

Annual Report **2008**



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

(Stock Code : 0175)





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# Key Figures

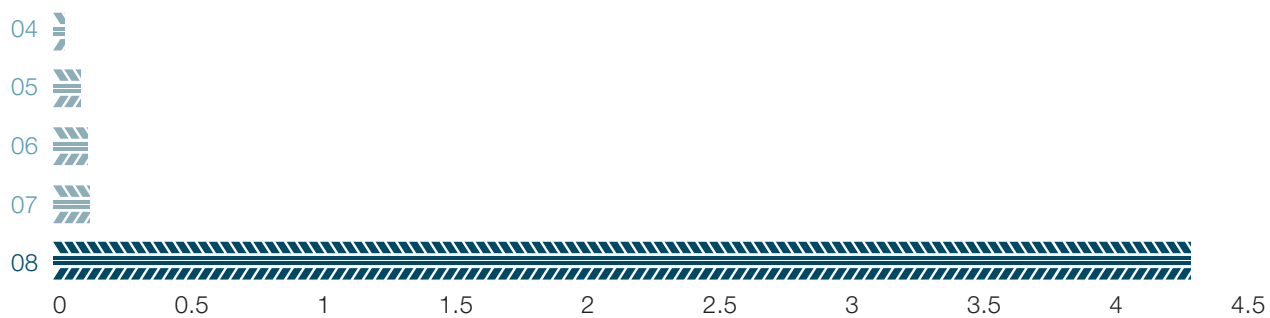
## FIVE YEAR FINANCIAL SUMMARY

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

### THE GROUP

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	4,289,037	131,720	127,006	105,467	43,673
Profit before taxation	917,922	307,373	215,734	119,992	85,846
Taxation	(51,869)	(1,606)	(1,585)	–	–
Profit for the year	866,053	305,767	214,149	119,992	85,846
Attributable to:					
Equity holders of the Company	879,053	302,527	208,752	115,260	86,346
Minority interests	(13,000)	3,240	5,397	4,732	(500)
	866,053	305,767	214,149	119,992	85,846
Assets and Liabilities					
Total assets	10,150,969	2,920,351	1,844,068	896,107	722,975
Total liabilities	(5,368,488)	(373,281)	(794,142)	(56,730)	(24,271)
Total equity	4,782,481	2,547,070	1,049,926	839,377	698,704
Represented by:					
Equity attributable to equity holders of the Company	4,197,862	2,343,845	1,030,157	830,003	693,961
Minority interests	584,619	203,225	19,769	9,374	4,743
	4,782,481	2,547,070	1,049,926	839,377	698,704

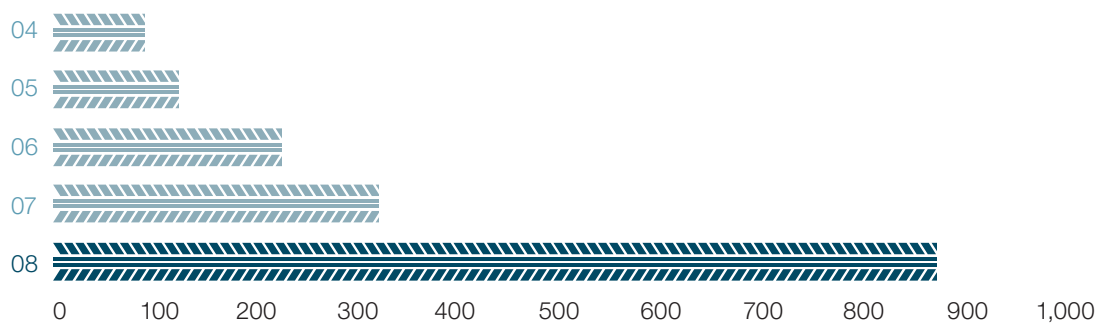
Turnover  
(RMB' Billion)



Total assets  
(RMB' Billion)



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



## Key Figures

### FINANCIAL HIGHLIGHTS

#### A. The Group

	2008	2007	Change in Percentage Increase/ (Decrease)
<b>For the year</b>			
Turnover (RMB'000)	4,289,037	131,720	3,156
Profit attributable to equity holders of the Company (RMB'000)	879,053	302,527	191
<b>Per share</b>			
Basic earning per share (RMB Cents)	15.04	6.14	145
Diluted earning per share (RMB Cents)	14.28	6.04	136
Dividend per share (RMB Cents)	1.4	1.1	27
NAV per share (RMB)	0.65	0.45	44
<b>At year end</b>			
Shareholders' funds (RMB'000)	4,197,862	2,343,845	79
Total assets (RMB'000)	10,150,969	2,920,352	248
Number of shares in issue	6,489,755,450	5,201,083,450	25
Share price during the year			
– High (HK\$)	1.05	1.46	(29)
– Low (HK\$)	0.15	0.76	(72)
<b>Financial ratios</b>			
Gearing ratio = (Borrowings/Shareholders' funds) (%)	25.3%	13.5%	87
Return on total assets (%)	8.7%	10.3%	(16)
Return on shareholders' fund (%)	20.9%	12.9%	62

#### B. Major PRC Subsidiaries

A summary of the combined results and the assets and liabilities of the Group's Major PRC Subsidiaries, namely Zhejiang Geely Automobile Company Limited, Shanghai Maple Guorun Automobile Company Limited, Zhejiang Ruhoo Automobile Company Limited, Zhejiang Kingkong Automobile Company Limited and Hunan Geely Automobile Components Company Limited, is set out below:

#### Combined Results – Major PRC Subsidiaries\*

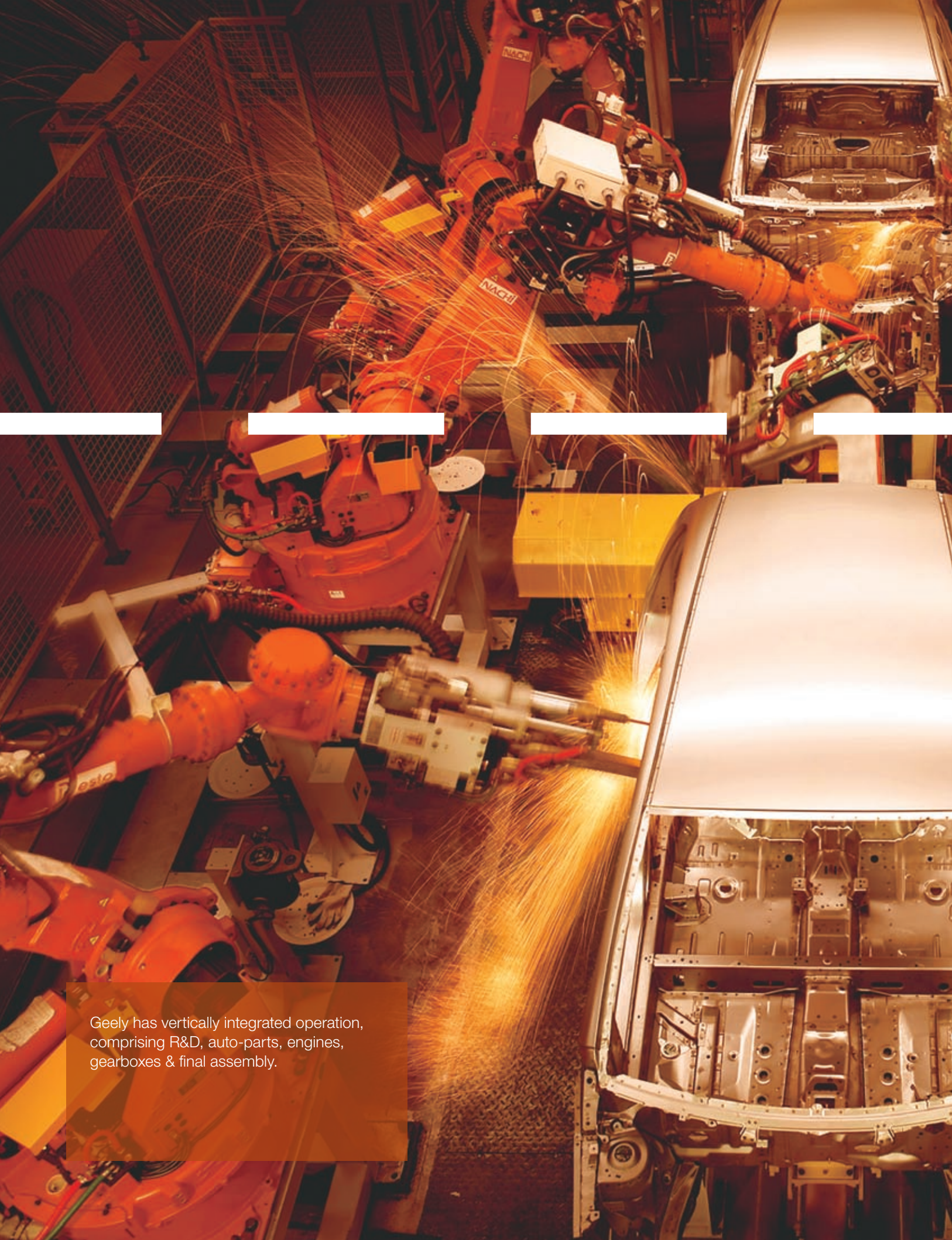
	Year ended 31 December 2008 RMB'000	Year ended 31 December 2007 RMB'000
Turnover	16,728,263	10,896,352
Costs of sales	(15,089,129)	(9,527,897)
Sales Tax	(15,918)	(8,801)
Gross profit	1,623,216	1,359,654
Other net operating income	417,385	206,397
Distribution and selling expenses	(500,993)	(467,350)
Administration expenses	(327,414)	(286,544)
Finance costs	(92,246)	(59,345)
Profit before taxation	1,119,948	752,812
Taxation	(55,226)	(25,286)
Profit for the year	1,064,722	727,526
Attributable to:		
Equity holders of the Major PRC Subsidiaries	1,062,771	724,410
Minority interests	1,951	3,116
	1,064,722	727,526
Sales volume (unit)	204,205	181,517

\* The figures were presented before the fair value adjustment for consolidation into the Group

### Combined Assets and Liabilities – Major PRC Subsidiaries

	31 December 2008 RMB'000	31 December 2007 RMB'000
Non-current assets		
Property, plant and equipment	3,172,957	2,818,977
Intangible assets	638,681	170,359
Prepaid lease payments	1,051,745	1,026,732
Goodwill	–	40,842
Long-term deferred expenses	300,628	3,564
Long-term investment	1,800	1,800
	5,165,811	4,062,274
Current assets		
Inventories	486,198	621,007
Prepaid lease payments	26,611	24,928
Bills receivables	1,193,234	864,631
Trade and other receivables	439,972	537,272
Amounts due from related companies	2,495,552	1,582,945
Short-term investment	10,461	11,847
Tax recoverable	3,205	6,727
Pledged deposit	853,948	–
Bank balances and cash	600,857	945,750
	6,110,038	4,595,107
Current liabilities		
Bank borrowings	685,588	562,338
Bills payables	1,834,234	736,800
Trade and other payables	2,105,151	1,421,444
Amounts due to related companies	2,541,717	1,730,885
Taxation	28,516	15,814
Dividend payables	–	465
	7,195,206	4,467,746
Net current (liabilities) assets	(1,085,168)	127,361
	4,080,643	4,189,635
Capital and reserves		
Paid-up capital	3,157,300	2,879,720
Reserves	803,608	1,070,991
Equity attributable to equity holders of the Major PRC Subsidiaries	3,960,908	3,950,711
Minority interests	32,735	6,784
Total equity	3,993,643	3,957,495
Non-current liabilities		
Other long-term liabilities	87,000	232,140
	4,080,643	4,189,635





Geely has vertically integrated operation, comprising R&D, auto-parts, engines, gearboxes & final assembly.





— Improving → Upgrading



# Letter to Shareholders

On behalf of the Board of Directors (the “Board”) of Geely Automobile Holdings Limited (the “Company”), I am pleased to present to you the 2008 results of the Company and its subsidiaries (collectively, the “Group”).



**Li Shu Fu**  
*Chairman*

## FINANCIAL REVIEW

2008 was a milestone year in the Group’s history with its successful transformation into the ultimate holding vehicle of auto-related assets of Zhejiang Geely Holding Group Company Limited (“Geely Holding”) and its subsidiaries (collectively, “Geely Holding Group”), following the completion of the acquisition of additional interests in the Group’s five major operating associates on 1 July 2008, raising its equity interests in these operating associates to 91% (“the Acquisitions”). By virtue of the Acquisitions, the Group’s five major operating associates – the key earnings contributors to the Group, comprising virtually all Geely Holding Group’s operating auto-related businesses – have become subsidiaries of the Group, thus allowing the Group to fully consolidate their financial results into the Group’s consolidated financial statements from July 2008 onwards.

Helped by the full consolidation of the financial results of the vehicle manufacturing businesses since July 2008, the Group’s turnover increased substantially to RMB4,289 million for the year ended 31 December 2008. Profit attributable to the equity holders of the Company amounted to RMB879 million, representing a significant increase of 191% over 2007, due to the strong growth in profit contributions from the Group’s five major operating subsidiaries – Zhejiang Geely Automobile Company Limited (“Zhejiang Geely”), Shanghai Maple Guorun Automobile Company Limited (“Shanghai Maple”), Zhejiang Kingkong Automobile Company Limited (“Zhejiang Kingkong”),



Zhejiang Ruhoo Automobile Company Limited (“Zhejiang Ruhoo”) and Hunan Geely Automobile Components Company Limited (“Hunan Geely”) – (collectively, “operating subsidiaries”). The strong growth in their profit contribution was partly due to the higher shareholdings in these five major operating entities from 46.81% to 91% after the completion of the Acquisitions in mid 2008, and the continued success achieved by the operating subsidiaries’ Strategic Transformation, resulted in improvement in product mix towards higher-end sedans, and product price stability during the period. Significant achievements by the operating subsidiaries in improving customer satisfactions, and product reliability and quality also contributed to the strong performance during the year.

## **DIVIDEND**

The Board recommends the payment of final dividend of HK1.6 cents (2007: HK1.3 cent) per share for 2008.

## **BUSINESS OVERVIEW**

The growth of sedan demand in the China market encountered a sharp slow down since the second quarter of 2008. This, coupled with the tremendous cost pressure, especially in the early part of the year, caused by high inflation in China and rapidly rising prices of raw materials during the first half of the year, followed by rapidly deteriorating consumer sentiment caused by the global

financial market turmoil in the third quarter of 2008, have resulted in very difficult market condition for most Chinese sedan manufacturers during most of the time in 2008.

Despite the severe challenges and difficulties, and thus a sharp slow down in exports sales towards the end of the year, the Group still managed to achieve another record year in terms of sales volume and profitability in 2008, helped by the significant effort by the Group’s operating subsidiaries to improve customer satisfactions, product quality and reliability and to further enhance their brand images during 2008.

To cope with the rapid changes in market environment, the Group has embarked on a major “Strategic Transformation” since May 2007, through expansion into higher-end and larger-sized vehicles and major investments to enhance the Group’s technology competence and product branding, aiming at transforming its competitive advantages from price competitive to technology and performance competent. The “Strategic Transformation” started to yield obvious positive results in 2008, enabling the Group to achieve remarkable results despite a significant weaker sedan market in both China and abroad. Thanks to the initial success in the Group’s “Strategic Transformation”, the Group has successfully migrated from its old lower-priced models to new higher-margin models during the year.

The Group sold a total of 204,205 units of Geely and Maple sedans in 2008, up 12% over 2007. Of which, 19% or 37,940 units were sold abroad, up 80% over last year. In the Chinese market, the Group's sales volume was up 4% over last year to 166,265 units in 2008. Despite a relatively slower growth in domestic sales volume, the Group, however, achieved a sharp improvement in product mix towards higher-priced models during the period. The three higher-priced models including "Free Cruiser", "Geely Kingkong" and "Vision" accounted for 76% of the Group's total sales volume in 2008, compared with 63% in 2007 and less than 40% in 2006. During the year, the Group's profit margin was well protected by improved product mix, stability of product prices helped by enhanced brand image and better customer satisfaction, and stable production costs helped by strengthened relationship with major suppliers. Total net profit of the Group's five major operating subsidiaries, or its vehicles manufacturing division, was up over 47% to RMB1,063 million on 16% growth in sales revenues for motor vehicles to RMB8,157 million, both are record highs in the Group's history.

## PROSPECTS

2008 was the Group's best performing year in its history in terms of both sales and profitability, helped by the timely implementation of its "Strategic Transformation" more than two years ago. The "Strategic Transformation" has so far yielded very positive results, as evidenced by the

tremendous success of a new economy car platform – the "Geely Panda" – launched in November 2008 and the significant improvement in brand recognition and customer satisfaction by Geely's products as indicated by the recent results of major industry surveys in China's sedan market. We believe that the "Strategic Transformation" could continue to enhance the Group's competitive advantages in the coming years, thereby to further enhance the returns to the Company's shareholders.

The Group will continue to focus on the operation and expansion of its automobile business, to actively seek for ways and opportunities to further broaden its product line to include higher value-added products, and to gradually expand its operations into the global market, with an aim to become a leading supplier for the safest, the most environmental friendly and the most energy efficient vehicles in the global market. To achieve this, the Group will continue to invest heavily in the research and development of new product platforms, new technologies and new models in a bid to narrow the Group's technology gap compared with major international automobile companies. Major changes have also been implemented in the areas of quality control, technology development and innovation, parts and component procurement, marketing and distribution and customer services to further strengthen the Group's brand image and overall competitiveness.

I do agree that 2009 would be a very challenging year for most of our automotive peers with a significant slowdown in motor vehicles sales in most parts of the World market. In particular, our exports business could be facing major challenge given the current financial difficulties faced by some of our major export markets. With no sign of early recovery in these markets, we have decided to take a more proactive approach to speed up the exploration of other new markets which are less affected by the current global financial market turmoil and have good potential demand for our products. We shall continue to proceed with the remaining steps under our “Strategic Transformation” to further improve the competitiveness of our products. Other focus for the Group in 2009 includes major effort to enhance customer satisfactions, and full implementation of “Product Platform” and “Multi-brand” strategies.

On the positive front, the demand for sedans in China has only been slightly affected so far. With the very low level of leverage in China’s automobile market and amongst the major Chinese automobile manufacturers, and the country’s still very low penetration rate for motor vehicles, I believe China’s motor vehicle market should remain the best performing market in the World in the coming year. Further, the Chinese government has taken bold steps to stimulate motor vehicle demand with focus

on promoting fuel-efficient and environmentally friendly economy sedans, aiming to ensure positive growth in motor vehicle demand in 2009.

With the successful completion of the initial phase in our “Strategic Transformation”, replacing our old lower-priced models with the better quality higher-priced models developed using our newly implemented “Platform Strategy”, I believe the Group is well positioned to expand its market shares in the China market in 2009. This, coupled with the completion of the Acquisitions in mid-2008, which almost doubled the Group’s share of profit from its vehicle manufacturing business, and the lower cost base into the 2009, should help the Group to sustain its consistent earnings growth in the coming few years.

**Li Shu Fu**  
*Chairman*  
16 April 2009





In its pursuit of becoming a leading player in the automobile industry, Geely continues to invest substantially in intellectual resources and latest technology.

Fast-moving → Leading



# Performance & Governance

## OVERALL PERFORMANCE

Despite a sharp slowdown in China's sedan demand since mid 2008, the Group achieved tremendous results in 2008, helped by the Group's successful migration from the old low-priced models to the newly developed higher-priced models. With significant improvement in customers' satisfaction and product quality as indicated by the recent results of major industry surveys in China's sedan market, the Group managed to achieve positive growth in sales volume in the China market during the difficult transition period for large scale model changes in 2008. This, coupled with the substantial 80% growth in exports sales, thus enabling the Group to record a 12% growth in total sales volume to 204,205 units in 2008. Total revenues for vehicle sales was up even more by 3,156% to RMB4,289 million during the year due to the completion of the Acquisitions in mid 2008. Improved brand images and product quality, plus better customers' satisfaction also enabled the Group to avoid cutting product prices throughout the year. Through continued restructuring and streamlining of its supplier base, better internal control, in particular the control over warranty claims, and the implementation of "Platform Strategy", the Group's production cost was well controlled despite the rapidly rising prices of raw materials during the first half of 2008. As a result, 2008 was again a record year for the Group in terms of both sales revenues and profitability.

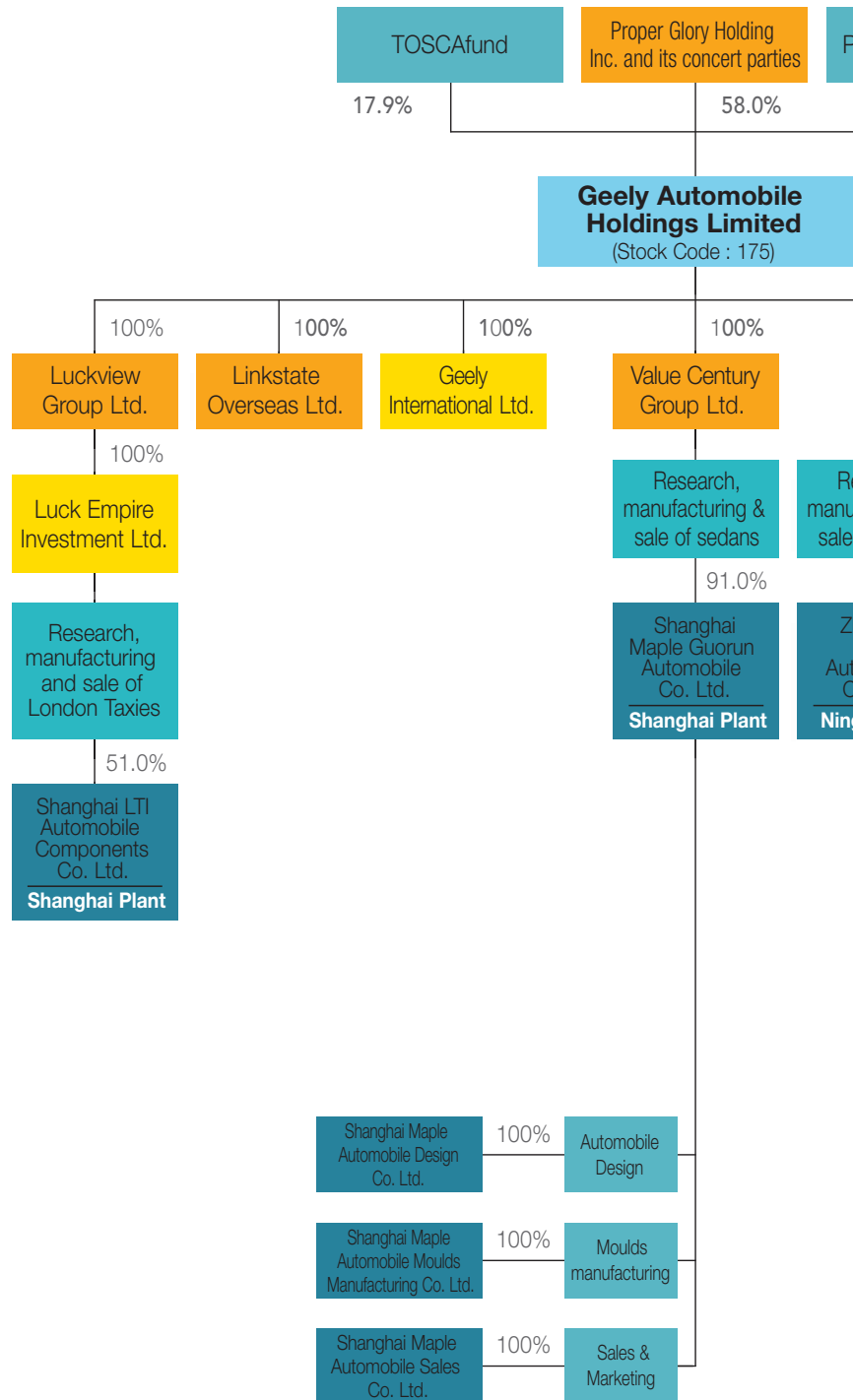
The Group's 91%-owned vehicle manufacturing business, which now comprises five major subsidiaries – Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely – sold a record number of 204,205 units of vehicles in 2008, up 12% from previous year, and achieved net profit of RMB1,063 million, up 47% from previous year. The remarkable financial performance by the vehicle manufacturing business had enabled the Group to report another record profitability with net profit increasing by 191% to RMB879 million in 2008. The good results were despite inclusion of non-cash charges including the accrued interest expenses and fair value change totaled around RMB10 million incurred by the Company's outstanding 5-year zero coupon convertible bonds due 2011, and a provision of RMB100 million for the write-down of the Group's investment in Manganese Bronze Holdings PLC ("MBH") to prevailing market value. These however were more than offset by the inclusion of non-cash gain of RMB340 million, stemmed from the gain on negative goodwill as a result of the completion of the Acquisitions in mid-2008.

## REORGANIZATION AND ACQUISITIONS

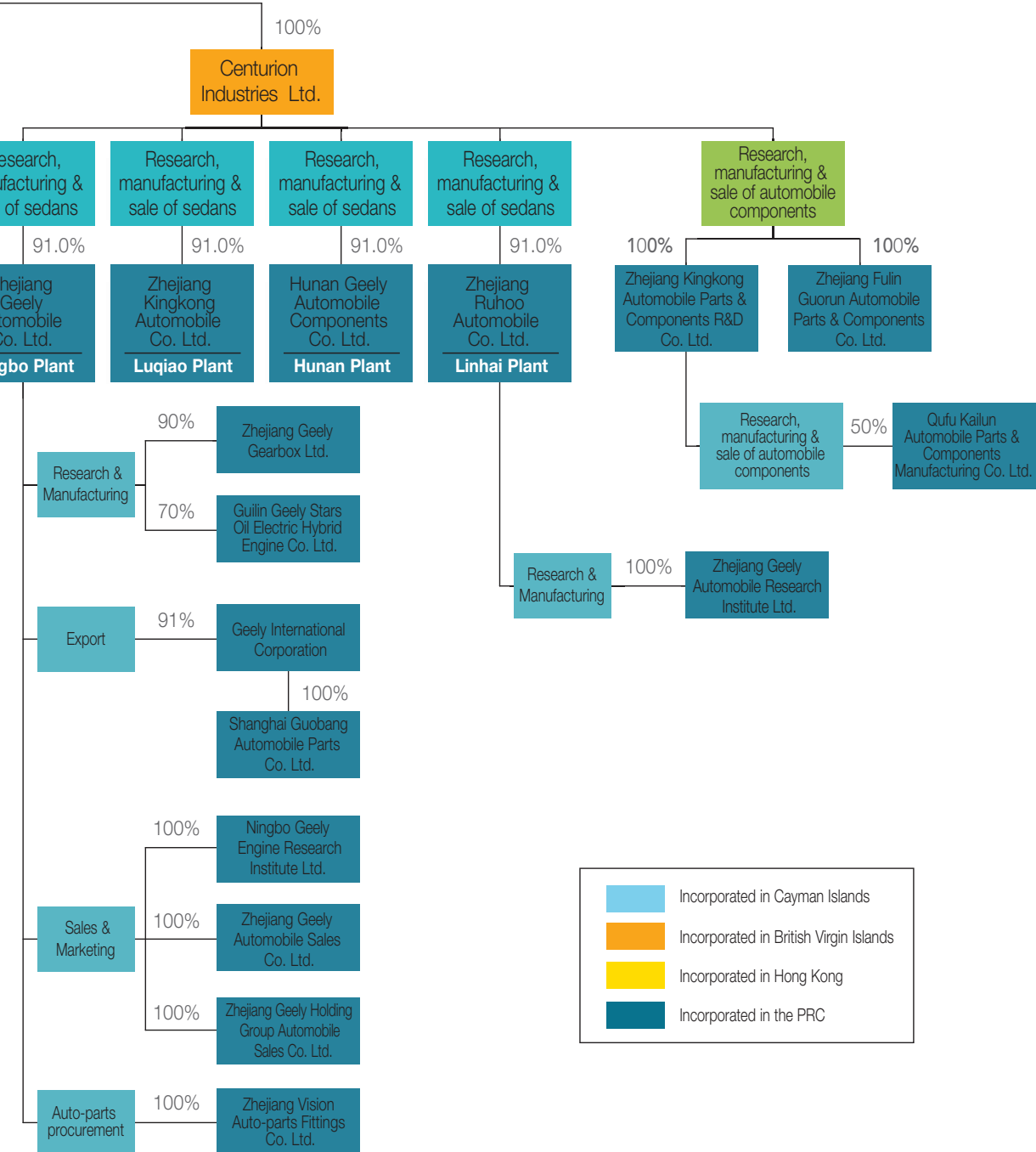
2008 was a fruitful year in the Group's on-going efforts to rationalize its corporate structure with the completion of the acquisitions of additional stakes in its vehicle manufacturing business, thus allowing the Group to fully consolidate its financial results into the Group's consolidated financial statements from July 2008 onwards.

# Organisation Chart

(At 31 December 2008)



Public shareholders  
24.1%



	Incorporated in Cayman Islands
	Incorporated in British Virgin Islands
	Incorporated in Hong Kong
	Incorporated in the PRC





吉利汽车  
GEELY AUTOMOBILE



### ACQUISITION OF ADDITIONAL STAKES IN MAJOR OPERATING ASSOCIATES

The Group completed the acquisition of the additional 44.19% interests in each of five major operating associates: Zhejiang Geely, Shanghai Maple, Zhejiang Kingkong, Zhejiang Ruhoo and Hunan Geely on 1 July 2008, raising its equity interests in these five major operating associates to 91%, for a total consideration of HK\$1,147 million satisfied by the issue of 1,289 million new shares of the Group at HK\$0.89 per share. The issue of the new shares increased the Group's total number of ordinary shares by around 25%. The consideration of HK\$1,147 million was determined with reference to the unaudited net asset value of these five major operating associates on 30 June 2007.

The Acquisitions should significantly enhance the Group's corporate structure, thus resulting in a more streamlined operation with much improved operating efficiency and much better transparency. The Acquisitions would also allow the Group to fully incorporate the large revenue base of auto-related businesses of Zhejiang Geely Holding Group Company Limited ("Geely Holding") and its subsidiaries (collectively, "Geely Holding Group") and allow the Group to share the majority of Geely Holding Group's operating profits from its auto-related businesses. Immediately after the completion of the Acquisitions, the five major operating associates have become subsidiaries of the Group and their financial results have since then been consolidated with the financial results of the Group.

Since the consideration shares of the Acquisitions were issued at a premium to the prevailing market prices at the time when the Acquisitions were completed, the completion of the Acquisitions had resulted in negative goodwill in the Group's book. The net gain on negative goodwill of RMB340 million was included in the Group's consolidated income statement in 2008.

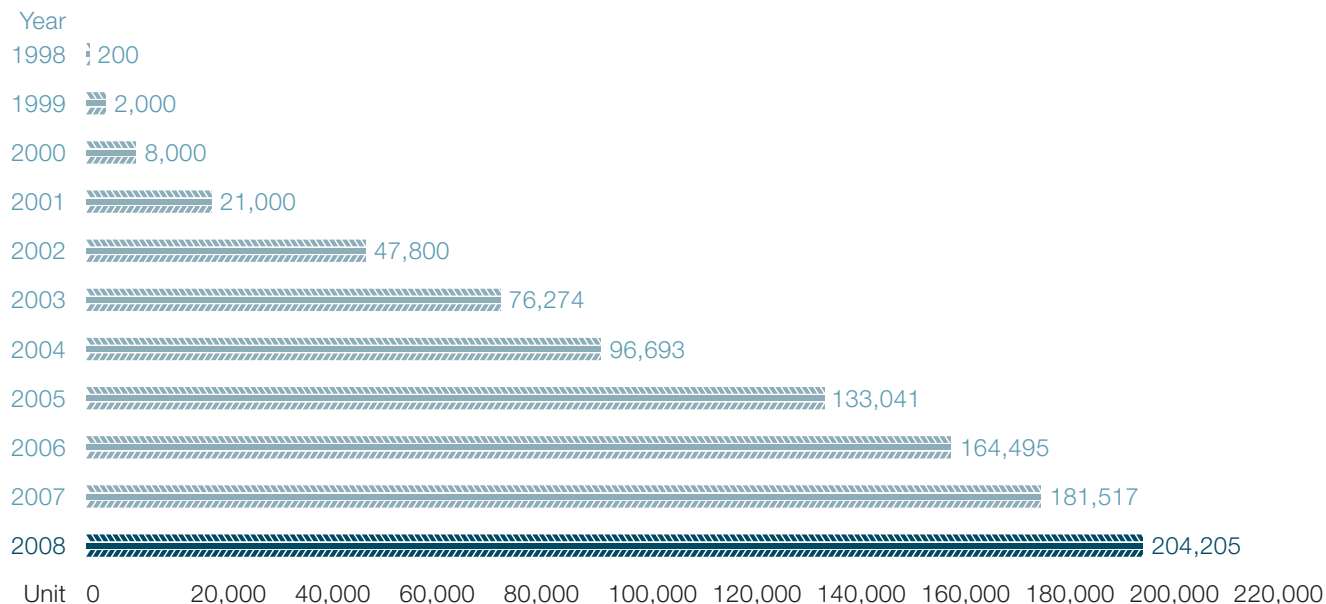
### FINANCIAL RESOURCES

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and the credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, shareholders' loan from the its parent Geely Holding Group and fund raising exercises in the capital market.

Despite total capital expenditures of around RMB900 million in 2008, the significant increase in operating profit during the year enabled the Group to maintain its cash position at healthy level throughout the year. As a result, total level of cash and bank balances increased from RMB762 million at the end of 2007 to RMB889 million at the end of 2008. Total bank borrowings also increased substantially from RMB20 million at the end of 2007 to RMB773 million at the end of 2008 to support the significantly higher revenues during the period.

With no conversion of the Company's five-year zero-coupon convertible bonds due 2011 during the year, the total outstanding nominal amount of the convertible bonds remained at HK\$318 million at the end of 2008. On 10 March 2009, all the outstanding convertible bonds were put back to the Group in accordance to the terms of early redemption option granted to the convertible bondholders. As a result, the Group redeemed all outstanding convertible bonds for a total amount of approximately HK\$366 million on 10 April 2009. All the redemption payment was satisfied by the Group's cash reserve.

## Annual Sales Volume of Geely Sedans



Budgeted capital expenditures of the Group amount to about RMB600 million in 2009, including the funding for the research and development of new vehicle models, new engines and gearboxes, the expansion of Ningbo plant and the upgrading of production facilities at Xiangtan plant and Shanghai LTI. The Group plans to fund the capital expenditures with its operational cash flow and bank borrowings.

### VEHICLE MANUFACTURING (91% INTERESTS)

The Group sold a total of 204,205 units of vehicles in 2008, up 12% over 2007, helped by increased sales of new higher-priced models like the “Geely Kingkong” and “Vision” during the period and the strong growth in exports sales volume, particularly in the early part of the year, more than offsetting the dramatic 70% drop in the sales volume of the low-priced models like “Haoqing”, “Merri” and “Ulion” as the Group gradually ceased production of these low-end old models during the year. Despite the outbreak of the global financial market turmoil towards the end of 2008, total export sales volume was up 80% YoY to 37,940 units in 2008, thanks to the exceptional strong exports volume in the first nine months of the year.



*Geely Kingkong*

The continued improvement in product mix towards higher-priced models had enabled the Group to record significantly faster revenue and earning growth during the period. Total sales revenue of vehicles by the five major operating subsidiaries was up 16% to RMB8,157 million, while total net profit was up 47% to RMB1,063 million. The three higher priced models: namely “Free Cruiser”, “Geely Kingkong” and “Vision” accounted for 76% of total sales volume in 2008, compared with only 63% in 2007.

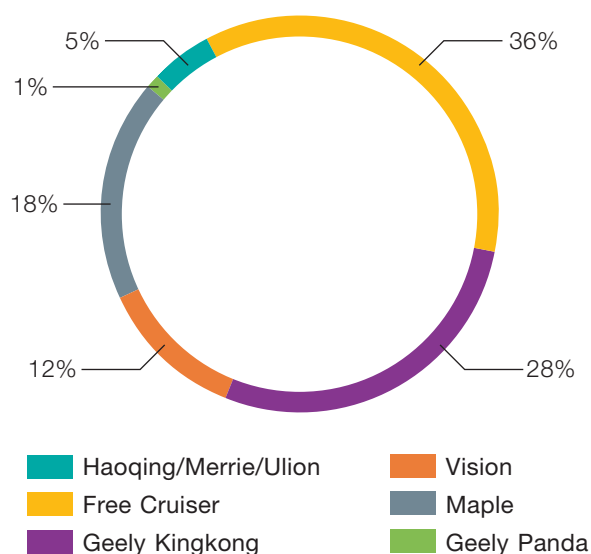
In particular, “Geely Kingkong” product platform, comprising “Geely Kingkong” sedans and “Geely Jin Yin” hatchback models, had achieved a tremendous success in 2008 with a total sales volume of 57,215 units, up 67% from the previous year, and continued to be the second best selling models of the Group during the period. “Free Cruiser” remained the Group’s best selling models during 2008, achieving 9% YoY increase in sales volume to 74,274 units, or 36% of the Group’s total sales volume during the year. The Group’s highest-priced model – “Vision” sedans – achieved the fastest growth in sales volume during the year with sales volume up 104% to 23,516 units in 2008. Although “Geely Panda”, the Group’s brand new small car platform and its most strategic new product in 2008, was only officially launched in November 2008, the market response has been encouraging so far with a total of 1,389 units sold in the last two months of 2008. With no major new product launch in 2008, Shanghai Maple still managed to achieve reasonable growth in 2008 with total sales volume of Maple sedans up 19% to 37,017 units. Key drivers to sales volume growth in 2009 should be “Geely Panda” and “Vision”. For “Geely Panda”, more model varieties equipped with different choice of engines and transmissions are scheduled to be launched within 2009. This should significantly enhance the competitiveness of “Geely Panda” against other existing small car models in the China market. In addition, sales volume of “Vision” should also increase significantly after the planned launch of a new series of “Vision” sedans with smaller engines and automatic transmissions in 2009. The Group also plans to introduce upgraded versions of “Free Cruiser” and “Geely Kingkong” sedans in 2009 to maintain their strong sales performance achieved in the past few years.



*Geely Panda*

In 2008, the average unit sale price achieved by the Group’s vehicle sales increased by 3% to about RMB40,000 per car due to continued improvement in product mix towards higher-priced models. Net profit per car increased by 30% to RMB5,204 per car during the period, helped by the Group’s tremendous success to maintain product price stability and in controlling costs during the period. During 2008, the Group managed to reduce the cost of outsourced automobile parts by around 4-6%, helped by the initial benefits from the implementation of platform strategy and the long-term partnership and supply contract arrangements with key suppliers for major raw materials like steel sheets.

Breakdown of sales volume by models in 2008



Models	Sales volume (Unit)
<i>Haoqing/Merrie/Ulion</i>	<i>10,794</i>
<i>Free Cruiser</i>	<i>74,274</i>
<i>Geely Kingkong</i>	<i>57,215</i>
<i>Vision</i>	<i>23,516</i>
<i>Maple</i>	<i>37,017</i>
<i>Geely Panda</i>	<i>1,389</i>
<b>Total</b>	<b>204,205</b>

## PRODUCTION PLANTS/ CAPITAL EXPENDITURES

The Group owns five automobile manufacturing facilities in Ningbo, Shanghai, Linhai, Luqiao and Xiangtan respectively with a total annual production capacity of 410,000 units per shift. With the completion of the construction of Ningbo Phase II plant, the Group's total annual automobile production capacity would be expanded to 460,000 units per shift by the end of 2009. The five production plants are all fully-integrated plants, comprising stamping, welding, painting and assembly facilities, with supporting production facilities including three engines plants located in Shanghai, Ningbo and Linhai with a total annual capacity of 350,000 units of engines and a gearbox plant in Ningbo with annual capacity of 300,000 units of gearboxes by the end of 2008.

The Group's strategy is to continue the expansion and upgrading of its five production plants to further improve quality and reduce costs. In addition, the Group also plans to build new production facilities at less developed provinces in China for the benefit of proximity to new demand, lower costs and access to additional financial and other resources available in other provinces. To minimize the Group's financial burdens and the investment risks and to allow the new plants to become eligible for more investment incentives offered by the local governments, the construction of the new plants in new locations would be initially undertaken by the Group's parent – Geely Holding Group, which has agreed to transfer its interests in these new plants to the Group when mass production started.



# Location of new and existing plants

- Existing Plants
- New Plants



The Group's longer-term plan is to expand its total annual production capacity to 2 million units by the end of 2015. In addition to the expansion of existing plants, the capacity expansion target would be achieved through the planned construction of satellite plants in China's less developed areas including Lanzhou of Gansu province, Jinan of Shandong province, Cixi of Zhejiang province and Chengdu of Sichuan province, and the setting up of SKD/CKD assembly arrangements with local partners in oversea countries. The Group has so far set up three SKD/CKD manufacturing arrangements in Russia, Ukraine and Indonesia. Details about the Group's five existing production plants are summarized below:

Name	Interests	Annual Production Capacity (single shift)	Models
Linhai plant	91.0%	60,000	Geely Panda (1.3L)
Luqiao plant	91.0%	100,000	Geely Kingkong (1.5L) Geely Jin Yin (1.5L)
Ningbo plant	91.0%	100,000	Free Cruiser (1.3L, 1.5L)
Xiangtan plant	91.0%	50,000	Vision (1.8L)
Shanghai plant (Phase II)	91.0%	60,000	Maple series (1.3L, 1.5L, 1.8L)
Shanghai plant (Phase I) (lessee: Shanghai LTI)	51.0%	40,000	TX4 (2.5L diesel)
<b>TOTAL</b>		<b>410,000</b>	

The Group's total capital expenditures amounted to approximately RMB900 million in 2008, mainly for the funding of the expansion and upgrading of the five existing plants, the development of new products and new auto-related technologies. The capital expenditures were mainly funded by the operational cash flow generated by the Group and bank borrowings. Major investment projects completed in 2008 included:

1. The construction of Phase II of Ningbo plant was largely completed in 2008. The production at the 50,000 units annual capacity plant is due to start within the first half of 2009. Total annual capacity at Ningbo plant will be expanded from 100,000 units per shift to 150,000 units per shift after the addition of Phase II of Ningbo plant.
2. The modification of Xiangtan plant to facilitate the production of "Vision" model at the plant had been completed during 2008. Production of "Vision" model at Xiangtan plant started at the end of 2008.
3. A major renovation and plant modifications at the Phase I of Shanghai Plant to prepare for the production of a localized version of "TX4" London Taxies by the Group's 51%-owned Shanghai LTI was completed in mid 2008. Total annual production capacity at Phase I of Shanghai plant will be 40,000 units per shift. Trial production of "TX4" London Taxies started in mid 2008 and the commercial production of "TX4" is scheduled to start before mid 2009.



*Geely Panda Production Facilities*

The Group's total budgeted capital expenditures in 2009 should amount to approximately RMB600 million, which will mainly be financed by the Group's operational cash flow and additional bank borrowings. Major investment projects planned for 2009 include:

1. The last phase construction, and the installation and calibration of production equipment in Phase II of Ningbo plant to facilitate the production of a new series of mid-size sedan: "FE1/2" in mid 2009. The phase II of Ningbo plant will have an annual production capacity of 50,000 units per shift.
2. The construction of Shanghai Maple Mould Centre in Shanghai plant is scheduled to be completed in mid 2009. Trial production of moulds for use within the Group is due to start in the second half of 2009.

## QUALITY CONTROL

The Group has set up a quality control system satisfying the ISO9000 quality certifications and has completed the transition to “Total Quality Management” during the year. The Ningbo plant, the associates’ most important production base, was awarded the official certifications in accordance with the requirements of ISO/TS16949:2002. In 2008, the Group had achieved its overall quality control targets by reducing the amount of warranty claims per car and the product defect rates significantly. In 2008, a major restructuring of the Group’s suppliers of automobile parts and components had been implemented, including the introduction of a new evaluation and management system for all the Group’s suppliers, the elimination of some suppliers that failed to satisfy the Group’s new quality requirements and the building up the Group’s core supplier base. In addition to levels of warranty costs and product defect rates, customers’ satisfaction was also included as one of the parameters to evaluate the Group’s and its suppliers’ quality control achievements. As a result, the Group’s product quality has registered substantial improvements as measured by IQSPP100 by J.D.Power in 2008. The key focus of the Group in the area of quality control in 2009 is to further reduce the amount of warranty costs per car by 20% and to cut product defect rates by another 50%.



## COMPLIANCE WITH GOVERNMENT REGULATIONS

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

# New Products

## MAJOR NEW PRODUCT LAUNCHES BY THE GROUP IN 2008 ARE SUMMARIZED BELOW:

1. "Vision", "Geely Kingkong" and "Free Cruiser" CNG dual-fuel sedan (1.8L, 1.6L, 1.3L)
2. "Geely Kingkong" hatchback or "Jin Yin" (1.5L)
3. "Geely Panda" economy sedan (1.3L)



FE-2



FE-1



GC-1



TX4



**IN 2009, THE GROUP PLANS TO LAUNCH THE FOLLOWING NEW PRODUCTS:**

1. "FE-1" mid-size sedan (1.8L, 2.0L)
2. "FE-2" mid-size hatchback (1.8L, 2.0L)
3. "SL" mid-size sedan (1.8L)
4. "GC" large-size sedan (2.0L, 2.4L)
5. "TX4" taxi vehicle (2.5L diesel)

In addition, the Group also plans to launch upgraded models for "Free Cruiser", "Geely Kingkong" and "Vision" sedans. A new version of "Geely Panda" equipped with a brand new 1.0L CVVT engine and automatic transmission is scheduled to be launched in the first half of 2009. In addition, the Group also plans to launch a series of new automatic transmission for 1.0L, 1.3L and 1.5L engines and several new petroleum engines with displacement of 2.0L and 2.4L. The Group will start to install its unique and exclusive active safety system: the BMBS ("Burst Monitoring and Braking System") in all its product lines starting from 2009.

At the time of the official launch of the Group's new generation of small car platform – "Geely Panda" in November 2008, the Group also announced the official withdrawal of "Haoqing", "Merrie" and "Ulion" models and the termination of their production at the end of 2008.

With the full employment of platform strategy in the Group's new product development in 2008, the Group's product development focus now calls for the development of 5 core technology platform, 15 product platform and 42 brand new models by 2015, aiming at increasing the proportion of shared parts between different models up to 70-80% so as to achieve better economies of scale, much lower product development costs, shorter development time and easier and more effective quality control. So far, the proportion of shared parts has increased to 30% within same technology platform, 45% within same product platform and up to 70% between different models in the same product lines.



Geely 3G10 VVT engines



### EXPORTS

The Group exported close to 38,000 units of Geely and Maple sedans in 2008, up 80% from 2007, accounted for 19% of the Group's total sales volume and 15% of China's total exports of sedans during the year. "Free Cruiser" remained the most popular models amongst the export models and accounted for about 44% of the total export volume in 2008, while "Geely Kingkong" is the second most popular models with a 42% share. "Vision" and "Maple" accounted for the rest of the Group's exports in 2008. The Group sold its products to 53 countries through 285 sales outlets, most of which are located in Eastern Europe, Middle East, Africa and Central America.

Although exports volume, particularly sales to Eastern Europe, has declined significantly since October 2008, due to the severe shortage of funding and foreign currencies in some major export markets after the outbreak of global financial market turmoil last year. The impact on the Group's overall sales, however, has been largely mitigated by better domestic sales and strengthening marketing effort in other oversea markets in Middle East, Asia and Africa.

### MARKETING AND BRAND BUILDING

As an important part of the Group's "Strategic Transformation" and to cope with the much wider price range of the Group's products following the introduction of more higher-priced models, the Group started to introduce the "Multi-brand Strategy" in 2008, aiming to improve the Group's overall brand images and to enable tailored-made services and brand positioning for different product lines within the Group. In addition to the existing "Geely" and "Maple" brands, the Group will introduce at least three more product brands in the coming few years. A brand design campaign was launched in 2007 to raise the market profile for the new brands. "Geely Panda" is the first new product under the first new brand: "Global Eagle", which was launched at the end of 2008. The "Multi-brand

Strategy" has so far been very successful, judging from the initial good sales response to "Geely Panda" and the improved pricing power achieved by Group's different product lines during 2008. Two more new brands are scheduled to be launched within 2009, thus allowing the Group to gradually transform from the old-styled product sales mentality to the more sophisticated brand marketing.



### SALES AND DISTRIBUTION

By the end of 2008, the Group had established a comprehensive distribution and service networks in China and foreign countries, comprising 171 4S independent franchisee stores, 162 exclusive stores and 600 independent service stations in China, and 59 agents and 285 sales and service spots in 53 foreign countries.

To cope with an increasingly competitive market in China, the Group has adopted a more pro-active approach towards the management and supervision of their distribution and service networks in China, aiming at further improving customer satisfaction, rationalization of distribution network and improving market coverage. The initial results of the new strategy has been very encouraging with the Group achieving major improvement in ratings in the J.D. Power Customer Satisfaction Index Study ("CSI") and Sales Satisfaction Index Study ("SSI") in 2008. In particular, the Group's customer satisfaction ratings achieved the fastest improvement amongst all the Chinese automobile companies in 2008.



*Geely Servicing Cartoon Character*

## RESEARCH AND DEVELOPMENT

The major focus of the Group's research and development ("R&D") function includes new car model design, development of engine, gearbox, electronic and electric components. With its extensive investment in research and development, the Group's R&D team is capable of launching two to three brand new models every year, reflecting its leading position in R&D and technology innovation capabilities in China's automobile sector.

In addition to the development of new vehicle models, the Group's R&D focus also includes emission control, quality certifications, collision test, automobile electronics, vibration control, noise reduction, weight reduction, and alternate energy vehicles like pure electric, hybrid and flex-fuel vehicles.

To further improve the Group's technological advantages, a restructuring of the Group's R&D function was started in early 2007, aiming to further streamline the Group's R&D organizations through centralization of management, resources allocation and project planning, and through division of responsibilities and assignment of focuses amongst different R&D organizations.



*JL4G18 CVT Engines*

In addition to the R&D centre in Linhai of Zhejiang province, which is the key location for new model design and the Group's major testing centre, the Group has set up several R&D centres in different locations: including a R&D centre in Shanghai focusing on new energy, green and clean fuels, hybrid and electric power and the design and development of classic vehicles, and a R&D centre in Ningbo emphasizing on power-train development and research. In addition, the Group has set up a new internet-based portal for attracting auto-related innovation achievements from individuals and independent research institutes and engineering companies all over the World.



*Lab in Geely's R&D Centre*

By the end of 2008, the Group and Geely Holding Group own a total of 718 technology patents. The number of the Group's R&D staff exceeded 1,400 peoples, representing close to 14% of the total number of staff of the Group, reflecting the Group's emphasis on R&D capabilities.



TX4 model test drive in Beijing



### TAXI VEHICLE MANUFACTURING

#### SHANGHAI LTI (51% INTERESTS)

51%-owned Shanghai LTI Automobile Components Company Limited ("Shanghai LTI") is a production joint-venture between the Group and UK-listed Manganese Bronze Holding PLC ("MBH"). Shanghai LTI was officially established in June 2007 to achieve volume production of the iconic London Taxis at a significant lower cost and for the production of other higher-end saloon cars for sales to the domestic and the World market. With the factory modifications of the rented facilities from Shanghai Maple completed on time and to budget and the prototype production of "TX4" London Taxi models started on schedule in June 2008, Shanghai LTI is on track to start commercial production of the localized TX4 models in early 2009. The official launch of the localized TX4 is planned for the Shanghai Auto Show in April 2009. So far, indicative orders for a total of 8,000 units of Shanghai produced TX4 have been signed with delivery over three years starting from 2009.

Without any revenues during the period, Shanghai LTI recorded a net loss of RMB17 million in 2008, including RMB7 million foreign exchange related loss.

#### MANGANESE BRONZE HOLDINGS PLC (23% INTERESTS)

In addition to its 48% stake in Shanghai LTI, MBH derives most of its revenues and profit from the manufacture and sales of London taxis in the UK market. MBH's performance in 2008 was adversely affected by the deteriorating economic conditions in UK and the exceptional expenses related a product recall during the year. As a result, MBH reported a net loss of GBP12.3 million in 2008, including operating loss of GBP5.4 million and exceptional costs of GBP3.8 million product recall expenses and GBP3.9 million non-cash impairment losses. Total new vehicles sales volume amounted to 1,951 units in 2008, compared with 4,147 units in the 17 months ended 31

December 2007. On conservative ground, the Board decided to write-down the carrying value of its investment in Manganese Bronze Holdings PLC ("MBH") to prevailing market value, thus resulting in an impairment loss of RMB100 million in 2008.

### AUTOMOBILE PARTS MANUFACTURING

#### ZHEJIANG FULIN GUORUN AUTOMOBILE PARTS & COMPONENTS CO. LTD. ("ZHEJIANG FULIN", 100% INTERESTS)

Zhejiang Fulin is principally engaged in the manufacturing and sales of brake system and electric power steering ("EPS") for sedans. The majority of the Zhejiang Fulin's products were supplied to the Group's vehicle manufacturing business. Zhejiang Fulin recorded a 23% growth in revenues to RMB163 million in 2008. However, net profit was down 31% to RMB8 million due to rising raw material prices, especially in the first half of the year. Zhejiang Fulin will start commercial production of "BMBS" (Burst Monitoring and Braking System) in 2009, hoping to restore margin to higher levels in the coming years.

#### ZHEJIANG KINGKONG AUTOMOBILE PARTS AND COMPONENTS R&D COMPANY LTD. ("ZHEJIANG KINGKONG R&D", 100% INTERESTS)

Zhejiang Kingkong R&D was officially set up in December 2007 to invest in automobile parts related projects, focusing on investment in automobile components manufacturers and R&D projects, tailored to the need of the Group's vehicle manufacturing business. Total capital contribution by the Group amounted to US\$14.9 million.

Zhejiang Kingkong R&D made its first investment in 2008 by setting up a 50:50 joint-venture with Tianjin Haitian Automobile Fittings & Parts Development Company Limited ("Tianjin Haitian"), a leading auto parts manufacturer in China specializing in the manufacturing and sales of automobile

engine components like crankshaft pulley and shock absorber assembly and front engine mounting. Total investment of the joint venture, named Qufu Kailun Automobile Parts and Components Manufacturing Company Limited, amounted to RMB30 million, while the joint venture's total registered capital was RMB20 million. The Group's capital contribution of RMB10 million was paid in cash. In addition to its capital contribution of RMB10 million in cash, Tianjin Haitian also agreed to transfer into the joint venture its existing manufacturing business and its production technologies. Located in Qufu city of Shandong province, the joint venture is principally engaged in the manufacturing and sales of crankshaft pulley and shock absorber assembly and front engine mounting, mainly for uses on Tianjin Xiali and Geely sedans. A new plant with total annual production capacity of 1 million sets of crankshaft damping pulley and 1 million sets of front engine mounting and production floor area of 10,000 square metres is being constructed in Qufu Development Zone in Shandong province, and is scheduled to start mass production in March 2009. Zhejiang Kingkong R&D did not generate any revenue and recorded a net loss of RMB2 million during 2008.

### **CAPITAL STRUCTURE AND TREASURY POLICIES**

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and the credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, shareholders' loan from its parent Geely Holding and fund raising exercises in the capital market. As at 31 December 2008, the Group's shareholders' funds amounted to approximately RMB4,198 million (As at 31 December 2007: approximately RMB2,344 million). No ordinary shares were issued by the Company during the year.

### **EXPOSURE TO FOREIGN EXCHANGE RISK**

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

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2008, the Group's current ratio (current assets/current liabilities) was 0.97 (As at 31 December 2007: 11.12) and the gearing ratio of the Group was 25% (As at 31 December 2007: 14%) which was calculated on the Group's total borrowings to total shareholders' equity. Total borrowings (excluding the embedded derivatives of the Company's convertible bonds and trade and other payables) as at 31 December 2008 amounted to approximately RMB1,061 million (As at 31 December 2007: approximately RMB317 million) were mainly the Company's convertible bonds and bank borrowings, secured. For the Company's convertible bonds, they were unsecured, interest-bearing and repaid on maturity or the put options being exercised. For the bank borrowings, they were secured, interest-bearing and repaid on maturity. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

### **EMPLOYEES' REMUNERATION POLICY**

As at 31 December 2008, the total number of employees of the Group was about 9,945 (As at 31 December 2007: 8,813). 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.



# What's Next ?



The year of 2009 should be full of challenges and opportunities for the Group. The global financial market crisis started in 2008 has adversely affected consumer confidence and caused severe shortage of funding in the global financial market. Motor vehicle sales have dropped significantly in most parts of the World market, putting tremendous pressure on our exports business. On the positive front, motor vehicle demand in China, especially those for fuel-efficient economy sedans, was only slightly affected so far, thus allowing us to offset slower exports sales by increased sales in the domestic market so far in 2009. The significant fall in raw material prices since mid 2008 also help us to enter 2009 with a lower cost base. This, coupled with the relatively stability of RMB exchange rates, should help to ease the pressure on our margins in 2009. On the macro front, recent Chinese Government policies including the reduction of sales tax for smaller size cars effective in September 2008, the introduction of fuel tax in January 2009 and the promulgation of “Stimulation Package for Automobile Industry” in early 2009, should all help to promote the demand for safe, energy-efficient and environmental friendly vehicles the Group produce. Further, the current problems faced by the global automobile market should lead to major consolidation of the global automobile industry, thus creating huge opportunities for the Group to penetrate new markets and to upgrade its manufacturing and product technologies through acquisitions.

The downturn in the global automobile market and the slow down in automobile demand in China has so far only limited impact on the Group’s performance, thanks to the Group’s well timed “Strategic Transformation”, resulted in stronger brand image, improved product quality and customers’ satisfaction, and enhanced profitability and thus stronger financial health. In addition, the implementation of “Multi-brand Strategy” in the area of product marketing and “Platform Strategy” in the development of new products has helped to build a strong foundation for the Group to sustain long-term earnings growth in the future.

New models developed under the Group’s new “Platform Strategy” like “Geely Kingkong”, “Vision” and “Geely Panda” have already been launched. The Group has spent considerable efforts in the past few years in promoting these models and improving their product reliability and quality.

**WE ARE CONFIDENT THAT THESE PRODUCTS ARE WELL PREPARED TO MAKE SIGNIFICANT CONTRIBUTION TO THE GROUP IN THE COMING FEW YEARS, THUS ENABLING THE GROUP TO DELIVER BETTER PROFITABILITY AND THUS SHAREHOLDERS’ RETURNS IN THE COMING YEARS.**

This, coupled with the planned launches of four brand new models and four upgraded models, and the introduction of a series of new automatic gearboxes and engines in 2009, have prompted us to budget a faster than average growth in sales volume in 2009, forecasting to sell a total of 250,000 units of vehicles during the year, up 22% from 2008.

In the medium to longer term, the Group will continue to upgrade and expand our production facilities to improve quality and reduce costs, to build new production facilities in less developed provinces to develop new markets and generate additional demand for our products, to invest in product and technology innovation in order to differentiate our products from the rest of the market, to establish close partnership relationship with major suppliers to reduce volatility of raw material and component costs, and to expand internationally through exports, mergers, acquisitions, and strategic alliances with an aim to develop the Group into an internationally competitive automobile manufacturer.

### EXECUTIVE DIRECTORS

**Mr. Li Shu Fu**, aged 45, joined the Group on 9 June 2005 as Chairman and Executive Director, and is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Li holds a Master degree in engineering from Yan Shan University. Presently, Mr. Li is the controlling shareholder, founder, chairman of the board of Zhejiang Geely Holding Group Company Limited ("Geely Holding") (a company incorporated in the PRC, and is ultimately owned by Mr. Li and his associates). Geely Holding and its subsidiaries are principally engaged in manufacturing and sales of automobile in the PRC. Mr. Li has over 20 years of experience in the investment and management of the automobile manufacturing business and real estate business in the PRC. Mr. Li is a member of the Chinese People's Political Consultative Conference. Mr. Li was accredited as one of the "50 Most Influential Persons in China's Automotive Industry in the 50 Years" by a pertinent organization in China.

**Mr. Yang Jian**, aged 47, joined the Group on 9 June 2005 as Executive Director, and is responsible for the overall administration of the Geely Holding. Mr. Yang is the President of Geely Holding. Mr. Yang is also the chairman of the five 91%-owned subsidiaries of the Group, namely, Zhejiang Geely Automobile Company Limited ("Zhejiang Geely"), Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple"), Zhejiang Kingkong Automobile Company Limited ("Zhejiang Kingkong"), Zhejiang Ruhoo Automobile Company Limited ("Zhejiang Ruhoo") and Hunan Geely Automobile Components Company Limited ("Hunan Geely"). Mr. Yang graduated from Zhejiang Radio and Television University with focus on production management; holds Senior Economist and Senior Engineer designations; and is an EMBA postgraduate student. Since joining Geely Holding in 1995, Mr. Yang was involved in a number of different job functions within the group including product R&D, engineering and construction, manufacturing, quality improvement, marketing and after-sales service to current overall responsibility for the operating and management of the Group. Mr. Yang was appointed as the Vice Chairman of the Company with effect from 1 July 2008.

**Mr. Gui Sheng Yue**, aged 45, joined the Group on 9 June 2005 as Executive Director and is responsible for the administration of the Company. Mr. Gui has over 20 years experience in administration and project management. Mr. Gui had also worked with China Resources (Holdings) Company Limited. Mr. Gui holds a Bachelor of Science degree in mechanical engineering from Xian Jiaotong University and a Master degree in business administration from University of San Francisco. Mr. Gui was appointed as the Chief Executive Officer of the Company with effect from 23 February 2006. Mr. Gui is a Non-executive Director of Manganese Bronze Holdings Plc (London Stock Exchange Code: MNGS).

**Mr. Ang Siu Lun, Lawrence**, aged 48, joined the Group on 23 February 2004 as Executive Director and is mainly responsible for the international business development, capital market and investors' relationship of the Group. Mr. Ang holds a Bachelor of Science degree in physics and computer science and a Master of Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Ang worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business. Mr. Ang is an Independent Non-executive Director of Wang Sing International Holdings Group Limited (HK Stock Code: 2389). Mr. Ang is also a Non-executive Director of Manganese Bronze Holdings Plc (London Stock Exchange Code: MNGS).

**Mr. Yin Da Qing, Richard**, aged 59, joined the Group on 9 June 2005 as Executive Director. Mr. Yin is the Vice President and Chief Financial Officer of Geely Holding. Mr. Yin has 35 years of experience in accounting and finance and held key executive positions in various Chinese and multinational companies in China including Dupont Textile, Dupont Agricultural Chemicals, Brilliance Holding and Shenyang Jinbei Passenger Vehicle Manufacturing Co. Ltd. Mr. Yin was accredited as one of “The 10 Most Outstanding Chief Financial Officers” in the PRC in year 2006. Mr. Yin is currently a part-time professor in Zhejiang Automobile Engineering Institute.

**Mr. Liu Jin Liang**, aged 42, joined the Group on 9 June 2005 as Executive Director. Mr. Liu is responsible for the overall operations of Shanghai Maple and Shanghai LTI. Mr. Liu is the Vice President of Geely Holding. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial management. Prior to joining Geely Holding in 1995, Mr. Liu held a number of management positions in several major hotels in China. Mr. Liu has about 10 years experience in the marketing and sales of motor vehicles in China.

**Mr. Zhao Jie**, aged 42, joined the Group on 15 September 2005 as Executive Director and is responsible for the export business of the Group. Mr. Zhao is the Vice President of Geely Holding and founder of Geely International Corporation. Mr. Zhao has over 8 years of experience in exploitation and marketing management of the international automotive market. Mr. Zhao hold a graduation certificate of EMBA program in the Enterprise Research Centre of Peking University and has 10 years of experience in the management of various government departments.

**Dr. Zhao Fuquan**, aged 45, joined the Group on 17 November 2006 as Executive Director. Dr. Zhao is the Vice President of Geely Holding, Supervisor of Zhejiang Geely Technology Centre, Dean of Zhejiang Geely Automobile Research Institute Limited and Dean of Zhejiang Automobile Engineering Institute. Dr. Zhao got a doctorate degree in engineering science of Hiroshima University in Japan and has years of on-the-job work experience in Japan, United Kingdom and United States of America. Prior to joining Geely Holding, Dr. Zhao was the Research Executive of Technical Affairs of DaimlerChrysler and Vice President of Shenyang Brilliance JinBei Automobile Company Limited and General Manager of its Research & Development (R&D) Centre. Dr. Zhao, one of the main authors in international automobile magazines, has written 5 English books and has published more than 100 academic dissertation papers on automobile technology. Dr. Zhao was awarded 2 patents in United States of America and has won many prizes and awards, including the Forest R. McFarland Award in year 2001 by the Society of Automotive Engineers (SAE). Dr. Zhao was accredited as a Fellow by the SAE in April 2006. Dr. Zhao is currently a part-time professor in Jilin University, Tongji University, Tianjin University, Huazhong University of Science & Technology, Dalian University of Technology and Hunan University.



### NON-EXECUTIVE DIRECTOR

**Mr. Xu Gang**, aged 47, joined the Group on 9 June 2005 as Executive Director but was subsequently re-designated as Non-executive Director with effect from 1 September 2007. Mr. Xu also acts as a professional advisor to Geely Holding. Mr. Xu graduated from the Guanghua Management School of Beijing University and holds an EMBA degree. Mr. Xu is a professional expert in business management and has 23 years of experience in the management and leadership of various government departments, including Zhejiang Provincial Finance Bureau and Zhejiang Local Taxation Bureau. Mr. Xu was accredited as “The 10 Best Chinese Management Talents”, “The Best CEO/President of Private Automobile Enterprises in 2003” and “The 10 Best Economic Youths in Shanghai in 2005” by pertinent organizations in China.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Song Lin**, aged 46, joined the Group as Independent Non-executive Director on 27 September 2004. He holds a Bachelor's degree in solid mechanics from the Tongji University in Shanghai, China. He is concurrently Vice Chairman and President of China Resources (Holdings) Company Limited and China Resources National Corporation, Chairman of China Resources Enterprise, Limited (HK Stock Code: 291), China Resources Power Holdings Company Limited (HK Stock Code: 836), China Resources Land Limited (HK Stock Code: 1109) as well as China Resources Microelectronics Limited (HK Stock Code: 597). Mr. Song is the Deputy Chairman of China Vanke Co., Ltd., which is a listed company in China. He is also an Independent Non-Executive Director of The Bank of East Asia (China) Limited.

**Mr. Lee Cheuk Yin, Dannis**, aged 38, joined the Group as Independent Non-executive Director on 28 June 2002. He graduated from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He possesses over 10 years of experience in accounting and auditing field. Mr. Lee is an Executive Director of AMVIG Holdings Limited (HK Stock Code: 2300) and was a Non-Executive Director of Norstar Founders Group Limited (provisional liquidators appointed, HK Stock Code: 2339) until 15 January 2009.

**Mr. Yeung Sau Hung, Alex**, aged 59, joined the Group as Independent Non-executive Director on 6 June 2005. Mr. Yeung is the Chief Executive Officer of DBS Vickers Hong Kong since 1 September 2002. Mr. Yeung is a MBA graduate from the University of Southern California and brings with him more than 20 years' experience in the financial services industry. His experience includes investment research, securities operations, equity sales, primary equities origination and syndication and general management. Prior to joining DBS Vickers Securities, Mr. Yeung was the Deputy Chairman of the management committee of a listed consumer electronics company for four years. Before that, he was the Country Head of Greater China Equities and the Managing Director of Deutsche Securities Hong Kong.



## SENIOR MANAGEMENT

**Mr. Shim Bong Sup** who is a Korean aged 63, joined the Geely Holding as Vice President and Technical Consultant on 10 April 2004. He holds a B.S. Degree in metallurgical engineering and has more than 36 years' experience in the Korean automotive industry. Especially in new car development, automotive technology and quality assurance. Mr. Shim was once the vice president of Daewoo Motor and the chairman of Korean Automobile Engineering Association.

**Mr. Zhang Peng, Peter**, aged 42, joined the Group on 26 February 2007 as Vice President and is responsible for Group's internal control and international business development. He holds a Bachelor's degree in mechanical engineering, a Master's degree in economics and a PhD degree in economics from leading Chinese universities. Mr. Zhang has rich experience in business development, project management, operational management, strategy and planning to corporate governance and internal controls. He has got more than 10 years working history with major multinational companies. In his most recent roles in BP plc, he was an advisor for Group Internal Control after he returned from BP's North Sea strategy team in Aberdeen.

**Mr. Cheung Chung Yan, David**, aged 33, joined the Group as the Financial Controller and Company Secretary on 17 May 2005. Mr. Cheung holds a Bachelor's degree in business administration in accounting from the Hong Kong University of Science and Technology in 1997. He is a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 10 years of experience in auditing, accounting and financial management.

The Company and its subsidiaries (collectively known as the “Group”) continue to strive toward achieving a high standard of corporate governance with an emphasis on a strong and balanced board, and transparency and accountability to all shareholders of the Company.

The company has complied with the Code of Corporate Governance Practice (the “CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2008.

The paragraphs below describe how the principles and code provisions are applied by the Company.

### THE BOARD

The Board of Directors is responsible for the overall management of the business and strategic development of the Group.

### BOARD COMPOSITION

As at 31 December 2008, the Board of Directors of the Company (the “Board”) comprised eight executive directors, one non-executive director and three independent non-executive directors. CG Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Article 116 of the Company’s Articles of Association, at each annual general meeting, one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that each director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting.

The composition of the Board is reviewed regularly to ensure that it has a good balance of expertise, skills and experience which can meet the requirements of the business of the Company. In considering the nomination of a new director, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. The Board considers

that the existing human resources policy in recruitment of new senior staff is also applicable to the nomination of new directors. Further, as the whole Board is jointly responsible for selection and approval of candidates for appointment as directors to the board, the Company does not operate a Nomination Committee. For directors’ biographical information, please refer to pages 32 to 34 of this annual report.

The following illustrates the membership and structure of the Company’s Board of Directors and the two specialized committees of the Board, as at 31 December 2008:

### EXECUTIVE DIRECTORS

Mr. Li Shu Fu (*Chairman*)  
Mr. Yang Jian (*Vice Chairman*)  
Mr. Gui Sheng Yue (*Chief Executive Officer*)  
Mr. Ang Siu Lun, Lawrence  
Mr. Yin Da Qing, Richard  
Mr. Liu Jin Liang  
Mr. Zhao Jie  
Dr. Zhao Fuquan

### NON-EXECUTIVE DIRECTOR

Mr. Xu Gang

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### AUDIT COMMITTEE

Mr. Lee Cheuk Yin, Dannis (*Chairman*)  
Mr. Song Lin  
Mr. Yeung Sau Hung, Alex

### REMUNERATION COMMITTEE

Mr. Gui Sheng Yue (*Chairman*)  
Mr. Lee Cheuk Yin, Dannis  
Mr. Yeung Sau Hung, Alex

## **CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER**

CG Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual to ensure a balance of power and authority. Throughout the entire 2008, the roles of Chairman and Chief Executive Officer of the Company were taken by Mr. Li Shu Fu and Mr. Gui Sheng Yue respectively. The Chairman of the Group is primarily responsible for the management of the Board, whereas the Chief Executive Officer is primarily responsible for the daily operations of the Group with the assistance from other executive directors and senior management.

## **RELATIONSHIP OF THE BOARD MEMBERS**

There is no family relationship between any of the Directors, nor is there any financial, business or other material or relevant relationships among the members of the Board.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

As at 31 December 2008, there were three independent non-executive directors and one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the independent non-executive directors a confirmation of independence for the year ended 31 December 2008 pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive directors as independent during the year. No independent non-executive director has served the Group for more than nine years.

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

All independent non-executive directors are identified as such in all corporate communications containing the names of the Directors.

## **RESPONSIBILITY OF DIRECTORS**

The Board is responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate financial and managerial resources to implement the business strategies adopted, adequacy of systems of internal controls and conduct of business in conformity with applicable laws and regulations. All directors have given sufficient time and attention to the affairs of the Board and the Board has always acted in the best interests of the Company and its shareholders as a whole.

The Executive Directors and senior management are delegated with respective levels of authorities for them to discharge their responsibilities. Management is responsible for the day-to-day operations of the Group with divisional heads responsible for different aspects of the business.

The Board acknowledges their responsibility to prepare financial statements for each financial year in order to provide a true and fair view of the financial status of the Group. The Directors aim to present a balanced, clear and understandable assessment of the Group's financial and operational performance, position and prospects in the interim and annual financial statements, and relevant announcements to shareholders. The Group has adopted the Hong Kong Financial Reporting Standards ("HKFRSs") in preparing the financial statements, appropriate accounting policies have been adopted and applied consistently, and reasonable and prudent judgment and estimates have been made where appropriate. The release of key operational information and the publication of financial statements of the Group were organized in a timely manner.

The Board has reviewed the financial projections of the Group and the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

### **DIRECTORS' SECURITIES TRANSACTIONS**

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

### **BOARD MEETINGS**

The Board conducts meetings on a regular basis and on an ad-hoc basis, as required by business needs. During the year, the Board held a total of five regular board meetings and two ad-hoc board meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 41 of this report.

For regular board meetings, 14-day notices are given to directors beforehand. For other type of board meetings, reasonable notices are given to directors as well. Board papers (including the board meeting agenda) are circulated before the board meetings to enable the directors to make informed decisions on matters to be raised. The directors are provided with opportunities to include matters in the agenda for board meetings. The Company Secretary shall attend all board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all board meetings. Draft and finalized minutes of board meetings are circulated to all Directors for their comments and records respectively as soon as practicable after each meeting. All minutes are open for inspection at any reasonable time on request by any Director.

Before each board meeting, the Directors have to declare their interests in the subject matter to be considered in the relevant board meeting. Any director or his associates with a material interest in any proposed board resolutions will not be counted for a quorum in the relevant board meeting nor vote for the board resolutions. The independent non-executive Directors who have no material interest in the matter will attend the meeting to deal with the matter if it is considered appropriate.

Each newly-appointed director will be provided with a package of orientation materials setting out the duties and responsibilities of directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Updates are provided to directors when necessary to ensure that directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its business.

### **RESPONSIBILITIES OF COMPANY SECRETARY**

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, the Codes on Takeovers and Mergers and Share Repurchases, the Companies Ordinance, the Securities and Futures Ordinance and the other applicable laws, rules and regulations.

### **INTERNAL CONTROL**

The Board acknowledges the responsibilities of ensuring the effectiveness of the system of internal control and risk management, and also reviewing the effectiveness of such internal control system regularly (annually at the minimum).

The Directors of the Company conducted a regular review of the internal control system of the Group during the year and were not aware of any material internal control weaknesses and/or breaches. Nonetheless, the Board acknowledged the continuous need for a solid internal control system in place.

The Company announced the completion of a major restructuring exercise on 1 July 2008, resulting in the enlargement of the Group by increasing shareholdings in the former associated companies in China. With the enlargement of the Group, the Company faces fresh challenges to ensure adequate internal controls over the full spectrum of the company's financial reporting, operation and compliance are in place. For instance, the successful completion of the restructuring takes the requirement of better internal control over compliance to the next level since the transition of associates to subsidiaries implies increased exposure of compliance risks.

In view of this, a Compliance Risk Forum was organized and conducted with the participation of all mid-level and senior management teams on 25 July 2008. The Company legal advisor and financial advisor were invited to deliver a comprehensive set of presentations at the forum, including the regulatory framework for HKSE issuers, director responsibilities, disclosure responsibilities, connected transactions, etc. Interactive discussions following the presentations identified two key risk areas for further action, i.e., the continuous monitoring of connected transactions and the discharge of price-sensitive information disclosure obligation. The policies and procedures in these regards are being reviewed and will be enforced duly.

The Company's internal control system is designed to provide a reasonable level of assurance of the reliability of financial reporting, the effectiveness of operations, and compliance with applicable laws and regulations. For the effective functioning of the system, adequate management resources need to be put in place to establish control procedures and enable the implementation of relevant control activities. The Company already set up an internal control function in Hong Kong at year-end 2006 and is now assessing the necessity of extending an arm of this function at the operational headquarter in Hangzhou, China.

The Board is committed to the establishment and maintenance of a solid system of internal controls. Regular review process is in place to identify opportunities for continuous improvement.

## **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 currently comprises Mr. Lee Cheuk Yin, Dannis, Mr. Song Lin and Mr. Yeung Sau Hung, Alex, who are the independent non-executive directors of the Company. A set of written terms of reference, which described the authority and duties of the Audit Committee, was adopted by the Board on 31 December 2004. In light of the amendments to the Listing Rules that has come into effect on 1 January 2009, the terms of reference of the Audit Committee will be amended to reflect the changes in the Listing Rules. The existing terms of reference are available on the Company's website (<http://www.geelyauto.com.hk>).

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 Committee is equipped with adequate resources to enable it to fully discharge its duties.

During the year, the Audit Committee held two meetings and the external auditors were in attendance in all these meetings. The attendance record, on a named basis, at these meetings is set out in the table on page 41 of this report.

The Audit Committee has reviewed with the management of the Company and the auditors of the Company, the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters, including the review of the annual report of the Company for the year ended 31 December 2008.

For the year ended 31 December 2008, the auditors of the Company received approximately RMB2.4 million for the Group's audit service.

## **REMUNERATION COMMITTEE AND REMUNERATION OF DIRECTORS**

The Remuneration Committee currently comprises two independent non-executive directors and one executive director. It is chaired by an executive director.

The objectives of the Remuneration Committee are to establish and maintain an appropriate and competitive level of remuneration to attract, retain and motivate directors and key executives to run the Company successfully. The Remuneration Committee also ensures that the remuneration policies and systems of the Group support the Group's objectives and strategies. The Committee is provided with other resources enabling it to discharge its duties fully. A set of written terms of reference, which described the authority and duties of the Remuneration Committee, was adopted by the Board on 31 December 2004 and the contents of which are in compliance with the Code Provisions of the CG Code. The said terms of reference of the Remuneration Committee adopted by the Board are available on the Company's website (<http://www.geelyauto.com.hk>).

During the year, the Remuneration Committee held five meetings. The attendance record, on a named basis, at the meeting is set out in the table on page 41 of this report.



### INVESTOR RELATIONS

#### GENERAL MEETINGS

There was only one general meeting for the year ended 31 December 2008. It was related to the 2008 annual general meeting held on Thursday, 22 May 2008 at 10:00 a.m.. The Chairman of the Board attended the annual general meeting of the Company held on 22 May 2008. For detailed voting results of the annual general meeting, please refer to the Company's announcement dated 22 May 2008 (which can be downloaded from the websites of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company (<http://www.geelyauto.com.hk>)).

#### COMMUNICATION CHANNELS

It is the Company's aim to maintain open and effective communication with the shareholders. To this end, the Company insists on full, honest, equal and timely disclosure of all essential information regarding its business to the investor community. The Company has established various channels to facilitate and enhance communication:

- (i) the general meetings provide a platform for shareholders of the Company to raise comments and exchange views with the Board,
- (ii) critical information regarding the Company's operations and/or deals goes out to shareholders and investors in the form of announcements and/or circulars in line with Stock Exchange's requirements and other applicable regulatory requirements,
- (iii) up-to-date key information of the Group is available on the Company's website at [www.geelyauto.com.hk](http://www.geelyauto.com.hk) to enable the shareholders of the Company and the investor community to have timely access to information about the Group, and
- (iv) the Company's website publicizes contact details of the Executive Directors and other senior management staff.

As the Group's continuous commitment to transparent communications, the Company receives wide coverage amongst the institutional investor community, with key local and international research houses regularly publishing reports on the Group and its activities. The Group strives to develop closer ties with the investor community, and our senior management team regularly attends investor conferences organized by securities houses in Hong Kong, China and overseas.

The directors are also available at the general meetings to answer questions raised by shareholders of the Company or other interested parties. To facilitate enforcement of shareholders' rights, substantially different issues at general meetings are dealt with under separate resolutions.

#### OTHER INFORMATION

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Union Registrars Limited, at Rooms 1901-2, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. This Annual Report is also available (in both English and Chinese) on the Company's website at [www.geelyauto.com.hk](http://www.geelyauto.com.hk) and the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk).

If you have any queries about how to obtain copies of this Annual Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2598 3333.

Attendance record at the meetings of the Board of Directors and specialized board committees held during the year ended 31 December 2008:

Name and designation	Board				Audit Committee		Remuneration Committee	
	No. of regular meetings	Attendance	No. of ad-hoc meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
<i>Executive Director</i>								
Mr. Li Shu Fu	5	4	2	0	N/A	N/A	N/A	N/A
Mr. Gui Sheng Yue	5	4	2	2	N/A	N/A	5	5
Mr. Ang Siu Lun, Lawrence	5	4	2	2	2	2	N/A	N/A
Mr. Yang Jian	5	4	2	0	N/A	N/A	N/A	N/A
Mr. Yin Da Qing, Richard	5	4	2	0	N/A	N/A	N/A	N/A
Mr. Liu Jin Liang	5	4	2	0	N/A	N/A	N/A	N/A
Mr. Zhao Jie	5	1	2	0	N/A	N/A	N/A	N/A
Dr. Zhao Fuquan	5	2	2	0	N/A	N/A	N/A	N/A
<i>Non-executive Director</i>								
Mr. Xu Gang	5	1	2	0	N/A	N/A	N/A	N/A
<i>Independent Non-executive Director</i>								
Mr. Lee Cheuk Yin, Dannis	5	5	2	0	2	2	5	5
Mr. Song Lin	5	2	2	0	2	0	N/A	N/A
Mr. Yeung Sau Hung, Alex	5	5	2	0	2	2	5	5

"N/A": Not applicable

The Directors present their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2008.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 38 to the consolidated financial statements.

### RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 54 of the annual report. The directors now recommend the payment of a final dividend of HK1.6 cents per share to the shareholders on the register of members on 25 May 2009, amounting to about RMB91,376,000.

### CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May 2009 to 25 May 2009, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed dividends, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, at Rooms 1901-02, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 19 May 2009.

### FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 2 of the annual report.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

### SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the consolidated financial statements.

### RESERVES

Details of the movements during the year in the reserves of Group are set out in the consolidated statement of changes in equity on page 56 of the annual report.

### DIRECTORS

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

#### EXECUTIVE DIRECTORS:

Mr. Li Shu Fu (Chairman)  
Mr. Yang Jian (Vice Chairman)  
Mr. Gui Sheng Yue (Chief Executive Officer)  
Mr. Ang Siu Lun, Lawrence  
Mr. Liu Jin Liang  
Mr. Yin Da Qing, Richard  
Mr. Zhao Jie  
Dr. Zhao Fuquan

#### NON-EXECUTIVE DIRECTOR:

Mr. Xu Gang

#### INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs. Ang Siu Lun, Lawrence, Zhao Jie and Yeung Sau Hung, Alex shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

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

As at 31 December 2008, the interests and short positions of the directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock

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

### (I) INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

Name of director	Capacity	Number of securities in the Company		Shareholding percentage (%)
		Long position	Short position	
<b>Shares</b>				
Mr. Li Shu Fu (Note 1)	Interest of controlled corporations	3,762,759,000	–	57.98%
Mr. Ang Siu Lun, Lawrence	Personal	2,270,000	–	0.03%
<b>Share options</b>				
		Long position	Short position	
Mr. Ang Siu Lun, Lawrence	Personal	51,000,000 (Note 2)	–	0.79%
Mr. Gui Sheng Yue	Personal	31,000,000 (Note 2)	–	0.48%
Mr. Xu Gang	Personal	23,000,000 (Note 2)	–	0.35%
Mr. Yang Jian	Personal	31,000,000 (Note 2)	–	0.48%
Mr. Liu Jin Liang	Personal	24,000,000 (Note 2)	–	0.37%
Mr. Zhao Jie	Personal	24,000,000 (Note 2)	–	0.37%
Mr. Yin Da Qing, Richard	Personal	23,000,000 (Note 2)	–	0.35%
Dr. Zhao Fuquan	Personal	23,000,000 (Note 2)	–	0.35%
Mr. Song Lin	Personal	2,500,000 (Note 2)	–	0.04%
Mr. Yeung Sau Hung, Alex	Personal	2,500,000 (Note 2)	–	0.04%
Mr. Lee Cheuk Yin, Dannis	Personal	2,500,000 (Note 2)	–	0.04%

Note:

- (1) Proper Glory Holding Inc. ("Proper Glory") and its concert parties in aggregate hold 3,762,759,000 shares, representing approximately 57.98% of the issued share capital of the Company. Proper Glory is a company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- (2) This share option interest is also referred to in the section headed "Share Options" below. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that as 31 December 2008.

## (II) INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE ASSOCIATED CORPORATIONS OF THE COMPANY

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



Notes:

- (1) Proper Glory Holding Inc. ("Proper Glory") and its concert parties in aggregate hold 3,762,759,000 shares, representing approximately 57.98% of the issued share capital of the Company. Proper Glory is a company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
  - (2) Zhejiang Geely Holding Group Company Limited ("Geely Holding") is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
  - (3) Zhejiang Geely Merrie Automobile Company Limited is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
  - (4) Shanghai Maple Automobile Company Limited is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability 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 is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
  - (6) Zhejiang Geely Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Geely Merrie Automobile Company Limited. Zhejiang Geely Merrie Automobile Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
  - (7) Shanghai Maple Guorun Automobile Company Limited is incorporated in the PRC and is 9%-owned by Shanghai Maple Automobile Company Limited. Shanghai Maple Automobile Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
  - (8) Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
  - (9) Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
  - (10) Hunan Geely Automobile Components Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li and his associate.
- Save as disclosed above, as at 31 December 2008, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SFO.

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

As at 31 December 2008, the following persons (other than the directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### SUBSTANTIAL SHAREHOLDERS

(as defined in the SFO)

Name	Capacity	Number of shares held		Shareholding Percentage (%)
		Long position	Short position	
Proper Glory (Note 1)	Beneficial owner	2,474,000,000	–	38.12
Geely Holding (Note 1)	Beneficial owner	1,288,672,000	–	19.86
Zhejiang Geely Merrie (Note 2)	Interest in controlled corporation	776,408,000	–	11.96
Geely Group Ltd. (Note 1)	Beneficial owner	87,000	–	0.001
	Interest in controlled corporation	2,474,000,000	–	38.12
TOSCA	Beneficial owner	810,765,000	–	12.49
TOSCAFUND	Interest in controlled corporation	810,765,000	–	12.49
Asset Management LLP				
TOSCA Asia	Beneficial owner	351,910,000	–	5.42
TOSCAFUND Global Limited	Interest in controlled corporation	351,910,000	–	5.42
UBS AG	Beneficial owner	354,884,828	14,972,310	5.24

Note:

1. Proper Glory Holding Inc. ("Proper Glory") is a company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited. Geely Group Limited is a limited liability company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.
2. Zhejiang Geely Merrie is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, the Company had not been notified of any other person (other than the directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as at 31 December 2008 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTIONS

Particulars of the Company' share option scheme are set out in note 32 to the consolidated financial statements.

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

	Exercise Period	Exercise price per share HK\$	Outstanding at 1.1.2008	Granted during the year	Cancelled during the year	Outstanding at 31.12.2008
<b>Directors</b>						
Mr. Ang Siu Lun, Lawrence	23.2.2004 – 22.2.2009	0.95	35,000,000	–	–	35,000,000
	5.8.2005 – 4.8.2010	0.70	10,000,000	–	–	10,000,000
	8.5.2008 – 7.5.2013	0.92	–	6,000,000	–	6,000,000
Mr. Gui Sheng Yue	5.8.2005 – 4.8.2010	0.70	23,000,000	–	–	23,000,000
	8.5.2008 – 7.5.2013	0.92	–	8,000,000	–	8,000,000
Mr. Xu Gang	5.8.2005 – 4.8.2010	0.70	23,000,000	–	–	23,000,000
Mr. Yang Jian	5.8.2005 – 4.8.2010	0.70	23,000,000	–	–	23,000,000
	8.5.2008 – 7.5.2013	0.92	–	8,000,000	–	8,000,000
Mr. Liu Jin Liang	5.8.2005 – 4.8.2010	0.70	18,000,000	–	–	18,000,000
	8.5.2008 – 7.5.2013	0.92	–	6,000,000	–	6,000,000
Mr. Yin Da Qing, Richard	5.8.2005 – 4.8.2010	0.70	16,000,000	–	–	16,000,000
	8.5.2008 – 7.5.2013	0.92	–	7,000,000	–	7,000,000
Mr. Zhao Jie	5.8.2005 – 4.8.2010	0.70	18,000,000	–	–	18,000,000
	8.5.2008 – 7.5.2013	0.92	–	6,000,000	–	6,000,000
Dr. Zhao Fuquan	28.11.2006 – 27.11.2011	0.89	12,000,000	–	–	12,000,000
	8.5.2008 – 7.5.2013	0.92	–	11,000,000	–	11,000,000
Mr. Song Lin	10.7.2006 – 16.5.2011	0.93	1,000,000	–	–	1,000,000
	8.5.2008 – 7.5.2013	0.92	–	1,500,000	–	1,500,000
Mr. Lee Cheuk Yin, Dannis	10.7.2006 – 16.5.2011	0.93	1,000,000	–	–	1,000,000
	8.5.2008 – 7.5.2013	0.92	–	1,500,000	–	1,500,000
Mr. Yeung Sau Hung, Alex	10.7.2006 – 16.5.2011	0.93	1,000,000	–	–	1,000,000
	8.5.2008 – 7.5.2013	0.92	–	1,500,000	–	1,500,000
<b>Continuous contract employees</b>	5.8.2005 – 4.8.2010	0.70	86,600,000	–	–	86,600,000
	10.7.2006 – 16.5.2011	0.93	9,420,000	–	–	9,420,000
	28.11.2006 – 27.11.2011	0.89	3,000,000	–	–	3,000,000
	18.09.2007 – 17.9.2012	1.06	28,500,000	–	–	28,500,000
	8.5.2008 – 7.5.2013	0.92	–	141,900,000	–	141,900,000
	5.6.2008 – 4.6.2013	0.98	–	2,000,000	–	2,000,000
			308,520,000	200,400,000	–	508,920,000

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions between the Group and other companies under the control of Mr. Li Shu Fu during the year are set out in note 33 to the consolidated financial statements.

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

## CONNECTED TRANSACTIONS

During the year, the Group entered into certain related party transactions which also constitute connected transactions under the Listing Rules. Details of these transactions are set out in note 33 to the consolidated financial statements. The following transactions between certain connected parties and the Group has been entered into is ongoing for which relevant announcement had been made by the Company in accordance with the requirements of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

### 1. SUPPLY AGREEMENT AND SUPPLEMENTAL SUPPLY AGREEMENT BETWEEN ZHEJIANG FULIN AND ZHEJIANG JV

Pursuant to the Supply Agreement dated 6 May 2005 and the Supplemental Supply Agreement dated 20 March 2006, Zhejiang Fulin Guorun Automobile Parts & Components Company Limited ("Zhejiang Fulin") entered into transactions with Zhejiang Geely Automobile Company Limited ("Zhejiang JV") in its usual and ordinary course of

business, for the sales of automobile parts and components to Zhejiang JV and its subsidiaries in the manufacture of automobiles.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) had been determined to be RMB67 million which, did not exceed the annual cap of RMB455 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB67 million which, did not exceed the annual cap of RMB455 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

### 2. LAND AND FACILITIES CONTRACT BETWEEN SHANGHAI MAPLE JV AND SHANGHAI LTI JV

Pursuant to the Land and Facilities Contract dated 22 March 2007, Shanghai Maple Guorun Automobile Company Limited ("Shanghai Maple JV") leased the land and buildings and equipment located at Fengjing Industry Park, Jinshan District, Shanghai, the PRC to Shanghai LTI Automobile Components Company Limited ("Shanghai LTI JV") for a term of 20 years with automatic renewal each year thereafter.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) had been determined to be RMB2 million which, did not exceed the annual cap of RMB33 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB2 million which, did not exceed the annual cap of RMB33 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

### 3. SERVICES AGREEMENT BETWEEN THE COMPANY AND GEELY HOLDING

- *Sales of CKDs and Sedan Tool Kits from the Group to the Geely Holding Group*  
Pursuant to the Services Agreement dated 17 September 2007, Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agreed to supply to the Geely Holding and its subsidiaries (collectively, the "Geely Holding Group"), complete knock down kits ("CKDs") and sedan tool kits in accordance with the product specifications set out in the Services Agreement.

The aforesaid continuing connected transactions have been reviewed by the

independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) had been determined to be RMB3,209 million for sales of CKDs and sedan tool kits which did not exceed the annual cap of RMB10,288 million for sales of CKDs and sedan tool kits for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB3,209 million for sales of CKDs and sedan tool kits which did not exceed the annual cap of RMB10,288 million for sales of CKDs and sedan tool kits for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

- *Sales of CBUs, automobile parts and components; and provision of process manufacturing services from Geely Holding Group to the Group*  
Pursuant to the Services Agreement dated 17 September 2007, Geely Holding Group agreed to sell to the Group the complete buildup units (CBUs), automobile parts and components; and provide process manufacturing process to the Group in accordance with the product and service specifications set out in the Services Agreement.



The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) had been determined to be RMB5,975 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services which did not exceed the annual cap of RMB13,811 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB5,975 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services which did not exceed the annual cap of RMB13,811 million for purchases of CBUs, automobile parts and components and provision of process manufacturing services for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

#### 4. LOAN GUARANTEE AGREEMENT BETWEEN THE COMPANY AND GEELY HOLDING

Pursuant to the Loan Guarantee Agreement dated 17 September 2007, Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") agreed to provide guarantees (including the pledge of certain lands, buildings and facilities of the subsidiaries) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Group's subsidiaries in relation to the manufacture and research and development of sedans of the Group.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) had been determined to be RMB770 million which, did not exceed the annual cap of RMB850 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB770 million which, did not exceed the annual cap of RMB850 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

## **5. LEASE AGREEMENT BETWEEN THE COMPANY, GEELY HOLDING AND ZHEJIANG ECONOMIC MANAGEMENT COLLEGE**

Pursuant to the Lease Agreement dated 17 September 2007, the Group agreed to lease properties located in Zhejiang Province, to the Geely Holding Group and Zhejiang Economic Management College.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) had been determined to be RMB6 million which, did not exceed the annual cap of RMB16 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) had been determined to be RMB6 million which, did not exceed the annual cap of RMB16 million for the year ended 31 December 2008 as approved by the Stock Exchange and the Independent Shareholders.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

## **EMOLUMENT POLICY**

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 32 to the consolidated financial statements.

## **PRE-EMPTIVE RIGHTS**

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

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases attributable to the Group's five largest suppliers and the largest supplier are 40% and 40%, respectively, of the Group's total purchases for the year. Zhejiang Geely Automobile Parts and Components Company Limited, a related company controlled by the substantial shareholder of the Company, is the Group's largest supplier.

The percentage of sales attributable to the Group's five largest customers and the largest customer are 8% and 2% respectively, of the Group's total sales for the year.

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

## CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 36 to 41 of the annual report.

## AUDIT COMMITTEE

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

## SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08 of the Listing Rules requires at least 25% of the issued share capital of the Company to be held in public hands. Based on the information available and within the knowledge of the directors as at the latest practicable date prior to the issue of the annual report, the public float of the Company is around 24.07%, being slightly below 25% as required under Rule 8.08 of the Listing Rules.

## COMPETING BUSINESSES

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

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

## AUDITORS

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

On behalf of the Board

**Li Shu Fu**

Chairman

16 April 2009



# Grant Thornton

## 均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Geely Automobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 111, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITORS' RESPONSIBILITY**

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

and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Grant Thornton**

*Certified Public Accountants*  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

16 April 2009

**Consolidated income statement**  
for the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover/Revenue	6	<b>4,289,037</b>	131,720
Cost of sales		<b>(3,637,752)</b>	(116,401)
<b>Gross profit</b>		<b>651,285</b>	15,319
Other income	8	<b>357,512</b>	28,172
Distribution and selling expenses		<b>(219,807)</b>	(3,055)
Administrative expenses		<b>(282,536)</b>	(45,394)
Finance costs	9	<b>(60,952)</b>	(33,699)
Fair value gain on embedded derivative components of convertible bonds		<b>6,250</b>	5,428
Excess of fair value of identifiable net assets acquired over cost	10	<b>339,835</b>	2,843
Share of results of associates	18	<b>226,335</b>	337,759
Impairment loss on interest in an associate		<b>(100,000)</b>	–
<b>Profit before taxation</b>		<b>917,922</b>	307,373
Taxation	11	<b>(51,869)</b>	(1,606)
<b>Profit for the year</b>	9	<b>866,053</b>	305,767
<b>Attributable to:</b>			
Equity holders of the Company		<b>879,053</b>	302,527
Minority interests		<b>(13,000)</b>	3,240
		<b>866,053</b>	305,767
<b>Dividends</b>	12	<b>91,376</b>	59,500
<b>Earnings per share</b>			
Basic	13	<b>RMB15.0 cents</b>	RMB6.14 cents
Diluted	13	<b>RMB14.3 cents</b>	RMB6.04 cents



**Consolidated balance sheet**  
as at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	15	3,289,276	30,957
Intangible assets	16	657,155	–
Interest in associates	18	42,241	2,040,437
Prepaid land lease payments	17	1,051,745	–
		<b>5,040,417</b>	2,071,394
<b>Current assets</b>			
Prepaid land lease payments	17	26,611	–
Inventories	19	486,664	13,918
Trade and other receivables	20	2,840,255	65,443
Dividend receivables from associates		–	3,418
Financial assets at fair value through profit or loss	21	10,461	4,494
Tax recoverable		3,205	–
Pledged bank deposits		853,948	–
Bank balances and cash		889,408	761,684
		<b>5,110,552</b>	848,957
<b>Current liabilities</b>			
Trade and other payables	23	4,229,631	37,176
Amount due to an associate	24	–	122
Taxation		57,551	702
Convertible bonds – embedded derivatives	22	12,432	18,682
Bank borrowings, secured	25	685,589	19,696
Convertible bonds	22	288,267	–
		<b>5,273,470</b>	76,378
<b>Net current (liabilities) assets</b>		<b>(162,918)</b>	772,579
<b>Total assets less current liabilities</b>		<b>4,877,499</b>	2,843,973
<b>CAPITAL AND RESERVES</b>			
Share capital	27	122,542	108,291
Reserves	28	4,075,320	2,235,554
Equity attributable to equity holders of the Company		4,197,862	2,343,845
Minority interests		584,619	203,225
<b>Total equity</b>		<b>4,782,481</b>	2,547,070
<b>Non-current liabilities</b>			
Convertible bonds	22	–	296,903
Long-term bank borrowings, secured	25	87,000	–
Deferred taxation	26	8,018	–
		<b>95,018</b>	296,903
		<b>4,877,499</b>	2,843,973

The consolidated financial statements on pages 54 to 111 were approved and authorised for issue by the Board of Directors on 16 April 2009 and are signed on its behalf by:

**Li Shu Fu**  
Director

**Gui Sheng Yue**  
Director

**Consolidated statement of changes in equity**  
for the year ended 31 December 2008

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory and staff welfare reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	88,137	594,625	55,683	-	2,408	13,701	275,603	1,030,157	19,769	1,049,926
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	-	26,158	-	-	26,158	12,121	38,279
Profit for the year	-	-	-	-	-	-	302,527	302,527	3,240	305,767
Total recognised income for the year	-	-	-	-	26,158	-	302,527	328,685	15,361	344,046
Transfers	-	-	-	1,226	-	-	(1,226)	-	-	-
Capital contribution from a minority shareholder	-	-	-	-	-	-	-	-	4,113	4,113
Disposal of partial interest in a subsidiary	-	-	-	-	-	-	-	-	189,470	189,470
Acquisition of partial interest in a subsidiary	-	-	-	-	-	-	-	-	(25,488)	(25,488)
Issue of shares	11,520	573,952	-	-	-	-	-	585,472	-	585,472
Shares issued upon conversion of convertible bonds	8,634	411,309	-	-	-	-	-	419,943	-	419,943
Recognition of share-based payments	-	-	-	-	-	5,241	-	5,241	-	5,241
Transfer upon cancellation of share options	-	-	-	-	-	(121)	121	-	-	-
Dividend paid	-	-	-	-	-	-	(55,034)	(55,034)	-	(55,034)
Deemed contribution from shareholders (Note)	-	-	29,381	-	-	-	-	29,381	-	29,381
At 31 December 2007	108,291	1,579,886	85,064	1,226	28,566	18,821	521,991	2,343,845	203,225	2,547,070
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	-	(4,728)	-	-	(4,728)	-	(4,728)
Profit for the year	-	-	-	-	-	-	879,053	879,053	(13,000)	866,053
Total recognised income for the year	-	-	-	-	(4,728)	-	879,053	874,325	(13,000)	861,325
Change in functional currency	(8,430)	(55,566)	-	-	43,797	(945)	21,144	-	-	-
Transfers	-	-	-	26,001	-	-	(26,001)	-	-	-
Capital contribution from a minority shareholder	-	-	-	-	-	-	-	-	10,000	10,000
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	384,098	384,098
Issue of shares	22,681	986,607	-	-	-	-	-	1,009,288	-	1,009,288
Recognition of share-based payments	-	-	-	-	-	26,909	-	26,909	-	26,909
Dividend paid	-	-	-	-	-	-	(59,500)	(59,500)	-	(59,500)
Deemed contribution from shareholders (Note)	-	-	2,995	-	-	-	-	2,995	296	3,291
<b>At 31 December 2008</b>	<b>122,542</b>	<b>2,510,927</b>	<b>88,059</b>	<b>27,227</b>	<b>67,635</b>	<b>44,785</b>	<b>1,336,687</b>	<b>4,197,862</b>	<b>584,619</b>	<b>4,782,481</b>

Note: Deemed contribution from shareholders mainly represented difference between the consideration paid/received and the fair value of net assets acquired/disposed of by the associates and subsidiaries of the Group from/to Zhejiang Geely Holding Group Company Limited and its subsidiaries (collectively referred to as "Zhejiang Geely Holding Group"). Zhejiang Geely Holding Group is beneficially owned by the substantial shareholder of the Company.

**Consolidated cash flow statement**  
for the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
<b>Cash flows from operating activities</b>			
Profit for the year before taxation		917,922	307,373
Adjustments for:			
Depreciation and amortisation		141,053	2,191
Interest income		(49,725)	(19,521)
Finance costs		60,952	33,699
Share of results of associates		(226,335)	(337,759)
Impairment loss on interest in an associate		100,000	–
Loss on disposal of property, plant and equipment		4,079	150
Net exchange (gain) loss		(26,938)	1,558
Fair value gain on embedded derivative components of convertible bonds		(6,250)	(5,428)
Net gain on forward foreign exchange contracts not used for hedging		(1,655)	(4,494)
Net loss on investments held for trading		110	–
Share-based payment expense		26,909	5,241
Excess of fair value of identifiable net assets acquired over cost		(339,835)	(2,843)
Operating profit (loss) before working capital changes		600,287	(19,833)
Inventories		235,933	(4,008)
Trade and other receivables		458,876	(6,408)
Amount due to an associate		(122)	122
Trade and other payables		(753,790)	13,612
Cash from (used in) operations		541,184	(16,515)
Income taxes refunded (paid)		9,793	(1,197)
<i>Net cash from (used in) operating activities</i>		<b>550,977</b>	<b>(17,712)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(459,763)	(21,027)
Proceeds from disposal of property, plant and equipment		20,197	–
Purchase of prepaid land lease payments		(11,567)	–
Purchase of intangible assets		(333,228)	–
Change in pledged bank deposits		(853,948)	–
Acquisition of additional interests in a subsidiary		–	(22,645)
Acquisition of subsidiaries	36	1,186,887	–
Investment in associates		(64,053)	(17,975)
Dividends received from associates		185,059	279,966
Proceeds from settlement of derivatives in respect of forward foreign exchange contracts		6,149	–
Interest received		49,725	19,521
<i>Net cash (used in) from investing activities</i>		<b>(274,542)</b>	<b>237,840</b>

**Consolidated cash flow statement**  
for the year ended 31 December 2008

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
<b>Cash flows from financing activities</b>		
Dividends paid	<b>(59,500)</b>	(55,034)
Repayment to immediate holding company	–	(10,771)
Proceeds from issuance of shares	–	610,560
Cost of issuance of shares	–	(25,088)
Capital contribution from a minority shareholder	<b>10,000</b>	4,113
Short-term bank borrowings, net, in respect of bank borrowings arising from discounted bills	<b>(5,463)</b>	(2,496)
Proceeds from borrowings	<b>337,278</b>	–
Repayment of borrowings	<b>(386,180)</b>	–
Interest paid	<b>(44,846)</b>	–
<i>Net cash (used in) from financing activities</i>	<b>(148,711)</b>	521,284
<b>Increase in cash and cash equivalents</b>	<b>127,724</b>	741,412
<b>Cash and cash equivalents at beginning of year</b>	<b>761,684</b>	20,972
Effect of foreign exchange rate changes	–	(700)
<b>Cash and cash equivalents at end of year, represented by</b>		
Bank balances and cash	<b>889,408</b>	761,684

## **1. GENERAL INFORMATION AND BASIS OF PREPARATION**

The Company is a public listed limited liability company incorporated in the Cayman Islands as an exempted limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “SEHK”). The addresses of the registered office and principal place of business of the Company are disclosed in “Directory” to the annual report. At 31 December 2008, the directors consider the ultimate holding company of the Company to be Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司), which is incorporated in the People’s Republic of China.

The Company is an investment holding company. The principal activities of the Company’s subsidiaries are set out in note 38 to the consolidated financial statements.

The Company’s functional currency was Hong Kong dollar. Following the completion of acquisition of additional interests in the associates, which have become subsidiaries with effect from 1 July 2008, (details as set out in the circular dated 31 October 2007 and the announcement dated 4 July 2008 (note 36)), the directors re-examined its functional currency and presentation currency. As a result of this examination, the directors determined to change the functional currency from Hong Kong dollar to Renminbi with effect from 1 July 2008 as a substantial part of the Group’s businesses are now conducted in Renminbi. The effect of the change of the functional currency of the Company has been accounted for prospectively since 1 July 2008. The comparative figures for the year ended 31 December 2007 have also been restated to change the presentation currency to Renminbi accordingly.

## **2. STATEMENT OF COMPLIANCE**

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

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA that are applicable to the Group, which are effective for the Group’s financial year beginning on 1 January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.



### 3. EFFECTS OF APPLICATION OF HKFRSs NOT YET EFFECTIVE

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

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards <sup>3</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 7 (Amendment)	Improving disclosures about Financial Instruments <sup>2</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>6</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>2</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC) – Int 18	Transfers of Assets from Customers <sup>7</sup>

<sup>1</sup> Effective for annual period beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual period beginning on or after 1 July 2009

<sup>2</sup> Effective for annual period beginning on or after 1 January 2009

<sup>3</sup> Effective for annual period beginning on or after 1 July 2009

<sup>4</sup> Effective for annual period beginning on or after 1 July 2008

<sup>5</sup> Effective for annual period beginning on or after 1 October 2008

<sup>6</sup> Effective for annual period beginning on or after 30 June 2009

<sup>7</sup> Effective for transfers of assets from customers received on or after 1 July 2009

Among these new standards and interpretations, HKAS 1 (Revised) “Presentation of Financial Statements” is expected to materially change the presentation of the Group’s financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

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

##### (a) Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

##### (b) Goodwill

Goodwill represents the excess of cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities assumed as at the date of acquisition.

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

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement. Any excess of the Group's interest in the attributable net carrying amount in the identifiable assets, liabilities and contingent liabilities in respect of the acquisition of additional interests in the subsidiary over the cost of the additional investment is recognised immediately in the income statement.

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

#### **4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

##### **(c) Interests in associates**

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

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

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

##### **(d) Intangible assets (other than goodwill)**

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

Capitalised development costs	5 to 10 years
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###### *Research and development costs*

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

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured

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

All other development costs are expensed as incurred.

#### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### (e) Inventories

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

##### (f) Foreign currencies

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

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

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

##### (g) Financial instruments

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

#### **4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

##### **(g) Financial instruments** *(Continued)*

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including dividend receivables from associates and trade and other receivables) are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

###### *Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

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

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

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

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



#### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### (g) Financial instruments *(Continued)*

###### *Financial liabilities and equity instruments*

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

###### *Other financial liabilities*

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

###### *Convertible bonds*

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

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

The liability component is subsequently measured at amortised cost, using the effective interest method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid (if any) is added to the carrying amount of the liability component. The embedded derivatives are subsequently measured at their fair values at each balance sheet date with changes in fair value recognised in income statement.

###### *Equity instruments*

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

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

###### *Derecognition*

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

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

#### **4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

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

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

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

Property, plant and equipment are depreciated on a straight-line basis at the following useful lives:

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

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

##### **(i) Impairment**

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

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

##### **(j) Cash equivalents**

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### **(k) Revenue recognition**

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

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

Claim income on defected materials purchased is recognised when the claim has been made to relevant suppliers.

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

##### **(l) Taxation**

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

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

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

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

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

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

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(m) Equity-settled share-based transactions**

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

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

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

**(n) Retirement benefit costs**

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

**(o) Leasing**

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

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

**(p) Government grants**

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### (q) Related parties

A party is related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate of the Group;
- (iii) the party is a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group or its shareholders;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

#### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

##### **Key sources of estimation uncertainty**

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

##### *Impairment of goodwill*

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



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

### **Key sources of estimation uncertainty** *(Continued)*

#### *Fair value of derivatives and other financial instruments*

As described in notes 22 and 35 to the consolidated financial statements, the valuation techniques applied by the external valuers for financial instruments not quoted in an active market have been agreed with the directors. The directors use their judgement to determine whether valuation techniques applied are appropriate to the circumstances of the Group.

#### *Allowance for bad and doubtful debts*

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

#### *Allowance for inventories*

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

#### *Impairment of long lived assets*

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

#### *Depreciation*

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

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

**Key sources of estimation uncertainty** *(Continued)*

*Impairment of investments*

The Company assesses annually and at interim reporting date if investment in associates has suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from those entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

**6. TURNOVER/REVENUE**

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

**7. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**Business segments**

No business segment information has been presented for the years ended 31 December 2008 and 31 December 2007 as the directors considered that the Group is principally engaged in manufacturing and trading of automobiles and automobile parts and related automobile components which accounts for the total turnover and trading profits of the Group for the years.

**Geographical segments**

The Group's activities, operations and assets are based in the People's Republic of China (the "PRC"). Accordingly, no geographical analysis is presented.

**Notes to the consolidated financial statements**  
for the year ended 31 December 2008

**8. OTHER INCOME**

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Bank interest income	<b>49,725</b>	19,521
Net gain on financial instruments at fair value through profit or loss that are classified as held for trading (forward foreign exchange contracts not used for hedging)	<b>1,655</b>	4,494
Rental income (note 1)	<b>6,245</b>	–
Net claims income on defected materials purchased	<b>17,517</b>	1,225
Gain on disposal of scrap materials	<b>40,435</b>	–
Net exchange gain	<b>10,133</b>	–
Subsidy income from government (note 2)	<b>203,119</b>	–
Sundry income	<b>28,683</b>	2,932
	<b>357,512</b>	28,172

Note:

- 1: Rental income net of outgoings for the year ended 31 December 2008 is RMB4,692,000 (2007: Nil).
- 2: Subsidy income mainly relates to cash subsidies in respect of research and development activities from government which are unconditional grants.

**9. PROFIT FOR THE YEAR**

Profit for the year has been arrived at after charging:

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
<b>Finance costs</b>		
Effective interest expense on convertible bonds	<b>16,106</b>	33,699
Interest on bank borrowings wholly repayable within five years	<b>44,846</b>	–
	<b>60,952</b>	33,699

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
<b>Staff costs (including directors' emoluments)</b>		
Salaries, wages and other benefits	<b>200,817</b>	16,992
Retirement benefit scheme contributions	<b>20,291</b>	935
Recognition of share-based payments (included in administrative expenses)	<b>26,909</b>	5,241
	<b>248,017</b>	23,168

## 9. PROFIT FOR THE YEAR *(Continued)*

	2008 RMB'000	2007 RMB'000
<b>Other items</b>		
Cost of inventories recognised as expense	<b>3,637,752</b>	116,401
Auditors' remuneration	<b>2,444</b>	1,532
Depreciation	<b>108,646</b>	2,191
Amortisation of prepaid land lease payments	<b>13,653</b>	–
Amortisation of intangible assets	<b>18,754</b>	–
Net exchange loss	–	9,486
Loss on disposal of property, plant and equipment	<b>4,079</b>	150
Operating leases charges on premises	<b>5,054</b>	1,237
Unrealised loss on financial instruments at fair value through profit or loss that are classified as held for trading (investments held for trading)	<b>110</b>	–

## 10. EXCESS OF FAIR VALUE OF IDENTIFIABLE NET ASSETS ACQUIRED OVER COST

The amount represented excess of fair value of identifiable net assets acquired over cost in respect of acquisition of subsidiaries (note 36) and acquisition of additional interests in a subsidiary for the year ended 31 December 2008 and 31 December 2007 respectively.

## 11. TAXATION

	2008 RMB'000	2007 RMB'000
Current tax:		
PRC foreign enterprise income tax	<b>18,716</b>	1,606
Withholding tax	<b>25,135</b>	–
	<b>43,851</b>	1,606
Deferred taxation (note 26)	<b>8,018</b>	–
	<b>51,869</b>	1,606

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

## 11. TAXATION *(Continued)*

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

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

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Profit before taxation	<b>917,922</b>	307,373
Tax at the PRC foreign enterprise income tax rate of 25% (2007: 33%)	<b>229,481</b>	101,433
Tax effect of expenses not deductible in determining taxable profit	<b>104,823</b>	9,834
Tax effect of non-taxable income	<b>(122,867)</b>	(113,368)
Tax effect of unrecognised temporary differences	<b>1,723</b>	–
Tax effect of unrecognised tax losses	<b>3,670</b>	–
Tax effect of different tax rates of entities operating in other jurisdictions	<b>5,397</b>	6,336
Withholding tax on retained earnings distributed	<b>25,135</b>	–
Deferred tax charge on distributable profits withholding tax (note 26)	<b>8,018</b>	–
Effect of tax exemption granted to PRC subsidiaries	<b>(203,511)</b>	(2,629)
Tax expense for the year	<b>51,869</b>	1,606

The applicable tax rate is the PRC foreign enterprise income tax rate of 25% (2007: 33%). On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008. In respect of tax holidays, for those enterprises which have already started their tax holidays before 2008, they are able to enjoy the remaining tax holidays until expiry whereas for those enterprises which have not yet started their tax holidays before 2008, the tax holidays will be deemed to start from 1 January 2008 and they are able to enjoy the remaining tax holidays until expiry.

Pursuant to the New Law, the Group will be liable to withholding tax on dividends to be distributed from the Group's foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. Deferred tax liability of RMB8,018,000 and current income tax of RMB25,135,000 were recognised for the distributable profits not yet paid out as dividends and dividends paid out from distributable profits respectively that are generated by PRC subsidiaries and associates of the Company during the year.

## 12. DIVIDENDS

A final dividend and a special dividend for the year ended 31 December 2006 of HK\$0.01 per share and HK\$0.002 per share respectively, amounting to approximately RMB55,034,000 were paid to the shareholders during the year ended 31 December 2007.

A final dividend for the year ended 31 December 2007 of HK\$0.013 per share amounting to approximately RMB59,500,000 were paid to the shareholders during the year.

A final dividend for the year ended 31 December 2008 of HK\$0.016 per share amounting to approximately RMB91,376,000 has been proposed by the Board of Directors after the balance sheet date. The proposed dividend will be accounted for as an appropriation of accumulated profits in the year ending 31 December 2009 if it is approved by the shareholders in the forthcoming annual general meeting.



### 13. EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of RMB879,053,000 (2007: RMB302,527,000) and weighted average number of ordinary shares of 5,845,419,450 shares (2007: 4,930,320,263 shares), calculated as follows:

<i>(i) Weighted average number of ordinary shares</i>	<b>2008</b>	2007
Issued ordinary shares at 1 January	<b>5,201,083,450</b>	4,151,388,496
Effect of new shares issued	<b>644,336,000</b>	526,027,397
Effect of shares issued upon conversion of convertible bonds	–	252,904,370
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	<b>5,845,419,450</b>	4,930,320,263

#### (b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the Company of RMB888,909,000 (2007: RMB302,527,000) and the weighted average number of ordinary shares of 6,225,339,910 shares (2007: 5,011,783,093 shares), calculated as follows:

<i>(i) Profit attributable to equity holders of the Company (diluted)</i>	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Earnings for the purpose of basic earnings per share (Profit attributable to equity holders)	<b>879,053</b>	302,527
After tax effect of effective interest on the liability component of convertible bonds	<b>16,106</b>	–
After tax effect of fair value gain on the derivative embedded in convertible bonds	<b>(6,250)</b>	–
	<hr/>	<hr/>
Earnings for the purpose of diluted earnings per share	<b>888,909</b>	302,527
	<hr/>	<hr/>
<i>(ii) Weighted average number of ordinary shares (diluted)</i>	<b>2008</b>	2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>5,845,419,450</b>	4,930,320,263
Effect of deemed conversion of convertible bonds	<b>365,413,793</b>	–
Effect of deemed issue of shares under the Company's share option scheme	<b>14,506,667</b>	81,462,830
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>6,225,339,910</b>	5,011,783,093

The effect of deemed conversion of convertible bonds was anti-dilutive for the year ended 31 December 2007.

## 14. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

### (a) Directors' remuneration

The emoluments paid or payable to each of the twelve (2007: twelve) directors are as follows:

#### 2008

Name of director	Fees RMB'000	Salaries RMB'000	Rental allowance RMB'000	Contribution to retirement benefit scheme RMB'000	Sub-total RMB'000	Share- based payment (Note) RMB'000	Total RMB'000
Mr. Gui Sheng Yue	–	1,373	158	11	1,542	966	2,508
Mr. Ang Siu Lun, Lawrence	–	1,509	–	11	1,520	725	2,245
Mr. Zhao Jie	–	667	–	11	678	725	1,403
Dr. Zhao Fuquan	9	–	–	–	9	1,329	1,338
Mr. Li Shu Fu	–	343	–	10	353	–	353
Mr. Lee Cheuk Yin, Dannis	106	–	–	–	106	181	287
Mr. Yeung Sau Hung, Alex	106	–	–	–	106	181	287
Mr. Song Lin	106	–	–	–	106	181	287
Mr. Liu Jin Liang	9	–	–	–	9	725	734
Mr. Xu Gang	9	–	–	–	9	–	9
Mr. Yang Jian	9	–	–	–	9	966	975
Mr. Yin Da Qing, Richard	9	–	–	–	9	846	855
	363	3,892	158	43	4,456	6,825	11,281

#### 2007

Name of director	Fees RMB'000	Salaries RMB'000	Rental allowance RMB'000	Contribution to retirement benefit scheme RMB'000	Sub-total RMB'000	Share- based payment (Note) RMB'000	Total RMB'000
Mr. Gui Sheng Yue	–	1,401	181	12	1,594	–	1,594
Mr. Ang Siu Lun, Lawrence	–	1,401	–	12	1,413	–	1,413
Mr. Zhao Jie	–	682	–	13	695	–	695
Dr. Zhao Fuquan	10	–	–	–	10	1,324	1,334
Mr. Li Shu Fu	–	409	–	3	412	–	412
Mr. Lee Cheuk Yin, Dannis	115	–	–	–	115	32	147
Mr. Yeung Sau Hung, Alex	115	–	–	–	115	32	147
Mr. Song Lin	115	–	–	–	115	32	147
Mr. Liu Jin Liang	10	–	–	–	10	–	10
Mr. Xu Gang	10	–	–	–	10	–	10
Mr. Yang Jian	10	–	–	–	10	–	10
Mr. Yin Da Qing, Richard	10	–	–	–	10	–	10
	395	3,893	181	40	4,509	1,420	5,929

No director waived any emoluments during the years ended 31 December 2008 and 31 December 2007.

## 14. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' remuneration *(Continued)*

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Options" in the Directors' Report and in note 32 to the consolidated financial statements.

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining individuals for the year ended 31 December 2008 are as follows:

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Basic salaries and allowances	<b>2,359</b>	1,892
Retirement benefits scheme contributions	<b>18</b>	12
Share-based payment expense	<b>1,120</b>	665
	<b>3,497</b>	2,569

Their emoluments were all within HK\$1,000,000 to HK\$2,000,000.

**Notes to the consolidated financial statements**  
for the year ended 31 December 2008

**15. PROPERTY, PLANT AND EQUIPMENT**

	Construction in progress RMB'000	Leasehold buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture and fixtures, office equipment and motor vehicles RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2007	-	-	13,460	441	1,244	15,145
Additions	6,878	-	9,332	2,597	2,220	21,027
Disposals	-	-	(90)	-	(115)	(205)
At 31 December 2007	6,878	-	22,702	3,038	3,349	35,967
Acquisition of subsidiaries	305,724	1,319,459	1,529,049	-	116,933	3,271,165
Additions	516,026	19,443	29,615	548	25,515	591,147
Transfer	(363,379)	127,631	233,085	-	2,663	-
Disposals	-	(19,460)	(9,753)	-	(1,686)	(30,899)
<b>At 31 December 2008</b>	<b>465,249</b>	<b>1,447,073</b>	<b>1,804,698</b>	<b>3,586</b>	<b>146,774</b>	<b>3,867,380</b>
<b>DEPRECIATION</b>						
At 1 January 2007	-	-	2,207	205	462	2,874
Charge for the year	-	-	1,472	335	384	2,191
Disposals	-	-	-	-	(55)	(55)
At 31 December 2007	-	-	3,679	540	791	5,010
Acquisition of subsidiaries	-	93,502	337,418	-	40,151	471,071
Charge for the year	-	20,798	75,505	749	11,594	108,646
Disposals	-	(717)	(4,870)	-	(1,036)	(6,623)
<b>At 31 December 2008</b>	<b>-</b>	<b>113,583</b>	<b>411,732</b>	<b>1,289</b>	<b>51,500</b>	<b>578,104</b>
<b>NET BOOK VALUE</b>						
<b>At 31 December 2008</b>	<b>465,249</b>	<b>1,333,490</b>	<b>1,392,966</b>	<b>2,297</b>	<b>95,274</b>	<b>3,289,276</b>
At 31 December 2007	6,878	-	19,023	2,498	2,558	30,957

## 16. INTANGIBLE ASSETS

	<b>Capitalised development cost</b> RMB'000
<b>COST</b>	
Acquisition of subsidiaries	342,681
Additions	333,228
<b>At 31 December 2008</b>	<b>675,909</b>
<b>AMORTISATION</b>	
Charge for the year	18,754
<b>At 31 December 2008</b>	<b>18,754</b>
<b>NET BOOK VALUE</b>	
<b>At 31 December 2008</b>	<b>657,155</b>

## 17. PREPAID LAND LEASE PAYMENTS

	<b>2008</b> RMB'000	2007 RMB'000
The Group's prepaid land lease payments comprise:		
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	<b>1,078,356</b>	–
Analysed for reporting purposes as:		
Current assets	<b>26,611</b>	–
Non-current assets	<b>1,051,745</b>	–
	<b>1,078,356</b>	–
	<b>2008</b> RMB'000	2007 RMB'000
Additions	<b>25,627</b>	–
Acquisition of subsidiaries	<b>1,066,382</b>	–
Annual charges of prepaid land lease payments	<b>(13,653)</b>	–
Closing net carrying amount	<b>1,078,356</b>	–



## 18. INTEREST IN ASSOCIATES

	2008 RMB'000	2007 RMB'000
Share of net assets	124,059	2,022,255
Goodwill	18,182	18,182
Impairment loss recognised	(100,000)	–
	<b>42,241</b>	<b>2,040,437</b>
Represented by:		
Cost of investments in associates		
Unlisted	–	812,776
Listed overseas	189,710	192,620
Share of post-acquisition (losses) profits and reserves	(47,469)	1,035,041
Impairment loss recognised	(100,000)	–
	<b>42,241</b>	<b>2,040,437</b>
Fair value of listed investments	<b>38,049</b>	475,563
Movement of interest in associates:		
Opening carrying amount	2,040,437	1,666,999
Dividends received	(181,641)	(204,941)
Share of results	226,335	337,759
Share of reserves	–	29,381
Investment in associates	64,053	207,445
Exchange difference	(4,728)	3,794
Acquisition of subsidiaries (note 36)	(2,002,215)	–
Impairment loss recognised	(100,000)	–
Closing carrying amount	<b>42,241</b>	<b>2,040,437</b>

During the year, the Company acquired additional interests of 44.19% in the PRC associated companies and therefore these PRC associated companies become subsidiaries of the Company. Details have been set out in note 36 to the consolidated financial statements.

At 31 December 2008, the Group had interest in the following associate:

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
Manganese Bronze Holdings plc	United Kingdom	£6,281,000	22.69%	UK-based speciality automotive and taxi services group

## 18. INTEREST IN ASSOCIATES *(Continued)*

Having considered the significant drop in the market value of the shares in Manganese Bronze Holdings plc ("MBH") and the projected future profitability and cash flows of MBH, the Company has recognised an impairment loss of RMB100,000,000 during the year.

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

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Total assets	<b>979,941</b>	9,897,636
Total liabilities	<b>(433,851)</b>	(5,186,841)
Net assets	<b>546,090</b>	4,710,795
Group's share of net assets of associates	<b>124,059</b>	2,022,255
Revenue	<b>6,808,982</b>	11,572,513
Profit for the year attributable to equity holders of the associates	<b>396,805</b>	727,499
Group's share of results of associates for the year	<b>226,335</b>	337,759

The above summarised financial information in respect of income statement items for the year ended 31 December 2008 included those PRC associates up to the date when they became subsidiaries during the year as set out in note 36 to the consolidated financial statements.

## 19. INVENTORIES

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
At costs:		
Raw materials	<b>213,680</b>	8,762
Work in progress	<b>87,265</b>	1,101
Finished goods	<b>185,719</b>	4,055
	<b>486,664</b>	13,918

## 20. TRADE AND OTHER RECEIVABLES

	Note	2008 RMB'000	2007 RMB'000
<b>Trade and notes receivables</b>			
Trade receivables			
– From third parties		263,681	17,578
– From related companies controlled by the substantial shareholder of the Company		391,839	–
	(a)	655,520	17,578
Notes receivable	(b)	1,196,694	41,661
		1,852,214	59,239
<b>Deposits, prepayments and other receivables</b>			
Deposits, prepayments and other receivables		483,616	6,204
Amounts due from related parties	(c)	504,425	–
		2,840,255	65,443

### (a) Trade receivables

The Group allows a credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	2008 RMB'000	2007 RMB'000
0 – 60 days	535,295	17,578
61 – 90 days	84,684	–
Over 90 days	35,541	–
	655,520	17,578

Included in the Group's trade receivables balance are debtors with a carrying amount of RMB35,541,000 (2007: Nil) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The age of these past due but not impaired debtors are between 90 days to 365 days. The Group does not hold any collateral over these balances. No material impairment has been made to the trade receivables balance. For those receivables that are neither past due nor impaired are mainly due from large corporations which the Group have long trading history and therefore these debtors are considered to have good credit quality.

## 20. TRADE AND OTHER RECEIVABLES *(Continued)*

### (b) Notes receivable

All notes receivable are denominated in Renminbi and are primarily notes received from third parties and an associate for the year ended 31 December 2008 and 2007 respectively for settlement of trade receivable balances. At 31 December 2008 and 2007, all notes receivables were guaranteed by established banks in the PRC and have maturities of six months or less from 31 December.

During the year, the Group has discounted notes receivable to banks in exchange for cash with recourse in the ordinary course of business. The Group continues to recognise the full carrying amount of notes receivable and has recognised the cash received as secured short-term bank borrowings, which is wholly repayable within one year, as reported in the consolidated balance sheet. At the balance sheet date, the carrying amount of discounted notes receivable and the associated financial liabilities was RMB14,233,000 (2007: RMB19,696,000). The effective interest rate for the short-term bank borrowings on discounting notes receivable is approximately 2.5% (2007: 3.18%) per annum. In addition, the Group has pledged notes receivable of RMB101,217,000 (2007: Nil) to banks to secure the Group's notes payable.

### (c) Amounts due from related parties

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

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 RMB'000	2007 RMB'000
Forward foreign exchange contracts not used for hedging	–	4,494
Listed investments:		
– Equity securities listed outside Hong Kong	<b>10,461</b>	–
	<b>10,461</b>	4,494

The fair value of the forward foreign exchange contracts is estimated based on difference between the contract rate and spot forward rate. The fair value of the listed investments which is also the market value is based on the quoted market price available.

## 22. CONVERTIBLE BONDS

On 10 April 2006, the Company issued HK\$741.6 million zero coupon convertible bonds due 2011 ("CB 2011"). The CB 2011 are listed on the Singapore Stock Exchange.

The CB 2011 are convertible into fully paid ordinary shares of HK\$0.02 each of the Company at an initial conversion price of HK\$0.90 per share, subject to adjustment in certain events, at any time on or after 10 May 2006 and up to the close of business on 10 March 2011, unless previously redeemed, converted or purchased and cancelled.

## **22. CONVERTIBLE BONDS** *(Continued)*

The Company may, at its option, satisfy its obligation to deliver shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to relevant holder a cash amount which equal to the number of shares deliverable upon exercise of the conversion right and average closing price of the shares.

### **Conversion price reset**

If the average of the closing prices (the "Average Market Price") of the shares for the period of 20 consecutive trading days immediately prior to 10 April 2007 and 10 April 2008 (each a reset date) is less than the conversion price on the reset date (after taking into account any adjustments in certain events which may have occurred prior to the reset date), the conversion price shall be adjusted on the relevant reset date so that the Average Market Price will become the adjusted conversion price with effect from the relevant reset date, provided that:

- (i) any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than 80% of the conversion price prevailing on the relevant reset date (after taking into account any adjustments as in certain events which may have occurred prior to the reset date); and
- (ii) the conversion price shall not be reduced below the then par value (currently HK\$0.02 per share) of the shares unless under applicable law then in effect the CB 2011 could be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

The conversion price has not been reset for each reset date.

### **Redemption**

On or at any time after 10 April 2008 and prior to 10 March 2011, the Company may redeem all, but not some only, of the bonds at the early redemption amount if:

- (i) the closing price of the Company's shares on the SEHK shall have been at least 130% of the applicable early redemption amount divided by the conversion ratio for each of the 30 consecutive trading day period; or
- (ii) at any time providing at least 90% of the principal amount of the CB 2011 has been converted, redeemed or purchased and cancelled.

On 10 April 2009, the holder of each bond will have the right at such holder's option, to require the Company to redeem all or some of the bonds at 115.123% of their principal amount.

Unless previously converted, redeemed or purchased and cancelled, the CB 2011 will be redeemed at 126.456% of their outstanding principal amount on 10 April 2011.



## 22. CONVERTIBLE BONDS (Continued)

The convertible bonds contain a liability component and the embedded derivatives (comprising a put option, a call option and conversion option), which are required to be accounted for separately. The movements of the convertible bonds for the year are set out below:

	2008 RMB'000	2007 RMB'000
Liability component		
Carrying amount brought forward	296,903	682,838
Exchange adjustments	(24,742)	(27,314)
Conversion during the year	-	(392,320)
Accrued effective interest charges	16,106	33,699
	<b>288,267</b>	296,903
Fair value of embedded derivative in respect of the put option and conversion option		
Carrying amount brought forward	54,508	169,782
Exchange adjustments	(4,542)	(6,791)
Conversion during the year	-	(87,032)
Changes in fair value	(12,196)	(21,451)
	<b>37,770</b>	54,508
Less: Fair value of embedded derivative in respect of the call option		
Carrying amount brought forward	35,826	115,894
Exchange adjustments	(2,986)	(4,636)
Conversion during the year	-	(59,409)
Changes in fair value	(7,502)	(16,023)
	<b>25,338</b>	35,826
	<b>12,432</b>	18,682

The principal amount of the convertible bonds converted during the year ended 31 December 2007 was HK\$395,990,000 (approximately RMB380,150,000) and the principal amount outstanding at 31 December 2008 is HK\$317,910,000 (2007: HK\$317,910,000) or approximately RMB279,761,000 (2007: approximately RMB305,194,000).

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Subsequently, interest on the liability component is calculated using the effective interest method by applying the effective interest rate of 6.76% per annum.

The derivatives embedded in the convertible bonds are measured at fair value at the balance sheet date by an independent professional valuer, BMI Appraisals Limited using the Black-Scholes-Merton option pricing model and the discounted cash flow method. It has been assumed that exchange rates and interest rates will not differ materially from those presently prevailing. The fair values are determined in whole directly by reference to published price quotations in an active market.

**Notes to the consolidated financial statements**  
for the year ended 31 December 2008

**22. CONVERTIBLE BONDS** *(Continued)*

Subsequent to the balance sheet date, the Company received early redemption notices from the bondholders to redeem all the outstanding bonds. Accordingly, all the outstanding bonds were redeemed on 10 April 2009 at HK\$365,988,000 (approximately RMB322,069,000).

**23. TRADE AND OTHER PAYABLES**

	Note	2008 RMB'000	2007 RMB'000
<b>Trade and notes payable</b>			
Trade payables			
– To third parties		<b>603,723</b>	29,805
– To related parties controlled by the substantial shareholder of the Company		<b>569,099</b>	–
	(a)	<b>1,172,822</b>	29,805
Notes payable			
– To third parties		<b>1,759,234</b>	–
– To related parties controlled by the substantial shareholder of the Company		<b>75,000</b>	–
	(b)	<b>1,834,234</b>	–
		<b>3,007,056</b>	29,805
<b>Other payables</b>			
Accrued charges and other creditors		<b>1,153,563</b>	7,371
Amounts due to related parties	(c)	<b>69,012</b>	–
		<b>4,229,631</b>	37,176

**(a) Trade payables**

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

	2008 RMB'000	2007 RMB'000
0 – 60 days	<b>1,113,253</b>	23,877
61 – 90 days	<b>16,419</b>	3,977
Over 90 days	<b>43,150</b>	1,951
	<b>1,172,822</b>	29,805

**(b) Notes payable**

At 31 December 2008 and 31 December 2007, all notes payable have maturities of six months or less from 31 December.

**(c) Amounts due to related parties**

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

## 24. AMOUNT DUE TO AN ASSOCIATE

The amount due was unsecured, interest-free and repayable on demand. The associate becomes the Company's subsidiary during the year.

## 25. BANK BORROWINGS

	Note	2008 RMB'000	2007 RMB'000
Bank loans secured by the Group's assets	(a)	<b>323,373</b>	19,696
Bank loans guaranteed by the ultimate holding company	(b)	<b>225,000</b>	–
Other bank loans	(c)	<b>140,000</b>	–
Collateralised borrowings, secured	(d)	<b>84,216</b>	–
		<b>772,589</b>	19,696

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

	2008 RMB'000	2007 RMB'000
On demand or within one year	<b>685,589</b>	19,696
In the second year	<b>87,000</b>	–
	<b>772,589</b>	19,696
Less: amounts due within one year shown under current liabilities	<b>(685,589)</b>	(19,696)
	<b>87,000</b>	–

Note:

- (a) These bank loans, together with notes payable, are secured by the Group's property, plant and equipment of RMB911,768,000 (2007: Nil), prepaid land lease payments of RMB472,605,000 (2007: Nil), notes receivable of RMB14,233,000 (2007: RMB19,696,000) (note 20(b)), inventories of RMB15,417,000 (2007: Nil) and bank deposits of RMB800,055,000 (2007: Nil) and carry interest at 2.5% to 7.47% (2007: 3.18%) per annum.
- (b) These bank loans are guaranteed by the Company's ultimate holding Company and carry interest at 6.03% to 7.84% per annum.
- (c) Other bank loans represent bank loans obtained by a subsidiary of the Company which are guaranteed by its fellow subsidiary with the Group and carry interest at 5.31% to 7.47% per annum.
- (d) Collateralised borrowings are secured by bank deposits of RMB53,893,000 and trade receivables of RMB184,663,000. Collateralised borrowings carry interest at 4.78% per annum.

Of the above total bank borrowings, approximately RMB365,449,000 (2007: RMB19,696,000) and RMB407,140,000 (2007: Nil) are fixed-rate bank borrowings and variable-rate bank borrowings respectively.

## 26. DEFERRED TAXATION

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

	<b>Undistributed profits of subsidiaries</b> RMB'000
Charge to income statement during the year and at 31 December 2008 (note 11)	8,018

Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries based on the expected dividends payout ratio of these PRC subsidiaries.

## 27. SHARE CAPITAL

	<b>Number of shares</b>	<b>Nominal value</b> RMB'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 1 January 2007	8,000,000,000	169,920
Creation of additional shares	4,000,000,000	76,800
At 31 December 2007 and 31 December 2008	12,000,000,000	246,720
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
At 1 January 2007	4,151,388,496	88,137
Issue of shares for cash	600,000,000	11,520
Shares issued upon conversion of convertible bonds	449,694,954	8,634
At 31 December 2007 and 1 January 2008	5,201,083,450	108,291
Change in functional currency	–	(8,430)
Issue of shares for acquisition of subsidiaries	1,288,672,000	22,681
At 31 December 2008	6,489,755,450	122,542

On 1 July 2008, the Company issued 1,288,672,000 ordinary shares at an issue price of HK\$0.89 per share (approximately RMB0.78), of which RMB22,681,000 was credited to share capital and the balance of RMB986,607,000 was credited to the share premium account, as consideration paid for the acquisition of additional interests in associates as set out in note 36.

## 28. RESERVES

### (a) Share premium

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

### (b) Statutory and staff welfare reserve

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

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

### (c) Capital reserve

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

### (d) Translation reserve

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

### (e) Share option reserve

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

### (f) Reserves of the Company

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB2,039,668,000 (2007: RMB1,157,573,000).

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB154,988,000 (2007: RMB50,912,000) which has been dealt with in the financial statements of the Company.

## 29. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2008, the Group acquired certain property, plant and equipment and prepaid land lease, of which RMB131,384,000 and RMB14,060,000 respectively have not yet been settled as at the balance sheet date.

During the year ended 31 December 2007, 449,694,954 ordinary shares were issued upon conversion of convertible bonds and were satisfied by transferring RMB419,943,000 from respective liability and embedded derivative components of the convertible bonds to share capital and share premium accordingly.

### 30. COMMITMENTS

#### Capital expenditure commitments

During the year ended 31 December 2007, the Group entered into agreements with various connected persons to acquire 44.19% of the remaining interests in each of the PRC associates from its respective controlling shareholder and its associates at the total consideration of approximately HK\$1,611 million to be satisfied fully by the issue of 1,288,672,000 ordinary shares of the Company of nominal value of HK\$0.02 each at HK\$1.25 per share. The acquisitions have been completed during the year (note 36). In addition, capital commitments contracted for but not provided for, net of deposits paid, in respect of property, plant and machinery and intangible assets outstanding as at 31 December 2008 amounted to RMB677,203,000 (2007: RMB67,852,000) and RMB13,947,000 (2007: Nil) respectively.

#### Operating lease commitments

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

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Within one year	<b>3,245</b>	2,017
In the second to fifth year inclusive	<b>2,600</b>	2,702
After five years	<b>6,500</b>	–
	<b>12,345</b>	4,719

Leases are negotiated and rental are fixed for an average term of two years.

### 31. RETIREMENT BENEFITS SCHEME

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

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

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 17% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group in respect of the retirement benefit scheme is to make the specified contributions.

For the year ended 31 December 2008, the aggregate employer's contributions made by the Group and charged to the income statement are RMB20,291,000 (2007: RMB935,000).



## 32. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme

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

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

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

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

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

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

Approximately 33% of the options will be automatically vested at the date of grant and the remaining 67% will be vested one year from the date of grant if the grantee remains as an employee of the Group.

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

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

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

**Equity-settled share option scheme** *(Continued)*

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

**2008**

	<b>Exercisable period</b>	<b>Exercise price per share HK\$</b>	<b>Outstanding at 1 January</b>	<b>Granted during the year</b>	<b>Outstanding at 31 December</b>
<b>Directors</b>					
Mr. Ang Siu Lun, Lawrence	23 February 2004 to 22 February 2009	0.95	35,000,000	–	35,000,000
	5 August 2005 to 4 August 2010	0.70	10,000,000	–	10,000,000
	8 May 2008 to 7 May 2013	0.92	–	6,000,000	6,000,000
Mr. Gui Sheng Yue	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
	8 May 2008 to 7 May 2013	0.92	–	8,000,000	8,000,000
Mr. Xu Gang	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Yang Jian	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
	8 May 2008 to 7 May 2013	0.92	–	8,000,000	8,000,000
Mr. Liu Jin Liang	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
	8 May 2008 to 7 May 2013	0.92	–	6,000,000	6,000,000
Mr. Yin Da Qing, Richard	5 August 2005 to 4 August 2010	0.70	16,000,000	–	16,000,000
	8 May 2008 to 7 May 2013	0.92	–	7,000,000	7,000,000
Mr. Zhao Jie	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
	8 May 2008 to 7 May 2013	0.92	–	6,000,000	6,000,000
Dr. Zhao Fuquan	28 November 2006 to 27 November 2011	0.89	12,000,000	–	12,000,000
	8 May 2008 to 7 May 2013	0.92	–	11,000,000	11,000,000

## 32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### Equity-settled share option scheme (Continued)

2008 (Continued)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Outstanding at 31 December
<b>Directors</b>					
Mr. Song Lin	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
	8 May 2008 to 7 May 2013	0.92	–	1,500,000	1,500,000
Mr. Lee Cheuk Yin, Dannis	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
	8 May 2008 to 7 May 2013	0.92	–	1,500,000	1,500,000
Mr. Yeung Sau Hung, Alex	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
	8 May 2008 to 7 May 2013	0.92	–	1,500,000	1,500,000
			181,000,000	56,500,000	237,500,000
<b>Employees</b>					
	5 August 2005 to 4 August 2010	0.70	86,600,000	–	86,600,000
	10 July 2006 to 16 May 2011	0.93	9,420,000	–	9,420,000
	28 November 2006 to 27 November 2011	0.89	3,000,000	–	3,000,000
	18 September 2007 to 17 September 2012	1.06	28,500,000	–	28,500,000
	8 May 2008 to 7 May 2013	0.92	–	141,900,000	141,900,000
	5 June 2008 to 4 June 2013	0.98	–	2,000,000	2,000,000
			308,520,000	200,400,000	508,920,000
			<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Weighted average exercise price per share			0.78	0.92	0.84
Weighted average remaining contractual life of options outstanding at 31 December 2008					2.75 years
Number of options exercisable at 31 December 2008					375,320,000
					<b>HK\$</b>
Weighted average exercise price per share of options exercisable at 31 December 2008					0.81

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

**Equity-settled share option scheme** *(Continued)*

2007

	<b>Exercisable period</b>	<b>Exercise price per share HK\$</b>	<b>Outstanding at 1 January</b>	<b>Granted/ (Cancelled) during the year</b>	<b>Outstanding at 31 December</b>
<b>Directors</b>					
Mr. Ang Siu Lun, Lawrence	23 February 2004 to 22 February 2009	0.95	35,000,000	–	35,000,000
	5 August 2005 to 4 August 2010	0.70	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Xu Gang	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Yang Jian	5 August 2005 to 4 August 2010	0.70	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5 August 2005 to 4 August 2010	0.70	16,000,000	–	16,000,000
Mr. Zhao Jie	5 August 2005 to 4 August 2010	0.70	18,000,000	–	18,000,000
Dr. Zhao Fuquan	28 November 2006 to 27 November 2011	0.89	12,000,000	–	12,000,000
Mr. Song Lin	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
Mr. Lee Cheuk Yin, Dannis	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
Mr. Yeung Sau Hung, Alex	10 July 2006 to 16 May 2011	0.93	1,000,000	–	1,000,000
			181,000,000	–	181,000,000

## 32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### Equity-settled share option scheme (Continued)

2007 (Continued)

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted/ (Cancelled) during the year	Outstanding at 31 December
<b>Employees</b>	5 August 2005 to 4 August 2010	0.70	88,500,000	(1,900,000)	86,600,000
	10 July 2006 to 16 May 2011	0.93	10,000,000	(580,000)	9,420,000
	28 November 2006 to 27 November 2011	0.89	3,000,000	–	3,000,000
	18 September 2007 to 17 September 2012	1.06	–	28,500,000	28,500,000
			282,500,000	26,020,000	308,520,000
			<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
	Weighted average exercise price per share		0.75	1.06	0.78
	Weighted average remaining contractual life of options outstanding at 31 December 2007				2.72 years
	Number of options exercisable at 31 December 2007				282,122,170
					<b>HK\$</b>
	Weighted average exercise price per share of options exercisable at 31 December 2007				0.75

One-third of options vested immediately upon the grant and the remaining options granted will vest after one year.

No options were exercised to subscribe for shares in the Company during the years.

During the year ended 31 December 2008, options were granted on 8 May 2008 and 5 June 2008. During the year ended 31 December 2007, options were granted on 18 September 2007. The estimated total fair values of the options granted in 2008 and 2007 are approximately RMB31,604,000 and RMB6,053,000 respectively.

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

**Equity-settled share option scheme** *(Continued)*

These fair values were calculated using the Black-Scholes-Merton Option pricing model. The inputs into the model were as follows:

Grant date	2008				2007	
	5 June 2008		8 May 2008		18 September 2007	
	(Lot 1)	(Lot 2)	(Lot 1)	(Lot 2)	(Lot 1)	(Lot 2)
Exercise price	<b>HK\$0.98</b>	<b>HK\$0.98</b>	<b>HK\$0.92</b>	<b>HK\$0.92</b>	HK\$1.06	HK\$1.06
Expected volatility	<b>47.12%</b>	<b>48.20%</b>	<b>45.74%</b>	<b>45.74%</b>	47.11%	47.11%
Expected life	<b>1.24 year</b>	<b>1.24 year</b>	<b>1.25 year</b>	<b>1.25 year</b>	1.2 year	1.2 year
Risk-free rate	<b>1.596%</b>	<b>2.204%</b>	<b>1.352%</b>	<b>1.352%</b>	3.873%	3.873%
Expected dividend yield	<b>1.35%</b>	<b>1.35%</b>	<b>1.41%</b>	<b>1.41%</b>	0.97%	0.97%

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

The Group recognised total expense of RMB26,909,000 for the year ended 31 December 2008 (2007: RMB5,241,000) in relation to share options granted by the Company.

During the year ended 31 December 2007, 280,020,000 share options carried forward from 31 December 2006 have been cancelled and re-issued under the same terms because the original share options issued have exceeded the mandate limit of the Scheme and therefore requiring independent shareholders' approval to refresh the Scheme mandate limit. Details of the cancellation and re-issue of share options have been set out in the Company's circular dated 13 July 2007.



### 33. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

#### (a) Transactions

Name of related parties	Nature of transactions	2008 RMB'000	2007 RMB'000
<b>Associates</b>			
Zhejiang Geely Automobile Company Limited* (浙江吉利汽車有限公司)	Sales of automobile parts and components	66,902	131,211
	Dividend income	84,993	176,124
Shanghai Maple Guorun Automobile Company Limited* (上海華普國潤汽車有限公司)	Dividend income	12,935	21,654
	Rental expense	2,264	–
Zhejiang Kingkong Automobile Company Limited* (浙江金剛汽車有限公司)	Dividend income	78,039	–
	Rental expense	240	230
Zhejiang Ruhoo Automobile Company Limited* (浙江陸虎汽車有限公司)	Dividend income	2,764	–
Manganese Bronze Holdings plc	Dividend income	2,910	2,963
<b>Related companies (Note 1)</b>			
Zhejiang Geely Merrie Automobile Company Limited (浙江吉利美日汽車有限公司)	Sales of complete knock down kits and sedan tool kits	1,376,434	–
	Sales of automobile parts and components	75,753	–
	Claims income on defected materials purchased	41,602	–
	Purchase of complete buildup unit	1,525,539	–
	Purchase of automobile parts and components	116	–
	Sub-contracting fee paid	1,791	–
	Claims paid on defected materials sold	43,954	–

\* These associates have become subsidiaries of the Company during the year as set out in note 36 to the financial statements

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

**(a) Transactions** *(Continued)*

<b>Name of related parties</b>	<b>Nature of transactions</b>	<b>2008 RMB'000</b>	2007 RMB'000
<b>Related companies</b> (Note 1)			
Shanghai Maple Automobile Company Limited (上海華普汽車有限公司)	Sales of complete knock down kits and sedan tool kits	<b>535,210</b>	–
	Sales of automobile parts and components	<b>9,935</b>	–
	Claims income on defected materials purchased	<b>13,964</b>	–
	Purchase of complete buildup unit	<b>550,680</b>	–
	Claims paid on defected materials sold	<b>16,936</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	<b>1,296,912</b>	–
	Sales of automobile parts and components	<b>809</b>	–
	Claims income on defected materials purchased	<b>36,852</b>	–
	Purchase of complete buildup unit	<b>1,830,444</b>	–
	Purchase of automobile parts and components	<b>393</b>	–
	Sub-contracting fee paid	<b>17,453</b>	–
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 defected materials purchased	<b>82,480</b>	–
	Purchase of automobile parts and components	<b>2,048,557</b>	–
	Claims paid on defected materials sold	<b>1,341</b>	–
Shanghai Maple Engine Company Limited (上海華普發動機有限公司)	Claims income on defected materials purchased	<b>17,986</b>	–
	Purchase of automobile parts and components	<b>532,203</b>	–

### 33. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

#### (a) Transactions *(Continued)*

Name of related parties	Nature of transactions	2008 RMB'000	2007 RMB'000
<b>Related companies</b> (Note 1)			
Zhejiang Economic Management College (浙江經濟管理專修學院)	Rental income	5,348	–
Zhejiang Guo Mei Decoration Materials Company Limited (浙江國美裝潢材料有限公司)	Rental expense	–	80
Ultimate holding company Zhejiang Geely Holding Group Company Limited (浙江吉利控股集團有限公司)	Rental income	230	–

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

Note 2: The Group does not have the automobile catalogue issued by the National Development Reform Commission in the PRC which is required to facilitate payment of the PRC consumption tax. The related parties referred to above have the relevant automobile catalogue licence and therefore the sales of complete knock down kits and sedan tool kits to and purchase of complete buildup unit from related parties as set out above have been presented on a net basis in the consolidated income statement (to the extent that they are back-to-back transactions) since the said related parties in effect only act as a channel to facilitate the payment of the PRC consumption tax. For the same reason, the related claims income from and claims expenses paid to these related parties have also been presented on a net basis as long as they are back-to-back transactions.

#### (b) Compensation of key management personnel

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

	2008 RMB'000	2007 RMB'000
Short-term benefits	7,686	6,833
Retirement benefits scheme contribution	72	62
Share-based payments	26,909	5,241
	<b>34,667</b>	12,136

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

#### (c) Pledge of assets

At 31 December 2008, certain prepaid land lease payments and property, plant and equipment with carrying amounts of RMB450,607,000 (2007: Nil) and RMB634,606,000 (2007: Nil) respectively have been pledged to secure banking facilities granted to the Company's ultimate holding company.

### 34. CAPITAL RISK MANAGEMENT

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

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

#### Gearing ratio

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

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

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Debt (i)	<b>1,060,856</b>	316,599
Equity (ii)	<b>4,197,862</b>	2,343,845
Debt to equity ratio	<b>25%</b>	14%

(i) Debt comprising borrowings and convertible bonds as detailed in notes 25 and 22 to the consolidated financial statements respectively.

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

The fluctuations in the gearing ratio is mainly due to the acquisition of additional interests in associates as set out in note 36 which have affected the capital structure of the Group.

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

#### Credit risk

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

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

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Credit risk (Continued)

As at 31 December 2007, financial assets at fair value through profit or loss represented investments held for trading and forward foreign exchange contracts not used for hedging. The forward foreign exchange contracts are with counterparties of sound credit standing (established banks).

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including financial assets at fair value through profit or loss, in the balance sheet after deducting any impairment allowance. In addition, as set out in note 33(c) to the consolidated financial statements, certain of the Group's assets have been pledged to secure banking facilities granted to the Company's ultimate holding company. The directors consider the Company's ultimate holding company has sufficient financial strength and the probability of default is low. The Group does not provide any other guarantees which would expose the Group to credit risk.

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

#### Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. As at 31 December 2008, the Group had net current liabilities. The directors are of the opinion that the Group will have sufficient cash flows generated from its operations in the short to medium terms.

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

	Weighted average effective interest rate %	Contractual maturities					Total		Total carrying amount as at 31 December RMB'000
		0 to 60 days RMB'000	61 to 90 days RMB'000	91 days to 1 year RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	undiscounted cash flows RMB'000		
<b>2008</b>									
<b>Loans and receivables</b>									
Trade receivables	-	120,225	522,182	13,113	-	-	655,520	655,520	
Notes receivable	-	306,994	339,191	550,509	-	-	1,196,694	1,196,694	
Other receivables	-	83,044	41,227	262	-	-	124,533	124,533	
Pledged bank deposit	4.78	853,948	-	-	-	-	853,948	853,948	
Bank balances and cash	3.78	849,408	40,248	-	-	-	889,656	889,408	
<b>Financial assets at fair value</b>									
<b>through profit or loss</b>	-	10,461	-	-	-	-	10,461	10,461	
		2,224,080	942,848	563,884	-	-	3,730,812	3,730,564	

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

**Liquidity risk** *(Continued)*

	Weighted average effective interest rate %	0 to 60 days RMB'000	61 to 90 days RMB'000	91 days to 1 year RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount as at 31 December RMB'000
<b>Financial liabilities at amortised cost</b>								
Trade payables	–	59,569	881,091	232,162	–	–	1,172,822	1,172,822
Notes payable	–	516,200	248,000	1,070,034	–	–	1,834,234	1,834,234
Other payables	–	172,961	53,123	372,722	–	–	598,806	598,806
Bank borrowings	6.88	56,965	98,809	553,066	87,000	–	795,840	772,589
Convertible bonds	11.73	–	322,069	–	–	–	322,069	288,267
<b>Financial liabilities at fair value through profit or loss</b>								
Convertible bonds – embedded derivatives (Note 2)	–	–	–	–	–	–	–	12,432
		805,695	1,603,092	2,227,984	87,000	–	4,723,771	4,679,150
<b>2007</b>								
<b>Loans and receivables</b>								
Trade receivables	–	17,578	–	–	–	–	17,578	17,578
Notes receivable	–	1,000	9,786	30,875	–	–	41,661	41,661
Dividend receivables from associates	–	3,418	–	–	–	–	3,418	3,418
Bank balances and cash	0.05	762,089	–	–	–	–	762,089	761,684
<b>Financial assets at fair value through profit or loss</b> (Note 1)								
	–	404	4,090	–	–	–	4,494	4,494
		784,489	13,876	30,875	–	–	829,240	828,835
<b>Financial liabilities at amortised cost</b>								
Trade payables	–	23,877	3,977	1,951	–	–	29,805	29,805
Amount due to an associate	–	122	–	–	–	–	122	122
Bank borrowings	3.18	20,321	–	–	–	–	20,321	19,696
Convertible bonds	6.76	–	–	–	–	305,194	305,194	296,903
<b>Financial liabilities at fair value through profit or loss</b>								
Convertible bonds – embedded derivatives (Note 2)	–	–	–	–	–	–	–	18,682
		44,320	3,977	1,951	–	305,194	355,442	365,208

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

Note 1: The financial assets at fair value through profit or loss in respect of forward foreign exchange contracts have been presented as net settlement.

Note 2: Convertible bonds – embedded derivatives do not incur net cash flows and its accounting policy has been set out in note 4(g) to the consolidated financial statements.

### Interest rate risk

The Group's fair value interest rate risk relates primarily to convertible bonds (note 22) and fixed-rate bank borrowings (note 25). The Group does not apply any derivatives to hedge the fair value interest rate risk.

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

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

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB3 million. Since the Group only had minimal variable-rate borrowings during the year ended 31 December 2007, sensitivity analysis on the exposure to interest rates has not been presented.

### Currency risk

Majority of the Group's sales and purchases are conducted with currencies that are denominated in a currency which is also the functional currency of the operations to which they relate. At 31 December 2007, the Group had forward foreign exchange contracts not used for hedging with a net fair value of RMB4,494,000 recognised as derivative financial instruments.

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

	2008			2007	
	Hong Kong dollars RMB'000	United States dollars RMB'000	British pounds RMB'000	United States dollars RMB'000	British pounds RMB'000
Bank balances and cash	50,190	70,133	4,181	270,807	42
Trade receivables	–	185,602	–	–	–
Notional amounts of foreign exchange contracts not used for hedging	–	–	–	130,201	–



### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

#### Currency risk *(Continued)*

As the Group is mainly exposed to the effects of fluctuation in United States dollars, the following table indicates the approximate change in the Group's profit after tax and retained earnings. The sensitivity analysis includes outstanding foreign currency denominated monetary items and foreign currency forward contracts not used for hedging, and adjusts their translation at the period end for a 5% change in foreign currency rate. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the below table represent an aggregation of the effects on each of the group entities' profit after tax and retained earnings measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

	<b>Impact of United States dollars</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Profit after tax/Retained earnings	<b>9,590</b>	9,681

#### Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (including derivative instruments and convertible bonds) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

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

	<b>2008</b>		2007	
	<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair value
	<b>RMB'000</b>	<b>RMB'000</b>	RMB'000	RMB'000
Convertible bonds	<b>288,267</b>	<b>323,799</b>	296,903	328,542

### 36. ACQUISITION OF SUBSIDIARIES

On 1 July 2008, the acquisition of additional interests in the associates of Zhejiang Geely Automobile Company Limited, Shanghai Maple Guorun Automobile Company Limited, Zhejiang Ruhoo Automobile Company Limited, Zhejiang Kingkong Automobile Company Limited and Hunan Geely Automobile Components Company Limited as set out in the circular dated 31 October 2007 and the announcement dated 4 July 2008 was completed. These PRC associates are incorporated in the PRC and engage in the manufacturing and sales of automobiles and related components in the PRC. The Company acquired additional 44.19% of the registered capital of these PRC associates. After the acquisition of additional interests, these PRC associates become 91% owned subsidiaries of the Company. The consideration paid is satisfied by the issuance of 1,288,672,000 ordinary shares of the Company. The net assets acquired in the transaction are as follows:

	<b>Acquiree's carrying amount before combination</b>	<b>Fair value adjustment</b>	<b>Fair value (note)</b>
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	2,800,094	–	2,800,094
Prepaid land leases	1,066,382	–	1,066,382
Intangible assets	342,681	–	342,681
Long-term investment	1,800	–	1,800
Goodwill	204,842	(204,842)	–
Trade and other receivables	3,233,688	–	3,233,688
Investments held for trading	10,571	–	10,571
Inventories	708,679	–	708,679
Cash and cash equivalents	1,472,499	–	1,472,499
Trade and other payables	(4,800,801)	–	(4,800,801)
Bank borrowings	(807,258)	–	(807,258)
Minority interests	(31,687)	–	(31,687)
	<u>4,201,490</u>	<u>(204,842)</u>	<u>3,996,648</u>
Minority interests			(359,698)
Excess of fair value of identifiable net assets acquired over cost			(339,835)
			<u>3,297,115</u>
Total consideration satisfied by:			
Fair value of the Company's shares issued			1,009,288
Cash			285,612
Carrying value of interest in associates			2,002,215
			<u>3,297,115</u>
Net cash inflow arising on acquisition:			
Cash consideration paid			(285,612)
Bank balances and cash acquired			1,472,499
			<u>1,186,887</u>

**36. ACQUISITION OF SUBSIDIARIES** *(Continued)*

Note: Other than the goodwill, the directors assessed that the differences between fair values and carrying amounts of other assets and liabilities are insignificant.

The fair value of the Company's ordinary shares issued are based on the quoted market price at the date of acquisition. Although the acquisition had been approved by the independent shareholders of the Company prior to 31 December 2007, the acquisition was only completed on 1 July 2008 when government approvals were obtained.

The excess of fair value of identifiable net assets acquired over cost arose in the business combination because the quoted market price of the Company's shares decreased significantly from the date of entering into formal contracts on acquisition to the completion date and there was no adjustment clause to the number of shares issued.

In addition, the net asset values of the associates have increased in respect of the operating profits during the period since the entering of sales and purchase agreement. Therefore, the Company agreed to pay additional cash compensation to the vendor.

The above acquirees contributed approximately RMB385 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been approximately RMB8,409 million, and profit for the year would have been approximately RMB1,166 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

### 37. BALANCE SHEET OF THE COMPANY

	2008 RMB'000	2007 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	253	544
Investments in subsidiaries	1	1
Investments in associates	89,710	192,620
	<b>89,964</b>	193,165
<b>Current assets</b>		
Other receivables	913	1,012
Amount due from subsidiaries	2,399,565	1,369,163
Dividend receivables from associates	–	2,963
Bank balances and cash	19,667	25,559
	<b>2,420,145</b>	1,398,697
<b>Current liabilities</b>		
Other payables	2,416	966
Convertible bonds	288,267	–
Convertible bonds – embedded derivatives	12,432	18,682
	<b>303,115</b>	19,648
<b>Net current assets</b>	<b>2,117,030</b>	1,379,049
<b>Total assets less current liabilities</b>	<b>2,206,994</b>	1,572,214
<b>Capital and reserves</b>		
Share capital	122,542	108,291
Reserves	2,084,452	1,167,020
<b>Total equity</b>	<b>2,206,994</b>	1,275,311
<b>Non-current liabilities</b>		
Convertible bonds	–	296,903
	<b>2,206,994</b>	1,572,214

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**38. SUBSIDIARIES**

Details of the Company's subsidiaries at 31 December 2008 are as follows:

Name of company	Place of incorporation/registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
Centurion Industries Limited	British Virgin Islands	USD1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
吉利國際貿易有限公司 Geely International Limited	Hong Kong	HK\$2	100%	–	Inactive
浙江福林國潤汽車零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD15,959,200	–	100%	Research, production, marketing and sales of automobile parts and related components in the PRC
Linkstate Overseas Limited	British Virgin Islands	USD1	100%	–	Inactive
Luckview Group Limited	British Virgin Islands	USD1	100%	–	Investment holding
Luck Empire Investment Limited 帝福投資有限公司	Hong Kong	HK\$1	–	100%	Investment holding
上海英倫帝華汽車部件有限公司 Shanghai LTI Automobile Components Company Limited^	PRC	USD54,297,150	–	51%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江金剛汽車零部件研究開發有限公司 Zhejiang Kingkong Automobile Parts & Components R&D Company Limited*	PRC	USD14,900,000	–	100%	Research and development of automobile parts and components in the PRC
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited^	PRC	USD231,008,000	–	91%	Research development production, marketing and sales of sedans and related automobile components in the PRC

### 38. SUBSIDIARIES (Continued)

Name of company	Place of incorporation/registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited <sup>^</sup>	PRC	USD99,763,600	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited <sup>#</sup>	PRC	RMB15,000,000	–	100%	Sales of automobile parts and components in the PRC
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited <sup>#</sup>	PRC	RMB20,000,000	–	100%	Marketing and sales of sedans in the PRC
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation <sup>#</sup>	PRC	RMB20,000,000	–	100%	Export of sedans outside the PRC
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited <sup>#</sup>	PRC	RMB30,000,000	–	100%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited <sup>#</sup>	PRC	RMB10,000,000	–	100%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited <sup>#</sup>	PRC	RMB20,000,000	–	100%	Marketing and sales of sedans in the PRC
浙江陸虎汽車有限公司 Zhejiang Ruhoo Automobile Company Limited <sup>^</sup>	PRC	RMB151,677,000	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC

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**38. SUBSIDIARIES** (Continued)

Name of company	Place of incorporation/registration and operations	Issued and fully paid share/registered capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
浙江金剛汽車有限公司 Zhejiang Kingkong Automobile Company Limited <sup>^</sup>	PRC	RMB235,000,000	–	91%	Research, development, production and sales of sedans and related automobile components in the PRC
浙江吉利變速器有限公司 Zhejiang Geely Gearbox Limited <sup>#</sup>	PRC	RMB10,000,000	–	90%	Production of automobile components in the PRC
湖南吉利汽車部件有限公司 Hunan Geely Automobile Components Company Limited <sup>^</sup>	PRC	USD25,000,000	–	91%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普汽車模具製造有限公司 Shanghai Maple Automobile Moulds Manufacturing Company Limited <sup>#</sup>	PRC	RMB40,000,000	–	100%	Production of moulds for automobile parts and components in the PRC
桂林吉星電子等平衡動力有限公司 Guilin Geely Stars Oil Electric Hybrid Engine Company Limited <sup>#</sup>	PRC	RMB80,000,000	–	70%	Research and development of electric hybrid engines in the PRC
浙江遠景汽配有限公司 Zhejiang Vision Auto-parts Fittings Company Limited <sup>#</sup>	PRC	RMB50,000,000	–	100%	Procurement of automobile parts and components in the PRC
曲阜凱倫汽車零部件製造有限公司 <sup>@</sup> Qufu Kailun Automobile Parts and Components Manufacturing Company Limited <sup>#</sup>	PRC	RMB20,000,000	–	50%	Research, development and production of automobile parts and components in the PRC



### 38. **SUBSIDIARIES** *(Continued)*

- \* The Company's subsidiary in the PRC is wholly foreign-owned enterprise established for a period of 30 to 50 years.
- ^ The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30-50 years.
- @ The Company has control over this subsidiary through contractual agreement with the minority shareholder.
- # Translation of registered name in Chinese for identification purpose

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

### 39. **POST BALANCE SHEET EVENT**

On 27 March 2009, the Company entered into agreement with an independent third party to acquire the business of designing, developing and manufacturing automatic and manual automotive transmissions in Australia from the independent third party. The consideration is cash of A\$47.4 million (approximately RMB226.2 million) plus adjustment on working capital to be determined on completion date. Total consideration is not expected to exceed approximately A\$58 million (approximately RMB276.9 million). Details of the proposed acquisition have been set out in the Company's announcement dated 27 March 2009. Up to the date of these financial statements, the proposed acquisition has not been completed.

**EXECUTIVE DIRECTORS:**

Mr. Li Shu Fu (*Chairman*)  
Mr. Yang Jian (*Vice Chairman*)  
Mr. Gui Sheng Yue  
(*Chief Executive Officer*)  
Mr. Ang Siu Lun, Lawrence  
Mr. Yin Da Qing, Richard  
Mr. Liu Jin Liang  
Mr. Zhao Jie  
Dr. Zhao Fuquan

**NON-EXECUTIVE DIRECTOR:**

Mr. Xu Gang

**INDEPENDENT  
NON-EXECUTIVE DIRECTORS:**

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

**AUDIT COMMITTEE:**

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

**REMUNERATION  
COMMITTEE:**

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

**COMPANY SECRETARY:**

Mr. Cheung Chung Yan, David

**AUDITORS:**

Grant Thornton

**LEGAL ADVISORS IN  
HONG KONG:**

Sidley Austin  
Preston Gates Ellis

**LEGAL ADVISOR ON  
CAYMAN ISLANDS LAW:**

Maples and Calder

**PRINCIPAL BANKERS:**

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(Hong Kong) Limited  
The Hong Kong and Shanghai  
Banking Corporation Limited

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**INVESTOR & MEDIA  
RELATIONS:**

Prime International Consultants  
Limited

**DESIGN & PRODUCTION:**

HeterMedia Services Limited

**LISTING INFORMATION:**

The Stock Exchange of Hong Kong  
Limited  
Stock Code: 0175

**COMPANY'S WEBSITE:**

<http://www.geelyauto.com.hk>



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