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GEELY

吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 175)

FINANCIAL HIGHLIGHTS:

| | Year ended 31 December | | Change % |
|---|------------------------|------------------------|-------------|
| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> | |
| Revenue | 53,721,576 | 30,138,256 | 78 |
| Other income | 1,131,401 | 1,066,007 | 6 |
| Share-based payments | (42,192) | (61,875) | (32) |
| Gain on disposal of interests in joint ventures | 374,420 | – | N/A |
| Profit for the year | 5,170,188 | 2,288,662 | 126 |
| Profit attributable to equity holders of the Company | 5,112,398 | 2,260,529 | 126 |
| Earnings per share | | | |
| Basic (RMB cents) | 57.96 | 25.68 | 126 |
| Diluted (RMB cents) | 57.33 | 25.66 | 123 |
| Proposed final dividend (per ordinary share) (HK\$) | 0.12 | 0.038 | 216 |

The Board decides to recommend payment of a final dividend of HK\$0.12 per ordinary share (2015: HK\$0.038 per ordinary share), and such proposal is subject to approval by shareholders at the annual general meeting of the Company to be held on Thursday, 25 May 2017 at 4:00 p.m. (Hong Kong Time).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

| | | 2016 | 2015 |
|---|-------------|------------------------------|-----------------------|
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 5 | 53,721,576 | 30,138,256 |
| Cost of sales | | <u>(43,879,859)</u> | <u>(24,667,603)</u> |
| Gross profit | | 9,841,717 | 5,470,653 |
| Other income | 6 | 1,131,401 | 1,066,007 |
| Distribution and selling expenses | | (2,502,713) | (1,567,935) |
| Administrative expenses, excluding share-based payments | | (2,559,915) | (2,175,600) |
| Share-based payments | | (42,192) | (61,875) |
| Finance costs, net | 8(a) | (30,105) | (6,440) |
| Share of profits of associates | | 31,014 | 41,503 |
| Share of results of joint ventures | | (39,684) | 108,492 |
| Gain on disposal of interests in joint ventures | 18 | <u>374,420</u> | <u>–</u> |
| Profit before taxation | 8 | 6,203,943 | 2,874,805 |
| Taxation | 7 | <u>(1,033,755)</u> | <u>(586,143)</u> |
| Profit for the year | | <u>5,170,188</u> | <u>2,288,662</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 5,112,398 | 2,260,529 |
| Non-controlling interests | | <u>57,790</u> | <u>28,133</u> |
| | | <u>5,170,188</u> | <u>2,288,662</u> |
| Earnings per share | | | |
| Basic | 10 | <u>RMB57.96 cents</u> | <u>RMB25.68 cents</u> |
| Diluted | 10 | <u>RMB57.33 cents</u> | <u>RMB25.66 cents</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|-------------------------|-------------------------|
| Profit for the year | 5,170,188 | 2,288,662 |
| Other comprehensive (loss)/income (after tax of RMBNil) for the year: | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations recognised | <u>(224,910)</u> | <u>90,804</u> |
| Total comprehensive income for the year | <u>4,945,278</u> | <u>2,379,466</u> |
| Attributable to: | | |
| Equity holders of the Company | 4,889,561 | 2,350,333 |
| Non-controlling interests | <u>55,717</u> | <u>29,133</u> |
| | <u>4,945,278</u> | <u>2,379,466</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

| | <i>Note</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|-------------|---------------------------------|--------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 10,650,313 | 8,034,427 |
| Intangible assets | | 6,461,809 | 5,260,241 |
| Land lease prepayments | | 2,002,895 | 1,537,713 |
| Goodwill | | 6,916 | 2,584 |
| Interests in associates | | 304,686 | 284,774 |
| Interests in joint ventures | | 697,330 | 1,709,081 |
| Available-for-sale financial assets | | 21,779 | 21,650 |
| Deferred tax assets | <i>15</i> | 188,107 | 94,138 |
| | | <u>20,333,835</u> | <u>16,944,608</u> |
| Current assets | | | |
| Land lease prepayments | | 42,875 | 37,001 |
| Inventories | | 3,065,807 | 1,226,169 |
| Trade and other receivables | <i>11</i> | 29,040,631 | 14,836,439 |
| Financial assets at fair value through profit or loss | | – | 17,118 |
| Income tax recoverable | | 14,891 | 23,666 |
| Pledged bank deposits | | 39,304 | 40,533 |
| Bank balances and cash | | 15,045,493 | 9,166,926 |
| | | <u>47,249,001</u> | <u>25,347,852</u> |
| Current liabilities | | | |
| Trade and other payables | <i>12</i> | 39,778,994 | 20,114,371 |
| Bank borrowings | | 174,375 | – |
| Income tax payable | | 676,830 | 334,883 |
| | | <u>40,630,199</u> | <u>20,449,254</u> |
| Net current assets | | <u>6,618,802</u> | <u>4,898,598</u> |
| Total assets less current liabilities | | <u><u>26,952,637</u></u> | <u><u>21,843,206</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | <i>13</i> | 162,708 | 161,354 |
| Reserves | | 24,274,519 | 19,362,462 |
| Equity attributable to equity holders of the Company | | 24,437,227 | 19,523,816 |
| Non-controlling interests | | 249,022 | 215,707 |
| Total equity | | <u>24,686,249</u> | <u>19,739,523</u> |
| Non-current liabilities | | | |
| Senior notes | <i>14</i> | 2,068,316 | 1,928,856 |
| Deferred tax liabilities | <i>15</i> | 198,072 | 174,827 |
| | | <u>2,266,388</u> | <u>2,103,683</u> |
| | | <u><u>26,952,637</u></u> | <u><u>21,843,206</u></u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Attributable to equity holders of the Company | | | | | | | Sub-total | Non-controlling interests | Total |
|--|---|------------------|-----------------|-------------------|---------------------|----------------------|---------------------|-------------------|---------------------------|-------------------|
| | Share capital | Share premium | Capital reserve | Statutory reserve | Translation reserve | Share option reserve | Accumulated profits | | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2015 | <u>161,346</u> | <u>5,815,964</u> | <u>164,790</u> | <u>106,113</u> | <u>(5,120)</u> | <u>549,723</u> | <u>10,495,180</u> | <u>17,287,996</u> | <u>178,354</u> | <u>17,466,350</u> |
| Profit for the year | - | - | - | - | - | - | 2,260,529 | 2,260,529 | 28,133 | 2,288,662 |
| Other comprehensive income: | | | | | | | | | | |
| Exchange differences on translation of foreign operations recognised | - | - | - | - | 89,804 | - | - | 89,804 | 1,000 | 90,804 |
| Total comprehensive income for the year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>89,804</u> | <u>-</u> | <u>2,260,529</u> | <u>2,350,333</u> | <u>29,133</u> | <u>2,379,466</u> |
| Transactions with owners: | | | | | | | | | | |
| Transfer of reserves | - | - | - | 12,880 | - | - | (17,174) | (4,294) | - | (4,294) |
| Share issued under share option scheme | 8 | 2,502 | - | - | - | (775) | - | 1,735 | - | 1,735 |
| Capital contribution from non-controlling interests | - | - | - | - | - | - | - | - | 8,931 | 8,931 |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | 309 | 309 |
| Equity settled share-based payments | - | - | - | - | - | 61,875 | - | 61,875 | - | 61,875 |
| Transfer upon forfeiture of share options | - | - | - | - | - | (37,861) | 37,861 | - | - | - |
| Dividends paid to equity holders of the Company (note 9) | - | - | - | - | - | - | (173,829) | (173,829) | - | (173,829) |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | (1,020) | (1,020) |
| Total transactions with owners | <u>8</u> | <u>2,502</u> | <u>-</u> | <u>12,880</u> | <u>-</u> | <u>23,239</u> | <u>(153,142)</u> | <u>(114,513)</u> | <u>8,220</u> | <u>(106,293)</u> |
| Balance at 31 December 2015 | <u>161,354</u> | <u>5,818,466</u> | <u>164,790</u> | <u>118,993</u> | <u>84,684</u> | <u>572,962</u> | <u>12,602,567</u> | <u>19,523,816</u> | <u>215,707</u> | <u>19,739,523</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

| | Attributable to equity holders of the Company | | | | | | | Sub-total RMB'000 | Non- controlling interests RMB'000 | Total RMB'000 |
|---|---|-----------------------------|-------------------------------|---------------------------------|-----------------------------------|------------------------------------|-----------------------------------|--------------------------|---|--------------------------|
| | Share capital RMB'000 <i>(note 13)</i> | Share premium RMB'000 | Capital reserve RMB'000 | Statutory reserve RMB'000 | Translation reserve RMB'000 | Share option reserve RMB'000 | Accumulated profits RMB'000 | | | |
| Balance at 1 January 2016 | <u>161,354</u> | <u>5,818,466</u> | <u>164,790</u> | <u>118,993</u> | <u>84,684</u> | <u>572,962</u> | <u>12,602,567</u> | <u>19,523,816</u> | <u>215,707</u> | <u>19,739,523</u> |
| Profit for the year | - | - | - | - | - | - | 5,112,398 | 5,112,398 | 57,790 | 5,170,188 |
| Other comprehensive loss: | | | | | | | | | | |
| Exchange differences on translation of foreign operations recognised | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(222,837)</u> | <u>-</u> | <u>-</u> | <u>(222,837)</u> | <u>(2,073)</u> | <u>(224,910)</u> |
| Total comprehensive income for the year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(222,837)</u> | <u>-</u> | <u>5,112,398</u> | <u>4,889,561</u> | <u>55,717</u> | <u>4,945,278</u> |
| Transactions with owners: | | | | | | | | | | |
| Transfer of reserves | - | - | - | 51,427 | - | - | (62,292) | (10,865) | - | (10,865) |
| Share issued under share option scheme | 1,354 | 393,859 | - | - | - | (121,731) | - | 273,482 | - | 273,482 |
| Disposal of subsidiaries <i>(note 16)</i> | - | - | - | - | - | - | - | - | (1,214) | (1,214) |
| Equity settled share-based payments | - | - | - | - | - | 42,192 | - | 42,192 | - | 42,192 |
| Transfer upon forfeiture of share options | - | - | - | - | - | (14,709) | 14,709 | - | - | - |
| Dividends paid to equity holders of the Company <i>(note 9)</i> | - | - | - | - | - | - | (280,959) | (280,959) | - | (280,959) |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | (21,188) | (21,188) |
| Total transactions with owners | <u>1,354</u> | <u>393,859</u> | <u>-</u> | <u>51,427</u> | <u>-</u> | <u>(94,248)</u> | <u>(328,542)</u> | <u>23,850</u> | <u>(22,402)</u> | <u>1,448</u> |
| Balance at 31 December 2016 | <u><u>162,708</u></u> | <u><u>6,212,325</u></u> | <u><u>164,790</u></u> | <u><u>170,420</u></u> | <u><u>(138,153)</u></u> | <u><u>478,714</u></u> | <u><u>17,386,423</u></u> | <u><u>24,437,227</u></u> | <u><u>249,022</u></u> | <u><u>24,686,249</u></u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | <i>Note</i> | 2016 RMB'000 | 2015 RMB'000 |
|--|-------------|-------------------------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before taxation | | 6,203,943 | 2,874,805 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 1,654,261 | 1,142,678 |
| Interest income | 8(a) | (85,429) | (96,909) |
| Finance costs | 8(a) | 115,534 | 103,349 |
| Share of profits of associates | | (31,014) | (41,503) |
| Share of results of joint ventures | | 39,684 | (108,492) |
| Gain on disposal of interests in joint ventures | 18 | (374,420) | – |
| Gain on deemed disposal of partial interest in a joint venture | 6 | – | (4,921) |
| Net loss/(gain) on disposal of property, plant and equipment | 8(c) | 42,727 | (4,092) |
| Loss on disposal of intangible assets | 8(c) | 1,047 | 22,567 |
| Net foreign exchange (gain)/loss | | (229,972) | 456,741 |
| Gain on disposal of subsidiaries | 16 | (1,277) | (62,879) |
| Unrealised gain on financial assets at fair value through profit or loss | 6 | – | (1,824) |
| Gain on disposal of financial assets at fair value through profit or loss | 6 | (491) | – |
| Bargain purchase gain arising from acquisition of a subsidiary | 6 | – | (139) |
| Equity settled share-based payments | | 42,192 | 61,875 |
| Write-down of inventories | 8(c) | 861 | 20,920 |
| Impairment loss on interest in an associate | 8(c) | 3,349 | – |
| Bad debts written off | 8(c) | 172,407 | – |
| Operating profit before working capital changes | | 7,553,402 | 4,362,176 |
| Inventories | | (1,847,667) | 515,161 |
| Trade and other receivables | | (12,740,277) | 1,930,510 |
| Trade and other payables | | 16,126,003 | 1,023,997 |
| Cash generated from operations | | 9,091,461 | 7,831,844 |
| Income taxes paid | | (753,702) | (423,018) |
| <i>Net cash generated from operating activities</i> | | 8,337,759 | 7,408,826 |

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|------|--------------------|--------------------|
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (486,262) | (1,570,519) |
| Proceeds from disposal of property, plant and equipment | | 75,899 | 233,012 |
| Proceeds from disposal of available-for-sale financial assets | | – | 16,120 |
| Addition of land lease prepayments | | (102,583) | (32,032) |
| Proceeds from disposal of land lease prepayments | | – | 4,506 |
| Addition of intangible assets | | (2,655,180) | (2,106,126) |
| Proceeds from disposal of intangible assets | | 12,625 | 445,627 |
| Government grants received | | 757,643 | 237,677 |
| Change in pledged bank deposits | | 1,229 | 6,918 |
| Net cash outflow on acquisition of subsidiaries | | (1,383,779) | (1,133,929) |
| Net cash inflow/(outflow) on disposal of subsidiaries | | 9,670 | (3,047) |
| Investment in a joint venture | | – | (720,000) |
| Proceeds from disposal of interests in joint ventures | | 1,110,231 | – |
| Acquisition of available-for-sale financial assets | | – | (9,500) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 17,609 | – |
| Interest received | | 85,429 | 96,909 |
| | | <u>(2,557,469)</u> | <u>(4,534,384)</u> |
| <i>Net cash used in investing activities</i> | | | |
| Cash flows from financing activities | | | |
| Dividends paid | 9(b) | (280,959) | (173,829) |
| Dividend paid to non-controlling interests | | (21,188) | (1,020) |
| Proceeds from issuance of shares upon exercise of share options | 13 | 273,482 | 1,735 |
| Capital contribution from non-controlling interests | | – | 8,931 |
| Proceeds from bank borrowings | | 325,500 | – |
| Repayments of bank borrowings | | (162,750) | (691,616) |
| Interest paid | | (104,627) | (74,996) |
| | | <u>29,458</u> | <u>(930,795)</u> |
| <i>Net cash generated from/(used in) financing activities</i> | | | |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the year | | 5,809,748 | 1,943,647 |
| Effect of foreign exchange rate changes | | 9,166,926 | 7,203,176 |
| | | <u>68,819</u> | <u>20,103</u> |
| Cash and cash equivalents at the end of the year, represented by bank balances and cash | | <u>15,045,493</u> | <u>9,166,926</u> |

NOTES

For the year ended 31 December 2016

(Amounts expressed in thousands of RMB, unless otherwise stated)

1. GENERAL INFORMATION

Geely Automobile Holdings Limited (“**the Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**SEHK**”). As at 31 December 2016, the directors consider the immediate parent of the Company to be Proper Glory Holding Inc., which is incorporated in British Virgin Islands (the “**BVI**”). The ultimate holding company of the Company is Zhejiang Geely Holding Group Company Limited, which is incorporated in the People’s Republic of China (the “**PRC**”) and is beneficially owned by Mr. Li Shu Fu and his associate.

2. STATEMENT OF COMPLIANCE

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

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

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

3. ADOPTION OF NEW AND AMENDED HKFRSs

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

Issued but not yet effective HKFRSs

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

| | |
|---------------------------------------|---|
| Amendments to HKAS 7 | Statement of cash flows: Disclosure Initiative ¹ |
| HKFRS 9 | Financial Instruments ² |
| HKFRS 15 | Revenue from Contracts with Customers ² |
| HKFRS 16 | Leases ³ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |

- ¹ Effective for annual periods beginning on or after 1 January 2017
- ² Effective for annual periods beginning on or after 1 January 2018
- ³ Effective for annual periods beginning on or after 1 January 2019
- ⁴ Effective date not yet determined

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. Except for the adoption of HKFRS 9 “Financial Instruments”, HKFRS 15 “Revenue from Contracts with Customers” and HKFRS 16 “Leases” of which directors are assessing the impact on the results and financial position of the Group, the directors anticipate that the adoption of the other new and revised HKFRSs is unlikely to have a significant impact on the consolidated financial statements.

4. SEGMENT INFORMATION

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

Geographical information

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

| | 2016 <i>RMB’000</i> | 2015 <i>RMB’000</i> |
|--|------------------------|------------------------|
| Revenue from external customers | | |
| PRC | 52,287,552 | 28,301,651 |
| Europe | 194,729 | 571,751 |
| Middle East | 583,354 | 252,448 |
| Africa | 236,041 | 537,520 |
| Central and South America | 217,672 | 185,181 |
| Other countries | 202,228 | 289,705 |
| | <u>53,721,576</u> | <u>30,138,256</u> |
| Specified non-current assets | | |
| Hong Kong, place of domicile | 531 | 892 |
| PRC | 20,052,451 | 16,750,055 |
| Other countries | 70,967 | 77,873 |
| | <u>20,123,949</u> | <u>16,828,820</u> |

5. REVENUE

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

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

6. OTHER INCOME

| | 2016 <i>RMB’000</i> | 2015 <i>RMB’000</i> |
|---|------------------------|------------------------|
| Unrealised gain on financial assets at fair value through profit or loss | – | 1,824 |
| Rental income (<i>note a</i>) | 22,847 | 20,512 |
| Gain on disposal of financial assets at fair value through profit or loss | 491 | – |
| Gain on disposal of scrap materials | 8,705 | 52,745 |
| Gain on disposal of subsidiaries | 1,277 | 62,879 |
| Gain on deemed disposal of partial interest in a joint venture | – | 4,921 |
| Net gain on disposal of property, plant and equipment (<i>note b</i>) | – | 4,092 |
| Net foreign exchange gain | 242,480 | – |
| Bargain purchase gain arising from acquisition of a subsidiary | – | 139 |
| Government grants and subsidies (<i>note c</i>) | 802,283 | 847,290 |
| Sundry income | 53,318 | 71,605 |
| | <u>1,131,401</u> | <u>1,066,007</u> |

Notes:

- (a) Rental income net of outgoings for the year ended 31 December 2016 is RMB4,759,000 (2015: RMB6,999,000).
- (b) Net gain on disposal of property, plant and equipment included government grants received of RMB231,773,000 (2015: RMB116,281,000).
- (c) Government grants and subsidies mainly relates to cash subsidies in respect of operating and research and development activities from government which are either unconditional grants or grants with conditions having been satisfied.

7. TAXATION

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---------------------------------------|-------------------------------|------------------------|
| Current tax: | | |
| PRC enterprise income tax | 1,131,039 | 592,848 |
| (Over)/Under-provision in prior years | <u>(26,560)</u> | <u>9,782</u> |
| | 1,104,479 | 602,630 |
| Deferred tax (<i>note 15</i>) | <u>(70,724)</u> | <u>(16,487)</u> |
| | <u>1,033,755</u> | <u>586,143</u> |

Hong Kong profits tax has not been provided as the Hong Kong incorporated companies within the Group had no estimated assessable profits in Hong Kong for the years ended 31 December 2016 and 2015.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year based on the existing legislation, interpretations and practises in respect thereof. The PRC enterprise income tax rate is 25% (2015: 25%).

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries obtained the High and New Technology Enterprises qualification. Accordingly, they enjoyed a preferential income tax rate of 15%.

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

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

| | 2016 | 2015 |
|--|-------------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before taxation | <u>6,203,943</u> | <u>2,874,805</u> |
| Tax at the PRC enterprise income tax rate of 25% (2015: 25%) | 1,550,986 | 718,701 |
| Tax effect of expenses not deductible in determining taxable profit | 56,047 | 11,973 |
| Tax effect of non-taxable income | (4,614) | (7,443) |
| Tax effect of unrecognised tax losses | 128,857 | 165,368 |
| Utilisation of previously unrecognised tax losses | (52,158) | (18,439) |
| Tax effect of different tax rates of entities operating in other jurisdictions | 27,046 | 56,363 |
| Deferred tax charge on distributable profits withholding tax (note 15) | 23,245 | 26,092 |
| Effect of tax concessions and lower tax rates for certain PRC subsidiaries | (669,094) | (376,254) |
| (Over)/Under-provision in prior years | <u>(26,560)</u> | <u>9,782</u> |
| Tax expense for the year | <u>1,033,755</u> | <u>586,143</u> |

The Group is also liable to withholding tax on dividends to be distributed from the Group's foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. Deferred tax liabilities of RMB23,245,000 (2015: RMB26,092,000) was recognised for the distributable profits not yet paid out as dividends that are generated by the PRC subsidiaries of the Company during the year.

8. PROFIT BEFORE TAXATION

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

| | 2016 RMB'000 | 2015 RMB'000 |
|--|------------------|------------------|
| (a) Finance income and costs | | |
| Finance costs | | |
| Effective interest expense on senior notes (<i>note 14</i>) | 4,658 | 4,232 |
| Coupon expense on senior notes | 106,999 | 99,063 |
| Interest on bank borrowings wholly repayable within five years | 3,877 | 54 |
| | <u>115,534</u> | <u>103,349</u> |
| Finance income | | |
| Bank and other interest income | (85,429) | (96,909) |
| | <u>30,105</u> | <u>6,440</u> |
| (b) Staff costs (including directors' emoluments) (<i>note a</i>) | | |
| Salaries, wages and other benefits | 2,637,856 | 1,694,240 |
| Retirement benefit scheme contributions | 180,739 | 127,954 |
| Equity settled share-based payments | 42,192 | 61,875 |
| | <u>2,860,787</u> | <u>1,884,069</u> |
| (c) Other items | | |
| Cost of inventories (<i>note a</i>) | 43,879,859 | 24,667,603 |
| Auditors' remuneration | 6,864 | 6,559 |
| Depreciation (<i>note a</i>) | 733,531 | 589,078 |
| Amortisation of land lease prepayments | 43,857 | 37,589 |
| Amortisation of intangible assets | 876,873 | 516,011 |
| Net loss/(gain) on disposal of property, plant and equipment (<i>note c</i>) | 42,727 | (4,092) |
| Loss on disposal of intangible assets (<i>note b</i>) | 1,047 | 22,567 |
| Net foreign exchange (gain)/loss | (242,480) | 472,092 |
| Net claims paid on defective materials purchased | 9,470 | 78,930 |
| Operating leases charges on premises | 22,463 | 18,892 |
| Research and development costs | 211,531 | 258,769 |
| Impairment loss on interest in an associate | 3,349 | – |
| Bad debts written off | 172,407 | – |
| Write-down of inventories | 861 | 20,920 |

Notes:

- (a) Cost of inventories includes RMB2,379,447,000 (2015: RMB1,581,125,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately for each of these types of expenses.
- (b) Loss on disposal of intangible assets included government grants received of RMB525,870,000 (2015: RMB121,396,000).
- (c) Net loss/(gain) on disposal of property, plant and equipment included government grants received of RMB231,773,000 (2015: RMB116,281,000).

9. DIVIDENDS

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Final dividend proposed after the reporting date of HK\$0.12 (2015: HK\$0.038) per ordinary share | <u>960,054</u> | <u>280,959</u> |

The final dividend proposed after the reporting date has not been recognised as a liability as at 31 December 2016.

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.038 (2015: HK\$0.025) per ordinary share | <u>280,959</u> | <u>173,829</u> |

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of RMB5,112,398,000 (2015: RMB2,260,529,000) and weighted average number of ordinary shares of 8,820,613,787 shares (2015: 8,801,663,773 shares), calculated as follows:

Weighted average number of ordinary shares

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Issued ordinary shares as at 1 January | 8,801,986,540 | 8,801,446,540 |
| Effect of shares options exercised | <u>18,627,247</u> | <u>217,233</u> |
| Weighted average number of ordinary shares as at 31 December | <u>8,820,613,787</u> | <u>8,801,663,773</u> |

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB5,112,398,000 (2015: RMB2,260,529,000) and the weighted average number of ordinary shares (diluted) of 8,917,049,937 shares (2015: 8,809,512,286 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

| | 2016 | 2015 |
|--|-----------------------------|----------------------|
| Weighted average number of ordinary shares (basic) as at 31 December | 8,820,613,787 | 8,801,663,773 |
| Effect of deemed issue of shares under the Company's share option scheme | <u>96,436,150</u> | <u>7,848,513</u> |
| Weighted average number of ordinary shares (diluted) as at 31 December 2016 | <u>8,917,049,937</u> | <u>8,809,512,286</u> |

11. TRADE AND OTHER RECEIVABLES

| | <i>Note</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|-------------|---------------------------------------|--------------------------------|
| Trade and notes receivables | | | |
| Trade receivables | | | |
| – Third parties | | 794,960 | 890,920 |
| – A joint venture | | – | 53,256 |
| – Associates | | 247,904 | 111,757 |
| – Related companies controlled by the substantial shareholder of the Company | | <u>194,496</u> | <u>537,203</u> |
| Notes receivables | (a) (b) | 1,237,360 <u>24,864,054</u> | 1,593,136 <u>10,203,692</u> |
| | | <u>26,101,414</u> | <u>11,796,828</u> |
| Deposit, prepayment and other receivables | | | |
| Prepayment to suppliers | | | |
| – Third parties | | 89,691 | 82,609 |
| – Related companies controlled by the substantial shareholder of the Company | | <u>376,129</u> | <u>750,645</u> |
| | | 465,820 | 833,254 |
| Deposits paid for acquisition of property, plant and equipment | | 355,077 | 558,920 |
| VAT and other taxes receivables | | 1,396,907 | 1,187,706 |
| Utility deposits and other receivables | | <u>454,657</u> | <u>370,875</u> |
| | | 2,672,461 | 2,950,755 |
| Amounts due from related parties controlled by the substantial shareholder of the Company | (c) | 27,345 | 62,605 |
| Amount due from ultimate holding company | (c) | 236,256 | 27 |
| Amount due from a joint venture | (d) | <u>3,155</u> | <u>26,224</u> |
| | | <u>2,939,217</u> | <u>3,039,611</u> |
| | | <u>29,040,631</u> | <u>14,836,439</u> |

(a) Trade receivables

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--------------|-------------------------------|-------------------------|
| 0 – 60 days | 441,619 | 275,711 |
| 61 – 90 days | 30,417 | 95,013 |
| Over 90 days | 50,288 | 745,188 |
| | <u>522,324</u> | <u>1,115,912</u> |

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---------------|-------------------------------|------------------------|
| 0 – 60 days | 295,659 | 178,886 |
| 61 – 90 days | 25,726 | 17,208 |
| 91 – 365 days | 237,934 | 125,509 |
| Over 365 days | 155,717 | 155,621 |
| | <u>715,036</u> | <u>477,224</u> |

As at 31 December 2016, 7% (2015: 24%) of the total trade receivables was due from the Group's five largest customers.

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|-----------------------|-------------------------------|------------------------|
| 1 – 30 days past due | 129,699 | 31,621 |
| 31 – 60 days past due | 65,569 | 95,737 |
| 61 – 90 days past due | 43,516 | 25,484 |
| Over 90 days past due | 258,094 | 785,053 |
| | <u>496,878</u> | <u>937,895</u> |

As at 31 December 2016, trade receivables of RMB740,482,000 (2015: RMB655,241,000) were neither past due nor impaired. These related to a large number of diversified customers for whom there was no recent history of default.

The Group does not charge interest on overdue balances. Included in the Group's trade receivables were receivables with a carrying amount of RMB496,878,000 (2015: RMB937,895,000) which were past due at the reporting date for which the Group has not provided for impairment loss. The Group held certain property, plant and equipment of an overseas customer with carrying amount of approximately USD9,535,000 (equivalent to approximately RMB68,263,000) as collateral over certain overdue balances for over 90 days amounted to RMB68,263,000 as at 31 December 2016 (2015: RMB199,277,000). The Group did not hold any collateral over the remaining balances. No impairment has been made to the trade receivables. Receivables that were past due but not impaired were mainly related to large corporations that have long trading history with the Group and therefore these debtors are considered to have good credit quality and the balances are still considered to be fully recoverable.

(b) Notes receivables

All notes receivables are denominated in RMB. As at 31 December 2016 and 2015, all notes receivables were guaranteed by established banks in the PRC and have maturities of less than six months from the reporting date.

As at 31 December 2016, none of the Group's notes receivables (2015: RMB23,365,000) were pledged to banks to secure the Group's notes payables (*note 12 (b)*).

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

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

(d) Amount due from a joint venture

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

Except for trade and other receivables of RMB146,263,000 (2015: RMB116,789,000) which is expected to be recovered after one year from the reporting date, all other trade and other receivables are expected to be recovered or recognised as an expense within one year.

12. TRADE AND OTHER PAYABLES

| | <i>Note</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|-------------|-------------------------------|------------------------|
| Trade and notes payables | | | |
| Trade payables | | | |
| – Third parties | | 21,083,397 | 9,001,560 |
| – Associates | | 1,627,710 | 737,199 |
| – Related parties controlled by the substantial shareholder of the Company | | <u>330,157</u> | <u>1,394,491</u> |
| | <i>(a)</i> | 23,041,264 | 11,133,250 |
| Notes payables | <i>(b)</i> | <u>99,540</u> | <u>71,655</u> |
| | | <u>23,140,804</u> | <u>11,204,905</u> |
| Other payables | | | |
| Receipts in advance from customers | | | |
| – Third parties | | 7,909,709 | 2,064,772 |
| – Related parties controlled by the substantial shareholder of the Company | | <u>723</u> | <u>234,574</u> |
| | | 7,910,432 | 2,299,346 |
| Deferred government grants which conditions have not been satisfied | | 1,572,863 | 2,737,519 |
| Payables for acquisition of property, plant and equipment | | 714,524 | 211,267 |
| Accrued staff salaries and benefits | | 514,534 | 419,020 |
| VAT and other taxes payables | | 85,063 | 171,957 |
| Other accrued charges | | <u>1,950,900</u> | <u>1,534,742</u> |
| | | 12,748,316 | 7,373,851 |
| Amounts due to related parties controlled by the substantial shareholder of the Company | <i>(c)</i> | 3,889,874 | 1,535,585 |
| Amount due to ultimate holding company | <i>(c)</i> | <u>–</u> | <u>30</u> |
| | | <u>16,638,190</u> | <u>8,909,466</u> |
| | | <u>39,778,994</u> | <u>20,114,371</u> |

(a) Trade payables

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

| | 2016 | 2015 |
|--------------|--------------------------|-------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 – 60 days | 20,638,859 | 8,746,578 |
| 61 – 90 days | 1,624,387 | 1,090,495 |
| Over 90 days | 778,018 | 1,296,177 |
| | <u>23,041,264</u> | <u>11,133,250</u> |

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

(b) Notes payables

All notes payables are denominated in RMB and are notes paid and/or payable to third parties for settlement of trade payables. As at 31 December 2016 and 2015, all notes payables have maturities of less than one year from the reporting date.

As at 31 December 2016, the Group pledged notes receivables and pledged bank deposits of RMB Nil (2015: RMB23,365,000) and RMB39,304,000 (2015: RMB40,533,000) respectively to secure the notes payables.

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

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

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

13. SHARE CAPITAL

| | 2016 | | 2015 | |
|--|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | Number of shares | Nominal value RMB'000 | Number of shares | Nominal value RMB'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.02 each | | | | |
| At 31 December | <u>12,000,000,000</u> | <u>246,720</u> | <u>12,000,000,000</u> | <u>246,720</u> |
| Issued and fully paid: | | | | |
| Ordinary shares of HK\$0.02 each | | | | |
| At 1 January | 8,801,986,540 | 161,354 | 8,801,446,540 | 161,346 |
| Shares issued under share option scheme (<i>note a</i>) | <u>80,875,000</u> | <u>1,354</u> | <u>540,000</u> | <u>8</u> |
| At 31 December | <u>8,882,861,540</u> | <u>162,708</u> | <u>8,801,986,540</u> | <u>161,354</u> |

Note:

- (a) During the year ended 31 December 2016, share options were exercised to subscribe for 80,875,000 ordinary shares (2015: 540,000 ordinary shares) of the Company at a consideration of approximately RMB273,482,000 (2015: RMB1,735,000) of which approximately RMB1,354,000 (2015: RMB8,000) was credited to share capital and approximately RMB272,128,000 (2015: RMB1,727,000) was credited to the share premium account. As a result of the exercise of share options, share option reserve of RMB121,731,000 (2015: RMB775,000) has been transferred to the share premium account.

14. SENIOR NOTES

On 6 October 2014, the Company issued senior notes with an aggregate principal amount of USD300,000,000 (equivalent to approximately RMB1,836,750,000) (the “**Senior Notes**”). The Senior Notes carry interest at 5.25% per annum, payable semi-annually in arrears on 6 April and 6 October, and will mature on 6 October 2019, unless redeemed earlier.

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

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

| Period | Redemption Price |
|---------------------|-------------------------|
| 2017 | 102.625% |
| 2018 and thereafter | 101.313% |

The carrying amount of the Senior Notes at initial recognition net of transaction costs amounted to USD296,311,000 (equivalent to approximately RMB1,814,165,000) and the effective interest rate is 5.54% per annum. The Senior Notes are carried at amortised cost and are not expected to be settled within one year.

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

| | 2016 | 2015 |
|------------------------|-------------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Carrying amount | | |
| At 1 January | 1,928,856 | 1,820,138 |
| Interest expenses | 4,658 | 4,232 |
| Exchange differences | 134,802 | 104,486 |
| | <u>2,068,316</u> | <u>1,928,856</u> |
| At 31 December | <u>2,068,316</u> | <u>1,928,856</u> |

The Senior Notes are subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements in senior notes. If the Group was to breach the covenants, the principal, and, accrued and unpaid interest of the Senior Notes would become payable on demand. The directors consider that none of the covenants had been breached as at 31 December 2016 and 2015.

15. DEFERRED TAX ASSETS AND LIABILITIES

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

| | 2016 | 2015 |
|---|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January | 80,689 | 97,026 |
| Exchange differences | - | 150 |
| Credit to the consolidated income statement (<i>note 7</i>) | (70,724) | (16,487) |
| | <u>9,965</u> | <u>80,689</u> |
| At 31 December | <u>9,965</u> | <u>80,689</u> |

Deferred tax assets

| | Unused tax losses <i>RMB'000</i> | Intangible assets <i>RMB'000</i> | Others <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|--|--|--------------------------|-------------------------|
| At 1 January 2015 | – | 18,114 | 33,595 | 51,709 |
| Exchange differences | – | – | (150) | (150) |
| Credit to the consolidated income statement | <u>28,144</u> | <u>13,547</u> | <u>888</u> | <u>42,579</u> |
| At 31 December 2015 and 1 January 2016 | 28,144 | 31,661 | 34,333 | 94,138 |
| (Charge)/Credit to the consolidated income statement | <u>(20,487)</u> | <u>94,378</u> | <u>20,078</u> | <u>93,969</u> |
| At 31 December 2016 | <u>7,657</u> | <u>126,039</u> | <u>54,411</u> | <u>188,107</u> |

Deferred tax liabilities

| | Withholding tax on undistributed profits from the PRC subsidiaries <i>RMB'000</i> |
|---|--|
| At 1 January 2015 | 148,735 |
| Net charge to the consolidated income statement (<i>note 7</i>) | <u>26,092</u> |
| At 31 December 2015 and 1 January 2016 | 174,827 |
| Net charge to the consolidated income statement (<i>note 7</i>) | <u>23,245</u> |
| At 31 December 2016 | <u>198,072</u> |

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Deferred tax assets recognised in the consolidated statement of financial position | (188,107) | (94,138) |
| Deferred tax liabilities recognised in the consolidated statement of financial position | <u>198,072</u> | <u>174,827</u> |
| Net deferred tax liabilities | <u><u>9,965</u></u> | <u><u>80,689</u></u> |

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities has been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries based on the expected dividends payout ratio of these PRC subsidiaries. Deferred tax liabilities have not been recognised in respect of temporary differences relating to the post-2007 profits earned by the PRC subsidiaries amounting to approximately RMB9,166,229,000 (2015: RMB8,577,099,000).

As at the reporting date, the Group has unused tax losses of approximately RMB2,209,828,000 (2015: RMB1,983,847,000) available for offset against future profits. Of the total tax losses, approximately RMB282,204,000 (2015: RMB352,000,000) may be carried forward for five years from the year of incurring the loss, and the remaining unrecognised tax losses have no expiry dates. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

16. DISPOSALS OF SUBSIDIARIES

Disposal of Zhejiang Shou La Shou Automobile Services Company Limited# (“Shou La Shou”) 浙江手拉手汽車服務有限公司 and Hangzhou Ha Man Automobile Services Company Limited# (“Ha Man”) 杭州哈曼汽車服務有限公司

On 28 January 2016, the Group entered into an equity transfer agreement with an independent third party for the disposal of the entire interests in Shou La Shou and Ha Man, the indirectly owned subsidiaries with 64.4% equity interest (the “Disposal”), which are engaged in sales of sedans and provision of automobile services. The Disposal was completed on the same date. The aggregate consideration for the Disposal was RMB2,110,000 and a gain on disposal of subsidiaries of RMB72,000 was recorded in “Other income” in the consolidated income statement. The carrying amount of total net assets disposed of and non-controlling interests at the disposal date were RMB3,147,000 and RMB1,109,000, respectively.

Disposal of Hangzhou Xuan Yu Human Resources Company Limited# (“Xuan Yu”) 杭州軒宇人力資源有限公司

In December 2016, the Group entered into an equity transfer agreement for the disposal of the entire interests in Xuan Yu, a wholly owned subsidiary, to a related party controlled by the substantial shareholder of the Company (“Xuan Yu Disposal”). Xuan Yu Disposal was completed on 26 December 2016. The consideration for Xuan Yu Disposal was RMB500,000 and a gain on disposal of subsidiaries of RMB154,000 was recorded in “Other income” in the consolidated income statement. The carrying amount of total net assets disposed of at the disposal date was RMB346,000.

Disposal of Zhejiang Geely Gearbox Limited[#] (“Zhejiang Gearbox”) 浙江吉利變速器有限公司

In December 2016, the Group entered into an equity transfer agreement for the disposal of 99% equity interest in Zhejiang Gearbox, an indirectly owned subsidiary with 99% equity interest, to an independent third party (“**Zhejiang Gearbox Disposal**”). Zhejiang Gearbox Disposal was completed on 30 December 2016. The consideration for Zhejiang Gearbox Disposal was RMB11,260,000 and a gain on disposal of subsidiaries of RMB1,051,000 was recorded in “Other income” in the consolidated income statement. The retained interest of 1% in Zhejiang Gearbox of RMB129,000 was recorded in “Available-for-sale financial assets” in the consolidated statement of financial position. The carrying amount of total net assets disposed of and non-controlling interests at the disposal date were RMB10,443,000 and RMB105,000, respectively.

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

17. BUSINESS COMBINATIONS

Baoji Geely Automobile Components Company Limited[#] (“Baoji Geely”) 寶雞吉利汽車部件有限公司

On 1 June 2016, Zhejiang Jirun Automobile Company Limited[#] (“**Jirun Automobile**”) 浙江吉潤汽車有限公司, a 99% owned subsidiary of the Company, and a fellow subsidiary owned by the Company’s ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Baoji Geely for a cash consideration of approximately RMB702,207,000. Baoji Geely is engaged in provision of research, development, production and marketing services and sales of sedans and related automobile components in the PRC. The acquisition of Baoji Geely was completed on 18 August 2016. Please refer to the Company’s circular dated 21 July 2016 for further details.

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

| | Baoji Geely <i>RMB'000</i> |
|--|--------------------------------------|
| The net assets acquired: | |
| Property, plant and equipment | 1,492,996 |
| Land lease prepayments | 189,180 |
| Trade and other receivables | 223,548 |
| Inventories | 3,362 |
| Bank balances and cash | 31,323 |
| Trade and other payables | <u>(1,241,361)</u> |
| | <u>699,048</u> |
| Goodwill arising on acquisition: | |
| Cash consideration transferred | 702,207 |
| Fair value of identifiable net assets acquired | <u>(699,048)</u> |
| | <u>3,159</u> |
| Net cash outflow arising on acquisition of a subsidiary: | |
| Cash consideration paid | (702,207) |
| Bank balances and cash acquired | <u>31,323</u> |
| | <u><u>(670,884)</u></u> |

There is no difference between the pre-acquisition carrying amounts and fair value of the assets acquired and liabilities recognised. No acquisition-related costs had been incurred in relation to the acquisition.

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

Baoji Geely has contributed revenue and loss totalling RMBNil and RMB132,090,000, respectively from the acquisition date to 31 December 2016.

If the acquisition had occurred on 1 January 2016, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2016 would be RMB53,721,576,000 and RMB5,165,979,000 respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2016 and could not serve as a basis for the forecast of future operation results.

Shanxi Geely Automobile Components Company Limited# (“Shanxi Geely”) 山西吉利汽車部件有限公司

On 1 June 2016, Jirun Automobile and a fellow subsidiary owned by the Company’s ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Shanxi Geely for a cash consideration of approximately RMB720,244,000. Shanxi Geely is engaged in provision of research, development, production and marketing services and sales of sedans and related automobile components in the PRC. The acquisition of Shanxi Geely was completed on 12 August 2016. Please refer to the Company’s circular dated 21 July 2016 for further details.

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

| | Shanxi Geely <i>RMB’000</i> |
|--|---|
| The net assets acquired: | |
| Property, plant and equipment | 1,029,426 |
| Intangible assets | 1,998 |
| Land lease prepayments | 223,150 |
| Trade and other receivables | 128,413 |
| Inventories | 1,554 |
| Bank balances and cash | 7,350 |
| Trade and other payables | <u>(672,820)</u> |
| | <u>719,071</u> |
| Goodwill arising on acquisition: | |
| Cash consideration transferred | 720,244 |
| Fair value of identifiable net assets acquired | <u>(719,071)</u> |
| | <u>1,173</u> |
| Net cash outflow arising on acquisition of a subsidiary: | |
| Cash consideration paid | (720,244) |
| Bank balances and cash acquired | <u>7,350</u> |
| | <u><u>(712,894)</u></u> |

There is no difference between the pre-acquisition carrying amounts and fair value of the assets acquired and liabilities recognised. No acquisition-related costs had been incurred in relation to the acquisition.

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

Shanxi Geely has contributed revenue and loss totalling RMBNil and RMB26,206,000, respectively from the acquisition date to 31 December 2016.

If the acquisition had occurred on 1 January 2016, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2016 would be RMB53,721,576,000 and RMB5,168,457,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2016 and could not serve as a basis for the forecast of future operation results.

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

18. GAIN ON DISPOSAL OF INTERESTS IN JOINT VENTURES

On 25 July 2016, the Company entered into a master disposal agreement with its ultimate holding company to dispose of the Group's entire interests in Kandi Electric Vehicles Group Co., Ltd.# (“**Kandi Electric**”) 康迪電動汽車集團有限公司 and Ninghai Zhidou Electric Vehicles Company Limited# (“**Ninghai Zhidou**”) 寧海知豆電動汽車有限公司 at an aggregate cash consideration of approximately RMB1,346,487,000, of which RMB725,413,000 and RMB621,074,000 are for the disposal of Kandi Electric and Ninghai Zhidou, respectively. The disposals were completed on 31 October 2016. The carrying amount of the Group's interests in Kandi Electric and Ninghai Zhidou at the disposal date were RMB512,381,000 and RMB459,686,000, respectively and a gain on disposal of interests in joint ventures of RMB374,420,000 was recognised in the consolidated income statement.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Our group's financial performance in 2016 surpassed the management's expectations with total revenue increased by 78.3% to RMB53.72 billion for the year ended 31 December 2016 as strong domestic sales volume growth more than offset the weaker exports. The mid-size A-segment sedan model "New Emgrand" remained our group's most popular model in terms of sales volume, accounting for 30.1% of our total sales volume in 2016. During the year, our group's average ex-factory selling price ("ASP") continued to improve, mainly driven by the improvement in product mix (i.e. higher proportion of higher-priced models). Total net profit of our group grew 125.9% from RMB2.29 billion in 2015 to RMB5.17 billion in 2016 due to the increase in overall sales volume, higher ASP and stable profit margin during the year. After accounting for non-controlling interests, our net profit attributable to shareholders was up 126.2% from 2015 to RMB5.11 billion in 2016. Diluted earnings per share was up 123.4% to RMB57.33 cents. During the year, our manufacturing operations continued to generate good operational cash inflow with our group's total cash level (bank balances and cash + pledged bank deposits) increasing 63.8% to RMB15.08 billion at the end of 2016.

Business Overview

China's passenger vehicle market recorded a robust growth in 2016, characterized by the continued strong growth in the demand for Sport Utility Vehicles ("SUVs"). This is despite the only modest sales growth rate for sedans. The sales volume of passenger vehicles from indigenous brands grew faster at 20.5% year-on-year ("YoY") in 2016, mainly driven by the growth in the sales volume of indigenous brand SUVs, compared with 14.9% YoY growth of the overall China's passenger vehicle market according to China Association of Automobile Manufacturers ("CAAM").

We further consolidated our leading position in China's indigenous brand sedan segment in 2016 as a result of the good response received by our existing and new A-segment sedan models. The launch of two highly successful new mid-size SUV models "Geely Boyue" (吉利博越) and "Vision SUV" during the year, significantly increased our market share in China's SUV market. As a result, we achieved a respectful 53.6% growth in domestic sales volume in 2016. Such strong sales volume growth in 2016 was also supported by our enhanced sales and marketing system in China. As a result of our strategy of taking a more conservative approach to contain financial risks in the export markets, our group's export sales volume posted a 15.4% YoY decline in 2016.

Our group sold a total of 765,970 units of vehicles in 2016, up 50.2% from 2015, of which 744,191 units were sold domestically, up 53.6% from 2015. The remaining 21,779 units or 2.8% of total sales volume were sold abroad, down 15.4% from 2015. Our five most popular models in 2016 included “New Emgrand”, “Vision” (and its successor – “New Vision”), “Geely Boyue” (吉利博越), “Geely Kingkong” and “Emgrand GS”, which together accounted for 79.9% of our group’s total sales volume in 2016.

Prospects

The year 2017 appears to be another stellar year for the Group given the continued strong demand for the new products launched in 2016, and its strong new products pipeline over the coming months. This coupled with the improved overall distribution capabilities in China as a result of the sales and marketing system restructuring started in late 2013, should enable the Group to maintain its strong sales momentum in the near future. However, pricing competition from the foreign joint venture brands should continue to intensify as most of foreign players are still trying hard to seize higher market shares in China. Other indigenous brands in China also improved their technologies, product quality and customer services substantially over the past few years, making their products more competitive and thus posting a major challenge to the Group’s plan to increase its market share in China. Further, the reduction of purchase tax subsidies for compact vehicles has been adjusted from 50% to 25% in 2017, which could potentially bring forward some vehicle demand from early 2017 to 2016 and affect sales performance of compact vehicles in early 2017.

The motor vehicle demand in the Group’s major export markets should stabilize at current low levels in 2017. Motor vehicle markets in Russia, Ukraine and Egypt have seen a material slowdown since 2014 due to uncertain political and social instability but unlikely to see a major recovery in the near future due to continued uncertain economic situation in these countries. We, however, expect vehicle demand in these countries to improve steadily over the next few years due to low level of sales over the past few years and thus the likelihood of strong accumulated vehicle demand to be released in the coming years. Despite the Group’s very low levels of sales in these countries over the past few years, the Group’s distribution system in these countries remain sound. This should allow the Group to benefit from any recovery of sales in these markets.

On the positive front, the Group’s overall competitiveness and management capabilities have strengthened significantly following the success of its strategic transformation to improve “Geely” brand image, product and service quality, technology and innovation, as reflected in the excellent market acceptance received by the Group’s recent new products, and the improved customer satisfactions shown in J.D. Power’s recent study on customer after-sales services. In addition, the Group’s financial position remained very strong as a result of good operational cash inflow. This should enable the Group to continue investing for the future so that it could respond to the rapid market changes more efficiently.

2017 should continue to see investments by the Group in the research and developments of vehicle quality and safety, new energy vehicle (“NEVs”) and smart car; and the applications of internet, computer and mobile communication technologies in its products and services in view of the increasing demand from consumers for vehicle products and services in these areas. The Group plans to launch two new compact SUV models in 2017 to further expand its market share in the SUV market segment following the successful launches of “Geely Boyue” (吉利博越) and “Vision SUV”. These new SUV models should enable the Group to generate additional sales volume in view of the continued rapid growth seen in SUV demand in China.

Further, the Group also plans to launch the first batch of new models built from Compact Modular Architecture (“CMA”) platform, which is jointly developed by Geely Holding and Volvo Car, under a new “Lynk&Co” brand in 2017. The CMA platform, the new “Lynk&Co” brand, and its new business model are key parts of the Group’s strategy to expand the Group’s sales beyond the China market, to improve its competitiveness against major international brands and thus to sustain longer-term growth.

According to CAAM, sales of NEVs in China achieved a robust growth in 2016 and is expected to continue the growth momentum in the years ahead. The Group plans to launch its first plugin-hybrid-electric vehicle (“PHEV”) and hybrid-electric vehicle (“HEV”) models in 2017 to offer more choices of energy-efficient vehicles to its consumers. More advanced powertrain, including high-performance turbocharged engines and more efficient and cost effective transmissions will also be installed in more existing models and most of its new models. Upgraded versions of existing major models to incorporate the Group’s latest advanced technologies and new design philosophy will also be offered to consumers thus further strengthening the Group’s product line in 2017. With the Group’s substantial investments in new technologies and innovations in the areas of light-weight technologies, advanced powertrain and NEVs over the past few years, the Group’s products have become far more environmentally friendly and fuel-efficient. The Group will continue to replace its old models with more sophisticated new models equipped with more advanced powertrain technologies in the near future. The new products offering should continue to support the Group’s overall sales volume growth in 2017. Further, the shift of preference on vehicle procurement by the Chinese Government towards more indigenous brand products should provide additional opportunities for the Group to further expand its sales.

Taking into account the Group’s strong new products pipeline for 2017 and the continued strong sales momentum of the Group’s latest new models, the Group’s board of directors set its sales volume target for the year of 2017 at 1,000,000 units, representing an increase of around 31% over 2016.

CAPITAL STRUCTURE AND TREASURY POLICIES

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and Hong Kong and the payment credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group’s strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, bank borrowings and fund raising exercises in the capital market. As at 31 December 2016, the Group’s shareholders’ funds amounted to approximately RMB24.4 billion (As at 31 December 2015: approximately RMB19.5 billion). The Company issued 80.875 million new ordinary shares upon exercise of share options during the year.

EXPOSURE TO FOREIGN EXCHANGE RISK

During the year, the Group's operations were principally related to domestic sales of automobiles and related automobile parts and components in the Mainland China and the Group's assets and liabilities were mainly denominated in Renminbi (RMB), the functional currency of the Group.

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group's current ratio (current assets/current liabilities) was about 1.16 (As at 31 December 2015: 1.24) and the gearing ratio of the Group was about 9.2% (As at 31 December 2015: 9.9%) which was calculated on the Group's total borrowings (including the 5-year US\$300 million 5.25% senior notes due 2019 ("Senior Notes") but excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests). As at 31 December 2016, the increase in receivables (in particular, the notes receivable) was (a) mainly due to steady recovery of the Group's domestic sales particularly in the fourth quarter of the current year (i.e. the traditional peak seasons for automobile industry) and the Group received huge amount of notes receivable from its customers during that period; and (b) thanks to the relatively low interest environment and strong net cash level, the Group did not opt to discount these notes receivable without recourse but wait to hold them until maturity during most of the times in 2016. In addition, in order to secure an adequate supply of automobile parts & components (in particular, steel, out-sourced engines and other high-end electronic parts & components) from the Group's supply chain during the peak season in the fourth quarter of 2016, the Group had to prepay these inventories to its suppliers towards the end of 2016. Separately, the increasing demand for the Group's new products also drove its dealers to pay in advance in order to secure adequate inventories at their sales premises at the year end. As at 31 December 2016, the receipts in advance from customers represented almost 19% (As at 31 December 2015: 11%) of the total current liabilities. Accordingly, the net effect of the above resulted in a slight decrease in current ratio at the end of year 2016 over the previous year.

Total borrowings (including Senior Notes but excluding trade and other payables) as at 31 December 2016 amounted to approximately RMB2.2 billion (As at 31 December 2015: approximately RMB1.9 billion) were mainly the Group's borrowings and Senior Notes. At the end of 2016, the majority of the Group's total borrowings were denominated in United States Dollars. They were well matched by currency mix of the Group's revenues from export business, which were mainly denominated in United States Dollars. For the borrowings, except for Senior Notes, they were unsecured, interest-bearing and repaid on maturity. The decrease in gearing ratio during the year was mainly due to the increase in equity as a result of profit attained by the Group during the year of 2016. 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 2016, the total number of employees of the Group was about 35,100 (As at 31 December 2015: 18,700). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

PROPOSED FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of HK\$0.12 per ordinary share for the year ended 31 December 2016. The proposed dividend payments are subject to approval by the shareholders of the Company at the annual general meeting to be held on Thursday, 25 May 2017 at 4:00 p.m. (Hong Kong Time). Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid in July 2017 to shareholders whose names shall appear on the register of members of the Company on 15 June 2017.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2017 to 25 May 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to establish entitlements of attending and voting at the forthcoming annual general meeting of the Company to be held on 25 May 2017, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. (Hong Kong Time) on 19 May 2017.

The register of members of the Company will be closed from 12 June 2017 to 15 June 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. (Hong Kong Time) on 9 June 2017.

CORPORATE GOVERNANCE

For the year ended 31 December 2016, the Company has complied with the code provisions ("CPs") of the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 to the Listing Rules, except for CPs A.2.7, A.6.5, A.6.7 and E.1.2.

CP A.2.7 provides that the chairman (the "**Chairman**") of the board of directors of the Company (the "**Board**") should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. Although the Chairman did not hold a meeting with the non-executive director and the independent non-executive directors without the presence of executive directors during the year, he has delegated the company secretary of the Company to gather any concerns and/or questions that the non-executive director and the independent non-executive directors might have and report to him for setting up follow-up meetings, whenever necessary.

CP A.6.5 provides that the Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. Although the Company did not host a continuous professional development session for the directors during the year, the Company has made necessary arrangements for the directors at its expense upon reasonable request to accommodate their development and refresh their knowledge and skills, so as to ensure that their contribution to the Board would remain informed and relevant. In this respect, the directors can submit their applications with details of the curriculum and the relevant course fees to the chief executive officer of the Company; once the training is considered acceptable, the course fees will be fully reimbursed when valid payment receipts are presented.

CP E.1.2 provides that the Chairman and the chairman of respective Board committees should attend the annual general meeting of the Company and CP A.6.7 stipulates that the independent non-executive directors and the non-executive director should attend the general meetings of the Company. If the Chairman could not attend the general meeting of the Company in person, he would assign an executive director, who does not have a material interest in the businesses contemplating in the meeting and should report to him on any enquiries the shareholders of the Company might have, to attend such general meeting on his behalf. Further, the Company would facilitate a conference call for the shareholders of the Company and the directors who are unable to attend in person (including the Chairman) to discuss any specific enquiries with respect to the businesses contemplating in the general meeting. Through these measures, views of shareholders of the Company would be properly communicated to the Board as a whole. In addition, the external auditor will be invited to attend the annual general meeting of the Company to answer questions about the conduct of the audit, the preparation and content of the auditor's report, accounting policies and auditor's independence.

To approve a continuing connected transaction in relation to the Volvo Financing Arrangements (details are set out in the Company's circular dated 28 January 2016), the Company held an extraordinary general meeting ("EGM") on 18 February 2016. Due to business commitment in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the meeting. Mr. Ang Siu Lun, Lawrence, the Company's financial adviser and the independent financial adviser attended and answered questions raised by the independent shareholders of the Company at the meeting physically. Mr. Lee Cheuk Yin, Dannis, Mr. Fu Yu Wu and Mr. An Qing Heng attended the meeting via conference call. To approve a discloseable and connected transaction in relation to the acquisitions of the Baoji Target and the Shanxi Target (details are set out in the Company's circular dated 21 July 2016), the Company held an EGM on 8 August 2016. Due to business commitment in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the meeting. Mr. Ang Siu Lun, Lawrence, Mr. Lee Cheuk Yin, Dannis, the Company's financial adviser and the independent financial adviser attended and answered questions raised by the independent shareholders of the Company at the meeting physically. Mr. Carl Peter Edmund Moriz Forster, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng, Mr. Wang Yang and another two executive directors attended the meeting via conference call. To approve a discloseable and connected transaction in relation to the disposal of equity interests in the Kandi JV and the Zhidou JV (details are set out in the Company's circular dated 23 September 2016), the Company held an EGM on 11 October 2016. Due to business commitment in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the meeting. Mr. Ang Siu Lun, Lawrence, Mr. Lee Cheuk Yin, Dannis, the Company's financial adviser and the independent financial adviser attended and answered questions raised by the independent shareholders of the Company at the meeting physically. Mr. Carl Peter Edmund Moriz Forster, Mr. An Qing Heng and another two executive directors attended the meeting via conference call. To approve the revision of annual caps and non-exempted continuing connected transactions (details are set out in the Company's circular dated 11 November 2016), the Company held an EGM on 28 November 2016. Due to business commitment in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the meeting. Mr. Ang Siu Lun, Lawrence, Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, the Company's financial adviser and the independent financial adviser attended and answered questions raised by the independent shareholders of the Company at the meeting physically. Mr. Carl Peter Edmund Moriz Forster, Mr. An Qing Heng and Mr. Wang Yang attended the meeting via conference call.

The Company held its annual general meeting on 27 May 2016. Due to business commitment in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the general meeting. Mr. Gui Sheng Yue, Mr. Ang Siu Lun, Lawrence, Mr. Lee Cheuk Yin, Dannis and the Company's external auditor attended and answered questions raised by the shareholders of the Company at the meeting physically. Mr. Carl Peter Edmund Moriz Forster, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng, Mr. Wang Yang and another executive director attended the meeting via conference call.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the consolidated results of the Group for the year ended 31 December 2016.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Thursday, 25 May 2017 at 4:00 p.m. (Hong Kong Time). A notice of the annual general meeting will be issued and delivered to shareholders of the Company in due course.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, Grant Thornton Hong Kong Limited (the "**Auditor**"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

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

Pursuant to the requirements of the Listing Rules regarding the reporting period, the 2016 annual report will set out all information disclosed in the annual results announcement for 2016 and will be disclosed on the websites of the Company (<http://www.geelyauto.com.hk>) and The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) on or before 30 April 2017.

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

Hong Kong, 22 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Li Shu Fu (Chairman), Mr. Yang Jian (Vice Chairman), Mr. Li Dong Hui, Daniel (Vice Chairman), Mr. Gui Sheng Yue (Chief Executive Officer), Mr. An Cong Hui, Mr. Ang Siu Lun, Lawrence and Ms. Wei Mei, the non-executive director of the Company is Mr. Carl Peter Edmund Moriz Forster, and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang.