568,487 shares (2016: 8,917,049,937 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares (basic) as at 31 December	**8,932,151,751**	8,820,613,787
Effect of deemed issue of shares under the Company's share option scheme	**223,416,736**	96,436,150
Weighted average number of ordinary shares (diluted) as at 31 December	**9,155,568,487**	8,917,049,937

11. TRADE AND OTHER RECEIVABLES

	Note	**2017** ***RMB'000***	2016 *RMB'000*
Trade and notes receivables			
Trade receivables			
– Third parties		**377,966**	794,960
– Associates		**271,002**	247,904
– Related companies controlled by the substantial shareholder of the Company		**51,733**	194,496
	(a)	**700,701**	1,237,360
Notes receivables	*(b)*	**28,790,926**	24,864,054
		29,491,627	26,101,414
Deposit, prepayment and other receivables			
Prepayment to suppliers			
– Third parties		**129,080**	89,691
– Related companies controlled by the substantial shareholder of the Company		**847,093**	376,129
		976,173	465,820
Deposits paid for acquisition of property, plant and equipment		**600,692**	355,077
VAT and other taxes receivables		**1,877,788**	1,396,907
Utility deposits and other receivables		**208,595**	454,657
		3,663,248	2,672,461
Amounts due from related companies controlled by the substantial shareholder of the Company	*(c)*	**323,433**	27,345
Amount due from ultimate holding company	*(c)*	**–**	236,256
Amount due from a joint venture	*(d)*	**–**	3,155
		3,986,681	2,939,217
		33,478,308	29,040,631

(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, at the reporting date:

	2017	2016
	RMB'000	*RMB'000*
0 – 60 days	**167,875**	441,619
61 – 90 days	**7,689**	30,417
Over 90 days	**67,476**	50,288
	243,040	522,324

For overseas customers, the Group allows average 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, at the reporting date:

	2017	2016
	RMB'000	*RMB'000*
0 – 60 days	**102,041**	295,659
61 – 90 days	**84,174**	25,726
91 – 365 days	**155,309**	237,934
Over 365 days	**116,137**	155,717
	457,661	715,036

As at 31 December 2017, 1% (2016: 7%) of the total trade receivables was due from the Group's five largest customers.

The ageing analysis of the Group's trade receivables that were past due as at the reporting date but neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
1 – 30 days past due	**25,606**	129,699
31 – 60 days past due	**17,196**	65,569
61 – 90 days past due	**179,782**	43,516
Over 90 days past due	**258,339**	258,094
	480,923	496,878

As at 31 December 2017, trade receivables of RMB219,778,000 (2016: RMB740,482,000) were neither past due nor impaired. These related to a large number of diversified customers for whom there was no recent history of default.

The Group does not charge interest or hold any collateral over the overdue balances. Receivables that were past due but not impaired were mainly related to large corporations that have long trading history with the Group and therefore these debtors are considered to have good credit quality and the balances are still considered to be fully recoverable. No impairment has been made to these trade receivables.

(b) Notes receivables

All notes receivables are denominated in RMB. As at 31 December 2017 and 2016, 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/ultimate holding company

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

(d) Amount due from a joint venture

The amount due from a joint venture is unsecured, interest-free and repayable on demand.

Except for trade and other receivables of RMB140,027,000 (2016: RMB146,263,000) 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.

12. TRADE AND OTHER PAYABLES

	Note	2017 RMB'000	2016 RMB'000
Trade and notes payables			
Trade payables			
– Third parties		**26,848,633**	21,083,397
– Associates		**1,252,227**	1,627,710
– Related companies controlled by the substantial shareholder of the Company		**2,492,942**	330,157
	(a)	**30,593,802**	23,041,264
Notes payables	*(b)*	**1,045,043**	99,540
		31,638,845	23,140,804
Other payables			
Receipts in advance from customers			
– Third parties		**7,980,480**	7,909,709
– Related companies controlled by the substantial shareholder of the Company		**3,992**	723
		7,984,472	7,910,432
Deferred government grants which conditions have not been satisfied		**3,379,500**	1,572,863
Payables for acquisition of property, plant and equipment		**1,074,740**	714,524
Accrued staff salaries and benefits		**908,966**	514,534
VAT and other taxes payables		**104,388**	85,063
Other accrued charges		**2,430,232**	1,950,900
		15,882,298	12,748,316
Amounts due to related companies controlled by the substantial shareholder of the Company	*(c)*	**9,412**	3,889,874
Amount due to ultimate holding company	*(c)*	**1,974**	–
		15,893,684	16,638,190
		47,532,529	39,778,994

(a) Trade payables

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

	2017	2016
	RMB'000	*RMB'000*
0 – 60 days	**27,331,331**	20,638,859
61 – 90 days	**1,849,868**	1,624,387
Over 90 days	**1,412,603**	778,018
	30,593,802	23,041,264

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 31 December 2017 and 2016, all notes payables have maturities of less than six months from the reporting date.

As at 31 December 2017, the Group pledged bank deposits of RMB36,043,000 (2016: RMB39,304,000) to secure the notes payables.

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

The amounts due to related companies/ultimate holding company 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.

13. SHARE CAPITAL

	2017 Number of shares	2017 Nominal value *RMB'000*	2016 Number of shares	2016 Nominal value *RMB'000*
Authorised:				
Ordinary shares of HK$0.02 each				
At 31 December	**12,000,000,000**	**246,720**	12,000,000,000	246,720
Issued and fully paid:				
Ordinary shares of HK$0.02 each				
At 1 January	**8,882,861,540**	**162,708**	8,801,986,540	161,354
Shares issued under share option scheme *(note)*	**87,653,000**	**1,578**	80,875,000	1,354
At 31 December	**8,970,514,540**	**164,286**	8,882,861,540	162,708

Note:

During the year ended 31 December 2017, share options were exercised to subscribe for 87,653,000 ordinary shares (2016: 80,875,000 ordinary shares) of the Company at a consideration of approximately RMB313,857,000 (2016: RMB273,482,000) of which approximately RMB1,578,000 (2016: RMB1,354,000) was credited to share capital and approximately RMB312,279,000 (2016: RMB272,128,000) was credited to the share premium account. As a result of the exercise of share options, share option reserve of RMB116,598,000 (2016: RMB121,731,000) has been transferred to the share premium account.

14. SENIOR NOTES

On 6 October 2014, the Company issued senior notes with an aggregate principal amount of US$300,000,000 (equivalent to approximately RMB1,836,750,000) (the "**Senior Notes**"). The Senior Notes carried interest at 5.25% per annum, payable semi-annually in arrears on 6 April and 6 October, and the maturity date was 6 October 2019, unless the Company redeemed the Senior Notes before the maturity date.

The Senior Notes were listed on the SEHK. They had senior obligations, are unsecured and guaranteed by certain operating subsidiaries of the Company in the PRC. The guarantee was effectively subordinated to all existing and future secured obligations of the Company to the extent of the value of the collateral securing such obligations.

At any time on or after 6 October 2017, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if they are redeemed during the twelve-month period beginning on 6 October of the years indicated below:

Period	**Redemption Price**
2017	102.625%
2018 and thereafter	101.313%

The carrying amount of the Senior Notes at initial recognition net of transaction costs amounted to US$296,311,000 (equivalent to approximately RMB1,814,165,000) and the effective interest rate was 5.54% per annum. The Senior Notes were carried at amortised cost.

On 30 November 2017, the Company has redeemed an aggregate principal amount of US$300,000,000 (equivalent to approximately RMB1,981,521,000) of all of the outstanding Senior Notes at the redemption price of 102.625% of the principal amount thereof, being US$307,875,000 (equivalent to approximately RMB2,033,536,000), plus accrued and unpaid interest of US$2,362,500 (equivalent to approximately RMB15,604,000) on the redemption date. The total redemption price paid by the Company on the redemption date is US$310,237,500 (equivalent to approximately RMB2,049,140,000).

The movement of the Senior Notes during the year is set out below:

	2017	2016
	RMB'000	*RMB'000*
Carrying amount		
At 1 January	**2,068,316**	1,928,856
Interest expenses	**8,908**	4,658
Early redemption	**(1,981,521)**	–
Exchange differences	**(95,703)**	134,802
At 31 December	**–**	2,068,316

The Senior Notes were subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements in senior notes. If the Group was to breach the covenants, the principal, and, accrued and unpaid interest of the Senior Notes would become payable on demand. The directors consider that none of the covenants had been breached as at 31 December 2016.

15. DEFERRED TAX ASSETS AND LIABILITIES

The following is the deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements thereon during the year:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**9,965**	80,689
Acquisition through business combinations *(note 17)*	**(16,013)**	–
Credit to the consolidated income statement *(note 7)*	**(127,306)**	(70,724)
At 31 December	**(133,354)**	9,965

Deferred tax assets

	Unused tax losses	**Intangible assets**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	28,144	31,661	34,333	94,138
(Charge)/Credit to the consolidated income statement	(20,487)	94,378	20,078	93,969
At 31 December 2016 and 1 January 2017	7,657	126,039	54,411	188,107
(Charge)/Credit to the consolidated income statement	(7,657)	43,027	161,835	197,205
Acquisition through business combinations *(note 17)*	–	–	16,013	16,013
At 31 December 2017	**–**	**169,066**	**232,259**	**401,325**

Deferred tax liabilities

	Withholding tax on undistributed profits from the PRC subsidiaries
	RMB'000
At 1 January 2016	174,827
Charge to the consolidated income statement *(note 7)*	23,245
At 31 December 2016 and 1 January 2017	198,072
Charge to the consolidated income statement *(note 7)*	69,899
At 31 December 2017	**267,971**

The deferred tax assets have been offset against certain deferred tax liabilities in the consolidated statement of financial position as they are related to the same entity and related to tax levied by the same tax authority. The amounts recognised in the consolidated statement of financial position are as follows:

	2017	2016
	RMB'000	*RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	**(401,325)**	(188,107)
Deferred tax liabilities recognised in the consolidated statement of financial position	**267,971**	198,072
Net deferred tax (assets)/liabilities	**(133,354)**	9,965

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities has been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries based on the expected dividends payout ratio of these PRC subsidiaries. Deferred tax liabilities have not been recognised in respect of temporary differences relating to the post-2007 profits earned by the PRC subsidiaries amounting to approximately RMB11,557,434,000 (2016: RMB9,166,229,000).

As at the reporting date, the Group has unused tax losses of approximately RMB2,163,395,000 (2016: RMB2,209,828,000) available for offset against future profits. Of the total tax losses, approximately RMB300,535,000 (2016: RMB282,204,000) may be carried forward for five years from the year of incurring the loss, and the remaining unrecognised tax losses have no expiry dates. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

16. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Zhejiang Kingkong Automobile Company Limited# 浙江金剛汽車有限公司 ("Zhejiang Kingkong")

On 4 August 2017, the Group entered into a disposal agreement with Zhejiang Haoqing Automobile Manufacturing Company Limited# 浙江豪情汽車製造有限公司 for the disposal of the entire interests in Zhejiang Kingkong, an indirectly owned subsidiary with 99% equity interest, at an aggregate cash consideration of approximately RMB1,241,687,000 ("**Zhejiang Kingkong Disposal**"). Zhejiang Kingkong Disposal was completed on 28 September 2017. Please refer to the Company's announcement dated 4 August 2017 for further details. The net assets disposed of at the disposal date are set out as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	**2,563,304**
Land lease prepayments	**275,370**
Trade and other receivables	**799,755**
Bank balances and cash	**104,524**
Trade and other payables	**(3,041,874)**
	701,079
Net gain on disposal of a subsidiary:	
Cash consideration received	**1,241,687**
Net assets disposed of	**(701,079)**
Non-controlling interests	**7,011**
	547,619
Net cash inflow arising on disposal:	
Cash consideration received	**1,241,687**
Bank balances and cash disposed of	**(104,524)**
	1,137,163

(b) Disposal of LYNK & CO Auto Sales Company Limited# 領克汽車銷售有限公司 ("LYNK Auto Sales")

On 26 October 2017, the Group entered into a disposal agreement for the disposal of the entire interests in LYNK Auto Sales, an indirectly owned subsidiary with 99% equity interest, to LYNK & CO Investment Co., Ltd.# 領克投資有限公司, a joint venture of the Company ("**LYNK Auto Sales Disposal**"). LYNK Auto Sales Disposal was completed on 27 October 2017. The aggregate cash consideration and net gain on disposal of a subsidiary for the LYNK Auto Sales Disposal were RMB100,000,000 and RMB14,943,000, respectively and an unrealised gain on disposal of a subsidiary to a joint venture of RMB14,943,000 was resulted in. The carrying amount of total net assets disposed of and net cash outflow arising on disposal at the disposal date were RMB70,114,000 and RMB96,435,000, respectively.

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

17. BUSINESS COMBINATIONS

(a) Baoji Geely Engine Company Limited# 寶雞吉利發動機有限公司("Baoji Engine")

On 7 November 2017, Zhejiang Geely Luoyou Engine Company Limited# 浙江吉利羅佑發動機有限公司 ("**Geely Luoyou**"), an indirect 99% owned subsidiary of the Company, and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Geely Luoyou has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Baoji Engine for a cash consideration of approximately RMB345,100,000. Baoji Engine is engaged in the research, development, production and sales of vehicle engines and related after-sales parts in the PRC. The acquisition of Baoji Engine was completed on 28 December 2017. Please refer to the Company's circular dated 8 December 2017 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
The net assets acquired:			
Property, plant and equipment	1,188,484	84,000	1,272,484
Intangible assets	589,326	–	589,326
Deferred tax assets *(note 15)*	16,013	–	16,013
Land lease prepayments	59,981	14,000	73,981
Trade and other receivables	236,352	–	236,352
Inventories	27,492	–	27,492
Bank balances and cash	55,632	–	55,632
Trade and other payables	(1,930,026)	–	(1,930,026)
	243,254	98,000	341,254
Goodwill arising on acquisition:			
Cash consideration transferred			345,100
Fair value of identifiable net assets acquired			(341,254)
			3,846
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(345,100)
Bank balances and cash acquired			55,632
			(289,468)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Baoji Engine has not contributed any revenue and loss from the acquisition date to 31 December 2017.

If the acquisition had occurred on 1 January 2017, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2017 would be RMB92,791,978,000 and RMB10,692,291,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2017 and could not serve as a basis for the forecast of future operation results.

(b) Ningbo Shangzhongxia Automatic Transmission Company Limited# 寧波上中下自動變速器有限公司("Ningbo SZX")

On 7 November 2017, Geely Luoyou and the Company's ultimate holding company entered into an acquisition agreement pursuant to which Geely Luoyou has conditionally agreed to acquire, and the Company's ultimate holding company has conditionally agreed to sell the entire equity interests of Ningbo SZX for a cash consideration of approximately RMB993,100,000. Ningbo SZX is engaged in the research, development, production and sales of transmissions and related after-sales parts in the PRC. The acquisition of Ningbo SZX was completed on 28 December 2017. Please refer to the Company's circular dated 8 December 2017 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
The net assets acquired:			
Property, plant and equipment	822,012	64,387	886,399
Intangible assets	668,707	–	668,707
Land lease prepayments	60,047	–	60,047
Trade and other receivables	482,905	–	482,905
Inventories	53,944	–	53,944
Bank balances and cash	41,738	–	41,738
Trade and other payables	(1,197,238)	–	(1,197,238)
	932,115	64,387	996,502
Bargain purchase gain arising from acquisition *(note 6)*:			
Cash consideration transferred			993,100
Fair value of identifiable net assets acquired			(996,502)
			(3,402)
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(993,100)
Bank balances and cash acquired			41,738
			(951,362)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities.

Ningbo SZX has not contributed any revenue and loss from the acquisition date to 31 December 2017.

If the acquisition had occurred on 1 January 2017, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2017 would be RMB92,864,473,000 and RMB10,739,194,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2017 and could not serve as a basis for the forecast of future operation results.

(c) Zhejiang Yili Automobile Components Company Limited# 浙江義利汽車零部件有限公司 ("Zhejiang Yili")

On 7 November 2017, Geely Luoyou and two fellow subsidiaries owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Geely Luoyou has conditionally agreed to acquire, and the fellow subsidiaries have conditionally agreed to sell the entire equity interests of Zhejiang Yili for a cash consideration of approximately RMB495,000,000. Zhejiang Yili is engaged in the research, development, production and sales of vehicle engines and related after-sales parts in the PRC. The acquisition of Zhejiang Yili was completed on 28 December 2017. Please refer to the Company's circular dated 8 December 2017 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
The net assets acquired:			
Property, plant and equipment	1,078,140	44,000	1,122,140
Intangible assets	35,676	–	35,676
Land lease prepayments	63,235	12,000	75,235
Trade and other receivables	182,197	–	182,197
Inventories	10,029	–	10,029
Bank balances and cash	7,196	–	7,196
Trade and other payables	(942,790)	–	(942,790)
	433,683	56,000	489,683
Goodwill arising on acquisition:			
Cash consideration transferred			495,000
Fair value of identifiable net assets acquired			(489,683)
			5,317
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(495,000)
Bank balances and cash acquired			7,196
			(487,804)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Zhejiang Yili has not contributed any revenue and loss from the acquisition date to 31 December 2017.

If the acquisition had occurred on 1 January 2017, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2017 would be RMB92,761,937,000 and RMB10,675,865,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2017 and could not serve as a basis for the forecast of future operation results.

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

18. CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividends payable *RMB'000*	**Bank borrowings** *RMB'000*	**Senior notes** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	–	174,375	2,068,316	2,242,691
Change from financing cash flows:				
Proceeds from new bank borrowings	–	1,296,460	–	1,296,460
Repayment of bank borrowings	–	(174,375)	–	(174,375)
Redemption of senior notes	–	–	(2,033,536)	(2,033,536)
Other borrowing costs paid	–	(4,104)	(122,846)	(126,950)
Dividends paid	(960,054)	–	–	(960,054)
Total changes from financing cash flows	(960,054)	1,117,981	(2,156,382)	(1,998,455)
Exchange adjustments	–	–	(95,703)	(95,703)
Other changes *(note)*:				
Interest expenses	–	4,653	105,622	110,275
Loss on early redemption of senior notes	–	–	52,015	52,015
Dividends declared	960,054	–	–	960,054
Others	–	(549)	26,132	25,583
Total other changes	960,054	4,104	183,769	1,147,927
At 31 December 2017	**–**	**1,296,460**	**–**	**1,296,460**

Note: Other changes include interest accruals.

19. EVENT AFTER THE REPORTING DATE

On 18 January 2018, the Company, Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, Hong Kong Branch and UBS AG Hong Kong Branch entered into a subscription agreement in connection with the issue of US$300,000,000 3.625% bonds due 2023 (the "**Bonds Issue**"). The estimated net proceeds of the Bonds Issue, after deduction of underwriting discounts and commissions and other offering expenses, amounted to approximately US$297,500,000 (equivalent to RMB1,909,950,000) and the Group intends to use it to refinance the Group's certain existing indebtedness and for business development and other general corporate purposes.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Our group's financial performance in 2017 beat the management's expectations with total revenue increased by 73% to RMB92.76 billion for the year ended 31 December 2017. During the year, our group's average ex-factory selling price ("**ASP**") continued to improve, mainly driven by the improvement in product mix (i.e. increased proportion of higher-priced models). Total net profit of our group grew 108% from RMB5.17 billion in 2016 to RMB10.74 billion in 2017 due to the increase in overall sales volume, higher ASP and the improved profit margin during the year. After accounting for non-controlling interests, our net profit attributable to shareholders was up 108% from RMB5.11 billion in 2016 to RMB10.63 billion in 2017. Diluted earnings per share was up 104% to RMB1.16. During the year, our group's capital contribution of RMB3.75 billion to the Lynk&Co JV and the early redemption of the Company's US$300 million 5-year senior notes accounted for a 11% year-on-year decrease in total cash level (bank balances and cash + pledged bank deposits) to RMB13.45 billion at the end of 2017.

Business Overview

China's passenger vehicle market recorded a steady growth in 2017, supported by the continued growth in the demand for Sport Utility Vehicles ("**SUVs**"). Although sedans remained the biggest segment in the market, their sales volume recorded a slight decline in 2017. Indigenous brands however continued to grow faster than the overall passenger vehicle market in China, raising their market share to 44% in 2017, according to China Association of Automobile Manufacturers.

We strengthened our leading position in China's indigenous brand segment in 2017, helped by the good sales performance of our A-segment sedans as well as our SUV models, in particular "Geely Boyue" (吉利博越), making the Group the largest indigenous brand vehicle manufacturer in China in terms of sales volume during the period. The launch of three new compact SUV models "Vision X3", "Vision X1" and "Vision S1" during the year, further enriched our product portfolio in the mass market SUV segment. As a result, we achieved a respectful 66% growth in domestic sales volume (including the sales volume of "Lynk&Co" vehicles sold by our 50%-owned joint venture) in 2017. Our group's export sales volume however posted a 46% year-on-year decline in 2017 as a result of our prudent approach to curtail financial risks in the export markets. The group sold a total of 1,247,116 units of vehicles (including the sales volume of "Lynk&Co" vehicles sold by our 50%-owned joint venture) in 2017, up 63% from 2016. Our five most popular models in 2017 included "Geely Boyue" (吉利博越), "New Emgrand", "New Vision", "Emgrand GS" and "Vision SUV", which together accounted for 75% of our group's total sales volume in 2017.

Prospects

While we remain optimistic about the growth prospects for the Chinese passenger vehicle market, the elimination of purchase tax subsidies for fuel efficient vehicles from January 2018 could have some negative impact on the sales volume growth of passenger vehicles in China during the early part of the year. Further, competition in the China market should continue to intensify as most key players, both foreign and domestic, are still trying hard to seize higher market shares there, prompting us to stay in high alert to defend our market share in the world's most competitive vehicle market. On the positive front, we expect the Group's major export markets to show reasonable recovery in 2018, helped by their current suppressed level of sales and the relatively stable economic situation recently in our major export markets, providing good opportunities for the Group to revive its export business.

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 promising market acceptance for the Group's new products, the increase in its market share in China, and the rapid improvement in customer satisfactions as shown in J.D. Power's recent study on customer after-sales services. In addition, 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 more efficiently.

With the successful launches of the Group's new energy vehicle strategy: the "Blue Geely Initiatives" and its first electric vehicle model at the end of 2015 and the subsequent offer of new vehicle models under the compact modular architecture ("**CMA**"), a sophisticated flexible vehicle platform jointly developed and shared with Volvo Car Corporation ("**VCC**") and designed for next generation of new energy vehicles, the Group is in an advantageous position to satisfy our customers' increasing needs for intelligent vehicles, which are smarter, electrified and fully connected. This, together with the substantial investment in the iNTEC technologies over the past few years, should ensure the Group to be well prepared and equipped to cope with the upcoming radical changes in the automobile sector.

In 2018, the Group plans to significantly increase the proportion of new energy vehicles in its sales volume by adding new energy versions for most of its major models following the tremendous success of its first batch of new energy vehicles ("**NEVs**"): the Emgrand EVs and Emgrand PHEVs. To leverage on our strong and unique cooperation relationship with VCC, we significantly broaden our cooperation and technology sharing with VCC. As a result, more advanced powertrain, will also be available for the existing models and most of our new models. Upgraded versions of the existing major models to incorporate the Group's latest advanced technologies and new design philosophy will also be offered to consumers thus further strengthening the Group's new product pipeline in 2018. With the Group's substantial investments in new technologies and innovations in the areas of lightweight technologies, advanced powertrain and NEVs over the past few years, the Group's products have become far more environmentally friendly and fuel-efficient. The amount of new products offering should reach a historic high in 2018, providing substantial momentum to support the Group's overall sales volume growth in 2018. Further, the continued shift of preference on vehicle procurement by the Chinese Government towards more indigenous brand products should provide additional opportunities for the Group to further expand its sales.

Further, additional growth could be provided by new "Lynk&Co" joint-venture, which will be in its first full year operation in 2018. The innovative vehicle models from "Lynk&Co" brand emphasize key brand concept like "personalized", "open platform" and "full connectivity". The joint-venture's innovative business model is key element of the Group's strategy to expand into the upper-end vehicle segment in China and the global market.

The numerous acquisitions in the automobile sector by the Group's parent over the past few years should provide the Group substantial opportunities for technologies and cost sharing, economies of scales and new market penetration. Longer-term, these acquisitions should provide additional sources for growth of the Group.

2018 should see further increase in investment by the Group in the research and developments of vehicle quality and safety, NEVs and smart car; and the applications of internet, mobile communication, shared mobility and artificial intelligence technologies in its products and services. In 2018, the Group plans to launch more new SUV models to supplement its existing SUV product portfolio, offering our customers a comprehensive range of different SUV products. More new sedan models will also be offered to upgrade and further expand the Group's sedan product portfolio, aiming to safeguard the Group's leading position in China's sedan market. Further, our planned launch of the Group's first multi-purpose vehicle ("**MPV**") model should help the Group to expand into new market, enabling the Group to compete in all major segments of China's passenger vehicle market. A large number of NEVs, mainly elective vehicles ("**EVs**") and plugin-hybrid-electric vehicles ("**PHEVs**"), will be added to our product portfolio in 2018, significantly increasing the proportion of NEVs in our sales.

Taking into account the Group's strong new products pipeline for 2018 and the continued strong sales momentum of the Group's existing models, the Group's board of directors set its sales volume target for the year of 2018 at 1,580,000 units (including the sales volume target for "Lynk&Co" vehicles), representing an increase of around 27% over 2017.

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 payment credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, bank borrowings and fund raising exercises in the capital market. As at 31 December 2017, the Group's shareholders' funds amounted to approximately RMB34.5 billion (As at 31 December 2016: approximately RMB24.4 billion). The Company issued 87.653 million ordinary shares upon exercise of share options during the year.

EXPOSURE TO FOREIGN EXCHANGE RISK

During the year, 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 Renminbi (RMB), the functional currency of the Group.

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's current ratio (current assets/current liabilities) was about 1.06 (As at 31 December 2016: 1.16) and the gearing ratio of the Group was about 3.8% (As at 31 December 2016: 9.2%) which was calculated on the Group's total borrowings (excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests). As at 31 December 2017, the increase in receivables (in particular, the notes receivables) was (a) mainly due to the Group's robust domestic sales particularly in the fourth quarter of the current year (i.e. the traditional peak seasons for automobile industry) and the Group received huge amount of notes receivables from its customers during that period; and (b) thanks to the relatively low interest environment and strong net cash level, the Group did not opt to discount these notes receivables without recourse but wait to hold them until maturity during most of the times in 2017. In addition, in order to secure an adequate supply of automobile parts & components (in particular, steel, out-sourced engines and other high-end electronic parts & components) from the Group's supply chain during the peak season in the fourth quarter of 2017, the Group had to prepay these inventories to its suppliers towards the end of 2017. Separately, the increasing demand for the Group's products also drove its dealers to pay in advance in order to secure adequate inventories at their sales premises at the year end. As at 31 December 2017, the receipts in advance from customers represented almost 16% (As at 31 December 2016: 19%) of the total current liabilities. Accordingly, the net effect of the above resulted in a slight decrease in current ratio at the end of year 2017 over the previous year.

Total borrowings (excluding trade and other payables) as at 31 December 2017 amounted to approximately RMB1.3 billion (As at 31 December 2016: approximately RMB2.2 billion) were mainly the Group's borrowings and senior notes. At the end of 2017, the Group's total borrowings were denominated in United States Dollars (US$). They were well matched by the currency mix of the Group's revenues, which were mainly denominated in US$. For the borrowings, they were unsecured, interest-bearing and repaid on maturity. The decrease in gearing ratio during the year was mainly due to the early redemption of senior notes in the principal amount of US$300 million and the increase in equity as a result of profit attained by the Group during the year of 2017. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

EMPLOYEES' REMUNERATION POLICY

As at 31 December 2017, the total number of employees of the Group was about 41,600 (As at 31 December 2016: 35,100). 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.

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 year ended 31 December 2017.

PROPOSED FINAL DIVIDEND

The directors have recommended the payment of a final dividend of HK$0.29 per ordinary share for the year ended 31 December 2017. The proposed dividend payments are subject to approval by the shareholders of the Company at the annual general meeting to be held on Friday, 25 May 2018 at 4:00 p.m. (Hong Kong Time). Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid in July 2018 to shareholders whose names shall appear on the register of members of the Company on 15 June 2018.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2018 to 25 May 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to establish entitlements of attending and voting at the forthcoming annual general meeting of the Company to be held on 25 May 2018, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. (Hong Kong Time) on 21 May 2018.

The register of members of the Company will be closed from 12 June 2018 to 15 June 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. (Hong Kong Time) on 11 June 2018.

CORPORATE GOVERNANCE

For the year ended 31 December 2017, the Company has complied with the code provisions ("**CPs**") of the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 to the Listing Rules, except for CPs A.2.7, A.6.5 and E.1.2.

CP A.2.7 provides that the chairman (the "**Chairman**") of the board of directors of the Company (the "**Board**") should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the year ended 31 December 2017, a formal meeting could not be arranged between the Chairman and the non-executive directors (including independent non-executive directors) without the presence of the executive directors due to the tight schedules of the Chairman and the non-executive directors (including independent non-executive directors). Although such meeting was not held during the year, the Chairman has delegated the company secretary of the Company to gather any concerns and/or questions that the non-executive director and the independent non-executive directors might have and report to him for setting up follow-up meetings, whenever necessary.

CP A.6.5 provides that the Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. During the year, the Company did not host a continuous professional development session for the directors as the Company has made alternative arrangement so that the directors may elect to participate in courses and topics of their own interests. To accommodate the directors' development and to refresh their knowledge and skills, so as to ensure that their contribution to the Board would remain informed and relevant, the directors can submit their applications with details of the curriculum and the relevant course fees to the chief executive officer of the Company. Once the training is considered acceptable, the course fees will be fully reimbursed when valid payment receipts are presented.

CP E.1.2 provides that the Chairman and the chairman of respective Board committees should attend the annual general meeting of the Company. During the year ended 31 December 2017, 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 the shareholders of the Company might have, to attend such general meeting on his behalf. Further, the Company would facilitate a conference call for the shareholders of the Company 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 of the Company 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 2017. Due to conflict of schedules and other prior business engagement in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the general meeting in person but he participated the meeting via conference call. Mr. Gui Sheng Yue, Mr. Ang Siu Lun, Lawrence, Mr. Lee Cheuk Yin, Dannis and the Company's external auditor attended and answered questions raised by the shareholders of the Company at the meeting physically. Mr. Carl Peter Edmund Moriz Forster, Mr. An Qing Heng, Mr. Wang Yang and five executive directors (including the Chairman) participated the meeting via conference call.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an Audit Committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee is accountable to the Board and the primary duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee currently comprises Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang, who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the consolidated results of the Group for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 25 May 2018 at 4:00 p.m. (Hong Kong Time). A notice of the annual general meeting will be issued and delivered to shareholders of the Company in due course.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, Grant Thornton Hong Kong Limited (the "**Auditor**"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

ANNOUNCEMENT OF ANNUAL REPORT ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE OF HONG KONG LIMITED

Pursuant to the requirements of the Listing Rules regarding the reporting period, the 2017 annual report will set out all information disclosed in the annual results announcement for 2017 and will be disclosed on the websites of the Company (http://www.geelyauto.com.hk) and The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) on or before 30 April 2018.

By Order of the Board of
Geely Automobile Holdings Limited
Li Shu Fu
Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the executive directors of the Company are 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 and Ms. Wei Mei, the non-executive director of the Company is Mr. Carl Peter Edmund Moriz Forster, and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang.