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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Geely Automobile Holdings Limited, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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# GEELY

吉利汽車控股有限公司

## GEELY AUTOMOBILE HOLDINGS LIMITED

*(Incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

### CONTINUING CONNECTED TRANSACTIONS

Financial adviser to Geely Automobile Holdings Limited



Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders



A letter from the Independent Board Committee is set out on pages 62 to 63 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 64 to 149 of this circular. A notice convening the EGM to be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 22 December 2020 at 4:00 p.m. is set out on pages EGM-1 to EGM-5 of this circular. Whether or not you are able to attend and/or vote at the EGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's Hong Kong share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

#### PRECAUTIONARY MEASURES FOR THE EGM

Please see page ii of this document for measures being taken to prevent and control the spread of the New Coronavirus at the EGM, including:

- compulsory temperature checks
- recommended wearing of surgical face masks
- no distribution of corporate gifts and refreshments

**Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company encourages attendees to wear face masks and reminds Shareholders that they may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.**

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## PRECAUTIONARY MEASURES FOR THE EGM

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In view of the ongoing New Coronavirus and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius or any person wearing an electronic tracking wristband under quarantine order may be denied entry into the EGM venue or be required to leave the EGM venue.
- (ii) The Company encourages attendees to wear surgical face masks inside the EGM venue at all times, and to maintain a safe distance between seats.
- (iii) No refreshments will be served, and there will be no corporate gifts.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using forms of proxy with voting instructions inserted, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

The form of proxy is attached to this circular for Shareholders who opt to receive physical circulars. Alternatively, the form of proxy can be downloaded from the "Investor Centre" section of the Company's website at <http://www.geelyauto.com.hk>. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

If Shareholders have any questions relating to the EGM, please contact Union Registrars Limited, the Company's Hong Kong share registrar as follows:

Union Registrars Limited  
Suites 3301-04, 33/F.  
Two Chinachem Exchange Square  
338 King's Road, North Point, Hong Kong  
E-mail: [geely@unionregistrars.com.hk](mailto:geely@unionregistrars.com.hk)  
Tel. No.: (852) 2849 3399  
Fax No.: (852) 2849 3319

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## DEFINITIONS

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*Unless the context requires otherwise, the following expressions shall have the following meanings in this circular:*

“2017 Powertrain Sales Agreement”	the master agreement dated 7 November 2017 entered into between the Company and Geely Holding for the sale of vehicle engines, transmissions and related after-sales by the Group to the LYNK & CO Group and the Geely Holding Group which will expire on 31 December 2020
“2018 Kandi Supply Agreement”	the master agreement entered into between the Group and Kandi on 5 October 2018 in relation to the supply of automobile parts and components by the Group to the Kandi Group which will expire on 31 December 2021
“2018 Proton Sales Agreement”	the master agreement entered into between the Company and Geely Holding on 24 September 2018 in relation to the sale of CBUs, CKDs and related after-sales parts of the Licensed Models in relation to the Proton-branded vehicles to the Geely Holding Group which will expire on 31 December 2020
“Automobile Components Procurement Agreement”	the master agreement dated 5 October 2018 entered into between the Company and Geely Holding for the procurement of automobile components by the Group from the Geely Holding Group
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Automobile Financing Arrangements”	the renewal of LYNK & CO Financing Arrangements; the Fengsheng Financing Arrangements and the Geely Holding Financing Arrangements
“BNPP PF”	BNP Paribas Personal Finance, a subsidiary of the BNP Paribas Group, which engages in consumer credit and mortgage lending activities
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBU(s)”	complete buildup units (整車), a complete vehicle after the final assembly
“CKD(s)”	complete knock down kit(s) (整車成套件), a complete kit needed to assemble a vehicle

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## DEFINITIONS

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“CKDs and Automobile Components Purchase Annual Caps”	the proposed annual caps in relation to the purchase of CKDs and automobile components by the Group from the Geely Holding Group for each of the financial years ending 31 December 2021, 2022 and 2023
“CKDs and Automobile Components Sales Annual Caps”	the proposed annual caps in relation to the sale of CKDs and automobile components by the Group to the Geely Holding Group for each of the financial years ending 31 December 2021, 2022 and 2023
“Company”	Geely Automobile Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange (stock code: 175)
“Connected Fengsheng Dealers”	enterprises, which are controlled by the Geely Holding Group, to be authorised by Fengsheng Sales under a franchise dealer agreement to sell Maple-Branded Vehicles to Fengsheng Retail Customers
“Connected Geely Dealers”	enterprises, which are controlled by the Geely Holding Group, being authorised by the Group under a franchise dealer agreement to sell Geely-Branded Vehicles to Geely Retail Customers
“Connected Geely Holding Dealers”	enterprises, which are controlled by the Geely Holding Group, to be authorised by Geely Holding Automobile Entities under a franchise dealer agreement to sell Geely Holding-Owned Brands Vehicles to Geely Retail Customers
“Connected LYNK & CO Dealers”	enterprises, which are controlled by the Geely Holding Group, to be authorised by LYNK & CO Sales under a franchise dealer agreement to sell LYNK & CO-branded vehicles to LYNK & CO Retail Customers
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the Master CKDs and Automobile Components Sales Agreement, the Master CKDs and Automobile Components Purchase Agreement, the New Powertrain Sales Agreement and the Automobile Financing Arrangements and the transactions contemplated thereunder
“Dakin Capital” or “Independent Financial Adviser”	Dakin Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Continuing Connected Transactions
“Electric Vehicle Agreement”	the master agreement dated 5 October 2018 entered into among the Company, Geely Holding and GGL for the sale of CBUs of electric vehicles by the Company to the Geely Holding Group and the GGL Group
“Farizon”	a commercial vehicle brand owned by the Geely Holding Group
“Fengsheng”	楓盛汽車科技集團有限公司 (Fengsheng Automobile Technology Group Co., Ltd*), a limited liability company incorporated in the PRC and owned as to 78% by Geely Technology and 22% by Kandi Vehicles
“Fengsheng Financing Annual Caps”	the proposed annual caps (representing the annual new financing amounts to be provided by Genius AFC to the Fengsheng Retail Customers) under the Fengsheng Retail Financing Business for each of the financial years ending 31 December 2021, 2022 and 2023 as set out under the paragraph headed “Fengsheng Financing Annual Caps”
“Fengsheng Dealer(s)”	enterprises that are authorised by Fengsheng Sales under a franchise dealer agreement to sell Maple-Branded Vehicles to Fengsheng Retail Customers (which include the Independent Fengsheng Dealers and the Connected Fengsheng Dealers (if any))
“Fengsheng Finance Cooperation Agreement”	the cooperation agreement entered into between Genius AFC and Fengsheng Sales on 4 November 2020, pursuant to which Genius AFC will provide vehicle financing services to the Fengsheng Retail Customers to assist them to buy Maple-Branded Vehicles
“Fengsheng Financing Arrangements”	the parcel of arrangements which includes (i) the cooperation arrangements as stipulated in the Fengsheng Finance Cooperation Agreement; and (ii) the Fengsheng Retail Financing Business
“Fengsheng Group”	Fengsheng together with its subsidiaries
“Fengsheng Retail Customer(s)”	retail customers who purchase Maple-Branded Vehicles from the Fengsheng Dealers

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## DEFINITIONS

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“Fengsheng Retail Financing Business”	the provision by Genius AFC of vehicle loans and other financing to the Fengsheng Retail Customers to assist them to buy Maple-Branded Vehicles from the Fengsheng Dealers
“Fengsheng Retail Loan Agreements”	financing agreements to be entered into between Genius AFC and the Fengsheng Retail Customers which set out the terms of the loans to be provided by Genius AFC to the Fengsheng Retail Customers for their purchase of Maple-Branded Vehicles
“Fengsheng Retail Loan Cooperation Agreements”	the cooperation agreements to be entered into between Genius AFC and the Fengsheng Dealers, pursuant to which the Fengsheng Dealers will recommend their retail customers to use Genius AFC for obtaining vehicle loans to finance their purchase of Maple-Branded Vehicles
“Fengsheng Sales”	浙江楓盛汽車銷售有限公司 (Zhejiang Fengsheng Automobile Sales Company Limited*), a limited company established in the PRC and a wholly owned subsidiary of Fengsheng as at the Latest Practicable Date
“Geely Automobile”	吉利汽車集團有限公司 (Geely Automobile Group Company Limited*), a private limited liability company incorporated in the PRC, and is wholly owned by Geely Holding
“Geely-Branded Vehicles”	vehicles of automobile brands of the Group
“Geely Dealers”	enterprises that are authorised by the Group under a franchise dealer agreement to sell Geely-Branded Vehicles (which include the Independent Geely Dealers and the Connected Geely Dealers)
“Geely Holding”	浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Company Limited*), a private limited liability company incorporated in Zhejiang Province, the PRC, and is beneficially wholly owned by Mr. Li and his associate
“Geely Holding Automobile Entities”	automobile entities of the Geely Holding-Owned Brands Vehicles under the Geely Holding Group
“Geely Holding Financing Annual Caps”	the proposed annual caps (representing the annual new financing amounts to be provided by Genius AFC to the Geely Retail Customers) under the Geely Holding Retail Financing Business for each of the financial years ending 31 December 2021, 2022 and 2023

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## DEFINITIONS

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“Geely Holding Dealer(s)”	enterprises that are authorised by the Geely Holding Group under a franchise dealer agreement to sell Geely Holding-Owned Brands Vehicles (which include the Independent Geely Holding Dealers and the Connected Geely Holding Dealers (if any))
“Geely Holding Group”	Geely Holding and its subsidiaries
“Geely Holding Finance Cooperation Agreement”	the cooperation agreement entered into between Genius AFC and Geely Holding on 4 November 2020 which sets out, among other things, the terms on which Genius AFC will provide vehicle financing services to the Geely Retail Customers to assist them to purchase Geely-Branded Vehicles and Geely Holding Group-Owned Brands Vehicles
“Geely Holding Financing Arrangements”	the parcel of arrangements which includes (i) the cooperation arrangements as stipulated in the Geely Holding Finance Cooperation Agreement; and (ii) the Geely Holding Retail Financing Business
“Geely Holding-Owned Brands Vehicles”	vehicles of automobile brands of the Geely Holding Group excluding Volvo-branded vehicles for the purpose of this circular
“Geely Holding Retail Financing Business”	the provision by Genius AFC of vehicle loans and other financing to the Geely Retail Customers to assist them to purchase (a) Geely-Branded Vehicles from the Connected Geely Dealers; or (b) Geely Holding-Owned Brands Vehicles from the Geely Holding Dealers
“Geely Holding Retail Loan Agreement”	financing agreements to be entered into between Genius AFC and the Geely Retail Customers which set out the terms of the loans to be provided by Genius AFC to the Geely Retail Customers for their purchase of Geely Holding-Owned Brands Vehicles
“Geely Holding Retail Loan Cooperation Agreements”	the cooperation agreements entered into between Genius AFC and Geely Holding Dealers, pursuant to which such dealers shall recommend their retail customers to use Genius AFC for the obtaining of vehicle loans to finance their purchase of Geely Holding-Owned Brands Vehicles
“Geely Holding & LYNK & CO Automobile Parts Supply Agreement”	a master agreement dated 5 October 2018 entered into among the Company, Geely Holding and LYNK & CO for the supply of automobile parts and components by the Group to the Geely Holding Group and the LYNK & CO Group

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## DEFINITIONS

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“Geely Industry”	浙江吉利汽車實業有限公司 (Zhejiang Geely Automobile Industry Company Limited*), which subsequently changed its name as Geely Automobile, a limited liability company established in the PRC and an 100% directly owned subsidiary of Geely Holding
“Geely Retail Customer(s)”	retail customers who purchase Geely-Branded Vehicles from the Geely Dealers (which include Connected Geely Dealers) or Geely Holding-Owned Brands Vehicles from the Geely Holding Dealers
“Geely Retail Loan Agreement”	financing agreements to be entered into between Genius AFC and the Geely Retail Customers which set out the terms of the loans to be provided by Genius AFC to the Geely Retail Customers for their purchase of Geely-Branded Vehicles
“Geely Retail Loan Cooperation Agreements”	the cooperation agreements entered into between Genius AFC and the Connected Geely Dealers, pursuant to which such dealers shall recommend their retail customers to use Genius AFC for the obtaining of vehicle loans to finance their purchase of Geely-Branded Vehicles
“Geely Technology”	吉利科技集團有限公司 (Geely Technology Group Company Limited*), a private limited liability company incorporated in the PRC and is ultimately wholly owned by Mr. Li and his associate
“GGL”	吉利集團有限公司 (Geely Group Company Limited*), which subsequently changed its name as Geely Technology, a private limited liability company incorporated in the PRC and is ultimately wholly owned by Mr. Li and his associate
“GGL Group”	GGL and its subsidiaries
“Genius AFC”	吉致汽車金融有限公司 (Genius Auto Finance Co., Ltd.*), a limited liability company incorporated in the PRC which is owned as to 80% by the Company and as to 20% by BNPP PF. As certain key corporate matters of Genius AFC require a positive vote from BNPP PF or unanimous resolution of all directors (present in person or represented by proxy for the board meeting) of Genius AFC, Genius AFC is treated as a jointly controlled entity of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	the independent committee of the Board, which comprises all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders on the Continuing Connected Transactions
“Independent Fengsheng Dealers”	enterprises, which are independent from the Company and its connected persons, being authorised by Fengsheng Sales under a franchise dealer agreement to sell Maple-Branded Vehicles to Fengsheng Retail Customers
“Independent Geely Dealers”	enterprises, which are independent from the Company and its connected persons, being authorised by the Group under a franchise dealer agreement to sell Geely-Branded Vehicles to Geely Retail Customers
“Independent Geely Holding Dealers”	enterprises, which are independent from the Company and its connected persons, being authorised by the Geely Holding Group under a franchise dealer agreement to sell Geely Holding-Owned Brands Vehicles to Geely Retail Customers
“Independent LYNK & CO Dealers”	enterprises, which are independent from the Company and its connected persons, being authorised by LYNK & CO Sales under a franchise dealer agreement to sell LYNK & CO-branded vehicles to LYNK & CO Retail Customers
“Intellectual Properties”	the intellectual properties including, among other things, patents, inventions, designs, copyrights, etc. associated with the Licensed Models
“Independent Shareholders”	Shareholder(s) other than Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui and their respective associates
“Kandi”	康迪電動汽車集團有限公司 (Kandi Electric Vehicles Group Co., Ltd.*), a limited liability company incorporated in the PRC which subsequently changed its name to Fengsheng in October 2019
“Kandi Group”	Kandi and its subsidiaries
“Kandi Vehicles”	浙江康迪車業有限公司 (Zhejiang Kandi Vehicles Co., Ltd.*), a limited liability company incorporated in the PRC and is indirectly wholly owned by Continental Development Limited, which is a limited private company incorporated in Hong Kong and ultimately controlled by Mr. Hu Xiaoming (胡曉明), who is independent from the Company and its connected persons.

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## DEFINITIONS

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“Latest Practicable Date”	23 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Licensed Model(s)”	the NL-3 Model, the SX-11 Model, the new vehicle model under the Geely brand of which Intellectual Properties were licensed by the Group to the Geely Holding Group in relation to the Proton-branded vehicles and the VF11 Model of which Intellectual Properties are to be licensed by the Group to the Geely Holding Group in relation to the Maple-Branded Vehicles
“Licensed Regions”	Negara Brunei Darussalam, Republic of Indonesia, Malaysia, Republic of Singapore, Thailand and other regions to be agreed between the Company and Geely Holding for the sales and distribution of Proton-branded vehicles. The term “Licensed Region” shall mean anyone of the above
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lotus”	北京路特斯汽車銷售有限公司 (Beijing Lotus Automobile Sales Company Limited*), a private company established in the PRC and 51% indirectly owned by Geely Holding
“LYNK & CO”	領克投資有限公司 (LYNK & CO Investment Co., Ltd.*), a Chinese-foreign equity joint venture of the Company established in the PRC and owned as to 50%, 20% and 30% by Zhejiang Jirun, Zhejiang Haoqing and VCI as at the Latest Practicable Date
“LYNK & CO Dealers”	enterprises that are authorised by LYNK & CO Sales under a franchise dealer agreement to sell LYNK & CO-branded vehicles to LYNK & CO Retail Customers (which include the Independent LYNK & CO Dealers and the Connected LYNK & CO Dealers)
“LYNK & CO Group”	LYNK & CO and its subsidiaries
“LYNK & CO Financing Arrangements”	the parcel of arrangements which includes (i) the cooperation arrangements as stipulated in the LYNK & CO Finance Cooperation Agreement; (ii) the LYNK & CO Wholesale Financing Business; and (iii) the LYNK & CO Retail Financing Business

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## DEFINITIONS

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“LYNK & CO Finance Cooperation Agreement”	the cooperation agreement entered into between Genius AFC and LYNK & CO Sales on 3 November 2017 which sets out, among other things, the terms on which Genius AFC will supply vehicle financing services to the LYNK & CO Dealers and LYNK & CO Retail Customers, including (i) wholesale financing to the LYNK & CO Dealers to assist them to buy LYNK & CO-branded vehicles and eventually selling such vehicles to the LYNK & CO Retail Customers; and (ii) retail financing to the LYNK & CO Retail Customers to assist them to buy LYNK & CO-branded vehicles from the LYNK & CO Dealers
“LYNK & CO Retail Annual Caps”	the proposed annual caps for the LYNK & CO Retail Financing Business for each of the financial years ending 31 December 2021, 2022 and 2023
“LYNK & CO Retail Customer(s)”	retail customers who purchase LYNK & CO-branded vehicles from the LYNK & CO Dealers
“LYNK & CO Retail Financing”	the provision by Genius AFC of vehicle loans and other financing to the LYNK & CO Retail Customers to assist them to buy LYNK & CO-branded vehicles from the LYNK & CO Dealers
“LYNK & CO Retail Financing Business”	one of the principal businesses to be carried out by Genius AFC regarding the provision of the LYNK & CO Retail Financing
“LYNK & CO Retail Loan Agreement”	financing agreements to be entered into between Genius AFC and the LYNK & CO Retail Customers which set out the terms of the loans to be provided by Genius AFC to the LYNK & CO Retail Customers for their purchase of LYNK & CO-branded vehicles
“LYNK & CO Retail Loan Cooperation Agreement”	the cooperation agreements to be entered into between Genius AFC and the LYNK & CO Dealers, pursuant to which the LYNK & CO Dealers will recommend their retail customers to use Genius AFC for obtaining vehicle loans to finance their purchase of LYNK & CO-branded vehicles
“LYNK & CO Sales”	領克汽車銷售有限公司 (LYNK & CO Automobile Sales Co., Ltd*), a limited company established in the PRC and a wholly owned subsidiary of LYNK & CO as at the Latest Practicable Date
“LYNK & CO Wholesale Annual Caps”	the proposed annual caps for the LYNK & CO Wholesale Financing Business for each of the financial years ending 31 December 2021, 2022 and 2023

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## DEFINITIONS

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“LYNK & CO Wholesale Facility Agreements”	financing agreements to be entered into between Genius AFC and the respective LYNK & CO Dealers which set out the terms of the loans to be provided by Genius AFC to such LYNK & CO Dealers for their purchase of LYNK & CO-branded vehicles
“LYNK & CO Wholesale Financing”	the provision by Genius AFC of vehicle loans and other financing to the LYNK & CO Dealers to assist them to buy LYNK & CO-branded vehicles from LYNK & CO Sales
“LYNK & CO Wholesale Financing Business”	one of the principal businesses to be carried out by Genius AFC regarding the provision of the LYNK & CO Wholesale Financing
“Maple-Branded Vehicles”	the vehicle models owned by Fengsheng Group
“Master CKDs and Automobile Components Purchase Agreement”	the master agreement entered into between the Company and Geely Holding on 4 November 2020, pursuant to which the Group will purchase CKDs and automobile components under the Geely brand including Vision X6 vehicle model, etc. from the Geely Holding Group.
“Master CKDs and Automobile Components Sales Agreement”	the master agreement entered into between the Company and Geely Holding on 4 November 2020, pursuant to which the Group will sell CKDs and automobile components in relation to vehicle models including Proton-branded vehicles, Maple-Branded Vehicles, Farizon-branded vehicles, etc. to the Geely Holding Group.
“Mr. Li”	Mr. Li Shu Fu, an executive Director and a substantial Shareholder holding 41.20% interest in the total issued share capital of the Company as at the Latest Practicable Date
“New Coronavirus”	a type of virus which has caused a worldwide pandemic respiratory illness called COVID-19
“New Powertrain Sales Agreement”	the master agreement dated 4 November 2020 entered into between the Company, Geely Holding and LYNK & CO for the sale of Powertrain Products by the Group to the Geely Holding Group and LYNK & CO Group
“Ningbo Jining”	寧波吉寧汽車零部件有限公司 (Ningbo Jining Automobile Components Co. Ltd.*), a limited liability company incorporated in the PRC and is ultimately wholly owned by Geely Holding
“NL-3 Model”	known as “Geely Boyue” (吉利博越), which is a sport utility vehicle model developed by the Group
“PBOC”	the People’s Bank of China (中國人民銀行)

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## DEFINITIONS

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“percentage ratio(s)”	has the meaning ascribed to it under Rule 14.07 of the Listing Rules
“Polestar”	北辰汽車(上海)有限公司 (Polestar Automobile (Shanghai) Company Limited*), a Chinese-foreign equity joint venture of the Company established in the PRC and owned as to 50% and 50% by Geely Holding and VCI as at the Latest Practicable Date
“Powertrain Products”	vehicle engines, transmissions and related after-sales parts
“Powertrain Sales Annual Caps”	the proposed annual caps in relation to sale of Powertrain Products by the Group for each of the financial years ending 31 December 2021, 2022 and 2023
“PRC” or “China”	the People’s Republic of China, for the purpose of this circular excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proton”	Proton Holdings Berhad, a private limited liability company incorporated in Malaysia, and is owned as to 49.9% by Geely Holding Group
“Proton Group”	Proton and its subsidiaries
“RMB”	Renminbi, the lawful currency of the PRC
“R&D”	research and development
“SFO”	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Shares”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Services Agreement”	the agreement dated 5 October 2018 entered into between the Company and Geely Holding (i) for the sale of CKDs by the Group to the Geely Holding Group; and (ii) for the sale of CBUs, automobile parts and components by the Geely Holding Group to the Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SX-11 Model”	a sport utility vehicle model developed by the Group

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## DEFINITIONS

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“VCI”	沃爾沃汽車(中國)投資有限公司 (Volvo Car (China) Investment Company Limited*), a limited liability company established in the PRC and a subsidiary of Volvo Car Corporation
“VF11 Model”	a multi-purpose vehicle model developed and launched by the Group
“Volvo”	Volvo Car Corporation, a limited liability company incorporated under the laws of Sweden and an indirect 97.8% owned subsidiary of Geely Holding
“Volvo Finance Cooperation Agreements”	the cooperation agreements entered into (i) between Genius AFC and 沃爾沃汽車銷售(上海)有限公司 (Volvo Car Distribution (Shanghai) Co., Ltd.*) and (ii) between Genius AFC and 沃爾沃汽車(中國)投資有限公司 (Volvo Car (China) Investment Co., Ltd.*) on 11 December 2015 which sets out, among other things, the terms under which Genius AFC will provide vehicle financing services to the respective dealers and the retail customers for imported Volvo-branded vehicles and Volvo-branded vehicles manufactured domestically, respectively
“Volvo Group”	Volvo together with its subsidiaries
“Yiwu Engines”	義烏吉利發動機有限公司 (Yiwu Geely Engines Company Limited*), a private limited liability company incorporated in the PRC, and a wholly owned subsidiary of Zhejiang Geely as at the Latest Practicable Date
“Zhidou”	知豆電動汽車有限公司 (Zhidou Electric Vehicles Company Limited*), a limited liability company incorporated in the PRC, and is owned as to 26.44% by Geely Technology and 73.56% by other independent third parties
“Zhidou Group”	Zhidou and its subsidiaries
“Zhidou EV CKD Supply Agreement”	master agreement dated 5 October 2018 entered into between the Company and Geely Holding for the supply of CKDs for electric vehicles by the Group to the Geely Holding Group
“Zhejiang Haoqing”	浙江豪情汽車製造有限公司 (Zhejiang Haoqing Automobile Manufacturing Company Limited*), a private company incorporated in the PRC and is a wholly owned subsidiary of Geely Holding as at the Latest Practicable Date

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## DEFINITIONS

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“Zhejiang Powertrain”	浙江吉利動力總成有限公司 (Zhejiang Geely Powertrain Company Limited*), a private company incorporated in the PRC and indirectly owned as to 99.1% by the Company as at the Latest Practicable Date
“Zhejiang Jirun”	浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited*), a limited liability company established in the PRC and an indirect 99% owned subsidiary of the Company as at the Latest Practicable Date
“Zhejiang Jichuang”	浙江吉創汽車零部件有限公司 (Zhejiang Jichuang Automobile Parts Company Limited*), a limited liability company established in the PRC and is wholly owned by Geely Holding
“%”	per cent

\* *For reference purpose only, the English names of these companies, persons or documents are only a translation of their respective Chinese names. In the event of any discrepancies between the Chinese names and their respective English translations, the Chinese version shall prevail.*

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## LETTER FROM THE BOARD

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# GEELY

吉利汽車控股有限公司

**GEELY AUTOMOBILE HOLDINGS LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

*Executive Directors:*

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

*Independent Non-executive Directors:*

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

*Registered Office:*

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

*Principal Place of Business in*

*Hong Kong:*

Room 2301, 23<sup>rd</sup> Floor  
Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong

1 December 2020

*To the Shareholders,*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

Reference is made to the announcement of the Company dated 4 November 2020 in relation to, among other things, the Continuing Connected Transactions in respect of the (1) Master CKDs and Automobile Components Sales Agreement; (2) Master CKDs and Automobile Components Purchase Agreement; (3) New Powertrain Sales Agreement; and (4) Automobile Financing Arrangements.

The purpose of this circular is to provide you with information, among other things, (i) further information about the Continuing Connected Transactions; (ii) the recommendation of the Independent Board Committee on the Continuing Connected Transactions; (iii) the advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions; and (iv) other information as required under the Listing Rules together with the notice of the EGM.

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## LETTER FROM THE BOARD

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### CONTINUING CONNECTED TRANSACTIONS

#### (A) Master CKDs and Automobile Components Sales Agreement

Reference is made to the announcement of the Company dated 24 September 2018 in relation to the 2018 Proton Sales Agreement and the announcement of the Company dated 5 October 2018 in relation to the 2018 Kandi Supply Agreement, respectively. Pursuant to the 2018 Proton Sales Agreement, the Group agreed to sell CBUs, CKDs and related after-sales parts of the Licensed Models in relation to the Proton-branded vehicles to the Geely Holding Group for a term of three years ending 31 December 2020. Pursuant to the 2018 Kandi Supply Agreement, the Group agreed to sell automobile parts and components to Kandi Group for a term of three years ending 31 December 2021. Since the Maple-Branded Vehicles will be manufactured based on the CKDs and automobile components supplied by the Group to the Geely Holding Group, the 2018 Kandi Supply Agreement will be superseded by the Master CKDs and Automobile Components Sales Agreement upon the commencement date of the Master CKDs and Automobile Components Sales Agreement.

On 4 November 2020 (after trading hours), the Company and Geely Holding entered into the Master CKDs and Automobile Components Sales Agreement for a term of three years ending on 31 December 2023.

The principal terms of the Master CKDs and Automobile Components Sales Agreement are summarised below:

***Date***

4 November 2020 (after trading hours)

***Parties***

Vendor: The Company

Purchaser: Geely Holding

The Group is principally engaged in the research and development, manufacturing and trading of automobiles, automobile parts and related automobile components, and investment holding.

Geely Holding is principally engaged in the sales of automobiles and related parts and components wholesale and retail business. As at the Latest Practicable Date, Geely Holding is beneficially wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 41.20% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules.

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## LETTER FROM THE BOARD

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### *Subject matter*

Pursuant to the Master CKDs and Automobile Components Sales Agreement, it was conditionally agreed that the Group will sell CKDs and automobile components in relation to vehicle models including Proton-branded vehicles, Maple-Branded Vehicles, Farizon-branded vehicles, etc. to the Geely Holding Group.

For the avoidance of doubt, the CKDs and automobile components to be sold to the Geely Holding Group under the Master CKDs and Automobile Components Sales Agreement are different from those to be sold to (i) the Geely Holding Group under the Services Agreement; (ii) the Geely Holding Group under the Zhidou EV CKD Supply Agreement; and (iii) the Geely Holding Group and GGL Group under the Electric Vehicle Agreement, which were respectively disclosed in the announcement of the Company dated 5 October 2018. Under the Services Agreement, the CKDs to be sold by the Group to the Geely Holding Group are not for distribution to end customers by the Geely Holding Group (instead, the Geely Holding Group performs final assembly of the CKDs into CBUs, facilitates payment of the PRC consumption tax, and then sells back the CBUs to the Group for its distribution to end customers). Under the Zhidou EV CKD Supply Agreement, products to be sold by the Group to the Geely Holding Group include CKDs of electric vehicles which will be sold onwards by the Geely Holding Group to the Zhidou Group for its distribution to end customers under its own brand. Under the Electric Vehicle Agreement, products to be sold by the Group to the Geely Holding Group include (i) CBUs of electric vehicles which are sold for the purpose of taking advantage of the fact that only certain subsidiaries of the Geely Holding Group are eligible to the new energy vehicle subsidies granted by the PRC government in certain regions of the PRC which effectively lower the end customers' purchase price of the Group's electric vehicles and are therefore essential for facilitating the Group's sale of electric vehicles in those regions; and (ii) CBUs of electric vehicles which are for the ultimate use by 杭州優行科技有限公司 (Hangzhou Youxing Technology Company Limited\*), a subsidiary of GGL which operates Cao Cao, a new energy focused ride hailing and mobility service headquartered in the PRC. For the reasons as described above, the pricing bases for the products to be sold by the Group under the Master CKDs and Automobile Components Sales Agreement, the Services Agreement, the Zhidou EV CKD Supply Agreement and the Electric Vehicle Agreement are different. Further, the transactions contemplated under the Master CKDs and Automobile Components Sales Agreement will not overlap with the transactions contemplated under the Geely Holding & LYNK & CO Automobile Parts Supply Agreement of which details are disclosed in the announcement of the Company dated 5 October 2018, as the Group has ceased to sell automobile parts and components to the Geely Holding Group and the LYNK & CO Group pursuant to the Geely Holding & LYNK & CO Automobile Parts Supply Agreement since September 2020 after the completion of disposal of entire registered capital of the Ningbo Jining to the Geely Holding Group as disclosed in the announcement of the Company dated 9 July 2020.

The sales of CKDs and automobile components by the Group to the Geely Holding Group will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) other independent third parties to the Company.

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## LETTER FROM THE BOARD

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### *Term*

The Master CKDs and Automobile Components Sales Agreement has a term of three years from 1 January 2021 to 31 December 2023.

### *Condition precedent to the Master CKDs and Automobile Components Sales Agreement*

The Master CKDs and Automobile Components Sales Agreement is subject to the Company having complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the Master CKDs and Automobile Components Sales Agreement.

If the above condition has not been fulfilled on or before 31 December 2020 (or such later date as the parties may agree in writing), the Master CKDs and Automobile Components Sales Agreement will lapse and all the obligations and liabilities of the parties under the Master CKDs and Automobile Components Sales Agreement will cease and terminate.

### *Termination*

Either party may terminate the Master CKDs and Automobile Components Sales Agreement (i) by giving the other three months prior written notice; or (ii) at any time if (a) either party ceases business, or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of laws or regulations, declares bankrupt, or is unable to perform its obligations under the Master CKDs and Automobile Components Sales Agreement due to force majeure; or (b) Geely Holding ceases to be a connected person of the Company.

### *Pricing basis, historical transaction amounts and proposed CKDs and Automobile Components Sales Annual Caps*

#### *(a) Pricing basis*

Pursuant to the Master CKDs and Automobile Components Sales Agreement, the CKDs and automobile components in relation to vehicle models including Proton-branded vehicles, Maple-Branded Vehicles, Farizon-branded vehicles etc. will be sold by the Group to the Geely Holding Group at prices calculated on a cost-plus basis according to:

- (i) the actual costs of manufacturing the CKDs and automobile components by the Group (including related taxes); plus
- (ii) an agreed margin rate

The margin rate will be determined by the Company and Geely Holding after arm's length negotiation with reference to the median three-year weighted average cost-plus-margins of comparable companies producing similar products as stated in a transfer pricing analysis report prepared by an independent certified public accountant or institution with the same qualification. According to the transfer pricing analysis report issued on 30 September 2020 (the "**Supply Pricing**

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## LETTER FROM THE BOARD

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**Analysis Report**”), the margin rate is 6.87%, which is the median three-year weighted average cost-plus-margins of comparable companies producing similar automobile parts and components. The aforementioned margin rate is only for the purpose of calculating the proposed annual caps below and may be changed from time to time and shall not be deemed to be the fixed rate for the transactions throughout the term of the Master CKDs and Automobile Components Sales Agreement. Having considered the pricing basis with reference to the Supply Pricing Analysis Report, the Directors consider the pricing basis under the Master CKDs and Automobile Components Sales Agreement fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(b) *Historical transaction amounts and proposed annual caps*

The table below sets out the historical transaction amounts for the two years ended 31 December 2019 and the eight months ended 31 August 2020 for the sales of CBUs, CKDs and related after-sales parts of the Licensed Models in relation to the Proton-branded vehicles by the Group to the Geely Holding Group pursuant to the 2018 Proton Sales Agreement.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August	Approved annual caps for the year ended/ending 31 December		
	2018	2019	2020	2018	2019	2020
	<i>RMB million</i> (Audited)	<i>RMB million</i> (Audited)	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sales of CBUs, CKDs and related after-sales parts of the Licensed Models in relation to the Proton- branded vehicles by the Group to the Geely Holding Group	253.9	2,722.8	788.6	398.7	3,803.5	4,147.7
Utilisation rate of annual caps				63.7%	71.6%	19.0% <sup>(Note)</sup>

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated by dividing the historical transaction amounts for the eight months ended 31 August 2020 by the approved annual cap for the full financial year ending 31 December 2020.

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## LETTER FROM THE BOARD

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The relatively low utilisation rate of the annual cap for the year ended 31 December 2018 under the 2018 Proton Sales Agreement was due to the slower-than-expected start-up of the sales network in the Licensed Regions which in turn led to a lower-than-expected sales volume of certain Proton-branded vehicles. The increase in the utilisation rate of the annual cap for the year ended 31 December 2019 was due to the increase in sales of the Proton-branded vehicles in Malaysia which resulted in increase in demand for the CBUs, CKDs and related after-sales parts of the Licensed Models in relation to the Proton-branded vehicles during the same period. The low utilisation rate of the annual cap for the eight months ended 31 August 2020 was primarily due to the lower-than-expected sales of the Proton-branded vehicles in Malaysia due to the outbreak of the New Coronavirus. The Directors expect the sales of the Proton-branded vehicles will recover gradually as the effect of the New Coronavirus eases.

The table below sets out the historical transaction amounts for the year ended 31 December 2019 and the eight months ended 31 August 2020 for the supply of automobile parts and components by the Group to the Kandi Group pursuant to the 2018 Kandi Supply Agreement.

	<b>Historical transaction amount for the year ended 31 December 2019</b>	<b>Historical transaction amount for the eight months ended 31 August 2020</b>	<b>Approved annual caps for the year ended/ending 31 December</b>		
			<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>RMB million</i> (Audited)	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Supply of automobile parts and components by the Group to the Kandi Group	0.5	29.8	227.6	295.9	384.6
Utilisation rate of annual caps			0.2%	10.1% <sup>(Note)</sup>	N/A

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated by dividing the historical transaction amounts for the eight months ended 31 August 2020 by the approved annual cap for the full financial year ending 31 December 2020.

The low utilisation rate of the annual cap for the supply of automobile parts and components by the Group to the Kandi Group for the year ended 31 December 2019 was due to the slowdown in supply of the Maple-Branded Vehicles (previously under the brand of Kandi) which required further upgrade on technologies and performance efficiency. Due to the outbreak of the New Coronavirus, the introduction of the modified models was postponed which led to a drop in the sales volume of the Maple-Branded Vehicles and adversely affected the demand of the automobile parts and components from the Fengsheng Group (previously known as Kandi Group), resulting in a low utilisation rate of the annual cap for the supply of automobile parts and components by the Group to the Kandi Group for the eight months ended 31 August 2020.

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## LETTER FROM THE BOARD

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The table below sets out the proposed CKDs and Automobile Components Sales Annual Caps in relation to vehicle models including Proton-branded vehicles, Maple-Branded Vehicles, Farizon-branded vehicles, etc.. After the commencement of the Master CKDs and Automobile Components Sales Agreement, the CKDs and automobile components in relation to the Proton-branded vehicles and Maple-Branded Vehicles to be procured by the Geely Holding Group will be sold to the Proton Group and Fengsheng Group for the manufacture and sales of the Proton-branded vehicles and Maple-Branded Vehicles respectively.

	<b>Proposed annual caps</b>		
	<b>for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sale of CKDs and automobile components by the Group to the Geely Holding Group	5,945.6	9,163.7	12,027.1

(c) *Basis of determination of the proposed annual caps*

The proposed CKDs and Automobile Components Sales Annual Caps were determined by the Directors with reference to:

- (i) the estimated number of units of CKDs and automobile components for the use in the Proton-branded vehicles and Maple-Branded Vehicles for the three years ending 31 December 2023 where Proton-branded vehicles account for the majority of the estimated number of unit sales for every year. It was in turn determined based on the projected unit sales of the Proton-branded vehicles (including existing Proton-branded vehicles and the new model which is expected to be launched in 2022) and the Maple-Branded Vehicles (including the vehicle model which is expected to be launched in 2021 and the introduction of an updated version of a vehicle model in 2022) for the three years ending 31 December 2023;
- (ii) the estimated number of units of CKDs and automobile components of a new Farizon-branded vehicle model expected to be launched by the Geely Holding Group at the end of 2020 based on its projected unit sales for the three years ending 31 December 2023;
- (iii) the estimated actual cost of manufacturing CKDs and automobile components for the use of the Proton-branded vehicles, Maple-Branded Vehicles and Farizon-branded vehicles respectively (including but not limited to the material costs, labour costs and overhead costs) and the related taxes for the three years ending 31 December 2023. For the existing Proton-branded vehicles, the estimated actual cost of manufacturing CKDs and automobile components was determined with reference to the historical cost per unit for the eight months ended 31 August 2020; and

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## LETTER FROM THE BOARD

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- (iv) the margin rate of 6.87% over such estimated manufacturing costs of CKDs and automobile components respectively with reference to the Supply Pricing Analysis Report.

The estimated number of units of CKDs and automobile components for the use in the Proton-branded vehicles, Maple-Branded Vehicles and Farizon-branded vehicles to be sold by the Group to the Geely Holding Group for the years ending 31 December 2022 and 2023 represent year-on-year growth of approximately 51.7% and 31.2% respectively. Considering (i) the high popularity of Proton-branded vehicles especially the NL-3 Models in the Licensed Regions which is supported by the fact that the Group recorded sales volume of approximately 30,000 units of CBUs, CKDs and related after-sales parts of the Licensed Models of the Proton-branded vehicles for the year ended 31 December 2019; (ii) the rebound in sales volume of Proton-branded vehicles since May 2020 with compound annual growth rate of approximately 20.3% from May 2020 to September 2020 after the outbreak of the New Coronavirus; and (iii) the launch of new/updated vehicle models of the Proton Group, Fengsheng Group and the Geely Holding Group at the end of 2020 and in 2021 or 2022, the estimated number of units of CKDs and automobile components to be sold by the Group to the Geely Holding Group is expected to increase for the three years ending 31 December 2023, which also drive up the CKDs and Automobile Components Sales Annual Caps during the same period.

The Directors are of the view that the CKDs and Automobile Components Sales Annual Caps for the three years ending 31 December 2023 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER CKDS AND AUTOMOBILE COMPONENTS SALES AGREEMENT**

The Group has been or will be manufacturing, selling, marketing and distributing the Licensed Models under the Geely brand. The Group has also been manufacturing and selling automobile components of certain Licensed Models in relation to the Proton-branded vehicles to the Geely Holding Group which then sold to the Proton Group for the manufacture and sales of the Proton-branded vehicles. Similarly, the CKDs and related automobile components in relation to the Maple-Branded Vehicles will be procured by the Geely Holding Group which will then be sold to the Fengsheng Group for the manufacture and sales of the Maple-Branded Vehicles. On the other hand, the CKDs and related automobile components of the Farizon-branded vehicles will be procured and used by the Geely Holding Group. The Company considers that the manufacture and sale of the CKDs and automobile components of the Proton-branded vehicles, the Maple-Branded Vehicles and the Farizon-branded vehicles will provide an opportunity for the Group to further expand its revenue sources and also increase the utilisation of its production capacity.

### **INTERNAL CONTROL MEASURES IN RELATION TO PRICING FOR THE MASTER CKDS AND AUTOMOBILE COMPONENTS SALES AGREEMENT**

In order to ensure that the aforesaid pricing basis for the Master CKDs and Automobile Components Sales Agreement is adhered to, the Group will monitor the manufacturing costs including the labour costs, material costs and overhead costs as well as the applicable PRC taxes to ensure that the selling price of such CKDs and automobile components are determined properly. The Company and Geely Holding will negotiate the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of

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## LETTER FROM THE BOARD

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costs incurred by both parties in such transactions. The Company and Geely Holding will determine the margin rate with reference to a transfer pricing analysis report prepared by an independent certified public accountant or institution with the same qualification. The Company and Geely Holding will review the scope of the CKDs and automobile components to be sold by the Group to the Geely Holding Group on yearly basis (or more frequently if it is determined necessary) to determine whether updated transfer pricing analysis report should be obtained for the determination of the margin rate. The margin rate will be determined with reference to the median three-year weighted average cost-plus-margins of the comparable companies as stated in such updated transfer pricing analysis report.

### **(B) Master CKDs and Automobile Components Purchase Agreement**

On 4 November 2020 (after trading hours), the Company and Geely Holding entered into the Master CKDs and Automobile Components Purchase Agreement for a term of three years ending on 31 December 2023.

The principal terms of the Master CKDs and Automobile Components Purchase Agreement are summarised below:

#### ***Date***

4 November 2020 (after trading hours)

#### ***Parties***

Vendor: Geely Holding

Purchaser: The Company

Please refer to the paragraph headed “(A) Master CKDs and Automobile Components Sales Agreement – Parties” for further details regarding the Group and Geely Holding.

#### ***Subject matter***

Pursuant to the Master CKDs and Automobile Components Purchase Agreement, it was conditionally agreed that the Group will purchase CKDs and automobile components under the Geely brand including Vision X6 vehicle model, etc. from the Geely Holding Group.

For the avoidance of doubt, the CKDs and automobile components to be purchased from the Geely Holding Group under the Master CKDs and Automobile Components Purchase Agreement are different from those to be purchased from (i) the Geely Holding Group under the Services Agreement; and (ii) the Geely Holding Group under the Automobile Components Procurement Agreement, which were respectively disclosed in the announcement of the Company dated 5 October 2018. Under the Services Agreement, the products to be purchased from the Geely Holding Group by the Group are CBUs for sales and distribution to end customers. Under the Automobile Components Procurement Agreement, products to be purchased from the Geely Holding Group are automobile components (including batteries, motors, electronic control system products, headlights, car seats,

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## LETTER FROM THE BOARD

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etc.) which can be priced with reference to the prevailing market price of similar products. For the reasons as described above, the pricing bases for the products to be purchased from the Geely Holding Group under the Master CKDs and Automobile Components Purchase Agreement, the Services Agreement and the Automobile Components Procurement Agreement are different.

The purchase of CKDs and automobile components by the Group from the Geely Holding Group will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) other independent third parties to the Company.

### ***Term***

The Master CKDs and Automobile Components Purchase Agreement has a term of three years from 1 January 2021 to 31 December 2023.

### ***Condition precedent to the Master CKDs and Automobile Components Purchase Agreement***

The Master CKDs and Automobile Components Purchase Agreement is subject to the Company having complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the Master CKDs and Automobile Components Purchase Agreement.

If the above condition has not been fulfilled on or before 31 December 2020 (or such later date as the parties may agree in writing), the Master CKDs and Automobile Components Purchase Agreement will lapse and all the obligations and liabilities of the parties under the Master CKDs and Automobile Components Purchase Agreement will cease and terminate.

### ***Termination***

Either party may terminate the Master CKDs and Automobile Components Purchase Agreement (i) by giving the other three months prior written notice; or (ii) at any time if (a) either party ceases business, or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of laws or regulations, declares bankrupt, or is unable to perform its obligations under the Master CKDs and Automobile Components Purchase Agreement due to force majeure; or (b) Geely Holding ceases to be a connected person of the Company.

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## LETTER FROM THE BOARD

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### *Pricing basis, historical transaction amounts and proposed CKDs and Automobile Components Purchase Annual Caps*

(a) *Pricing basis*

Pursuant to the Master CKDs and Automobile Components Purchase Agreement, the CKDs and automobile components for the Geely-Branded Vehicles including the Vision X6 vehicle model, etc. will be purchased by the Group from the Geely Holding Group at prices calculated on a cost-plus basis according to:

- (i) the actual costs of manufacturing CKDs and automobile components by the Geely Holding Group (including related taxes); plus
- (ii) an agreed margin rate

The margin rate will be determined by the Company and Geely Holding after arm's length negotiation with reference to the median three-year weighted average cost-plus-margins of comparable companies producing similar products as stated in a transfer pricing analysis report prepared by an independent certified public accountant or institution with the same qualification. According to the transfer pricing analysis report issued on 22 September 2020 (the "**Purchase Pricing Analysis Report**"), the margin rate of CKDs and other automobile components of 3.15% is the median three-year weighted average cost-plus-margins of comparable companies focusing on contract manufacturing of automobile parts and components. The aforementioned margin rate is only for the purpose of calculating the proposed annual caps below and may be changed from time to time and shall not be deemed to be fixed throughout the term of the Master CKDs and Automobile Components Purchase Agreement. Having considered the pricing basis with reference to the Purchase Pricing Analysis Report, the Directors consider the pricing basis under the Master CKDs and Automobile Components Purchase Agreement fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(b) *Proposed annual caps*

	<b>Proposed annual caps</b>		
	<b>for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Purchase of CKDs and automobile components from the Geely Holding Group by the Group	11,953.9	26,346.8	23,842.7

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## LETTER FROM THE BOARD

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(c) *Basis of determination of the proposed annual caps*

The proposed CKDs and Automobile Components Purchase Annual Caps were determined by the Directors with reference to:

- (i) the estimated number of units of CKDs and the automobile components in relation to the Vision X6 vehicle model and the new vehicle model under the Geely Brand to be purchased from the Geely Holding Group by the Group for the three years ending 31 December 2023. Such estimation was determined based on (i) the projected unit sales of the Vision X6 vehicle model for the three years ending 31 December 2023 with reference to the actual sales volume for the eight months ended 31 August 2020 and the three years ended 31 December 2019; and (ii) the projected unit sales of a new vehicle model expected to be launched in the second quarter of 2021 for the three years ending 31 December 2023 which was estimated with reference to the historical sales volume of a vehicle currently available in the automobile market which is considered to be comparable to such new vehicle model in terms of specification by the Group;
- (ii) the estimated costs of manufacturing CKDs and automobile components in relation to the Vision X6 vehicle model and the new vehicle model (including but not limited to the material costs, labour costs and overhead costs) and related taxes for the three years ending 31 December 2023. For the Vision X6 vehicle model, the estimated cost of manufacturing CKDs and automobile components was determined with reference to the historical cost per unit for the eight months ended 31 August 2020; and
- (iii) the margin rate of 3.15% over such estimated manufacturing costs of CKDs and automobile components respectively with reference to the Purchase Pricing Analysis Report.

The estimated number of units of CKDs and automobile components to be purchased by the Group from the Geely Holding Group for the years ending 31 December 2022 and 2023 represent a year-on-year increase of approximately 72.8% and a year-on-year decrease of approximately 16.3%, respectively. The significant increase in the estimated purchase units for the year ending 31 December 2022 is primarily due to the increase in projected sales volume of approximately 304.6% for the new vehicle model under the Geely Brand which is expected to enter into the growth stage by 2022. The decrease in the estimated purchase units for the year ending 31 December 2023 is primarily due to the further drop of the projected sales volume of the Vision X6 vehicle model by approximately 50% compared to the prior year while the projected sales volume of the new vehicle model keeps stable during the same period. Taking into account the estimated number of units of CKDs and automobile components to be purchased by the Group from the Geely Holding Group and the cost schedule of the relevant CKDs and automobile components for the years ending 31 December 2022 and 2023, the CKDs and Automobile Components Purchase Annual Caps for the years ending 31 December 2022 and 2023 record a year-on-year increase of approximately 120.4% and a year-on-year decrease of approximately 9.5%, respectively.

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## **LETTER FROM THE BOARD**

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The Directors are of the view that the CKDs and Automobile Components Purchase Annual Caps for the three years ending 31 December 2023 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER CKDS AND AUTOMOBILE COMPONENTS PURCHASE AGREEMENT**

The Group will procure CKDs and automobile components of Vision X6 vehicle model and the new vehicle model under the Geely brand from the Geely Holding Group. For the Vision X6 vehicle model, which is currently manufactured by the Group, it has been facing downward market demand since 2019 and the Group expects that it will be faded out from the market gradually. Considering the decreasing production volume of Vision X6 vehicle model given the decreasing demand from the end customers, the Company considers that the procurement of CKDs and automobile components of Vision X6 vehicle model from the Geely Holding Group will enable the Group to achieve better cost efficiencies of sharing the production plant with the Geely Holding Group instead of manufacturing the Vision X6 vehicle model by the Group itself. For the new vehicle model under the Geely brand which is expected to launch in 2021, since the existing production facilities of the Group are not tailored for the manufacture of the new vehicle model, it will be manufactured by a new production facility owned by the Geely Holding Group, which has sufficient capacity to manufacture the new vehicle model, for the Group. The procurement of CKDs and automobile components of the new vehicle model from the Geely Holding Group will allow the Group to benefit from cost efficiencies of sharing the same production facilities and also save significant cost of capital investment.

### **INTERNAL CONTROL MEASURES IN RELATION TO PRICING FOR THE MASTER CKDS AND AUTOMOBILE COMPONENTS PURCHASE AGREEMENT**

In order to ensure that the aforesaid pricing basis for the Master CKDs and Automobile Components Purchase Agreement is adhered to, the Group will monitor the relevant costs and expenses to ensure the fairness of the purchase price of such CKDs and automobile components. The Company and Geely Holding will also negotiate the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by both parties in such transactions. The Company and Geely Holding will review the scope of the CKDs and automobile components to be sold by the Geely Holding Group to the Group on yearly basis (or more frequently if it is determined necessary) to determine whether updated transfer pricing analysis report should be obtained for the determination of the margin rate. The margin rate will be determined with reference to the median three-year weighted average cost-plus-margins of the comparable companies as stated in such updated transfer pricing analysis report.

#### **(C) The New Powertrain Sales Agreement**

Reference is made to the Company's announcement dated 7 November 2017 regarding the 2017 Powertrain Sales Agreement pursuant to which the Group agreed to sell Powertrain Products to the Geely Holding Group and the LYNK & CO Group in accordance with the terms set out therein for a term of three years ending 31 December 2020.

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## LETTER FROM THE BOARD

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As the 2017 Powertrain Sales Agreement is due to expire on 31 December 2020, the Company, Geely Holding and LYNK & CO, entered into the New Powertrain Sales Agreement on 4 November 2020 pursuant to which the Group conditionally agreed to sell Powertrain Products to the Geely Holding Group and the LYNK & CO Group on terms similar as that set out in the 2017 Powertrain Sales Agreement for a term of three years ending 31 December 2023.

The principal terms of the New Powertrain Sales Agreement are summarised below:

***Date***

4 November 2020 (after trading hours)

***Parties***

Vendor: The Company

Purchaser: LYNK & CO and Geely Holding

Please refer to the paragraph headed “(A) Master CKDs and Automobile Components Sales Agreement – Parties” for further details regarding the Group and the Geely Holding.

LYNK & CO is a Chinese-foreign equity joint venture of the Company established in the PRC and is owned as to 50% by Zhejiang Jirun, as to 20% by Zhejiang Haoqing and as to 30% by VCI as at the Latest Practicable Date. Zhejiang Haoqing and VCI are owned as to 100% and 97.8%, respectively by Geely Holding. LYNK & CO is principally engaged in the manufacture and sale of LYNK & CO-branded vehicles, and the provision of after-sales parts.

***Subject matter***

Pursuant to the New Powertrain Sales Agreement, the Group agreed to sell Powertrain Products manufactured by the Group to the LYNK & CO Group and the Geely Holding Group.

The sale of Powertrain Products by the Group to the LYNK & CO Group and the Geely Holding Group will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) the independent third parties from or to the Company.

***Pricing Basis***

Pursuant to the New Powertrain Sales Agreement, the Powertrain Products will be sold to the LYNK & CO Group and the Geely Holding Group at prices determined based on the formula below:

Selling price = C1 plus margin rate

Where:

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## LETTER FROM THE BOARD

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C1 = actual costs incurred by the Group in the manufacturing of the Powertrain Products plus related taxes.

The margin rate will be determined by the Company, LYNK & CO and Geely Holding after arm's length negotiation with reference to a transfer pricing analysis report on the median three-year weighted average cost-plus-margins of the comparable companies that are principally engaged in the sales and manufacturing of vehicle engines, transmissions and/or their related parts and components prepared by an independent certified public accountant or institution with the same qualification. The margin rate is 6% based on the transfer pricing analysis report issued on 30 September 2020 (the "**Powertrain Pricing Analysis Report**"). The aforementioned margin rate is only for the purpose of calculating the proposed annual caps below and may be changed from time to time and shall not be deemed as the fixed rate for the transactions throughout the term of the New Powertrain Sales Agreement. Having considered the pricing basis with reference to the Powertrain Pricing Analysis Report, the Directors consider the pricing basis under the New Powertrain Sales Agreement fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### ***Term***

From 1 January 2021 to 31 December 2023.

### ***Condition precedent***

The New Powertrain Sales Agreement is subject to the Company having complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the New Powertrain Sales Agreement.

If the above condition has not been fulfilled on or before 31 December 2020 (or such later date as the parties may agree in writing), the New Powertrain Sales Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

### ***Termination***

The New Powertrain Sales Agreement may be terminated if:

- (i) a three-month prior written notice to terminate the New Powertrain Sales Agreement is served by any party;
- (ii) any party ceases business, or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as resulted from material violation of the laws or regulations, declares bankrupt, is unable to perform its obligations under the New Powertrain Sales Agreement due to force majeure; or
- (iii) Geely Holding, LYNK & CO or any of their respective associates cease to be connected persons of the Company.

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## LETTER FROM THE BOARD

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### *Historical transactions amounts and proposed annual caps*

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the annual caps for the sale of Powertrain Products by the Group to the Geely Holding Group and the LYNK & CO Group pursuant to the 2017 Powertrain Sales Agreement for the three years ending 31 December 2020.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August	Approved annual caps for the year ended/ending 31 December		
	2018	2019	2020	2018	2019	2020
	<i>RMB million</i> (Audited)	<i>RMB million</i> (Audited)	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sale of Powertrain Products	1,248.1	2,035.2	1,778.4	9,179.8	14,556.5	15,661.1
Utilisation rate of annual caps				13.6%	14.0%	11.4% <sup>(Note)</sup>

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2020 by the approved annual cap for the full financial year ending 31 December 2020

The low utilization rates of the annual cap for the two years ended 31 December 2019 were primarily due to (i) the decline in demand of Powertrain Products from the Geely Holding Group and the LYNK & CO Group as a result of the decline in demand for Geely Holding-Owned Brands Vehicles and LYNK & CO-branded vehicles during the same period caused by the economic uncertainties and the intense competition with other automobile brands in the market; and (ii) the lower-than-expected sales of Powertrain Products for the use in the Volvo-branded vehicles to the Geely Holding Group which imported more vehicle engines and transmissions during the period. The low utilization rate of the annual cap for the year ending 31 December 2020 is due to the further decline in the sales of Powertrain Products to the Geely Holding Group and the LYNK & CO Group as a result of the decrease in demand of overall China's vehicle market due to the outbreak of New Coronavirus.

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## LETTER FROM THE BOARD

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The table below sets out the proposed Powertrain Sales Annual Caps for each of the three years ending 31 December 2023.

	<b>Proposed annual caps for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sale of Powertrain Products	9,047.3	15,527.6	18,232.5

### ***Basis of determination of the proposed annual caps***

The proposed Powertrain Sales Annual Caps were determined by the Directors with reference to (i) the estimated number of units of Powertrain Products for existing vehicle engine models to be sold by the Group to the LYNK & CO Group for its existing and new LYNK & CO-branded vehicles and the Geely Holding Group for (a) use in the commercial vehicles and the Volvo-branded vehicles of the Geely Holding Group; (b) the manufacturing of CKDs of Vision X6 vehicle model and the new vehicle model under the Geely brand; and (c) its onward sales of the Powertrain Products to the Proton Group based on the respective demand for such Powertrain Products for the three years ending 31 December 2023, which in turn were determined based on the projected production units of the respective vehicles of the LYNK & CO Group and the Geely Holding Group that will be equipped with the Powertrain Products manufactured by the Group for the same product; and (ii) the estimated actual costs of manufacturing the Powertrain Products (including but not limited to labour costs, material costs and overhead costs) and the related taxes for the three years ending 31 December 2023. The estimated actual manufacturing costs of the Powertrain Products was determined with reference to the historical unit cost per each type of Powertrain Products to be used for the eight months ended 31 August 2020; and (iii) the margin rate of 6% over such projected manufacturing costs with reference to the Powertrain Pricing Analysis Report.

The Powertrain Products under the proposed Powertrain Sales Annual Caps will be mainly sold to the LYNK & CO Group, which has been and will be continuing to enrich its vehicle portfolio by offering new vehicle models, for the use in its existing and new LYNK & CO-branded vehicles and, to a lesser extent, to the Geely Holding Group which will extend the use of the Powertrain Products in not just the Geely Holding-Owned Brands Vehicles and Volvo-branded vehicles but also the Geely-Branded Vehicles (including Vision X6 vehicle model and the new vehicle model under the Geely brand) and Proton-branded vehicles.

The Powertrain Sales Annual Caps for the years ending 31 December 2022 and 2023 represent a year-on-year growth of 71.6% and a year-on-year growth of 17.4% respectively. Such increases are generally in line with the annual growth in the estimated number of units of Powertrain Products to be sold by the Group to the LYNK & CO Group and the Geely Holding Group of approximately 64.4% and 14.0% for the years ending 31 December 2022 and 2023 respectively. The increase in the estimated number of units of Powertrain Products to be sold by the Group to the LYNK & CO Group and the Geely Holding Group for the three years ending 31 December 2023 are primarily due to the (i) expected increase in the demand of Powertrain Products from the LYNK & CO Group for the use in the existing and new LYNK & CO-branded vehicles; (ii) expected increase in demand for

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## LETTER FROM THE BOARD

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Powertrain Products to be sold to the Geely Holding Group for the manufacturing of CKDs of the new vehicle model under the Geely brand and for the use in its Volvo-branded vehicles. The Volvo-branded vehicles showed signs of recovery from the outbreak of the New Coronavirus following an increase in sales volume with a compound growth rate of approximately 16.3% from April 2020 to September 2020. In particular, the sales volume of the Volvo-branded vehicles recorded a month-on-month growth of approximately 32.0% in September 2020.

The estimated number of units of Powertrain Products to be sold by the Group to the LYNK & CO Group and the Geely Holding Group are expected to be significantly higher than the historical number of units of Powertrain Products sold under the 2017 Powertrain Sales Agreement after taking into account (i) the extended use of the Powertrain Products catering for a wider range of vehicle models for the three years ending 31 December 2023; (ii) the expected increase in demand for the Powertrain Products from the Geely Holding Group and the LYNK & CO Group which will continue to enrich their vehicle portfolio by offering new vehicle models; and (iii) improvement in sales performance of the relevant vehicle models following the gradual recovery from the outbreak of the New Coronavirus.

The Directors are of the view that the proposed Powertrain Sales Annual Caps for the three years ending 31 December 2023 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **REASONS FOR AND BENEFITS OF THE NEW POWERTRAIN SALES AGREEMENT**

The vehicle engines and transmissions manufactured by the Group will mainly be sold to the LYNK & CO Group for the use in the LYNK & CO-branded vehicles and the Geely Holding Group for (i) use in the commercial vehicles and the Volvo-branded vehicles of the Geely Holding Group; (ii) the manufacturing of CKDs of Vision X6 vehicle model and the new vehicle model under the Geely brand; and (iii) its onward sales of the Powertrain Products to the Proton Group. The vehicle engines and transmissions sold under the New Powertrain Sales Agreement meet the needs of the LYNK & CO Group and the Geely Holding Group for the manufacturing of high performance and multi-functional vehicles. As the development of the vehicles engines and transmissions manufactured by the Group improves, the Group expands to supply the Powertrain Products to the Geely Holding Group for the use in the commercial vehicle models of the Geely Holding Group. The sale of Powertrain Products by the Group to the Geely Holding Group and LYNK & CO Group pursuant to the New Powertrain Sales Agreement will also generate additional revenue stream for the Group.

### **RELEVANT INTERNAL CONTROL MEASURES**

For the sale of Powertrain Products by the Group to the Geely Holding Group and the LYNK & CO Group, the Group will monitor the manufacturing costs as well as the applicable PRC taxes to ensure that the selling price of the Powertrain Products are determined correctly. The Company, Geely Holding and LYNK & CO will negotiate the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by both parties in such transactions. The margin rate will be determined by the Company, Geely Holding and LYNK & CO after arm's length negotiation with reference to a pricing analysis report prepared by an independent certified public accountant or institution with the same qualification. The Company, LYNK & CO and Geely Holding will review the scope of the Powertrain

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## LETTER FROM THE BOARD

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Products to be sold by the Group to the LYNK & CO Group and the Geely Holding Group on yearly basis (or more frequently if it is determined necessary) to determine whether updated pricing analysis report should be obtained for the determination of the margin rate. The margin rate will be determined with reference to the median three-year weighted average cost-plus-margins of the comparable companies as stated in such updated pricing analysis report.

### **(D) Automobile Financing Arrangements**

To capture the growth of the automobile financing industry, Genius AFC (i) proposed to continue the LYNK & CO Finance Cooperation Agreement with LYNK & CO Sales; (ii) entered into the Fengsheng Finance Cooperation Agreement with Fengsheng Sales; and (iii) entered into the Geely Holding Finance Cooperation Agreement with Geely Holding on 4 November 2020 respectively.

#### **(i) LYNK & CO Financing Arrangements – The LYNK & CO Finance Cooperation Agreement**

Reference is made to the Company's announcement dated 3 November 2017 regarding the LYNK & CO Finance Cooperation Agreement pursuant to which Genius AFC agreed to provide vehicle financing services to the LYNK & CO Dealers and the LYNK & CO Retail Customers until the end of 2020. The LYNK & CO Finance Cooperation Agreement has an initial term of three years and will then continue unless and until terminated by either party by giving at least 6 months prior written notice, subject to the approvals from the regulators of the Company and the Independent Shareholders.

The principal terms of the LYNK & CO Finance Cooperation Agreement are set out below:

#### ***Date:***

3 November 2017

#### ***Parties***

- (i) Genius AFC; and
- (ii) LYNK & CO Sales

Genius AFC is a vehicle financing company established in the PRC, and is beneficially owned as to 80% and 20% by the Company and BNPP PF, respectively as at the Latest Practicable Date. Genius AFC is principally engaged in the provision of vehicles financing services in the PRC. The exercise of call option by BNPP PF to acquire additional equity interest in Genius AFC with reference to the announcement of the Company dated 12 August 2020 has not yet been completed as at the Latest Practicable Date.

As at the Latest Practicable Date, LYNK & CO Sales is a wholly owned subsidiary of LYNK & CO, which is a joint venture of the Company established and owned as to 50%, 20% and 30% by Zhejiang Jirun, Zhejiang Haoqing and VCI, respectively. Zhejiang Haoqing and VCI are owned as to

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## LETTER FROM THE BOARD

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100% and 97.8% by Geely Holding, which in turn is beneficially wholly owned by Mr. Li and his associate. As such, LYNK & CO Sales is an associate of Mr. Li and a connected person of the Company under the Listing Rules.

LYNK & CO Sales is a private limited liability company incorporated in the PRC and is principally engaged in the sales and marketing of LYNK & CO-branded vehicles and provision of after-sale services.

### ***Subject matter***

Under the LYNK & CO Finance Cooperation Agreement, Genius AFC will provide vehicle financing services to the LYNK & CO Dealers and the LYNK & CO Retail Customers, including (i) wholesale financing to the LYNK & CO Dealers to assist them to buy LYNK & CO-branded vehicles and eventually selling such vehicles to the LYNK & CO Retail Customers; and (ii) retail financing to the LYNK & CO Retail Customers to assist them to buy LYNK & CO-branded vehicles from the LYNK & CO Dealers.

### ***Term***

The LYNK & CO Finance Cooperation Agreement shall have an initial term of three years and shall then continue unless and until terminated by either party by giving at least 6 months prior written notice. Such continuation/renewal shall be pre-approved by (i) the regulators of the Company (i.e. the Stock Exchange); and (ii) the Independent Shareholders.

### ***Termination***

LYNK & CO Sales may terminate the LYNK & CO Finance Cooperation Agreement at any time if (i) Genius AFC becomes insolvent; or (ii) Genius AFC materially breaches, or materially fails to comply with, the LYNK & CO Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of LYNK & CO Sales giving Genius AFC written notice of such breach subject to the remediation clause under the LYNK & CO Finance Cooperation Agreement.

Genius AFC may terminate the LYNK & CO Finance Cooperation Agreement at any time if (i) LYNK & CO Sales becomes insolvent; or (ii) LYNK & CO Sales materially breaches, or materially fails to comply with, the LYNK & CO Finance Cooperation Agreement or any other agreement entered into or in connection with the LYNK & CO Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Genius AFC giving LYNK & CO Sales written notice of such breach subject to the remediation clause under the LYNK & CO Finance Cooperation Agreement.

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## LETTER FROM THE BOARD

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### *Conditions precedent*

The LYNK & CO Finance Cooperation Agreement shall take effect upon:

- (i) the approval of the Independent Shareholders on the LYNK & CO Financing Arrangements; and
- (ii) the approval of the Stock Exchange on the LYNK & CO Financing Arrangements, if required.

### *Principal terms regarding the mode of cooperation between Genius AFC and LYNK & CO Sales*

#### *(i) Cooperation*

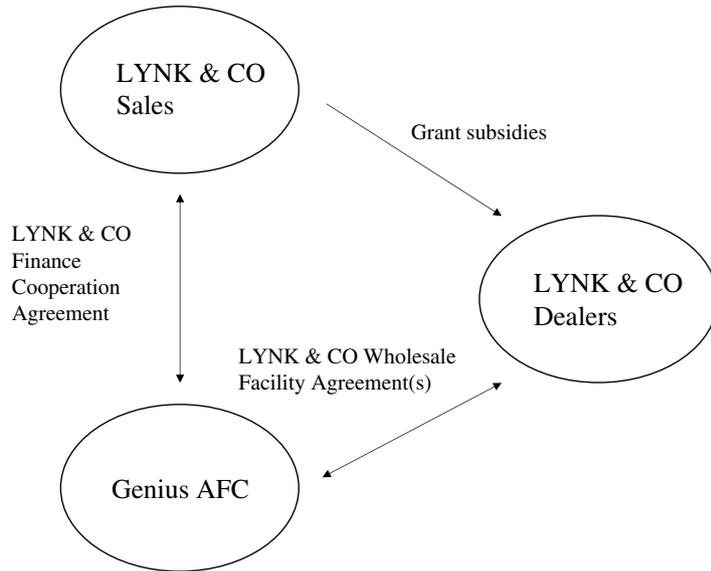
LYNK & CO Sales shall (a) use its reasonable endeavours to procure the LYNK & CO Dealers to use the LYNK & CO Wholesale Financing and to recommend their retail customers to use the LYNK & CO Retail Financing provided by Genius AFC; (b) for a LYNK & CO Dealer who is covered by the LYNK & CO Wholesale Financing, use its reasonable endeavours to grant subsidies to the benefit of such LYNK & CO Dealer in order to promote the LYNK & CO Wholesale Financing Business; and (c) for a LYNK & CO Dealer who is covered by the LYNK & CO Retail Financing, use its reasonable endeavours to grant subsidies for the promotional campaigns in relation to the LYNK & CO Retail Financing offered by Genius AFC to the LYNK & CO Retail Customers from such LYNK & CO Dealer, provided that the final choice of financial partner shall always be made by the LYNK & CO Dealers or the LYNK & CO Retail Customers. Genius AFC shall not be the exclusive provider of vehicle loans and other services particularly described in the LYNK & CO Finance Cooperation Agreement in the PRC to the LYNK & CO Dealers or the LYNK & CO Retail Customers, and other providers are and will also be appointed by LYNK & CO Sales to provide similar services. Notwithstanding the foregoing, should another independent vehicle financing company offer financing services under the same conditions, Genius AFC shall be the preferred partner of LYNK & CO Sales (i.e. Genius AFC shall be firstly recommended by LYNK & CO Sales to LYNK & CO Dealers for the LYNK & CO Wholesale Financing and LYNK & CO Retail Financing than other independent vehicle financing companies). The LYNK & CO Wholesale Financing and LYNK & CO Retail Financing are summarized in the flow charts as below:

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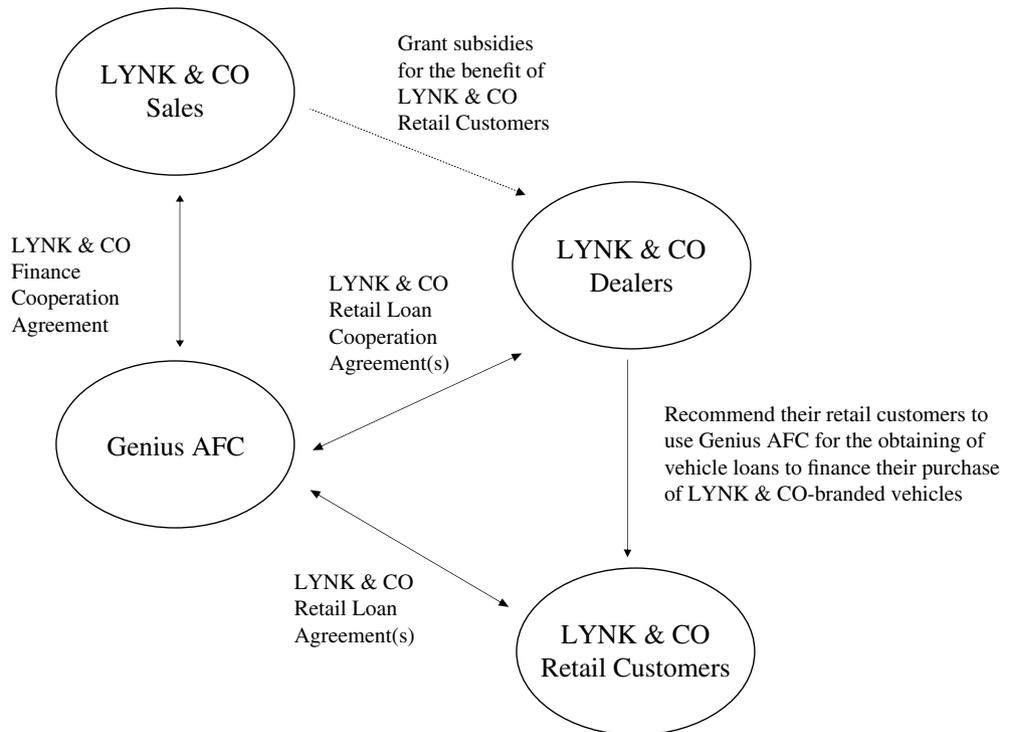
## LETTER FROM THE BOARD

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(1) LYNK & CO Wholesale Financing



(2) LYNK & CO Retail Financing



(ii) Pricing policy

Given Genius AFC is not the exclusive provider of financing services to the LYNK & CO Dealers or the LYNK & CO Retail Customers, the fierce competition in the PRC automobile financing market and that the Independent LYNK & CO Dealers and the LYNK & CO Retail

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## LETTER FROM THE BOARD

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Customers are independent third parties to Genius AFC, Genius AFC's sales and marketing department will communicate with the LYNK & CO Dealers on an ongoing basis (including obtaining feedbacks from LYNK & CO Dealers on the range of lending rates and other major terms offered by other vehicle financing companies) to ensure that the terms of the LYNK & CO Wholesale Facility Agreement and the LYNK & CO Retail Loan Agreement are competitive at all times during the term of the LYNK & CO Finance Cooperation Agreement, and such terms shall be in line with general automobile financing market practice. All loan and product pricing proposals are also prepared in accordance with the internal control procedures as disclosed in the paragraph headed "Internal Control Measures in relation to the Automobile Financing Arrangements – Internal Control within Genius AFC". Genius AFC shall have the sole discretion in determining the final pricing of the services to be applied to the LYNK & CO Dealers and the LYNK & CO Retail Customers. The final pricing of the services will be determined by Genius AFC after taking into consideration various factors, including its cost of funds, the borrower's risk profile, which will be assessed by Genius AFC in accordance with the section headed "(iii) Lending Risk" below, as well as the lending rates offered by the competitors.

The interest rates, at the time of each setting, for the loans to be provided by Genius AFC to the LYNK & CO Dealers and the LYNK & CO Retail Customers shall be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with.

*(iii) Lending risk*

Genius AFC is primarily regulated by the CBIRC. In addition, PBOC and the Ministry of Finance of the PRC also have regulatory oversight of the automobile financing industry. CBIRC and PBOC enacted the Measures for the Administration of Automotive Loans and the Measures for the Administration of Automobile Finance Companies, respectively to standardize the management of automotive loan business.

All lending risk assessments and decisions shall be the sole responsibility of Genius AFC, and such decisions shall conform to applicable regulatory requirements. The extension of financing in any form to any LYNK & CO Dealer or any LYNK & CO Retail Customer is subject to satisfactory credit risk assessment in accordance with the Genius AFC's credit risk management procedures (one example would be assessing the debt-to-asset ratio of LYNK & CO Dealer) and the internal risk and management policies for the retail and wholesale financing businesses which were prepared by the risk control and operation departments and approved by the board of Genius AFC, as from time to time determined by Genius AFC at its sole discretion.

In relation to the credit risk assessment procedures for the LYNK & CO Wholesale Financing Business, the risk control department of Genius AFC will review the credit applications with supporting materials submitted by the LYNK & CO Dealers and will prepare proposals for the granting of credit lines. The risk control committee of Genius AFC will appraise and decide on the granting of credit lines.

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## LETTER FROM THE BOARD

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The credit application shall be subject to Genius AFC board's approval for granting of credit lines exceeding the internal threshold set by Genius AFC. In addition to the aforesaid assessment on the debt-to-asset ratios of the LYNK & CO Dealers, other factors will also be taken into the consideration including, but not limited to, company background, its experience in the automobile industry as well as the brand (for instance, a LYNK & CO Dealer which has sufficient experience in the auto-trading business and is familiar with the LYNK & CO brand is more likely to achieve better operating results), capital structure (such as the capitalization of the LYNK & CO Dealers, and whether the LYNK & CO Dealers' capital structure has already shown signs of high financial leverage (which is an indication of potential credit risks)), profitability and financial performance (for example, a good track record of profitability is an indication of enhanced liquidity and hence relatively lower credit risks) of the LYNK & CO Dealers. The LYNK & CO Dealers who have been granted with credit lines are required to submit to Genius AFC their financial reports monthly and audited accounts (if any) annually which will both be reviewed and assessed by the risk control department of Genius AFC. Based on the said assessment results, Genius AFC will consider to adjust the credit line granted if there is any substantial change in the financial and operating performance of such LYNK & CO Dealers.

In relation to the credit risk assessment procedures for the LYNK & CO Retail Financing Business, Genius AFC has utilized a computerized internal risk assessment expert system, which enables Genius AFC to perform credit risk assessment procedures using big data analysis. For the purpose of risk assessment, the risk control department of Genius AFC will set specifications for the retail products to determine whether to accept the loan application from the retail applicants, based on the retail applicant's earnings, credit history and repayment capability. Sound credit history and proof of recurring income of a retail applicant are normally indications of enhanced repayment capability. The risk control committee of Genius AFC will then review and approve the specifications rules for the retail products. Based on the evaluation by the computerized internal risk assessment expert system which is configured and modified by the risk control department from time to time, the decisions on whether to grant the loans to the retail applicants would be made by the system and the retail underwriting team of the operation department of Genius AFC (the "**Underwriting Team**"). The general responsibilities of the Underwriting Team also include verifying the information and materials provided by the retail applicants and assessing the retail applicants' credibility in order to make final credit decisions on the applications. Upon granting of the vehicle loan to a retail borrower, the collection team of the operation department of Genius AFC would monitor the performance of such loan and would follow up on any delinquency and/or default in payment.

(iv) *Term of the loan*

The maximum term of a loan to a LYNK & CO Dealer shall be 360 days. The maximum term of a loan to a LYNK & CO Retail Customer shall be 60 months.

(v) *Subsidies*

Genius AFC shall provide financing to all LYNK & CO Dealers according to the sales objectives and regional coverage agreed with LYNK & CO Sales. LYNK & CO Sales may from time to time offer LYNK & CO Dealers support with their vehicle financing and stocking costs and may choose to pay the interest accruing under the relevant LYNK & CO Wholesale Facility Agreement on

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## LETTER FROM THE BOARD

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behalf of the LYNK & CO Dealers for an agreed period of time. In practice, LYNK & CO Sales will provide subsidies to the LYNK & CO Dealers who enter into the LYNK & CO Wholesale Facility Agreements with Genius AFC for the LYNK & CO Wholesale Financing and the LYNK & CO Dealers who enter into the LYNK & CO Retail Loan Cooperation Agreements with Genius AFC for the benefits of the retail borrowers in the LYNK & CO Retail Financing, subject to the final assessment of the market situation (e.g. sales performance of the LYNK & CO-branded vehicles) by LYNK & CO Sales. The terms and period of such subsidies shall be determined by LYNK & CO Sales in its quarterly sales incentive policy.

(vi) *Security*

Under the LYNK & CO Wholesale Facility Agreement and the LYNK & CO Retail Loan Agreement, acceptable securities may include security deposits, security over the LYNK & CO Dealers' or LYNK & CO Retail Customers' vehicles and/or other types of guarantees.

***Principal terms to be applied to the LYNK & CO Wholesale Facility Agreements and the LYNK & CO Retail Loan Agreements***

(i) *LYNK & CO Wholesale Facility Agreements*

After commencement of the LYNK & CO Wholesale Financing Business, Genius AFC will enter into individual LYNK & CO Wholesale Facility Agreements with the LYNK & CO Dealers, pursuant to which Genius AFC will provide LYNK & CO Wholesale Financing to such LYNK & CO Dealers to facilitate their purchase of LYNK & CO-branded vehicles. The terms of the LYNK & CO Wholesale Facility Agreements (including, among others, pricing policy, loan term, credit limits, etc.) that Genius AFC will enter into with such LYNK & CO Dealers are expected to be consistent with the terms of the LYNK & CO Finance Cooperation Agreement as disclosed above.

(ii) *LYNK & CO Retail Loan Agreements*

Genius AFC will enter into the LYNK & CO Retail Loan Cooperation Agreements with the LYNK & CO Dealers. Pursuant to the LYNK & CO Retail Loan Cooperation Agreements to be entered into between Genius AFC and the LYNK & CO Dealers, the LYNK & CO Dealers shall recommend their retail customers (i.e. the LYNK & CO Retail Customers) to use Genius AFC for the obtaining of vehicle loans to finance their purchase of LYNK & CO-branded vehicles.

For the LYNK & CO Retail Financing, during the term of the LYNK & CO Finance Cooperation Agreement, Genius AFC would further enter into the LYNK & CO Retail Loan Agreements with the LYNK & CO Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such LYNK & CO Retail Customers to facilitate their purchase of LYNK & CO-branded vehicles. The terms of the LYNK & CO Retail Loan Agreements (including, among other things, pricing, loan term, credit limits, etc.) are consistent with the terms of the LYNK & CO Finance Cooperation Agreement as disclosed above.

## LETTER FROM THE BOARD

### *Annual Caps under the LYNK & CO Finance Cooperation Agreement*

#### *LYNK & CO Wholesale Annual Caps*

The table below sets out (i) the historical transaction amounts of vehicle financing services provided by Genius AFC to the LYNK & CO Dealers which included only Independent LYNK & CO Dealers for each of the two years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the approved annual caps for the LYNK & CO Wholesale Financing for each of the three years ending 31 December 2020 and their respective utilisation rates.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August	Approved annual caps for the year ended/ending 31 December		
	2018	2019	2020	2018	2019	2020
	<i>RMB million</i> (Audited)	<i>RMB million</i> (Audited)	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts provided by Genius AFC to the LYNK & CO Dealers under the LYNK & CO Wholesale Financing	-	20.9	34.2	13,215.0	24,450.0	24,191.0
Utilisation rate of annual caps				0%	0.1%	0.1% <sup>(Note)</sup>

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2020 by the approved annual cap for the full financial year ending 31 December 2020.

The historical amounts only include vehicle financing services provided by the Genius AFC to the Independent LYNK & CO Dealers as the Connected LYNK & CO Dealers, which were only set up in 2020, had not entered into any LYNK & CO Wholesale Facility Agreement with Genius AFC. The low utilisation rates of the annual caps for the two years ended 31 December 2019 and the eight months ended 31 August 2020 were primarily due to (i) the LYNK & CO-branded vehicles were only launched in the second half of 2017 and were still in early promotion and marketing stage during the year of 2018 and 2019; (ii) Genius AFC only started the LYNK & CO Wholesale Financing at the end of the third quarter of 2019 as it took longer-than-expected to develop the business and network with the LYNK & CO Dealers; (iii) decrease in demand of vehicles caused by the outbreak of the New Coronavirus in 2020 which led to lower demand for LYNK & CO Wholesale Financing; and (iv) the lower-than-expected wholesale finance coverage as a result of intense competition from other financial institutions for automobile wholesale financing services. As a result, the penetration of the LYNK & CO Wholesale Financing by Genius AFC was lower than originally expected. In this regard, Genius AFC has revised the annual caps of LYNK & CO Wholesale Financing downward for the three years ending 31 December 2023.

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## LETTER FROM THE BOARD

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The table below sets out the proposed LYNK & CO Wholesale Annual Caps for each of the three years ending 31 December 2023.

	<b>Proposed annual caps for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts to be provided by Genius AFC to the LYNK & CO Dealers under the LYNK & CO Wholesale Financing	450.0	675.0	1,125.0

### ***Basis of determination of the LYNK & CO Wholesale Annual Caps***

For determining the proposed LYNK & CO Wholesale Annual Caps, Genius AFC has taken into account (i) the projected units of LYNK & CO-branded vehicles to be purchased by the LYNK & CO Dealers, which have a total number of around 300 as at the Latest Practicable Date, for each of the three years ending 31 December 2023. Such projection was determined by the LYNK & CO Group with reference to the sales volume projection of the LYNK & CO-branded vehicles after taking into account (a) the extended dealership network to the Connected LYNK & CO Dealers for the purpose of the LYNK & CO Financing Arrangements; (b) the increasing demand of the existing LYNK & CO-branded vehicles following the gradual recovery from the New Coronavirus which was supported by an increase of approximately 18.8% in total sales volume for the nine months ended 30 September 2020 when compared to the same period in 2019; and (c) the introduction of the new LYNK & CO-branded vehicles. The projected unit purchase of LYNK & CO-branded vehicles represent year-on-year expected increase of over 20% for each of the years ending 31 December 2022 and 2023; (ii) the expected average selling price and average loan amount for each unit of the LYNK & CO-branded vehicles to the LYNK & CO Dealers for each of the three years ending 31 December 2023 which was determined with reference to the historical average selling price and average loan amount for each unit of the LYNK & CO-branded vehicles for the eight months ended 31 August 2020; and (iii) the estimated wholesale finance coverage by Genius AFC's LYNK & CO Wholesale Financing Business of 1.2%, 1.5% and 2.0% for each of the years ending 31 December 2021, 2022 and 2023 respectively with reference to the historical average LYNK & CO wholesale finance coverage of 0.3% for the eight months ended 31 August 2020 and the expected increase in wholesale finance penetration following the accumulation of experience and business network of Genius AFC and the introduction of the Connected LYNK & CO Dealers in the LYNK & CO Wholesale Financing Business. The estimated wholesale finance coverage of LYNK & CO Wholesale Financing is lower than the wholesale finance penetration of the PRC automobile industry (including both first-hand and second-hand vehicles) of 16.3% in 2019 in view of a more prudent estimation being adopted based on the relatively low historical wholesale finance coverage of LYNK & CO Wholesale Financing.

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## LETTER FROM THE BOARD

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The increase in the proposed LYNK & CO Wholesale Annual Caps for the three years ending 31 December 2023 is primarily due to the expected increase in the purchase of LYNK & CO-branded vehicles by the LYNK & CO Dealers due to the increase in demand of the existing and new LYNK & CO-branded vehicles from the retail customers and the gradual increase in the estimated wholesale finance coverage.

### *LYNK & CO Retail Annual Caps*

The table below sets out (i) the historical transaction amounts for each of the two years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the annual caps for the LYNK & CO Retail Financing for each of the three years ending 31 December 2020 and their respective utilisation rates.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August 2020	Approved annual caps for the year ended/ending 31 December		
	2018	2019	2020	2018	2019	2020
	<i>RMB million</i> (Audited)	<i>RMB million</i> (Audited)	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts provided by Genius AFC to the LYNK & CO Retail Customers under the LYNK & CO Retail Financing	1,397.6	4,811.4	2,830.2	9,544.0	20,601.0	23,295.0
Utilisation rate of annual caps				14.6%	23.4%	12.1% <sup>(Note)</sup>

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2020 by the approved annual cap for the full financial year ending 31 December 2020.

The historical amounts only include vehicle financing services provided by the Genius AFC to the LYNK & CO Retail Customers who will purchase LYNK & CO-branded vehicles from the Independent LYNK & CO Dealers as the Connected LYNK & CO Dealers, which were only set up in 2020, had not entered into any LYNK & CO Retail Loan Cooperation Agreement with Genius AFC. The low utilisation rates of the annual caps for the two years ended 31 December 2019 and the eight months ended 31 August 2020 were mainly due to the lower-than-expected demand of LYNK & CO-

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## LETTER FROM THE BOARD

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branded vehicles in China throughout the year of 2018 and 2019 as a result of the intense competition with other automobile brands in the market and the outbreak of the New Coronavirus in 2020 which led to lower demand for LYNK & CO-branded vehicles.

The table below sets out the proposed LYNK & CO Retail Annual Caps for each of the three years ending 31 December 2023.

	<b>Proposed annual caps for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts to be provided by Genius AFC to the LYNK & CO Retail Customers under the LYNK & CO Retail Financing	10,153.9	13,303.5	17,149.7

### ***Basis of determination of the LYNK & CO Retail Annual Caps***

When determining the proposed LYNK & CO Retail Annual Caps, Genius AFC has taken into account (i) the projected unit sales of LYNK & CO-branded vehicles to the LYNK & CO Retail Customers for each of the three years ending 31 December 2023 by the LYNK & CO Dealers, which have a total number of around 300 as at the Latest Practicable Date, after taking into account (a) the extended dealership network to the Connected LYNK & CO Dealers for the purpose of the LYNK & CO Financing Arrangements; (b) the increasing demand of the existing LYNK & CO-branded vehicles following the gradual recovery from the New Coronavirus which was supported by an increase of approximately 18.8% in total sales volume for the nine months ended 30 September 2020 when compared to the same period in 2019; and (c) the introduction of the new LYNK & CO-branded vehicles. The projected unit sales of LYNK & CO-branded vehicles represent a year-on-year expected increase of over 20% for each of the years ending 31 December 2022 and 2023; (ii) the projected average retail selling price and average vehicle loan amount for each unit of the LYNK & CO-branded vehicles for each of the three years ending 31 December 2023, which was determined with reference to the historical average selling price and average vehicle loan amount for each unit of the LYNK & CO-branded vehicles for the eight months ended 31 August 2020; and (iii) the estimated retail financing penetration of the LYNK & CO Retail Financing of 46%, 48% and 50%, respectively for each of the three years ending 31 December 2023. The above retail financing penetration represents the estimated percentage of the LYNK & CO Retail Customers' purchases which will be financed by loans provided by Genius AFC.

When determining the said retail financing penetration rate of the LYNK & CO Retail Financing, Genius AFC has made reference to the historical average retail financing penetration of 44.0% and 42.5% for the year ended 31 December 2019 and the eight months ended 31 August 2020 respectively and the expectation that more LYNK & CO Retail Customers will choose to use LYNK & CO Retail Financing in light of the increased level of promotional activities, incentives and training to be undertaken by Genius AFC and LYNK & CO Sales to increase penetration rate.

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## LETTER FROM THE BOARD

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The Directors expect the estimated retail financing penetration of LYNK & CO Retail Financing for Independent LYNK & CO Dealers and Connected LYNK & CO Dealers to be increased by 2% annually for the two years ending 31 December 2023 to be consistent with the increasing trend of the retail financing penetration of the auto financing industry (including both first-hand and second-hand vehicles) in the PRC which grew by 1.7% and 4.2% for the years ended 31 December 2018 and 31 December 2019, respectively. The Directors also believe that the onward promotion from the LYNK & CO Dealers in the coming years will further increase the retail financing penetration of LYNK & CO Retail Financing as well.

**(ii) *Fengsheng Financing Arrangements – Fengsheng Finance Cooperation Agreement***

On 4 November 2020 (after trading hours), Genius AFC and Fengsheng Sales entered into the Fengsheng Finance Cooperation Agreement pursuant to which Genius AFC will provide vehicle financing services to the Fengsheng Retail Customers for their purchase of Maple-Branded Vehicles from the Fengsheng Dealers. Details of the Fengsheng Finance Cooperation Agreement are set out below:

***Date***

4 November 2020 (after trading hours)

***Parties***

Genius AFC and Fengsheng Sales

Please refer to the paragraph headed “(D) Automobile Financing Arrangements (i) LYNK & CO Financing Arrangements – LYNK & CO Finance Cooperation Agreement – Parties” for further details regarding Genius AFC.

As at the Latest Practicable Date, Fengsheng Sales is ultimately wholly owned by Fengsheng. Fengsheng is owned as to 78% by Geely Technology and 22% by Kandi Vehicles while Geely Technology is beneficially wholly owned by Mr. Li and his associate. Fengsheng Sales is principally engaged in the sale of Maple-Branded Vehicles and the wholesale and retail businesses of related parts and components.

***Subject matter***

The Fengsheng Finance Cooperation Agreement sets out the terms under which Genius AFC will provide vehicle financing services to the Fengsheng Retail Customers to assist them to buy Maple-Branded Vehicles from the Fengsheng Dealers.

***Term***

The Fengsheng Finance Cooperation Agreement will have an initial term of three years and will then continue unless and until terminated by either party by giving at least six months prior written notice. Such continuation/renewal will be subject to the approval of (i) the regulators of the Company (that is, the Stock Exchange), if required; and (ii) the Independent Shareholders.

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## LETTER FROM THE BOARD

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### *Conditions precedent*

The Fengsheng Finance Cooperation Agreement shall take effect upon:

- (i) the approval of the Independent Shareholders on the Fengsheng Financing Arrangements; and
- (ii) the approval of the Stock Exchange on the Fengsheng Financing Arrangements, if required.

### *Termination*

Fengsheng Sales may terminate the Fengsheng Finance Cooperation Agreement with immediate effect if (i) Genius AFC becomes insolvent; or (ii) Genius AFC materially breaches, or materially fails to comply with, the Fengsheng Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Fengsheng Sales giving Genius AFC written notice of such breach subject to the remediation clause under the Fengsheng Finance Cooperation Agreement.

Genius AFC may terminate the Fengsheng Finance Cooperation Agreement with immediate effect if (i) Fengsheng Sales becomes insolvent; or (ii) Fengsheng Sales materially breaches, or materially fails to comply with, the Fengsheng Finance Cooperation Agreement or any other agreement entered into or in connection with the Fengsheng Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Genius AFC giving Fengsheng Sales written notice of such breach subject to the remediation clause under the Fengsheng Finance Cooperation Agreement.

### *Principal terms regarding the mode of cooperation between Genius AFC and Fengsheng Sales*

#### *(i) Cooperation*

Fengsheng Sales will (a) use its reasonable endeavours to procure the Fengsheng Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC; and (b) use its reasonable endeavours to grant subsidies to the Fengsheng Dealers who are covered by the Fengsheng Retail Financing Business for the promotional campaigns in relation to the retail financing services offered by Genius AFC to the Fengsheng Retail Customers from such Fengsheng Dealers, provided that the final choice of financial partner will always be made by the Fengsheng Retail Customers.

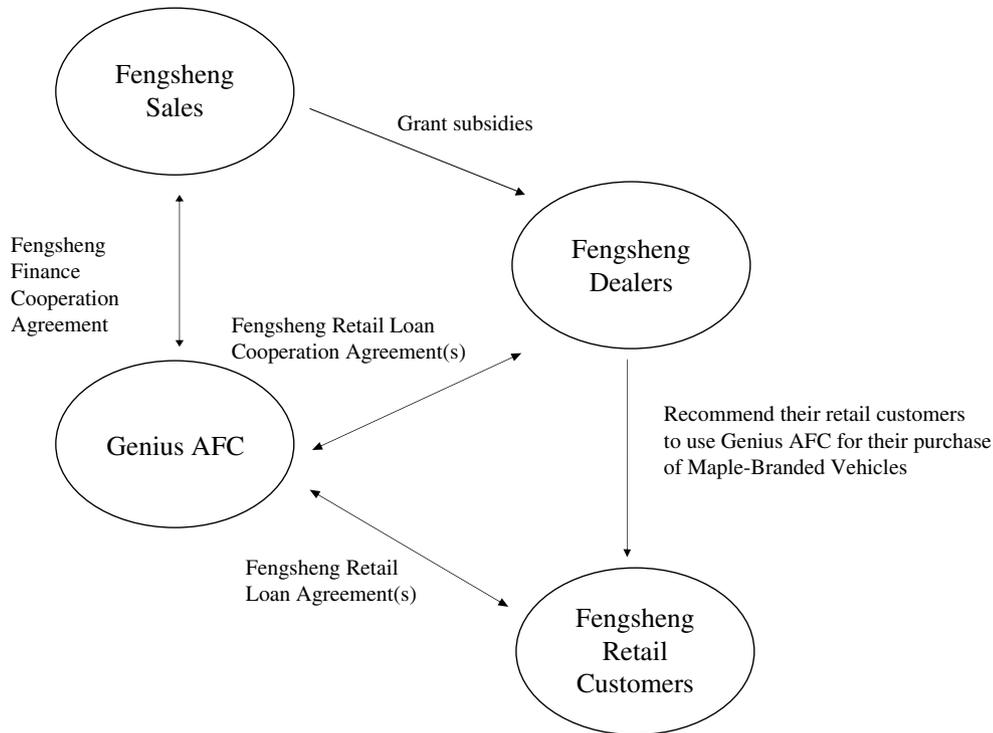
Genius AFC will not be the exclusive provider of vehicle loans as described in the Fengsheng Finance Cooperation Agreement to the Fengsheng Retail Customers. Notwithstanding the foregoing, should another independent vehicle financing company offer vehicle financing services under the same conditions, Genius AFC will be the preferred partner of Fengsheng Sales for the provision of vehicle financing services.

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## LETTER FROM THE BOARD

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The mode of cooperation between Genius AFC and Fengsheng Sales for the Fengsheng Retail Financing Business are summarized as below:



(ii) *Pricing policy*

Genius AFC will enter into the Fengsheng Retail Loan Agreements with the Fengsheng Retail Customers for the Fengsheng Retail Financing Business. Genius AFC will ensure that the terms of the Fengsheng Retail Loan Agreements are competitive at all times during the term of the Fengsheng Finance Cooperation Agreement, and such terms will be in line with general automobile financing market practice. Notwithstanding the foregoing, Genius AFC will have the sole discretion in determining the final pricing to be applied to the Fengsheng Retail Customers.

The Fengsheng Finance Cooperation Agreement provides guidance with respect to the interest rates charged by Genius AFC for the Fengsheng Retail Financing Business. The interest rates, at the time of each setting, for the loans provided by Genius AFC to the Fengsheng Retail Customers will be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with.

In practice, given that Genius AFC will not be the exclusive provider of financing services to the Fengsheng Retail Customers, which are independent third parties to Genius AFC, the sales and marketing department of Genius AFC will communicate with the Fengsheng Dealers on an ongoing basis to keep abreast of the market information.

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## LETTER FROM THE BOARD

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(iii) *Lending risk*

Genius AFC is primarily regulated by the CBIRC. For details of the background of Genius AFC, please refer to the paragraph headed “(D) Automobile Financing Arrangements (i) LYNK & CO Financing Arrangements – The LYNK & CO Finance Cooperation Agreement – Principal terms regarding the mode of cooperation between Genius AFC and LYNK & CO Sales – (iii) Lending risk”.

All lending risk assessments and decisions will be the sole responsibility of Genius AFC, and such decisions will conform to applicable regulatory requirements. The extension of financing in any form to any Fengsheng Retail Customer is subject to satisfactory credit risk assessment in accordance with the Genius AFC’s credit risk management procedures and all other internal risk and management policies as from time to time determined by Genius AFC at its sole discretion.

For the Fengsheng Retail Financing Business, Genius AFC will adopt similar credit risk assessment and loan approval procedures as those for the LYNK & CO Retail Financing. Please refer to the paragraph headed “(D) Automobile Financing Arrangements (i) LYNK & CO Financing Arrangements – The LYNK & CO Finance Cooperation Agreement – Principal terms regarding the mode of cooperation between Genius AFC and LYNK & CO Sales – (iii) Lending risk” for further details.

(iv) *Term of the loan*

The maximum term of a loan to a Fengsheng Retail Customer shall be 60 months.

(v) *Subsidies*

Fengsheng Sales will provide subsidies to the Fengsheng Dealers who enter into the Fengsheng Retail Loan Cooperation Agreements with Genius AFC for the benefits of the retail borrowers in the Fengsheng Retail Financing Business, subject to the final assessment of the market situation (such as sales performance of the Maple-Branded Vehicles) by Fengsheng Sales. The terms and period of such subsidies will be determined by Fengsheng Sales in its quarterly sales incentive policies.

(vi) *Security*

Under the Fengsheng Retail Loan Agreement, acceptable securities may include security over the Fengsheng Retail Customers’ vehicles and/or different types of guarantees.

***Principal terms to be applied to the Fengsheng Retail Loan Agreements***

Genius AFC will enter into the Fengsheng Retail Loan Cooperation Agreements with the Fengsheng Dealers, pursuant to which the Fengsheng Dealers will recommend their retail customers (that is, the Fengsheng Retail Customers) to use Genius AFC for obtaining vehicle loans to finance their purchase of Maple-Branded Vehicles.

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## LETTER FROM THE BOARD

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After the commencement of the Fengsheng Retail Financing Business, Genius AFC will further enter into the Fengsheng Retail Loan Agreements with the Fengsheng Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such Fengsheng Retail Customers to facilitate their purchase of Maple-Branded Vehicles. The terms of the Fengsheng Retail Loan Agreements (including, among other things, pricing, loan term, credit limits, etc.) are expected to be consistent with the terms of the Fengsheng Finance Cooperation Agreement as disclosed above.

### *Fengsheng Financing Annual Caps*

There were no historical transaction amounts for the Fengsheng Retail Financing Business as it is expected to commence in the first quarter of 2021. The table below sets out the proposed Fengsheng Financing Annual Caps for each of the three years ending 31 December 2023.

	<b>Proposed annual caps for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts to be provided by Genius AFC to the Fengsheng Retail Customers under the Fengsheng Retail Financing Business	72.3	120.5	241.0

### *Basis of determination of the Fengsheng Financing Annual Caps*

When determining the proposed Fengsheng Financing Annual Caps, Genius AFC has taken into account (i) the projected units of Maple-Branded Vehicles to be sold by the Independent Fengsheng Dealers, which have a total number of over 40 as at the Latest Practicable Date, for the three years ending 31 December 2023 based on Fengsheng's estimation. The projected units of Maple-Branded Vehicles to be sold by the Independent Fengsheng Dealers for each of the years ending 31 December 2022 and 2023 represent a year-on-year expected increase of over 50%; (ii) the projected average retail selling price and average loan amount for each unit of Maple-Branded Vehicles for the three years ending 31 December 2023; and (iii) the estimated retail financing penetration of the Fengsheng Retail Financing Business of 10% for each of the three years ending 31 December 2023. The above retail financing penetration represents the estimated percentage of the Fengsheng Retail Customers' purchases which will be financed by loans provided by Genius AFC. The low estimated retail financing penetration mentioned above is mainly due to: (i) the early stage of development of the Fengsheng Retail Financing Business which usually takes longer time to increase the retail financing penetration; and (ii) the relatively low price of Maple-Branded Vehicles which results in lower demand of vehicle loans.

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## LETTER FROM THE BOARD

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*(iii) Geely Holding Financing Arrangements – Geely Holding Finance Cooperation Agreement*

On 4 November 2020, Genius AFC and Geely Holding entered into the Geely Holding Finance Cooperation Agreement pursuant to which Genius AFC will provide vehicle financing services to the Geely Retail Customers to assist them to purchase (a) Geely Holding-Owned Brands Vehicles from the Geely Holding Dealers; or (b) Geely-Branded Vehicles from the Connected Geely Dealers. Details of the Geely Holding Finance Cooperation Agreement is set out below:

***Date***

4 November 2020 (after trading hours)

***Parties***

Genius AFC and Geely Holding

Please refer to the paragraph headed “(D) Automobile Financing Arrangements (i) LYNK & CO Financing Arrangements – LYNK & CO Finance Cooperation Agreement – Parties” for further details regarding Genius AFC.

Please refer to the paragraph headed “(A) Master CKDs and Automobile Components Purchase Agreement – Parties” for further details regarding Geely Holding.

Genius AFC can provide automobile financing and related services for the automobile manufacturers of various automobile brands under the Geely Holding Group, including but not limited to providing wholesale financing services and retail financing services to the authorised dealers of such automobile dealers and the retail customers who purchase vehicles from the aforementioned authorised dealers respectively.

***Subject matter***

Under the Geely Holding Finance Cooperation Agreement, Geely Holding will use its reasonable endeavours to procure the Geely Holding Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC for the purchase of the Geely Holding-Owned Brands Vehicles. Genius AFC will enter into the individual finance cooperation agreement with the Geely Holding Automobile Entities pursuant to the Geely Holding Finance Cooperation Agreement. In addition, under the Geely Holding Finance Cooperation Agreement, Geely Holding shall procure the Connected Geely Dealers, which have been operated by the Geely Holding Group from 2020, to recommend their retail customers to use Genius AFC for the obtaining of vehicle loans to finance their purchase of Geely-Branded Vehicles. After the commencement of the Geely Holding Retail Financing Business, Genius AFC will enter into individual Geely Holding Retail Loan Agreements and Geely Retail Loan Agreements with the Geely Retail Customers respectively.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, the provision of vehicle financing services by Genius AFC pursuant to the Volvo Finance Cooperation Agreements as approved by the independent shareholders of the Company with reference to the announcement on 15 March 2019 will not be covered by the Geely Holding Finance Cooperation Agreement.

### ***Term***

The Geely Holding Finance Cooperation Agreement will have an initial term of three years and will then continue unless and until terminated by either party by giving at least six months prior written notice. Such continuation/renewal will be subject to the approval of (i) the regulators of the Company (that is, the Stock Exchange), if required; and (ii) the Independent Shareholders.

### ***Conditions precedent***

The Geely Holding Finance Cooperation Agreement shall take effect upon:

- (i) the approval of the Independent Shareholders on the Geely Holding Financing Arrangements; and
- (ii) the approval of the Stock Exchange on the Geely Holding Financing Arrangements, if required.

### ***Termination***

Geely Holding may terminate the Geely Holding Finance Cooperation Agreement with immediate effect if (i) Genius AFC becomes insolvent; or (ii) Genius AFC materially breaches, or materially fails to comply with, the Geely Holding Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Geely Holding giving Genius AFC written notice of such breach subject to the remediation clause under the Geely Holding Finance Cooperation Agreement.

Genius AFC may terminate the Geely Holding Finance Cooperation Agreement with immediate effect if (i) Geely Holding becomes insolvent; or (ii) Geely Holding materially breaches, or materially fails to comply with, the Geely Holding Finance Cooperation Agreement or any other agreement entered into or in connection with the Geely Holding Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Genius AFC giving Geely Holding written notice of such breach subject to the remediation clause under the Geely Holding Finance Cooperation Agreement.

### ***Principal terms regarding the mode of cooperation between Genius AFC and Geely Holding***

Geely Holding will use its reasonable endeavours to procure the Geely Holding Dealers and the Connected Geely Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC for the purchase of Geely Holding-Owned Brands Vehicles and Geely-Branded Vehicles, respectively. Genius AFC will provide vehicles loans and related services to the

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## LETTER FROM THE BOARD

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Geely Retail Customers to finance their purchase of the Geely Holding-Owned Brands Vehicles or Geely-Branded Vehicles from the Geely Holding Dealers and the Connected Geely Dealers, respectively.

### *Cooperation among Genius AFC, Geely Holding Automobile Entities and Geely Holding Dealers*

Pursuant to the Geely Holding Finance Cooperation Agreement, Genius AFC will enter into the individual finance cooperation agreements with the Geely Holding Automobile Entities in which the major terms of the individual finance cooperation agreements are set out in the appendix to the Geely Holding Finance Cooperation Agreement (the “**Finance Cooperation Agreement Template**”).

The details of principal terms of the Finance Cooperation Agreement Template are set out below:

(i) *Cooperation*

The Geely Holding Automobile Entities will (a) use their reasonable endeavours to procure the Geely Holding Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC; and (b) use their reasonable endeavours to grant subsidies to the dealers who is covered by the Geely Holding Retail Financing Business for the promotional campaigns in relation to the retail financing services offered by Genius AFC to the retail customers from such dealers, provided that the final choice of financial partner will always be made by the Geely Retail Customers.

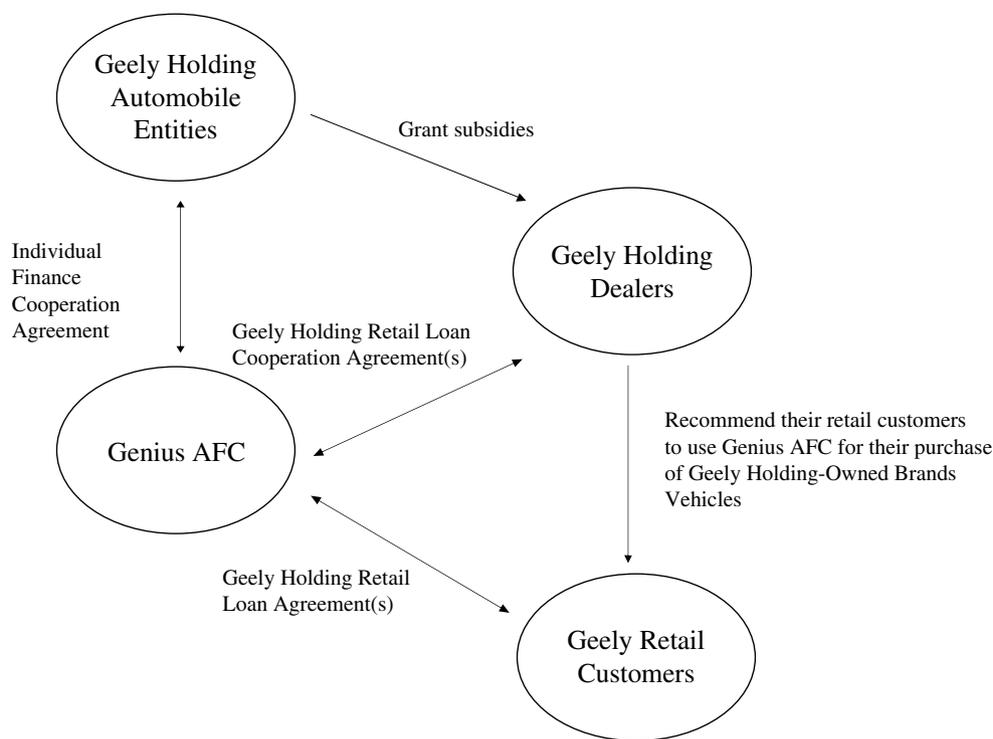
Genius AFC will not be the exclusive provider of vehicle loans as described in the Finance Cooperation Agreement Template to the Geely Retail Customers. Notwithstanding the foregoing, should another independent vehicle financing company offer vehicle financing services under the same conditions, Genius AFC will be the preferred partner of the Geely Holding Automobile Entities for the provision of vehicle financing services.

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## LETTER FROM THE BOARD

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The mode of cooperation between Genius AFC and Geely Holding Automobile Entities for the Geely Holding Retail Financing Business are summarised as below:



Genius AFC will enter into the Geely Holding Retail Loan Cooperation Agreements with the Geely Holding Dealers, pursuant to which the Geely Holding Dealers will recommend the Geely Retail Customers to use Genius AFC for obtaining vehicle loans to finance their purchase of the Geely Holding-Owned Brands Vehicles.

(ii) *Pricing policy*

Genius AFC will enter into the Geely Holding Retail Loan Agreements with the Geely Retail Customers for the Geely Holding Retail Financing Business. Genius AFC will ensure that the terms of the Geely Holding Retail Loan Agreements are competitive at all times during the term as set out in the Finance Cooperation Agreement Template, and such terms will be in line with general automobile financing market practice. Notwithstanding the foregoing, Genius AFC will have the sole discretion in determining the final pricing to be applied to the Geely Retail Customers.

The Finance Cooperation Agreement Template provides guidance with respect to the interest rates charged by Genius AFC for the provision of the retail financing services to the Geely Retail Customers. The interest rates, at the time of each setting, for the loans provided by Genius AFC to the Geely Retail Customers will be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with.

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## LETTER FROM THE BOARD

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In practice, given that Genius AFC will not be the exclusive provider of financing services to the Geely Retail Customers, which are independent third parties to Genius AFC, the sales and marketing department of Genius AFC will communicate with the Geely Holding Dealers on an ongoing basis to keep abreast of the market information.

*(iii) Lending risk*

Genius AFC is primarily regulated by the CBIRC. For details of the background of Genius AFC, please refer to “(D) Automobile Financing Arrangements (i) LYNK & CO Financing Arrangements – The LYNK & CO Finance Cooperation Agreement – Principal terms regarding the mode of cooperation between Genius AFC and LYNK & CO Sales – (iii) Lending risk”.

All lending risk assessments and decisions will be the sole responsibility of Genius AFC, and such decisions will conform to applicable regulatory requirements. The extension of financing in any form to any retail customer is subject to satisfactory credit risk assessment in accordance with the Genius AFC’s credit risk management procedures and all other internal risk and management policies as from time to time determined by Genius AFC at its sole discretion.

For the Geely Holding Retail Financing Business, Genius AFC will adopt similar credit risk assessment and loan approval procedures as those for the LYNK & CO Retail Financing, please refer to the paragraph headed “(D) Automobile Financing Arrangements (i) LYNK & CO Financing Arrangements – The LYNK & CO Finance Cooperation Agreement – Principal terms regarding the mode of cooperation between Genius AFC and LYNK & CO Sales – (iii) Lending risk” for further details.

*(iv) Loan term*

The maximum loan term for each retail customer will be 60 months.

*(v) Subsidies*

The Geely Holding Automobile Entities will provide subsidies to the Geely Holding Dealers who enter into Geely Holding Retail Loan Cooperation Agreement with Genius AFC for the benefits of the retail borrowers in the Geely Holding Retail Financing Business, subject to the final assessment of the market situation (such as sales performance of the vehicles) by the Geely Holding Automobile Entities. The terms and period of such subsidies will be determined by the Geely Holding Automobile Entities in their quarterly sales incentive policies.

*(vi) Security*

Under the individual Geely Holding Retail Loan Agreement, acceptable securities may include security over the dealers’ and the retail customers’ vehicles and/or different types of guarantees.

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## LETTER FROM THE BOARD

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### *Cooperation between Genius AFC and the Connected Geely Dealers*

Pursuant to the Geely Holding Finance Cooperation Agreement, Geely Holding will use its reasonable endeavours to procure the Connected Geely Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC for the purchase of Geely-Branded Vehicles. Genius AFC will enter into the Geely Retail Loan Cooperation Agreements with the Connected Geely Dealers, pursuant to which the Connected Geely Dealers will recommend the Geely Retail Customers to use Genius AFC for obtaining vehicle loans to finance their purchase of the Geely-Branded Vehicles. The terms and conditions of the retail loan cooperation agreement to be entered between Genius AFC and the Connected Geely Dealers are on normal commercial terms and on terms no less favourable to the Group than terms available to or from (as applicable) the Independent Geely Dealers to the Group.

### *Principal terms to be applied to the Geely Holding Retail Loan Agreements and the Geely Retail Loan Agreements*

#### *(i) Geely Holding Retail Loan Agreements*

Pursuant to the Geely Holding Retail Loan Cooperation Agreements, Genius AFC will further enter into the Geely Holding Retail Loan Agreement with the Geely Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such retail customers to facilitate their purchase of Geely Holding-Owned Brands Vehicles.

#### *(ii) Geely Retail Loan Agreements*

Pursuant to the Geely Retail Loan Cooperation Agreements, Genius AFC will further enter into the Geely Retail Loan Agreements with the Geely Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such retail customers to facilitate their purchase of Geely-Branded Vehicles.

### *Geely Holding Financing Annual Caps*

There were no historical transaction amounts for the Geely Holding Retail Financing Business as it is expected to only commence in the first quarter of 2021. The table below sets out the proposed Geely Holding Financing Annual Caps for each of the three years ending 31 December 2023.

	<b>Proposed annual caps for the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts to be provided by Genius AFC to the Geely Retail Customers under the Geely Holding Retail Financing Business	279.8	377.9	606.5

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## LETTER FROM THE BOARD

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### *Basis of determination of the Geely Holding Financing Annual Caps*

When determining the proposed Geely Holding Financing Annual Caps, Genius AFC has taken into account (i) the projected units of the Geely Holding-Owned Brands Vehicles (including Lotus-branded vehicles, Polestar-branded vehicles and commercial vehicles of the Geely Holding Group) to be sold by the Independent Geely Holding Dealers, which have a total number of nine as at the Latest Practicable Date, for the three years ending 31 December 2023 given the Connected Geely Holding Dealers have not yet been set up. The projected units of the Geely Holding-Owned Brands Vehicles to be sold by the Independent Geely Holding Dealers for each of the years ending 31 December 2022 and 2023 represent a year-on-year expected increase of over 20%. The projected sales volume of Lotus-branded vehicles, Polestar-branded vehicles and the commercial vehicles of the Geely Holding Group under the Geely Holding Retail Financing Business were based on the estimation indicated by Lotus, Polestar and Geely Holding respectively; (ii) the projected unit sales of the Geely-Branded Vehicles of the Connected Geely Dealers, which have a total number of five as at the Latest Practicable Date, for the three years ending 31 December 2023 with reference to the historical sales volume of the Geely-Branded Vehicles via the Connected Geely Dealers for the eight months ended 31 August 2020. The projected unit sales of Geely-Branded Vehicles for the years ending 31 December 2022 and 2023 represent a year-on-year expected increase of over 10% and over 50% respectively; (iii) the projected average retail selling price and average loan amount for each unit of the Geely Holding-Owned Brands Vehicles and Geely-Branded Vehicles for each of the three years ending 31 December 2023; the projected average retail selling price and average loan amount for each unit of the Geely-Branded Vehicles have been determined with reference to the historical retail selling price and average loan amount per each unit of the Geely-Branded Vehicles for the vehicle financing services offered via the Independent Geely Dealers for the eight months ended 31 August 2020; and (iv) the estimated retail financing penetration of Geely-Branded Vehicles of 34%, 38% and 42%, respectively for each of the three years ending 31 December 2023, and the estimated average retail financing penetration of Geely Holding-Owned Brands Vehicles of 15%, 16% and 16%, respectively for each of the three years ending 31 December 2023.

When determining the said retail financing penetration of the Geely-Branded Vehicles, Genius AFC has made reference to the historical average retail penetration of the Geely-Branded Vehicles sold by the Independent Geely Dealers which was approximately 33% for the eight months ended 31 August 2020. Genius AFC expects the estimated retail financing penetration of Geely-Branded Vehicles to grow by 4% annually for the two years ending 31 December 2023 provided that the Connected Geely Dealers will be procured by the Geely Holding Group to undertake more promotional activities for the retail financing services offered by Genius AFC.

When determining the said average retail financing penetration of the Geely Holding-Owned Brands Vehicles, Genius AFC has considered the popularity of the brands and the relationship with the Geely Holding Automobile Entities including Polestar and Lotus and the expected demand of retail financing services from the retail customers for their purchase of the Geely Holding-Owned Brands Vehicles.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE AUTOMOBILE FINANCING ARRANGEMENTS

Genius AFC is principally engaged in the provision of auto wholesales financing solutions to auto dealers and retail financing solutions to end customers, mainly supporting three key auto brands in the Geely Holding Group, namely “Geely”, “LYNK & CO” and “Volvo Car”. As disclosed in the interim report of the Company for the six months ended 30 June 2020, Genius AFC secured more external funds through different means like bilateral bank facilities and asset-backed-security (“ABS”) issuances during the first half of 2020. Up to the Latest Practicable Date, Genius AFC has successfully launched eight ABS issuances with cumulative amount of approximately RMB29.5 billion. The total assets of Genius AFC reached RMB39.3 billion by the end of August 2020. With steady increase in the source of funding and assets scale, Genius AFC has been striving for continuing business growth and expanding its wholesale and retail financing services by widening the customer base and service scope with priority of fulfilling the financing needs for Geely-Branded Vehicles. The entering into the Fengsheng Financing Arrangements and the Geely Holding Financing Arrangements will allow Genius AFC to expand into the financing services of new automobile brands which will enable Genius AFC to gain further market share in the PRC automobile financing industry. On the other hand, the LYNK & CO Financing Arrangements will maintain the current business portfolio of Genius AFC in the provision of wholesale financing to dealers and retail financing services to retail customers under the LYNK & CO brand.

The Directors also consider that the provision of the LYNK & CO Financing Arrangements, the Fengsheng Financing Arrangements and the Geely Holding Financing Arrangements by Genius AFC would not result in a deprivation of funds available for loan applications for the purchase of vehicles of the Group. To ensure proper allocation of its resources such that the Group’s interest will be safeguarded, Genius AFC has undertaken to the Company that, in the event that there is a shortage of funds experienced by Genius AFC, priority will be given to loan applications for the purchase of vehicles of the Group.

The Board is of the view that the terms of the LYNK & CO Financing Arrangements, the Fengsheng Financing Arrangements and the Geely Holding Financing Arrangements were negotiated on an arm’s length basis and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### INTERNAL CONTROL MEASURES IN RELATION TO THE AUTOMOBILE FINANCING ARRANGEMENTS

#### Internal control within Genius AFC

Based on customer requirements, all loan and product pricing proposals (including any subsequent modifications) are prepared by Genius AFC’s sales and marketing department. In order to ensure that the aforesaid pricing basis for the LYNK & CO Finance Cooperation Agreement, the Fengsheng Finance Cooperation Agreement and the Geely Holding Finance Cooperation Agreement (together as “**The Finance Cooperation Agreements**”) are adhered to, the finance department of Genius AFC will monitor the fluctuations of the interest rates in the market at least on a monthly basis (or more frequently if it is determined necessary), which include, among others, the PBOC base lending rates, so as to ensure that the interest rates offered for the loan proposals will be higher than the PBOC base lending rates for similar types of loans under similar terms and conditions. In addition, Genius AFC’s sales and marketing department communicates with the respective dealers covered by The Finance Cooperation Agreements on an ongoing

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## LETTER FROM THE BOARD

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basis to ensure the terms of the respective wholesales facility agreement and the retail loan agreement covered by The Finance Cooperation Agreements are in line with the general automobile financing market practice. The finance department of Genius AFC will prepare reports on market interest rates and review these reports at least monthly (or more frequently if it is determined necessary). These reports are distributed to the sales and marketing department, the finance department, the operation department, the risk control department, the legal and compliance department and the information and technology department of Genius AFC for review whenever necessary. All loan and product pricing proposals prepared by Genius AFC's sales and marketing department must be validated by Genius AFC's finance department (which is responsible for keeping abreast of market interest rates, including but not limited to the PBOC base lending rates, Shanghai interbank offered rates, and interest rates of bank note, assets backed securities, financial bond and other financial instruments and ensuring product pricing proposals are in line with the overall financial planning and budget), operation department (which is responsible for ensuring the operational feasibility by assessing whether the existing manpower, software system, standard and procedures and other internal resources are comprehensive and sufficient enough for the product pricing proposals and considering whether training is required for staff of Genius AFC to understand any new product pricing proposals), risk control department (which is responsible for assessing whether the product pricing proposals are acceptable from risk perspective), legal and compliance department (which is responsible for ensuring whether the loan and product pricing proposals comply with applicable law and regulations) and information technology department (which is responsible for making any necessary changes or enhancement to the existing software systems in respect of respective wholesales financing business and the retail financing business covered by The Finance Cooperation Agreements to support any new product pricing proposals if the existing software system is insufficient to satisfy the operational requirements for the new product pricing proposal). The loan and product pricing proposals will then be submitted to the sales and marketing committee for final approval. Such committee includes the general manager, the chief financial officer, the respective heads of risk control, sales and marketing, operation, and finance departments of Genius AFC.

To ensure the actual new financing amounts will not exceed the respective wholesales annual caps and the retail annual caps covered by The Finance Cooperation Agreements, Genius AFC will prepare specific monthly reports to show the actual transaction volumes and amounts as compared to the respective wholesales annual caps and the retail annual caps covered by The Finance Cooperation Agreements. Once the actual transaction amounts reached certain levels (being 70% of the respective wholesales annual caps and the retail annual caps covered by The Finance Cooperation Agreements for the relevant year), it will trigger an alert to the management to either control the volume for the related business to ensure the respective wholesales annual caps and the retail annual caps covered by The Finance Cooperation Agreements would not be exceeded or to commence necessary process to revise the aforementioned annual caps in accordance with the relevant requirements under Chapter 14A of the Listing Rules.

Further, to ensure the transactions with Connected LYNK & CO Dealers, Connected Fengsheng Dealers (if any), Connected Geely Dealers and Connected Geely Holding Dealers (if any) to be entered on normal commercial terms and on terms no less favourable to the Genius AFC than terms available to and from (as applicable) the independent third parties, the legal department of Genius AFC will ensure that (i) the LYNK & CO Wholesale Facility Agreements and LYNK & CO Retail Loan Cooperation Agreements to be entered with the Connected LYNK & CO Dealers and the Independent LYNK & CO Dealers are the same; (ii) the Fengsheng Retail Loan Cooperation Agreements to be entered with the Connected Fengsheng Dealers (if any) and the Independent Fengsheng Dealers are the same; (iii) the Geely Retail Loan Cooperation Agreements to be entered with the Connected Geely Dealers and the Independent Geely Dealers

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## LETTER FROM THE BOARD

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are the same; and (iv) the Geely Holding Retail Loan Cooperation Agreements to the Connected Geely Holding Dealers (if any) and the Independent Geely Holding Dealers are the same. For the avoidance of doubt, Geely Holding Group has not set up any Connected Fengsheng Dealers and Connected Geely Holding Dealers up to the Latest Practicable Date. Genius AFC will monitor the retail financing business in relation to Maple-Branded Vehicles and Geely Holding-Owned Brands Vehicles to ensure that the transactions with the Connected Fengsheng Dealers and Connected Geely Holding Dealers (if any) are on normal commercial terms and on terms no less favourable to the Genius AFC than terms available to and from (as applicable) the independent third parties.

The above internal control procedures are to ensure the pricing policy stipulated under The Finance Cooperation Agreements is strictly adhered to.

### **Internal control within the Group**

The internal audit department of the Group will also conduct assessment on the internal control measures for all continuing connected transactions of the Company at least annually (or more frequently if it is determined necessary) to ensure such internal control measures have been adhered to and are effective. The independent non-executive Directors will also conduct review on all continuing connected transactions every year and confirm that the transactions have been entered into in the ordinary and usual course of business of the Group; on normal commercial terms or better; and according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Company also engages its independent auditor to report on all continuing connected transactions every year. The independent auditor reviews and confirms whether all continuing connected transactions have been approved by the Board; have been conducted in accordance with the pricing policies of the relevant agreement governing the transactions; and have not exceeded the relevant annual caps.

### **IMPLICATIONS UNDER THE LISTING RULES**

#### **Continuing connected transactions contemplated under the Master CKDs and Automobile Components Sales Agreement, Master CKDs and Automobile Components Purchase Agreement, the New Powertrain Sales Agreement and the Automobile Financing Arrangements**

#### ***Master CKDs and Automobile Components Sales Agreement, Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement***

As at the Latest Practicable Date, Geely Holding is beneficially wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 41.20% of the issued share capital of the Company as at the Latest Practicable Date, and is a connected person of the Company. Accordingly, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules, and the transactions contemplated under the Master CKDs and Automobile Components Sales Agreement, Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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As one or more of the applicable percentage ratios of the proposed annual caps under the Master CKDs and Automobile Components Sales Agreement, Master CKDs and Automobile Components Purchase Agreement as well as the New Powertrain Sales Agreement exceed 5% on an annual basis respectively, the proposed annual caps under the Master CKDs and Automobile Components Sales Agreement, Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules respectively.

### *Automobile Financing Arrangements*

As at the Latest Practicable Date, Genius AFC is owned as to 80% by the Company and 20% by BNPP PF. The exercise of call option by BNPP PF to acquire additional equity interest in Genius AFC with reference to the announcement of the Company dated 12 August 2020 has not yet been completed as at the Latest Practicable Date.

As at the Latest Practicable Date, LYNK & CO Sales is a wholly owned subsidiary of LYNK & CO, which is a joint venture of the Company established and owned as to 50%, 20% and 30% by Zhejiang Jirun, Zhejiang Haoqing and VCI, respectively. Zhejiang Haoqing and VCI are owned as to 100% and 97.8% by Geely Holding. As such, LYNK & CO Sales is an associate of Mr. Li and a connected person of the Company under the Listing Rules.

The Geely Holding Group has operated the Connected LYNK & CO Dealers from 2020 to facilitate the sales of LYNK & CO-branded vehicles to the retail customers. As the LYNK & CO Dealers as defined in the LYNK & CO Finance Cooperation Agreement include the Connected LYNK & CO Dealers, both Independent LYNK & CO Dealers and Connected LYNK & CO Dealers will be covered by the LYNK & CO Financing Arrangements. Since the Connected LYNK & CO Dealers are connected persons of the Company, the transactions between Genius AFC and the Connected LYNK & CO Dealers contemplated under the LYNK & CO Financing Arrangements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. For the Independent LYNK & CO Dealers and the LYNK & CO Retail Customers, who are independent third parties to the Company and its connected persons, their transactions with Genius AFC are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Independent LYNK & CO Dealers and the LYNK & CO Retail Customers will use the loans provided by Genius AFC to purchase LYNK & CO-branded vehicles from LYNK & CO Sales, which is a connected person of the Company under the Listing Rules.

As at the Latest Practicable Date, Fengsheng Sales is ultimately wholly owned by Fengsheng. Fengsheng is owned as to 78% by Geely Technology and as to 22% by Kandi Vehicles while Geely Technology is beneficially wholly owned by Mr. Li and his associate. As such, Fengsheng Sales and Fengsheng are associates of Mr. Li and connected persons of the Company under the Listing Rules.

The Fengsheng Dealers as defined in the Fengsheng Finance Cooperation Agreement include both Independent Fengsheng Dealers and Connected Fengsheng Dealers (if any). For the avoidance of doubt, the Geely Holding Group has not set up any Connected Fengsheng Dealers up to the Latest Practicable Date. The proposed Fengsheng Financing Annual Caps for each of the three years ending 31 December 2023 include only new financing amounts to be provided by Genius AFC to the Fengsheng Retail Customers who will purchase Maple-Branded Vehicles from the Independent Fengsheng Dealers. Should Genius AFC

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## LETTER FROM THE BOARD

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provide financing services to the Fengsheng Retail Customers who will purchase Maple-Branded Vehicles from the Connected Fengsheng Dealers under the Fengsheng Financing Arrangements during the term of the Fengsheng Finance Cooperation Agreement, such transactions will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules and will be governed by the proposed Fengsheng Financing Annual Caps for each of the three years ending 31 December 2023. On the other hand, transactions between Genius AFC and the Independent Fengsheng Dealers as well as the Fengsheng Retail Customers, who are independent to the Company and its connected persons, pursuant to the Fengsheng Financing Arrangements are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Fengsheng Retail Customers will use the loans provided by Genius AFC to purchase Maple-Branded Vehicles from Fengsheng Sales, which is a connected person of the Company under the Listing Rules.

The Geely Holding Dealers as defined in the Geely Holding Finance Cooperation Agreement include both Independent Geely Holding Dealers and Connected Geely Holding Dealers (if any). For the avoidance of doubt, the Geely Holding Group has not set up any Connected Geely Holding Dealers up to the Latest Practicable Date. The proposed Geely Holding Financing Annual Caps for each of the three years ending 31 December 2023 include only new financing amounts to be provided by Genius AFC to the Geely Retail Customers who will purchase Geely Holding-Owned Brands Vehicles from the Independent Geely Holding Dealers and Geely-Branded Vehicles from the Connected Geely Dealers, respectively. Should Genius AFC provide financing services to the Geely Retail Customers who will purchase Geely Holding-Owned Brands Vehicles from the Connected Geely Holding Dealers under the Geely Holding Financing Arrangements during the term of the Geely Holding Finance Cooperation Agreement, such transactions will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules and will be governed by the proposed Geely Holding Financing Annual Caps for each of the three years ending 31 December 2023. On the other hand, since the Connected Geely Dealers, which have not yet entered into any transactions with Genius AFC since their operation from 2020, are connected persons of the Company, the transactions between Genius AFC and the Connected Geely Dealers contemplated under the Geely Holding Financing Arrangements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. Further, transactions between Genius AFC and the Independent Geely Holding Dealers as well as the Geely Retail Customers, who are independent to the Company and its connected persons, pursuant to the Geely Holding Financing Arrangements are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Geely Retail Customers will use the loans provided by Genius AFC to purchase Geely Holding-Owned Brands Vehicles from the Geely Holding Group, which is a connected person of the Company under the Listing Rules.

As one or more of the applicable percentage ratios for the proposed annual caps of the continuing connected transactions contemplated under the Automobile Financing Arrangements, exceed(s) 5% on an aggregated and annual basis, the continuing connected transactions contemplated under the Automobile Financing Arrangements are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui, each an executive Director, are considered to be interested in the Continuing Connected Transactions by virtue of their interests and/or directorship in Geely Holding. As a result, each of Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui has abstained from voting on the Board resolutions for approving the Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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Mr. Li and his associates together holding 4,042,618,000 Shares (representing approximately 41.2% of the total issued share capital of the Company), Mr. Yang Jian and his associates together holding 6,000,000 Shares (representing approximately 0.06% of the total issued share capital of the Company), Mr. Li Dong Hui, Daniel and his associates together holding 2,104,000 Shares (representing approximately 0.02% of the total issued share capital of the Company), and Mr. An Cong Hui and his associates together holding 4,966,000 Shares (representing approximately 0.05% of the total issued share capital of the Company) as at the Latest Practicable Date, will all abstain from voting on the resolutions to be proposed at the EGM to approve the Continuing Connected Transactions.

### **EGM**

The EGM will be convened to consider and approve the Continuing Connected Transactions. A notice to convene the EGM is set out on pages EGM-1 to EGM-5 of this circular.

The EGM will be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 22 December 2020 at 4:00 p.m.. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time scheduled for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be).

### **RECOMMENDATION**

The Independent Board Committee has been established to advise the Independent Shareholders whether the terms of the Continuing Connected Transactions (including their respective annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 64 to 149 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 62 to 63 of this circular.

The Board (including the independent non-executive Directors) considers that, the terms of the Continuing Connected Transactions (including their respective annual caps) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser, which are respectively set out on pages 62 to 63 and pages 64 to 149 of this circular. Additional information is also set out in the appendix to this circular.

Yours faithfully,  
By order of the Board  
**Geely Automobile Holdings Limited**  
**David C.Y. Cheung**  
*Company Secretary*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation from the Independent Board Committee to Independent Shareholders in relation to the Continuing Connected Transactions prepared for the purpose of incorporation in this circular.*

# GEELY

吉利汽車控股有限公司

## GEELY AUTOMOBILE HOLDINGS LIMITED

*(Incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

1 December 2020

*To the Independent Shareholders,*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 1 December 2020 (the “**Circular**”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as an Independent Shareholder whether the Independent Board Committee is of the view that the terms of the Continuing Connected Transactions (including their respective annual caps for the three years ending 31 December 2023 (consisting of the LYNK & CO Wholesale Annual Caps, the LYNK & CO Retail Annual Caps, the Fengsheng Financing Annual Caps, the Geely Holding Financing Annual Caps, the CKDs and Automobile Components Sales Annual Caps, the CKDs and Automobile Components Purchase Annual Caps and the Powertrain Sales Annual Caps (collectively, the “**2021-2023 Annual Caps**”))) and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group, fair and reasonable, on normal commercial terms and in the interests of the Company and the Independent Shareholders.

We wish to draw your attention to the letter from the Board as set out on pages 14 to 61 of the Circular and the letter from the Independent Financial Adviser as set out on pages 62 to 63 of the Circular which contains, inter alia, their advice and recommendation to us regarding the terms of the Continuing Connected Transactions (including the 2021-2023 Annual Caps) and the transactions contemplated thereunder with the principal factors and reasons for those advice and recommendation.

### RECOMMENDATION

Having taken into account the advice and recommendation of the Independent Financial Adviser, we are of the view that, the terms of the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group, and are fair and reasonable, on normal commercial terms and are in

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Continuing Connected Transactions (including the 2021-2023 Annual Caps).

Yours faithfully,

For and behalf of the Independent Board Committee of  
**Geely Automobile Holdings Limited**

**Mr. Lee Cheuk Yin, Dannis**

**Mr. Yeung Sau Hung, Alex**

**Mr. An Qing Heng**

**Mr. Wang Yang**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice from Dakin Capital to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*



1 December 2020

*To: the Independent Board Committee and the Independent Shareholders of  
Geely Automobile Holdings Limited*

Dear Sirs/Madams,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (1) the LYNK & CO Financing Arrangements; (2) the Fengsheng Financing Arrangements; (3) the Geely Holding Financing Arrangements; (4) the Master CKDs and Automobile Components Sales Agreement; (5) the Master CKDs and Automobile Components Purchase Agreement; and (6) the New Powertrain Sales Agreement, together with their respective annual caps for the three years ending 31 December 2023 (consisting of the LYNK & CO Wholesale Annual Caps, the LYNK & CO Retail Annual Caps, the Fengsheng Financing Annual Caps, the Geely Holding Financing Annual Caps, the CKDs and Automobile Components Sales Annual Caps, the CKDs and Automobile Components Purchase Annual Caps and the Powertrain Sales Annual Caps (collectively, the “**2021-2023 Annual Caps**”)), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 1 December 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

References are made to the Company’s (i) circulars both dated 8 December 2017 in respect of the LYNK & CO Financing Arrangements (the “**2017 LYNK & CO Financing Circular**”) and the 2017 Powertrain Sales Agreement (the “**2017 Powertrain Sales Circular**”), respectively; and (ii) announcements dated 24 September 2018 and 5 October 2018 in respect of the 2018 Proton Sales Agreement (the “**2018 Proton Sales Announcement**”) and the 2018 Kandi Supply Agreement (the “**2018 Kandi Supply Announcement**”), respectively.

On 4 November 2020, the Company announced that Genius AFC and LYNK & CO Sales propose to renew the LYNK & CO Financing Arrangements for successive three years immediately following the expiration of the initial three-year term of the LYNK & CO Finance Cooperation Agreement as approved by the then independent Shareholders on 27 December 2017, covering an extended period from 1 January 2021 to 31 December 2023 (the “**Renewal of the LYNK & CO Financing Arrangements**”). On the same day, Genius AFC also entered into (i) the Fengsheng Finance Cooperation Agreement with Fengsheng Sales in

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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respect of the Fengsheng Financing Arrangements; and (ii) the Geely Holding Finance Cooperation Agreement in respect of the Geely Holding Financing Arrangements, both for an initial term of three years and will then continue unless and until terminated by either party by giving at least six months prior written notice. For details of the maximum new financing amounts to be provided by Genius AFC under the LYNK & CO Financing Arrangements, the Fengsheng Financing Arrangements and the Geely Holding Financing Arrangements for the three years ending 31 December 2023, please refer to the paragraphs headed “Continuing Connected Transactions – Automobile Financing Arrangements – LYNK & CO Wholesale Annual Caps and LYNK & CO Retail Annual Caps/Fengsheng Financing Annual Caps/Geely Holding Financing Annual Caps” below.

Furthermore, on 4 November 2020, the Company and Geely Holding entered into (i) the Master CKDs and Automobile Components Sales Agreement for a term of three years ending 31 December 2023 setting out the terms on which the parties thereto will conduct business transactions involving sales of CKDs and automobile components in relation to vehicle models including the Proton-branded vehicles, the Maple-Branded Vehicles and the Farizon-branded vehicles for the next three years ending 31 December 2023 (the “**CKDs and Automobile Components Sales Transactions**”). For the avoidance of doubt, as a result of the entering into of the Master CKDs and Automobile Components Sales Agreement, the 2018 Proton Sales Agreement will cease to be enforceable upon expiry of its fixed term ending on 31 December 2020, while the 2018 Kandi Supply Agreement with a term of three years ending 31 December 2021 will be superseded by the Master CKDs and Automobile Components Sales Agreement upon the commencement thereof (subject to the Independent Shareholders’ approval) and shall become null and void and have no effect accordingly. Simultaneously, the Company and Geely Holding also proceeded to signing the Master CKDs and Automobile Components Purchase Agreement in relation to the purchase of CKDs and automobile components by the Group from the Geely Holding Group for the same three-year period expiring on 31 December 2023 (the “**CKDs and Automobile Components Purchase Transactions**”). For details of the maximum transaction amounts under the CKDs and Automobile Components Sales Transactions and the CKDs and Automobile Components Purchase Transactions for the three years ending 31 December 2023, please refer to the paragraphs headed “Continuing Connected Transactions – Master CKDs and Automobile Components Sales Agreement – CKDs and Automobile Components Sales Annual Caps” and “Continuing Connected Transactions – Master CKDs and Automobile Components Purchase Agreement – CKDs and Automobile Components Purchase Annual Caps” below.

Apart from the above, on 4 November 2020, in view of the upcoming expiration of the 2017 Powertrain Sales Agreement as approved by the then independent Shareholders on 27 December 2017, the Company, Geely Holding and LYNK & CO entered into the New Powertrain Sales Agreement to ensure the sales of the Powertrain Products by the Group to the LYNK & CO Group and the Geely Holding Group (the “**Powertrain Sales Transactions**”) continue for a further term of three years ending 31 December 2023, principally based on the terms and conditions which are substantially the same as stipulated in the 2017 Powertrain Sales Agreement as advised by the Company. For details of the maximum transaction amounts under the Powertrain Sales Transactions for the three years ending 31 December 2023, please refer to the paragraph headed “Continuing Connected Transactions – New Powertrain Sales Agreement – Powertrain Sales Annual Caps” below.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Geely Holding is beneficially wholly owned by Mr. Li, who is an executive Director and a substantial Shareholder holding approximately 41.20% of the total issued share capital of the Company as at the Latest Practicable Date, and is a connected person of the Company. Accordingly, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules.

Genius AFC is beneficially owned as to 80% by the Company and as to 20% by BNPP PF as at the Latest Practicable Date. As stated in the Letter from the Board, the exercise of call option by BNPP PF to acquire additional equity interest in Genius AFC with reference to the announcement of the Company dated 12 August 2020 has yet to been completed as at the Latest Practicable Date.

As at the Latest Practicable Date, LYNK & CO Sales is a wholly-owned subsidiary of LYNK & CO, which is a Chinese-foreign equity joint venture of the Company established in the PRC and is owned as to 50%, 20% and 30% by Zhejiang Jirun, Zhejiang Haoqing and VCI, respectively; Zhejiang Haoqing and VCI are owned as to 100% and 97.8% by Geely Holding. As such, LYNK & CO Sales and LYNK & CO are associates of Mr. Li and connected persons of the Company under the Listing Rules.

As stated in the Letter from the Board, the Geely Holding Group has operated the Connected LYNK & CO Dealers from 2020 to facilitate the sales of LYNK & CO-branded vehicles to the retail customers. As the LYNK & CO Dealers as defined in the LYNK & CO Finance Cooperation Agreement include the Connected LYNK & CO Dealers, both Independent LYNK & CO Dealers and Connected LYNK & CO Dealers will be covered by the LYNK & CO Financing Arrangements. Since the Connected LYNK & CO Dealers are connected persons of the Company, the transactions between Genius AFC and the Connected LYNK & CO Dealers contemplated under the LYNK & CO Financing Arrangements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. For the Independent LYNK & CO Dealers and the LYNK & CO Retail Customers, who are independent third parties to the Company and its connected persons, their transactions with Genius AFC are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Independent LYNK & CO Dealers and the LYNK & CO Retail Customers will use the loans provided by Genius AFC to purchase LYNK & CO-branded vehicles from LYNK & CO Sales, which is a connected person of the Company under the Listing Rules.

As at the Latest Practicable Date, Fengsheng Sales is ultimately wholly owned by Fengsheng; Fengsheng is owned as to 78% by Geely Technology and as to 22% by Kandi Vehicles while Geely Technology is beneficially wholly owned by Mr. Li and his associate. As such, Fengsheng Sales and Fengsheng are associates of Mr. Li and connected persons of the Company under the Listing Rules.

As stated in the Letter from the Board, the Fengsheng Dealers as defined in the Fengsheng Finance Cooperation Agreement include both Independent Fengsheng Dealers and Connected Fengsheng Dealers (if any). For the avoidance of doubt, the Geely Holding Group has not set up any Connected Fengsheng Dealers up to the Latest Practicable Date. The proposed Fengsheng Financing Annual Caps for each of the three years ending 31 December 2023 include only new financing amounts to be provided by Genius AFC to the Fengsheng Retail Customers who will purchase Maple-Branded Vehicles from the Independent Fengsheng Dealers. Should Genius AFC provide financing services to the Fengsheng Retail Customers who will purchase Maple-Branded Vehicles from the Connected Fengsheng Dealers under the Fengsheng Financing Arrangements during the term of the Fengsheng Finance Cooperation Agreement, such transactions will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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and will be governed by the proposed Fengsheng Financing Annual Caps for each of the three years ending 31 December 2023. On the other hand, transactions between Genius AFC and the Independent Fengsheng Dealers as well as the Fengsheng Retail Customers, who are independent to the Company and its connected persons, pursuant to the Fengsheng Financing Arrangements are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Fengsheng Retail Customers will use the loans provided by Genius AFC to purchase the Maple-Branded Vehicles from Fengsheng Sales, which is a connected person of the Company under the Listing Rules.

It is also stated in the Letter from the Board that the Geely Holding Dealers as defined in the Geely Holding Finance Cooperation Agreement included both Independent Geely Holding Dealers and Connected Geely Holding Dealers (if any). For the avoidance of doubt, the Geely Holding Group has not set up any Connected Geely Holding Dealers up to the Latest Practicable Date. The proposed Geely Holding Financing Annual Caps for each of the three years ending 31 December 2023 include only new financing amounts to be provided by Genius AFC to the Geely Retail Customers who will purchase Geely Holding-Owned Brands Vehicles from the Independent Geely Holding Dealers and Geely-Branded Vehicles from the Connected Geely Dealers, respectively. Should Genius AFC provide financing services to the Geely Retail Customers who will purchase Geely Holding-Owned Brands Vehicles from the Connected Geely Holding Dealers under the Geely Holding Financing Arrangements during the term of the Geely Holding Finance Cooperation Agreement, such transactions will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules and will be governed by the proposed Geely Holding Financing Annual Caps for each of the three years ending 31 December 2023. On the other hand, since the Connected Geely Dealers, which have not yet entered into any transactions with Genius AFC since their operation from 2020, are connected persons of the Company, the transactions between Genius AFC and the Connected Geely Dealers contemplated under the Geely Holding Financing Arrangements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. Further, transactions between Genius AFC and the Independent Geely Holding Dealers as well as the Geely Retail Customers, who are independent to the Company and its connected persons, pursuant to the Geely Holding Financing Arrangements are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Geely Retail Customers will use the loans provided by Genius AFC to purchase Geely Holding-Owned Brands Vehicles from the Geely Holding Group, which is a connected person of the Company under the Listing Rules.

Accordingly, the LYNK & CO Financing Arrangements, the Fengsheng Financing Arrangements, the Geely Holding Financing Arrangements, the CKDs and Automobile Components Sales Transactions, the CKDs and Automobile Components Purchase Transactions and the Powertrain Sales Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules) of (i) the LYNK & CO Retail Annual Caps, the LYNK & CO Wholesale Annual Caps, the Fengsheng Financing Annual Caps and the Geely Holding Financing Annual Caps on an aggregate and annual basis; and (ii) each of the CKDs and Automobile Components Sales Annual Caps, the CKDs and Automobile Components Purchase Annual Caps and the Powertrain Sales Annual Caps on an annual basis exceed 5%, the Renewal of the LYNK & CO Financing Arrangements and the entering into of the Fengsheng Finance Cooperation Agreement, the Geely Holding Finance Cooperation Agreement, the Master CKDs and Automobile Components Sales Agreement, the Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement are subject to the reporting, announcement, annual review, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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The Independent Board Committee, comprising Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang, each being an independent non-executive Director, has been established to advise the Independent Shareholders on whether (i) the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and (ii) the terms thereof as well as the 2021-2023 Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Dakin Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, Dakin Capital did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to the independence of Dakin Capital for the purpose of acting as the Independent Financial Adviser. Apart from acting as the Independent Financial Adviser, we also acted as an independent financial adviser to advise the independent board committee of the Company and the then independent shareholders of the Company in relation to other discloseable and connected transactions and continuing connected transactions of the Company during the last two years and up to the date hereof, details of which are set out in the Company's circulars dated 16 August 2018, 20 November 2018, 26 February 2019 and 22 May 2019, respectively. Apart from normal professional fees paid or payable to us in connection with the said appointments as the independent financial adviser, no other arrangements exist whereby we have received or will receive any fees or benefits from the Company or any other parties to the relevant transactions that could reasonably be regarded as relevant to our independence as defined under Rule 13.84 of the Listing Rules. Accordingly, we consider that such business relationships would not affect our independence for the purpose of acting as the Independent Financial Adviser.

### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information, financial information and facts contained or referred to in the Circular; (ii) the information supplied by the Group, the Geely Holding Group and Genius AFC and/or their respective advisers; (iii) the opinions expressed by and the representations of the Directors and the respective management of the Group, the Geely Holding Group and Genius AFC; and (iv) the relevant public information available to us as at the Latest Practicable Date. We have assumed that all the information and financial information provided and facts, representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry and consideration. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors, the respective management of the Group, the Geely Holding Group and Genius AFC, and/or their respective advisers. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the respective management of the Group, the Geely Holding Group and Genius AFC are true, accurate, complete and not misleading or deceptive in all respects

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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at the time they were made and as at the Latest Practicable Date. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes by the Company as soon as it becomes aware.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion and recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the respective management of the Group, the Geely Holding Group and Genius AFC and/or their respective advisers, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position, internal control, profitability or prospects of the Company, Geely Holding, Genius AFC and any other parties involved in the Continuing Connected Transactions or any of their respective subsidiaries or associates.

The Directors have collectively and individually accepted full responsibility for the truth, accuracy and completeness of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is true, accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments or changes (including any material change in market and economic conditions and the Novel Coronavirus (“**COVID-19**”) pandemic) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company or any party involved in the Continuing Connected Transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

#### A. BUSINESS OVERVIEW OF THE GROUP

##### 1. Business Activities and Strategic Business Development

The Group is principally engaged in the research and development, manufacturing and trading of automobiles, automobile parts and related automobile components, and investment holding.

Since 2015, the Group has also been conducting its vehicle financing business through Genius AFC for Geely-branded passenger vehicles, LYNK & CO-branded vehicles and Volvo-branded vehicles, details of which are set out in the circulars of the Company dated 28 January 2016, 8 December 2017, 20 November 2018 and 26 February 2019. For information about Genius AFC, please refer to the paragraph headed “Continuing Connected Transactions – Automobile Financing Arrangements” below.

In an effort to keep pace with the technological and design changes and the market development, coupled with the PRC government stimulus provided to the PRC automobile industry, the Group has made significant strides in the last few years towards diversifying its production range and increasing product types to support its overall business development. In particular, the Group has broaden its product range and expanded its production capacity for powertrain components comprising vehicle engines and transmissions suitable for gasoline vehicles and new energy and electrified vehicles (“**NEEVs**”) through a series of acquisitions undertaken in recent years, details of which are set out in the 2017 Powertrain Sales Circular and other circulars of the Company dated 20 November 2018 and 22 May 2019. As advised by the management of the Group, the production plants held by Group resulting from the said acquisitions are currently equipped with production facilities mainly for advanced vehicle engines and/or transmissions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Financial Results and Recent Business Updates

Set out below are the financial results of the Group for the periods indicated as extracted from the Company's annual report for the year ended 31 December 2019 (the "2019 Annual Report") and interim report for the six months ended 30 June 2020 (the "2020 Interim Report"):

	For the year ended		Year-on-year change	For the six months ended		Period-on-period change
	31 December			30 June		
	2018	2019		2019	2020	
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
	(audited)	(audited)		(unaudited)	(unaudited)	
Revenue	106,595,133	97,401,248	(8.6)	47,558,617	36,819,775	(22.6)
Gross profit	21,513,406	16,916,628	(21.4)	8,469,099	6,301,598	(25.6)
Profit for the year/period	12,674,398	8,261,358	(34.8)	4,047,048	2,319,946	(42.7)

As depicted in the above table, the Group reported revenue and net profit of approximately RMB97,401.2 million and RMB8,261.4 million respectively for the year ended 31 December 2019, recording year-on-year decreases of approximately 8.6% and 34.8%, respectively. With reference to the 2019 Annual Report, the decrease in the net profit was due to the greater-than-expected decrease in the Group's overall sales volume, the pricing pressure caused by weak demand and the fierce market competition during the year ended 31 December 2019.

During the COVID-19 pandemic in the first half of 2020, the Group generated approximately RMB36,819.8 million in revenue and approximately RMB2,319.9 million in net profit, both recorded period-on-period decreases at approximately 22.6% and 42.7%, respectively. According to the 2020 Interim Report, the decrease in the net profit was due to greater-than-expected decrease in the Group's overall sales volume caused by the partial lockdown in most areas in the PRC in early 2020 as a result of the outbreak of COVID-19.

Despite the overall performance in the automobile market in the PRC as detailed in the paragraph headed "Industry Outlook – Automobile industry in the PRC" below and the effect brought by the COVID-19 outbreak, the Directors considered that the Group's overall sales volume in the PRC automobile market during the second and third quarters in 2020 is showing signs of recovery after an unexpected fall in business activity in 2019 and early-2020. Based on the information disclosed in the unaudited sales volume announcement issued by the Company on a monthly basis, the total sales volume of the Group (including the sales volume of LYNK & CO-branded vehicles sold by the Group's 50%-owned joint venture) recovered from a period-on-period decline of about 43.8% in the first quarter of 2020 as compared with the same period in 2019 to a period-on-period growth of about 13.8% in the second quarter of 2020 as compared with the same period in 2019. Furthermore, the total sales volume of the Group (including the sales volume of LYNK & CO-branded vehicles sold by the Group's 50%-owned joint venture) maintained an upward trend in the third quarter of 2020, recording a period-on-period growth of approximately 12.6% as compared to the third quarter of 2019.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### B. INDUSTRY OUTLOOK

#### 1. Automobile Industry in the PRC

##### *1.1 Nationwide Light-Duty Vehicle Emission Standard*

With the aim of significantly reducing air pollutant emissions from light-duty vehicles and addressing severe air pollution in the PRC, the Ministry of Ecology and Environmental Protection of the PRC released the final rule of the “Limits and Measurement Methods for Emissions from Light-Duty Vehicles (China 6)” 《輕型汽車污染物排放限值及測量方法(中國第六階段)》 (the “**China 6 Standard**”) in December 2016, pursuant to which two sets of emission limited for air and climate pollutants were established that all light-duty vehicles to be sold and registered in the PRC shall comply with (subject to the regulatory timeline for implementation of the China 6 Standard).

Under the final rule released in December 2016, the China 6 Standard was planned to be implemented in two phases, with effect from 1 July 2020. However, there were over 15 provinces/areas in the PRC (including Beijing, Shanghai, Guangzhou and Shenzhen which are some of the Group’s major target markets for sales of the Geely-Branded Vehicles) opted for early adoption of implementing the China 6 Standard with an effective date of 1 July 2019, which, in the view of the Directors, had posed serious challenges to the automobile industry, as well as the automobile parts manufacturing industry. In particular, according to the China Automobile Dealer Association (the “**CADA**”), which is the only legal national association representing China’s automobile industry founded in 1990 with the registration under the Ministry of Civil Affairs of the PRC and was formed for the purpose of supporting the development of the PRC automobile industry and serve as a bridge between the government and the enterprises, some of the car dealers are not fully ready for the early adoption of the China 6 Standard in terms of the automobile production schedule; some car dealers offered high discounts and incentives to reduce the inventories which built in accordance with the “Limits and Measurement Methods for Emissions from Light-Duty Vehicles (China 5)” 《輕型汽車污染物排放限值及測量方法(中國第五階段)》 (the “**China 5 Standard**”) ahead the implementation of the China 6 Standard. Moreover, CADA also expressed that 2019 was the transition period from the China 5 Standard to the China 6 Standard which caused many customers having a wait-and-see attitude towards the automobile market; the customers became more price-sensitive and thus delayed their purchases of vehicles, which in turn adversely affected the sales of vehicles and exerted pressure on the car dealers in terms of price.

##### *1.2 Overview of National Policies and Measures Supporting the PRC Automobile Industry*

Automobile industry is regarded as one of the important pillars of the national economy in 《汽車產業中長期發展規劃》 (the Medium and Long-term Development Plan for the Automotive Industry\*) jointly issued by the Ministry of Industry and Information Technology of the PRC (the “**MIIT**”), the National Development and Reform Commission of the PRC (the “**NDRC**”) and the Ministry of Science and Technology of the PRC on 25 April 2017 (the

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“Plan”). To promote the PRC automobile industry, the Plan envisages the PRC becoming a top automobile country in the world over the next ten years. In particular, the Plan aims to have several top ten (i) new-energy automobile companies of the world by 2020; (ii) automobile sellers of the world by 2025; and (iii) automobile parts companies of the world by 2025.

In addition to the Plan, to support its commitment to encourage and speed up the development of the electric and new energy vehicles market, the PRC government has also implemented a series of other supportive policies and measures in promoting electric and new energy vehicles. For instance, along with (i) the implementation of 《新能源汽车产业发展规划(2021-2035年)》(The Development Plan of New Energy Vehicles Industry (2021-2035) \*) by the State Council of the PRC to promote and develop the domestic energy-saving and new energy vehicle industry with a sales target of increasing the NEEVs shares of new vehicles sales to approximately 20% in 2025; and (ii) the emphasis placed on boosting technological innovations in the manufacturing of new energy vehicles and promoting the use of electric cars, plug-in hybrids and fuel cell vehicles, included in the latest Five-Year Plan for the National Economic and Social Development of the PRC, the PRC government has introduced a grant towards the sale of electric vehicles in the PRC to encourage and promote the use and development of new energy vehicles in the PRC.

On 27 December 2017, four ministries of the PRC, namely, the MIIT, Ministry of Finance of the PRC, Ministry of Science and Technology of the PRC and State Administration of Taxation jointly issued an announcement of continuing to waive purchase taxes on new energy vehicles for the next three years, effective from 1 January 2018 to 31 December 2020, to encourage green transportation and boost sales of the new energy vehicles. This purchase tax waiver was further extended for two years at the executive meetings of the State Council held on 31 March 2020. The tax exemption covers fully electric, hybrid and fuel-cell vehicles. The PRC government will continue to add new energy vehicles models to the list of cars eligible for the tax exemption, if the new energy vehicles model meets a set of technical, quality, safety and efficiency standard.

On 29 April 2020, the NDRC and other ten departments jointly issued “Notice on measures to stabilise and expand automobile consumption” (the “**Notice**”) in order to stabilise and expand automobile consumption and promote the stable operation of the economy and society. The Notice which proposed a series of measures including but not limited to (i) adjusting the deadline to 1 January 2021 for the implementation of the China 6 Standard; (ii) accelerating the elimination of obsolete diesel trucks; and (iii) supporting automobile consumer financing by lowering the down payment ratio and loan interest rates and extending the repayment period.

### *1.3 Overview of the Industry Performance*

According to the China Association of Automobile Manufacturers (the “CAAM”), a non-profit social organisation founded in Beijing in 1987 with the approval of the Ministry of Civil Affairs of the PRC which consists of enterprises and institutions engaging in the production and management of automobiles, automobile parts and vehicle-related industries in the PRC and is formed for the purpose of developing and promoting the PRC automobile

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industry and the implementation of national principles and policies relating to the PRC automobile industry, the PRC passenger vehicle market has been experiencing a decreasing trend in the recent years, as evidenced by a decrease of approximately 4.0% in sales volume of passenger vehicles from approximately 24.7 million units in 2017 to approximately 23.7 million units in 2018, with a further drop of about 9.7% down to approximately 21.4 million units in 2019. Notwithstanding this, there was a 55.1% increase in 2019 when comparing with 2010 in which the sales volume of passenger vehicles in the PRC amounted to approximately 13.8 million units.

Amid the COVID-19 pandemic, the sales of passenger cars in the PRC tumble to only approximately 2.9 million units in the first quarter of 2020, representing a decrease of approximately 45.4% compared with that of the first quarter of 2019. CAAM predicted that the PRC's automobile sales will continue to show negative growth or remain flat in the next two years, forecasting automobile sales in 2020 to record a decrease of approximately 4.0%. However, despite experiencing a downward trend of sales volume in passenger vehicles in recent years, the PRC passenger vehicle market is expected to recover and bounce back from 2022 onwards.

### 2. Automobile Financing Industry in the PRC

According to the legal opinion issued on 30 September 2020 by the PRC legal adviser of Genius AFC, namely Grandall Law Firm (Shanghai) (the “**PRC Legal Opinion**”), the establishment of auto finance companies in the PRC is regulated by 《汽車金融公司管理辦法》 (the Administrative Measures for Auto Finance Companies\*) (the “**Auto Finance Administrative Measures**”) issued by the China Banking Regulatory Commission (renamed as China Banking and Insurance Regulatory Commission) and the People's Bank of China (“**PBOC**”). The PRC Legal Opinion also states that the business operation of auto finance companies in the PRC (including Genius AFC) must comply with 《汽車貸款管理辦法》 (the Measures for the Management of Auto Loan) that were promulgated by the China Banking Regulatory Commission (renamed as China Banking and Insurance Regulatory Commission) and PBOC which became effective on 1 January 2018 (the “**Auto Loan Management Measures**”). The Auto Finance Administrative Measures set out certain compliance and risk management measures in relation to the operation of auto loan companies including, but not limited to, maintaining levels of specified financial ratios at all times and reporting to China Banking Regulatory Commission (renamed as China Banking and Insurance Regulatory Commission).

As stated in 《2019年度中國汽車金融公司行業發展報告》 (2019 China Automobile Financing Companies Industry Development Report\*) (the “**2019 Automobile Financing Industry Report**”) published by China Banking Association (中國銀行業協會), the automobile financing industry has been developing rapidly over the past years. It is also stated that there were 25 approved auto finance companies in the PRC as at the end of 2019 with total assets of approximately RMB906.4 billion, representing an increase of approximately 8.0% as compared to the prior year.

The 2019 Automobile Financing Industry Report reveals that the main business activities of automobile financing companies in the PRC are wholesale finance (i.e. provision of funding support to dealers for establishment of vehicle inventory) and provision of retail loans. In 2019, the wholesale loans and retail loans were offered to approximately 4.2 million vehicles and approximately 6.6

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million vehicles, respectively. The 2019 Automobile Financing Industry Report disclosed that the historical year-end overall wholesale finance coverage of the PRC automobile financing industry was about 16.3% for 2019 (the “**2019 Market Overall Wholesale Finance Coverage**”) and the historical year-end overall retail financing penetration rate of the PRC automobile financing industry was about 25.8% for 2019 (the “**2019 Market Overall Retail Financing Penetration**”), which represents an increase of approximately 4.2% as compared to the prior year.

### C. CONTINUING CONNECTED TRANSACTIONS

#### 1. Automobile Financing Arrangements

##### *1.1 Background of Genius AFC*

Genius AFC is a non-bank financial institution established in August 2015 as a joint venture between the Company and BNPP PF in accordance with the Auto Finance Administrative Measures with the approval of the China Banking Regulatory Commission (renamed as China Banking and Insurance Regulatory Commission), details of which are set out in the Company’s announcement dated 16 December 2013.

As stated in the Letter from the Board, Genius AFC is principally engaged in the provision of vehicle financing services in the PRC. With reference to the 2019 Annual Report, the principal business of Genius AFC has been focusing on the provision of auto wholesales financing solutions to auto dealers, and automobile retail financing solutions to end customers, mainly supporting the three auto brands, namely “Geely”, “LYNK & CO” and “Volvo Car”. The management of Genius AFC has confirmed to us that Genius AFC has obtained all necessary approvals, permits, licenses and certificates for carrying out its business operation in the PRC as at the Latest Practicable Date, and they are not aware of any record of non-compliance with the relevant laws and regulations in the PRC, including the Auto Finance Administrative Measures and the Auto Loan Management Measures, on Genius AFC since its formation.

In addition, we are also given to understand that in an effort to seek to broaden the revenue base, Genius AFC had developed a new business model during 2019 to extend its offerings to also include financing solutions for fleet customers and financing for end customers of vehicles from external third-party brands to create more business opportunities. We also noted that Genius AFC, with a registered capital of RMB4 billion as at the Latest Practicable Date, has been improving its funding structure by securing more external funds through different means like bilateral bank facilities and asset-backed security (the “ABS”) issuances during 2019 and 2020. As stated in the Letter from the Board, Genius AFC has successfully launched eight ABS with a cumulative amount of approximately RMB29.5 billion as at the Latest Practicable Date. It is also stated that the total assets of Genius AFC reached approximately RMB39.3 billion by the end of August 2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.2 Financial Results of Genius AFC and its Contribution to the Company

Owing to the accumulation of experience through providing vehicle financing services for different auto brands over the years and the improved funding structure, the Company considers that Genius AFC has achieved considerable growth since its formation, as illustrated below.

Set out below are the financial results of Genius AFC for the periods indicated as extracted from the 2019 Annual Report and the 2020 Interim Report:

	For the year ended		Year-on-year change	For the six months ended		Period-on- period change
	31 December			30 June		
	2018	2019		2019	2020	
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
	(audited)	(audited)		(unaudited)	(unaudited)	
Revenue	1,332,337	2,223,598	66.9	1,002,965	1,525,181	52.1
Profit for the year/period (Note)	216,653	509,086	135.0	232,700	423,160	81.8

*Note:* For the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Company entitled to a 80% share in the net profit of Genius AFC based on its 80% shareholding interests in Genius AFC for the respective years/periods.

According to the 2019 Annual Report and the 2020 Interim Report, despite the stagnant sales performance of the overall PRC automobile industry as a result of, among others, deterioration of consumer confidence in the PRC caused by economic uncertainties arisen from trade dispute between China and the United States of America and the outbreak of COVID-19 in 2020, Genius AFC continued to record strong growth in its vehicle financing business and achieved a new revenue record of approximately RMB2.2 billion for the year ended 31 December 2019 and approximately RMB1.5 billion for the six months ended 30 June 2020. Further, the 2019 Annual Report and the 2020 Interim Report reveal that along with a 66.9% year-on-year growth in revenue, the total outstanding loan assets of Genius AFC increased by about 63.7% from approximately RMB19.3 billion as at 31 December 2018 to approximately RMB31.6 billion as at 31 December 2019, and further increased to approximately RMB34.8 billion as at 30 June 2020 alongside the revenue of approximately RMB1.5 billion generated for the first half of 2020. It is also stated that, with a healthy level of interest rate spread and a negligibly low default rate as a result of enhanced sales management and effective risk control, Genius AFC achieved good earnings performance with its net profit showing a 135.0% year-on-year growth for the year ended 31 December 2019 and a 81.8% period-on-period growth for the six months ended 30 June 2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *1.3 Reasons for and Benefits of the Automobile Financing Arrangements*

Shortly after the launch of the first model of LYNK & CO-branded vehicles in the PRC automobile market in November 2017, Genius AFC tapped into the LYNK & CO Wholesale Financing Business and the LYNK & CO Retail Financing Business through the LYNK & CO Finance Cooperation Agreement, details of which are set out in the 2017 LYNK & CO Financing Circular. The LYNK & CO Finance Cooperation Agreement is renewable upon expiration of its initial three-year term expiring on 31 December 2020, subject to the terms and conditions stipulated therein. As expiration approaches, the Company is of the view that Genius AFC must gear up for this by way of extending the term of the LYNK & CO Finance Cooperation Agreement for another three years ending 31 December 2023 to ensure business continuity, allowing Genius AFC to capture further expansion and growth opportunity as they arise.

Notwithstanding the above, the Company highlighted that while it is important for Genius AFC to retain its existing target vehicle portfolio for its vehicle financing services, it is also of utmost importance to generate new business opportunities and grow its customer base to serve a wider range of retail customers, particularly under the current market conditions to succeed in the PRC automobile financing industry. As advised by the management of Genius AFC, Genius AFC is on the path towards sustainable development through product and brand portfolio extensions to meet different customer needs and to create a competitive advantage in the marketplace; rollout of the same or similar vehicle financing products for other auto brands is being put into practice, which aims at continuing growth momentum seen in 2019 and 2020. In particular, it is believed that amid the growth stage of its business, Genius AFC will require different tactics (including expansion of customer base, service scope and target vehicle portfolio) when it comes to market penetration, business development, and retaining market share. Barring any unforeseen circumstances, the proposed business extension to the Geely Holding Retail Financing Business and the Fengsheng Retail Financing Business, along with the Renewal of the LYNK & CO Financing Arrangements, would allow Genius AFC to serve a larger customer base with differing vehicle type preference, vehicle-specific requirements and/or credit status that may give its vehicle financing business a better chance of reaching out to more potential customers and expanding the overall revenue base. Given this, the Directors are of the view that the Geely Holding Financing Arrangements and the Fengsheng Financing Arrangements, as well as the LYNK & CO Financing Arrangements, which are all income-generating in nature are fit for the said business purpose and will potentially to have a positive impact on the expected recurring profit growth of Genius AFC, hence the Company's return on capital growth, in the long run. On this basis, the Automobile Financing Arrangements as a whole is considered by the Company to be an integral part of its business growth plan devised for Genius AFC.

Moreover, we are given to understand that anticipating consumer financial hardship during the COVID-19 pandemic with an increasing number of vehicle consumers considering vehicle financing as an important factor when purchasing a vehicle, it is expected that the Automobile Financing Arrangements will improve Genius AFC's market penetration rate in accordance with this change in consumption structure. As confirmed by the Directors, the Automobile Financing Arrangements in totality is a form of the Group's corporate strategy that

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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seeks to enable the Company through Genius AFC to proactively reach out to the potential purchasers (especially those experiencing unexpected, but perhaps temporary, shortage of funds or preferring no significant cash outlay at the outset pending a full recovery of the economy in the PRC) and to help them weather these tumultuous times and facilitate their purchases, thereby stimulating the Company's income generation from vehicle financing business.

Furthermore, as stated in the Letter from the Board, with steady increase in the source of funding and assets scale, Genius AFC has been striving for continuous business growth and expansion in its wholesale and retail financing services by widening the customer base and service scope with priority of fulfilling the financing needs for the Geely-Branded Vehicles. Given that the Geely-Branded Vehicles always have priority over any other auto brands within the target vehicle portfolio of Genius AFC in normal circumstances, the Company considers that Genius AFC's business expansion to the Automobile Financing Arrangements would not result in a deprivation of funds available for loan applications for purchases of the Geely-Branded Vehicles. It is against this backdrop that Genius AFC has undertaken to the Company that, in the event of shortage of funds experiencing by Genius AFC, priority will be given to loan applications for the purchase of the Geely-Branded Vehicles so as to ensure proper allocation of its resources such that the Group's interest will be safeguarded.

In light of the above (in particular the income-generating nature of the Automobile Financing Arrangements and the positive impact of the continuing growth in the business size of Genius AFC on the Group), it is reasonable for the Company to expect that besides creating a diversified income stream for Genius AFC, the Automobile Financing Arrangements will facilitate and expedite the establishment of Genius AFC's market recognition as well as the overall penetration in the PRC automobile financing industry, which in turn would enhance the Group's market presence and competitiveness in the PRC automobile industry.

### ***1.4 Principal Terms of the LYNK & CO Finance Cooperation Agreement***

The LYNK & CO Finance Cooperation Agreement with an initial term of three years ending 31 December 2020 was approved by the then independent Shareholders at the Company's extraordinary general meeting held on 27 December 2017. The Company confirmed that subject to the approval of the Independent Shareholders at the EGM, the Renewal of the LYNK & CO Financing Arrangements is to be conducted based on the same terms and conditions stipulated in the LYNK & CO Finance Cooperation Agreement.

Below set out the details of the principal terms of the LYNK & CO Finance Cooperation Agreement as stated in the Letter from the Board:

*Date*

3 November 2017

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Parties*

Genius AFC and LYNK & CO Sales

LYNK & CO Sales is a private limited liability company incorporated in the PRC and is principally engaged in the sales and marketing of LYNK & CO-branded vehicles and provision of after-sale services.

### *Subject matter*

The LYNK & CO Finance Cooperation Agreement sets out the terms under which Genius AFC will provide vehicle financing services to the LYNK & CO Dealer and the LYNK & CO Retail Customers for LYNK & CO-branded vehicles. Such terms include (i) the provision of wholesale financing to the LYNK & CO Dealers to assist them to buy LYNK & CO-branded vehicles and eventually selling such vehicles to the LYNK & CO Retail Customers; and (ii) the provision of retail financing to the LYNK & CO Retail Customers to assist them to buy LYNK & CO-branded vehicles from the LYNK & CO Dealers.

### *Term*

The LYNK & CO Finance Cooperation Agreement shall have an initial term of three years and shall then continue unless and until terminated by either party by giving at least six months prior written notice. Such continuation/renewal shall be approved by (i) the regulators of the Company (that is, the Stock Exchange); and (ii) the independent Shareholders.

The Company confirmed that as at the Latest Practicable Date, LYNK & CO Sales had not given a written termination notice to Genius AFC, and vice versa.

### *Termination*

LYNK & CO Sales may terminate the LYNK & CO Finance Cooperation Agreement with immediate effect if (i) Genius AFC becomes insolvent; or (ii) Genius AFC materially breaches, or materially fails to comply with, the LYNK & CO Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of LYNK & CO Sales giving Genius AFC written notice of such breach subject to the remediation clause under the LYNK & CO Finance Cooperation Agreement.

Genius AFC may terminate the LYNK & CO Finance Cooperation Agreement with immediate effect if (i) LYNK & CO Sales becomes insolvent; or (ii) LYNK & CO Sales materially breaches, or materially fails to comply with, the LYNK & CO Finance Cooperation Agreement or any other agreement entered into or in connection with the LYNK & CO Finance Cooperation Agreement and such failure is not capable of remedy

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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or is capable of remedy but is not remedied within 30 days of Genius AFC giving LYNK & CO Sales written notice of such breach subject to the remediation clause under the LYNK & CO Finance Cooperation Agreement.

### *Conditions precedent*

The LYNK & CO Finance Cooperation Agreement shall take effect upon:

- (i) the approval of the Independent Shareholders on the LYNK & CO Financing Arrangements; and
- (ii) the approval of the Stock Exchange on the LYNK & CO Financing Arrangements, if required.

### *Cooperation*

LYNK & CO Sales will (a) use its reasonable endeavours to procure the LYNK & CO Dealers to use Genius AFC for the LYNK & CO Wholesale Financing and to recommend their retail customers to use the LYNK & CO Retail Financing provided by Genius AFC; (b) for a LYNK & CO Dealer who is covered by the LYNK & CO Wholesale Financing, use its reasonable endeavours to grant subsidies to the benefit of such LYNK & CO Dealer in order to promote the LYNK & CO Wholesale Financing Business (the “**LYNK & CO Wholesale Subsidies**”); and (c) for a LYNK & CO Dealer who is covered by the LYNK & CO Retail Financing, use its reasonable endeavours to grant subsidies for the promotional campaigns in relation to the LYNK & CO Retail Financing offered by Genius AFC to the LYNK & CO Retail Customers from such LYNK & CO Dealer, provided that the final choice of financial partner shall always be made by the LYNK & CO Dealers or the LYNK & CO Retail Customers (the “**LYNK & CO Retail Subsidies**”).

Genius AFC shall not be the exclusive provider of vehicle loans and other services particularly described in the LYNK & CO Finance Cooperation Agreement in the PRC to the LYNK & CO Dealers or the LYNK & CO Retail Customers, and other providers are and will also be appointed by LYNK & CO Sales to provide similar services. Notwithstanding the foregoing, shall another independent vehicle financing company offer vehicle financing services under the same conditions, Genius AFC shall be the preferred partner of LYNK & CO Sales for the provision of vehicle financing services (the “**LYNK & CO Preferred Partnership Provision**”).

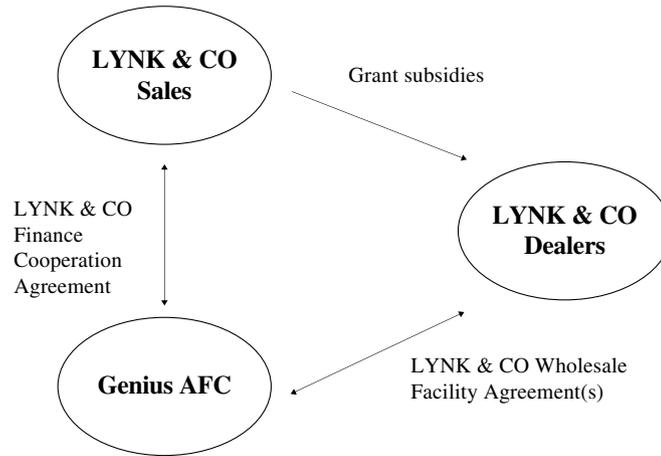
The mode of cooperation between Genius AFC and LYNK & CO Sales for the LYNK & CO Wholesale Financing and the LYNK & CO Retail Financing are summarised as below:

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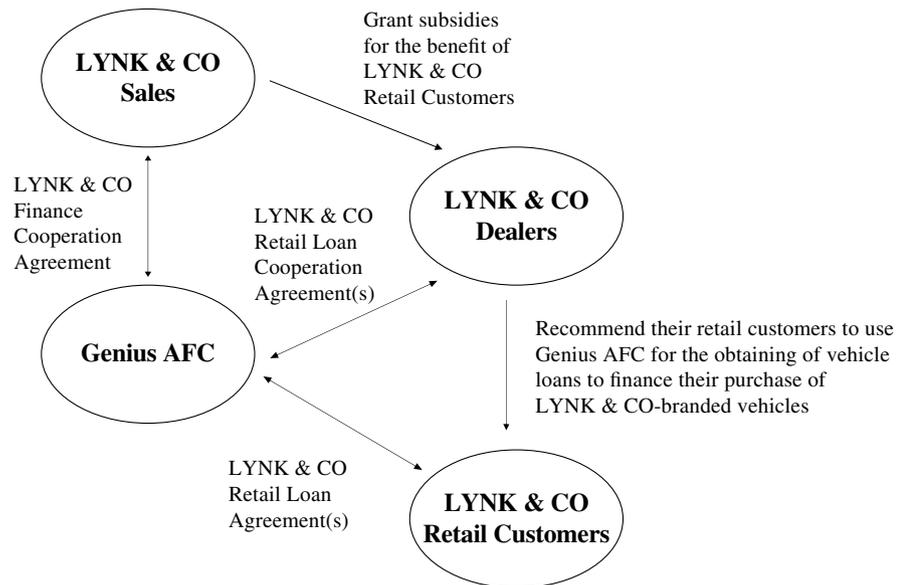
**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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(i) *LYNK & CO Wholesale Financing*



(ii) *LYNK & CO Retail Financing*



*Pricing policy*

Genius AFC will enter into the LYNK & CO Wholesale Facility Agreements with the LYNK & CO Dealers for the provision of the LYNK & CO Wholesale Financing and the LYNK & CO Retail Loan Agreements with the LYNK & CO Retail Customers for the provision of the LYNK & CO Retail Financing. Genius AFC shall ensure that the terms of the LYNK & CO Wholesale Facility Agreements and the LYNK & CO Retail Loan Agreements are competitive at all times during the term of the LYNK & CO Finance Cooperation Agreement, and such terms will be in line with general automobile financing industry practice. Notwithstanding the foregoing, Genius AFC will remain the sole decision maker for the final pricing to be applied to the LYNK & CO Dealers and the LYNK & CO Retail Customers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The LYNK & CO Finance Cooperation Agreement provides guidance with respect to the interest rates charged by Genius AFC for the provision of the LYNK & CO Wholesale Financing to the LYNK & CO Dealers and the LYNK & CO Retail Financing to the LYNK & CO Retail Customers. The interest rates, at the time of each setting, for the loans provided by Genius AFC to the LYNK & CO Dealers and the LYNK & CO Retail Customers shall be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with.

In practice, given that Genius AFC is not the exclusive provider of financing services to the LYNK & CO Dealers and the LYNK & CO Retail Customers (in which the Independent LYNK & CO Dealers and the LYNK & CO Retail Customers are independent third parties to Genius AFC), the sales and marketing department of Genius AFC will communicate with the LYNK & CO Dealers on an ongoing basis to keep abreast of the market and to ensure that the terms of the LYNK & CO Wholesale Financing and the LYNK & CO Retail Financing offered by Genius AFC are competitive at all times in light of the fierce competition in the PRC automobile financing industry. Please refer to the paragraph headed “Internal control measures in relation to the Automobile Financing Arrangements” set out in the Letter from the Board for details of the internal control procedures for determining the pricing of the services provided by Genius AFC.

We made enquiries to the management of Genius AFC who confirmed with us based on the PRC Legal Opinion that the Auto Loan Management Measures used to be the key reference for lending interest rate. However, in October 2004, the PBOC released 《中國人民銀行關於調整金融機構存、貸款利率的通知》 (the Notice of the People’s Bank of China on Adjusting Deposits and Lending Rates of Financial Institutions\*) pursuant to which the upper limit on the lending interest rates by financial institutions was abolished. Also, the PBOC released an announcement in July 2013 to loosen the control on the lending interest rates of financial institutions, to cancel the lower limit of the lending interest rates of financial institutions. Nevertheless, according to 《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》 (the Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases\*) (the “**Lending Provisions**”) which has become effective in 2015 and amended in 2020 that if the annual interest rate stipulated by the lenders and the borrowers does not exceed four times of the PRC’s one-year loan prime rate, as released by the National Inter-bank Funding Center on a monthly basis since 20 August 2019 under the authorisation of PBOC, the PRC courts will support the lender’s request for the borrower to pay such interest. In light of the above, based on the advice of the management of Genius AFC as further supported by the PRC Legal Opinion, under the applicable PRC rules and regulations, the maximum annual lending interest rate for private lending is four times of the PRC’s one-year loan prime rate. The PRC Legal Opinion further states that (i) although the Lending Provisions are not directly applicable to auto financing companies, in practice the upper limit of the four times of the PRC’s one-year loan prime rate per annum set by the Lending Provisions has become the upper limit of the annual interest rate of financial lending; and (ii) if the

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lending interest rate to be charged by Genius AFC for its vehicle financial services exceed four times of the PRC's one-year loan prime rate, the consequence for such excess will render the interest rate for the exceeding part invalid.

As confirmed by the management of Genius AFC, under the current practice, the lending interest rate of the LYNK & CO Financing Arrangements was determined principally after taking into account the maximum annual lending interest rate of four times of the PRC's one-year loan prime rate for private lending under the Auto Loan Management Measures, the PBOC base lending rate for similar type of loan under similar terms and conditions, the cost of funds, the lending rates offered by the competitors in the PRC automobile financing industry and the borrower's credit profile which was assessed by Genius AFC in accordance with the credit risk assessment procedures as set out in the paragraph headed "Lending risk" below. In light of the abovementioned pricing policy and after taking into account the relatively low non-performing loan rate of Genius AFC as discussed in the paragraph headed "Lending Risk" below, we considered it to be fair and reasonable for Genius AFC to continue to adopt the aforesaid bases in determining the lending interest rates under the Renewal of the LYNK & CO Financing Arrangements.

### *Lending risk*

Genius AFC is primarily regulated by the China Banking Regulatory Commission (renamed as China Banking and Insurance Regulatory Commission). In addition, PBOC and the Ministry of Finance of the PRC also have regulatory oversight of the automobile financing industry. The China Banking Regulatory Commission (renamed as China Banking and Insurance Regulatory Commission) and PBOC enacted the Auto Finance Administrative Measures and the Auto Loan Management Measures to standardise the management of automotive loan business.

All lending risk assessments and decisions will be the sole responsibility of Genius AFC, and such decisions shall conform to applicable regulatory requirements. The extension of financing in any form to any LYNK & CO Dealer or any LYNK & CO Retail Customer is subject to satisfactory credit risk assessment in accordance with Genius AFC's credit risk management procedures and all other internal risk and management policies as from time to time determined by Genius AFC at its sole discretion.

In relation to the credit risk assessment procedures for the LYNK & CO Wholesale Financing Business, the risk control department of Genius AFC would review the credit applications with supporting materials submitted by the LYNK & CO Dealers and prepare proposals for the granting of credit lines. The risk control committee of Genius AFC would appraise and make decisions on the granting of credit lines. The credit application should be subject to approval by the board of Genius AFC for granting of credit lines exceeding the internal threshold set by Genius AFC. When assessing credit applications of the LYNK & CO Dealers, factors that would be taken into consideration include, among other things, company background, experience in the

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automobile industry, capital structure, debt-to-asset ratio, profitability and financial performance of the relevant LYNK & CO Dealers. The LYNK & CO Dealers who are granted credit lines by Genius AFC are required to submit to Genius AFC their financial reports every month and audited accounts (if any) every year which would be reviewed and assessed by the risk control department of Genius AFC. Based on the assessment results, Genius AFC would consider whether to adjust the credit line granted should there be any substantial changes in the financial and operating performance of such LYNK & CO Dealers.

In relation to the credit risk assessment procedures for the LYNK & CO Retail Financing Business, Genius AFC utilises a computerised internal risk assessment expert system, which enables Genius AFC to perform credit risk assessment procedures using big data analytics. For the purpose of risk assessment, the risk control department of Genius AFC would set specification rules for the retail products to determine whether or not to accept the loan application of a retail applicant, based on the retail applicant's earnings, credit history and repayment capability. The risk control committee of Genius AFC would then review and approve the specification rules for the retail products. Based on the evaluation performed by the computerised internal risk assessment expert system, which is configured and modified by the risk control department from time to time, the decisions on whether to grant the loan to the retail applicant would be made by the system and the retail underwriting team of Genius AFC's operation department. The general responsibilities of the underwriting team also include checking the authenticity of, and reviewing, the information and materials provided by the retail applicants, and assessing their credibility in order to make final credit decisions on the loan applications. Upon granting of the loan to a LYNK & CO Retail Customer, the collection team of Genius AFC's operation department would monitor the performance of such loan and would follow up on any delinquency and/or default in payment.

Furthermore, the management of Genius AFC confirmed that as ascertained by the PRC Legal Opinion, the Auto Loan Management Measures is the principal law and regulation of the PRC in relation to the risk assessment and decision of auto finance companies. The management of Genius AFC also confirmed that (i) the abovementioned credit risk assessment procedures for both the LYNK & CO Wholesale Financing and the LYNK & CO Retail Financing were devised and established pursuant to the Auto Loan Management Measures; and (ii) since the incorporation of Genius AFC in August 2015, Genius AFC has been in compliance with the Auto Loan Management Measures and the relevant laws and regulations of the PRC in relation to risk management of auto finance companies.

As confirmed by the Company, since the commencement of the LYNK & CO Financing Arrangements and up to 31 August 2020, (i) there had been no default in payment from the LYNK & CO Dealers under the LYNK & CO Wholesale Financing; (ii) out of over 100,000 transactions under the LYNK & CO Retail Financing, only approximately 0.1% of the transactions were terminated due to the LYNK & CO Retail Customer's default in payment; and (iii) as at 31 August 2020, the non-performing loan (being the loan past due for more than 60 days) rate under the LYNK & CO Wholesale

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Financing and the LYNK & CO Retail Financing was nil and approximately 0.02%, respectively. According to 2019 Automobile Financing Industry Report, the average non-performing loan rate of the automobile financing industry was approximately 0.5% as at 31 December 2019.

### *Loan term*

The maximum loan term for each LYNK & CO Dealer shall be 360 days. The maximum loan term for each LYNK & CO Retail Customer shall be 60 months.

We have reviewed that the Auto Loan Management Measures which stipulated that the term of automobile loans may not be longer than five years while the term of loans to wholesale dealers may not be longer than one year. Thus, the abovementioned loan terms set out in the LYNK & CO Finance Cooperation Agreement comply with the Auto Loan Management Measures, and accordingly are considered to be fair and reasonable in this respect.

### *Subsidies*

Genius AFC will provide financing to all the LYNK & CO Dealers according to the sales objectives and regional coverage agreed with LYNK & CO Sales. LYNK & CO Sales may from time to time offer LYNK & CO Dealers support with their vehicle financing and stock cost and may choose to pay the interest accruing under the relevant LYNK & CO Wholesale Facility Agreements on the LYNK & CO Dealers' behalf for an agreed period of time. In practice, LYNK & CO Sales will provide subsidies to (i) the LYNK & CO Dealers who enter into the LYNK & CO Wholesale Facility Agreements with Genius AFC for the LYNK & CO Wholesale Financing; and (ii) the LYNK & CO Dealers who enter into the LYNK & CO Retail Loan Cooperation Agreements with Genius AFC for the benefits of the LYNK & CO Retail Customers in the LYNK & CO Retail Financing, subject to the final assessment of the market situation, such as sales performance of the LYNK & CO-branded vehicles, by LYNK & CO Sales. The terms and period of such subsidies shall be determined by LYNK & CO Sales in its quarterly sales incentive policies.

In order to assess whether it is the market practices that the auto manufacturers provide subsidies and/or interest-free periods to auto dealers for sales promotion, we have conducted public domain research and noted that although the promotional packages offered by Chinese auto manufacturers and/or auto finance companies are different, it usually includes two to three years of zero or low interest car loans, purchase tax subsidies, interest subsidies and trade-in subsidies. Therefore, we consider the provision of the financing support by LYNK & CO Sales to the LYNK & CO Dealers for the purpose of the LYNK & CO Financing Arrangements are in line with our research results.

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### *Security*

Under the LYNK & CO Wholesale Facility Agreements and the LYNK & CO Retail Loan Agreements, acceptable securities may include security deposits, security over the LYNK & CO Dealers' and the LYNK & CO Retail Customers' vehicles and/or different types of guarantees.

We noted that under article 24 of the Auto Loan Management Measures, with stated that "when a lender issues a car loan, the borrower shall be required to provide the automobile mortgage or other effective guarantee purchased". Furthermore, under the Auto Loan Management Measures, it stated that "after the lender examines, evaluates and confirms that the borrower has a good credit and can indeed repay the loan, he may not provide any guarantee".

Having considered the above and in particular after taking into account the following factors:

- the Renewal of the LYNK & CO Financing Arrangements will be subject to the same principal terms of the LYNK & CO Finance Cooperation Agreement, including the pricing basis for the lending interest to be determined with reference to the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with;
- the adherence to the Auto Loan Management Measures which is the principal law and regulation of the PRC in relation to the operation of auto loan companies including Genius AFC;
- Genius AFC is to be the sole decision maker for the final pricing of the financing services to be applied to the LYNK & CO Dealers and the LYNK & CO Retail Customers throughout the renewed three-year term of the LYNK & CO Finance Cooperation Agreement; and
- the Group has put in place the relevant internal control measures (as detailed in the paragraph headed "Internal control measures in relation to the Automobile Financing Arrangements" set out in the Letter from the Board) to (i) regularly monitor the market interest rates (including the PBOC base lending rates for similar types of loans under similar terms and conditions as the pricing basis of the lending interest rate under the Renewal of the LYNK & CO Financing Arrangements); and (ii) keep abreast of the general automobile financing industry practice aimed at ensuring adherence of the pricing policy as stipulated in the LYNK & CO Finance Cooperation Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that the terms of the Renewal of the LYNK & CO Financing Arrangements are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

### ***1.5 LYNK & CO Wholesale Facility Agreements***

For the LYNK & CO Wholesale Financing, during the renewed three-year term of the LYNK & CO Finance Cooperation Agreement, Genius AFC would enter into the individual LYNK & CO Wholesale Facility Agreements with the LYNK & CO Dealers, pursuant to which Genius AFC will provide vehicle financing to such LYNK & CO Dealers to facilitate their purchase of LYNK & CO-branded vehicles. The terms of the LYNK & CO Wholesale Facility Agreements (including, among other things, pricing, loan term, credit limits, etc.) are consistent with the terms of the LYNK & CO Finance Cooperation Agreements as disclosed above.

### ***1.6 LYNK & CO Retail Loan Agreements***

During the renewed three-year term of the LYNK & CO Finance Cooperation Agreement, Genius AFC would enter into the LYNK & CO Retail Loan Cooperation Agreements with the LYNK & CO Dealers, pursuant to which the LYNK & CO Dealers shall recommend their retail customers (that is, the LYNK & CO Retail Customers) to use Genius AFC for obtaining vehicle loans to finance their purchase of LYNK & CO-branded vehicles.

For the LYNK & CO Retail Financing, during the renewed three-year term of the LYNK & CO Finance Cooperation Agreement, Genius AFC would further enter into the LYNK & CO Retail Loan Agreements with the LYNK & CO Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such LYNK & CO Retail Customers to facilitate their purchase of LYNK & CO-branded vehicles. The terms of the LYNK & CO Retail Loan Agreements (including, among other things, pricing, loan term, credit limits, etc.) are consistent with the terms of the LYNK & CO Finance Cooperation Agreement as disclosed above.

### ***1.7 LYNK & CO Wholesale Annual Caps and LYNK & CO Retail Annual Caps***

#### ***(i) LYNK & CO Wholesale Financing***

Historical transaction amounts

The table below sets out (i) the historical transaction amounts in relation to the LYNK & CO Wholesale Financing for each of the two years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the existing annual caps for the LYNK & CO Wholesale Financing for each of the three years ending 31 December 2020 (the “**Existing LYNK & CO Wholesale Annual Caps**”) and their respective utilisation rates, as extracted from the Letter from the Board:



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promotion and marketing stage during the years of 2018 and 2019; (ii) Genius AFC only started the LYNK & CO Wholesale Financing at the end of the third quarter of 2019 as it took longer-than-expected to develop the business and network with the LYNK & CO Dealers; (iii) the decrease in demand of vehicles caused by the outbreak of COVID-19 in 2020 which led to lower demand for the LYNK & CO Wholesale Financing; and (iv) the lower-than-expected wholesale finance coverage (that is, the estimated percentage of the LYNK & CO Dealers' purchases which will be financed by the loans to be provided by Genius AFC under the LYNK & CO Wholesale Financing) as a result of intense competition from other financial institutions for automobile wholesale financing services. As a result, the penetration of the LYNK & CO Wholesale Financing by Genius AFC was lower than originally expected. In this regard, Genius AFC has revised the annual caps of the LYNK & CO Wholesale Financing downward for the three years ending 31 December 2023 as exhibited in the table below.

### The LYNK & CO Wholesale Annual Caps

The table below sets out the proposed LYNK & CO Wholesale Annual Caps for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
Maximum new financing amounts to be provided by Genius AFC to the LYNK & CO Dealers under the LYNK & CO Wholesale Financing (RMB' million)	450.0	675.0	1,125.0
Year-on-year increase/(decrease)	(98.1)%	50.0%	66.7%

As stated in Letter from the Board, when determining the proposed LYNK & CO Wholesale Annual Caps, Genius AFC has taken into account (i) the projected units of LYNK & CO-branded vehicles to be purchased by the LYNK & CO Dealers, which have a total number of around 300 as at the Latest Practicable Date, for each of the three years ending 31 December 2023. Such projection was determined by the LYNK & CO Group with reference to the sales volume projection of the LYNK & CO-branded vehicles after taking into account (a) the extended dealership network to the Connected LYNK & CO Dealers for the purpose of the LYNK & CO Financing Arrangements; (b) the increasing demand of the existing LYNK & CO-branded vehicles following the gradual recovery from COVID-19 which was supported by an increase of approximately 18.8% in total sales volume for the nine months ended 30 September 2020 when compared to the same period in 2019; and (c) the introduction of the new LYNK & CO-branded vehicles. The projected unit purchase of LYNK & CO-branded vehicles represent year-on-year expected increase of over 20% for each of the years ending 31 December 2022 and 2023; (ii) the expected average selling price and average vehicle loan amount for each unit of LYNK & CO-branded vehicles to the LYNK & CO

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Dealers for each of the three years ending 31 December 2023 which was determined with reference to the historical average selling price and the average vehicle loan amount for each unit of LYNK & CO-branded vehicles for the eight months ended 31 August 2020; and (iii) the estimated wholesale finance coverage of Genius AFC's LYNK & CO Wholesale Financing Business of 1.2%, 1.5% and 2.0% for the three years ending 31 December 2023, respectively (the “**LYNK & CO Wholesale Finance Coverage**”), with reference to the historical average LYNK & CO wholesale finance coverage of 0.3% for the eight months ended 31 August 2020 and the expected increase in wholesale finance penetration following the accumulation of experience and business network of Genius AFC and the introduction of the Connected LYNK & CO Dealers in the LYNK & CO Wholesale Financing Business. It is also stated that the estimated wholesale finance coverage of the LYNK & CO Wholesale Financing is lower than the wholesale finance penetration of the PRC automobile industry (including both first-hand and second-hand vehicles) of 16.3% in 2019 in view of a more prudent estimation being adopted based on the relatively low historical wholesale finance coverage of the LYNK & CO Wholesale Financing.

Furthermore, it is noted that the increase in the proposed LYNK & CO Wholesale Annual Caps is primarily due to the expected increase in the purchase of LYNK & CO-branded vehicles by the LYNK & CO Dealers due to the increase in demand of the existing and new LYNK & CO-branded vehicles from the retail customers and the gradual increase in the estimated wholesale finance coverage.

(ii) *LYNK & CO Retail Financing*

Historical transaction amounts

The table below sets out (i) the historical transaction amounts for the LYNK & CO Retail Financing for each of the two years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the existing annual caps for the LYNK & CO Retail Financing for each of the three years ending 31 December 2020 (the “**Existing LYNK & CO Retail Annual Caps**”) and their respective utilisation rates, as extracted from the Letter from the Board:

	For the year ended 31 December		For the eight months ended
	2018	2019	31 August 2020
	(RMB' million)	(RMB' million)	(RMB' million)
	(audited)	(audited)	(unaudited)
Historical financing amounts provided by Genius AFC to the LYNK & CO Retail Customers under the LYNK & CO Retail Financing	1,397.6	4,811.4	2,830.2

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	For the year ended/ending 31 December		
	2018	2019	2020
Existing LYNK & CO Retail Annual Caps (RMB' million)	9,544.0	20,601.0	23,295.0
Utilisation rates	14.6%	23.4%	12.1%
			(for eight months only)
			(Note)

*Note:* The utilisation rate of the annual cap for the year ending 31 December 2020 was calculated based on the historical transaction amount for the eight months ended 31 August 2020 divided by the approved annual cap for the full financial year ending 31 December 2020.

The historical transaction amounts for the LYNK & CO Retail Financing were approximately RMB1,397.6 million, RMB4,811.4 million and RMB2,830.2 million for each of the two years ended 31 December 2018 and 2019 and the eight months ended 31 August 2020 respectively, representing approximately 14.6%, 23.4% and 12.1% of the respective Existing LYNK & CO Retail Annual Caps. It is stated in the Letter from the Board that the said historical transaction amounts only refer to the vehicle financing services provided by Genius AFC to the LYNK & CO Retail Customers who purchased LYNK & CO-branded vehicles from the Independent LYNK & CO Dealers as the Connected LYNK & CO Dealers, which were only set up in 2020, had not entered into any LYNK & CO Retail Loan Cooperation Agreement with Genius AFC.

As stated in the Letter from the Board, the low utilisation rates of the Existing LYNK & CO Retail Annual Caps were mainly due to the lower-than-expected demand of LYNK & CO-branded vehicles in the PRC throughout the years of 2018 and 2019 as a result of the intense competition with other automobile brands in the market and the outbreak of COVID-19 in 2020 which led to lower demand for LYNK & CO-branded vehicles.

In addition, as advised by the management of the Group, the lower-than-expected sales volume of LYNK & CO-branded vehicles is also a contributing factor to the low utilisation rates of the Existing LYNK & CO Retail Annual Caps. Our attention has been drawn to the fact that during the two years ended 31 December 2019 and the eight months ended 31 August 2020, LYNK & CO was still in an early development stage of business possessing limited models with the official launching of its first model only in late-2017 and has been in the process of establishing, among others, its customer base and product range. The Company believes that considerable time and efforts are needed for the LYNK & CO Group to introduce and promote the LYNK & CO-branded vehicles to the market. The Directors consider that the lower-than-expected sales

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volume of the LYNK & CO-branded vehicles was in line with the development status of LYNK & CO as a developing brand and the unforeseen unfavorable market conditions in recent years.

### The LYNK & CO Retail Annual Caps

The table below sets out the proposed LYNK & CO Retail Annual Caps for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
Maximum new financing amounts to be provided by Genius AFC to the LYNK & CO Retail Customers under the LYNK & CO Retail Financing ( <i>RMB</i> ' million)	10,153.9	13,303.5	17,149.7
Year-on-year increase/(decrease)	(56.4)%	31.0%	28.9%

As stated in the Letter from the Board, when determining the proposed LYNK & CO Retail Annual Caps, Genius AFC has taken into account (i) the projected unit sales of LYNK & CO-branded vehicles to the LYNK & CO Retail Customers for each of the three years ending 31 December 2023 by the LYNK & CO Dealers, which have a total number of around 300 as at the Latest Practicable Date, after taking into account (a) the extended dealership network to the Connected LYNK & CO Dealers for the purpose of the LYNK & CO Financing Arrangements; (b) the increasing demand of the existing LYNK & CO-branded vehicles following the gradual recovery from COVID-19 which was supported by an increase of approximately 18.8% in total sales volume for the nine months ended 30 September 2020 when compared to the same period in 2019; and (c) the introduction of the new LYNK & CO-branded vehicles. The projected unit sales of LYNK & CO-branded vehicles represent a year-on-year expected increase of over 20% for each of the years ending 31 December 2022 and 2023; (ii) the projected average retail selling price and average vehicle loan amount for each unit of the LYNK & CO-branded vehicles for each of the three years ending 31 December 2023, which was determined with reference to the historical average selling price and average vehicle loan amount for each unit of the LYNK & CO-branded vehicles for the eight months ended 31 August 2020; and (iii) the estimated retail financing penetration of the LYNK & CO Retail Financing of 46.0%, 48.0% and 50.0% for the three years ending 31 December 2023 respectively (the “**LYNK & CO Retail Financing Penetration**”). The LYNK & CO Retail Financing Penetration represents the estimated percentage of the LYNK & CO Retail Customers' purchases which will be financed by loans provided by Genius AFC under the LYNK & CO Retail Financing.

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It is further stated in the Letter from the Board that when determining the LYNK & CO Retail Financing Penetration, Genius AFC has made reference to the historical average retail financing penetration of approximately 44.0% and 42.5% for the year ended 31 December 2019 and the eight months ended 31 August 2020 respectively and the expectation that more LYNK & CO Retail Customers will choose to use the LYNK & CO Retail Financing in light of the increased level of promotional activities, incentives and training to be undertaken by Genius AFC and LYNK & CO Sales to increase penetration rate.

The Directors expect the estimated LYNK & CO Retail Financing Penetration for the Independent LYNK & CO Dealers and the Connected LYNK & CO Dealers to be increased by 2% for each of the two years ending 31 December 2023 to be consistent with the increasing trend of the retail financing penetration of the automobile financing industry (including both first-hand and second-hand vehicles) in the PRC which grew by about 1.7% and 4.2% for the two years ended 31 December 2018 and 2019, respectively. The Directors also believe that the onward promotion from the LYNK & CO Dealers in the coming years will further increase the retail financing penetration of the LYNK & CO Retail Financing as well.

*(iii) Assessment of the basis for determination*

In order to assess the fairness and reasonableness of the LYNK & CO Wholesale Annual Caps and the LYNK & CO Retail Annual Caps, we have obtained and reviewed the respective projections of the estimated maximum new financing amounts in relation to the LYNK & CO Wholesale Financing and the LYNK & CO Retail Financing for the three years ending 31 December 2023 prepared by Genius AFC (the “**LYNK & CO Financing Projections**”), and also discussed with the management of Genius AFC about the underlying principal bases and assumptions relating thereto. In assessing the reasonableness of the LYNK & CO Financing Projections, we have requested for and made enquiries about, among others, the latest available list of confirmed LYNK & CO Dealers with the corresponding sales targets for the year ending 31 December 2020, as well as the estimated unit prices and sales volume of the existing and new LYNK & CO-branded vehicle models for each of the three years ending 31 December 2023.

It has come to our knowledge that when preparing the LYNK & CO Financing Projections, the management of Genius AFC has reviewed the business development and performance of LYNK & CO since its establishment in October 2017. Such review reveals that despite a lower-than-expected performance under the unfavourable overall market conditions in the PRC automobile industry stemmed from both micro-environment and macro-environment factors (as discussed in the paragraphs headed “LYNK & CO Wholesale Financing – Historical transaction amounts” and “LYNK & CO Retail Financing – Historical transaction amounts” above), LYNK & CO managed to record a 6.4% year-on-year growth in sales volume to approximately 128,000 units for the year ended 31 December 2019, followed by a greater increase of approximately 18.8% being achieved for the nine months ended 30 September 2020 given a sales record of approximately 89,000 units when comparing to the same period in 2019.

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Looking ahead, barring any unforeseen circumstances, the Company expects that with the PRC being generally regarded as the first major economy to recover from the COVID-19 pandemic, coupled with the increasing demand for high-performance vehicles in the PRC automobile market, LYNK & CO will continue its growth momentum for the foreseeable future particularly under the current circumstances where the COVID-19 situation in the PRC tends to remain fairly stable and the PRC's economic recovery from COVID-19 seems to be underway. In support of the Company's viewpoint, according to the World Health Organisation, there were confirmed cases of COVID-19 in the PRC of approximately 82,000 being reported during the first quarter of 2020, then gradually decreased to approximately 2,000 new confirmed cases in both the second and third quarter of 2020 respectively, hence creating supportive environments for stimulating future growth of LYNK & CO's business. Besides, other driving factors that have been considered by Genius AFC when estimating the projected future consumption of the LYNK & CO-branded vehicles through the LYNK & CO Dealers include (i) the increase in the sales channels via the expansion of dealership network; (ii) the relatively stable unit price for the existing models to be offered to the LYNK & CO Dealers and the LYNK & CO Retail Customers; and (iii) the continuing product expansion in LYNK & CO-branded vehicles with an aim to cater for various market segments and different customer purchasing preference on product specifications.

As confirmed by the management of Genius AFC, as at the Latest Practicable Date, there were a total of around 300 LYNK & CO Dealers in the PRC for the purpose of the LYNK & CO Financing Arrangements. The management of Genius AFC further confirmed that there will be no restriction imposed on the coverage on the dealership network, sales area and vehicle types under the LYNK & CO Financing Arrangements for each of the three years ending 31 December 2023, which, in the view of the Directors, would facilitate Genius AFC to achieve the LYNK & CO Wholesale Finance Coverage and the LYNK & CO Retail Financing Penetration.

Moreover, it is noted that the key determining factors including (i) the historical average wholesale finance coverage and retail financing penetration for the LYNK & CO Wholesale Financing Business and the LYNK & CO Retail Financing Business respectively, as well as the PRC automobile financing industry; (ii) the extended dealership network to include the Connected LYNK & CO Dealers; (iii) the vehicle types/models under the LYNK & CO Financing Arrangements; (iv) the LYNK & CO Wholesale Subsidies and the LYNK & CO Retail Subsidies to be given by LYNK & CO Sales; and (v) the business relationship between Genius AFC and LYNK & CO Sales (that is being the preferred partner of LYNK & CO Sales pursuant to the LYNK & CO Preferred Partnership Provision), which, to our knowledge, have been taken into account when determining the LYNK & CO Wholesale Finance Coverage and the LYNK & CO Retail Financing Penetration, which in turn largely contributed to the LYNK & CO Financing Projections. To strike a balance between (1) the historical sales trend and the growth opportunity for LYNK & CO-branded vehicles as the PRC's economic recovery gains momentum; and (2) the general slowdown in economic activity in the PRC over a sustained period of time though there are signs of a possible

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gradual recovery in the PRC automobile industry, we concur with the view of the Directors that it is reasonable to place downward adjustments to the maximum new financing amounts to be provided by Genius AFC under both the LYNK & CO Wholesale Financing and the LYNK & CO Retail Financing for the next three years to reflect the current expectation of Genius AFC towards its LYNK & CO Wholesale Financing Business and LYNK & CO Retail Financing Business.

In addition to the above, based on our work performed in relation to the LYNK & CO Wholesale Annual Caps and LYNK & CO Retail Annual Caps, it is also noted that:

- when comparing with the overall performance of the auto finance companies in the PRC, (i) the LYNK & CO Wholesale Finance Coverage is substantially less than the 2019 Market Overall Wholesale Finance Coverage; and (ii) the LYNK & CO Retail Financing Penetration is generally in line with the historical average retail financing penetration of LYNK & CO Retail Financing Business for the year ended 31 December 2019 and the eight months ended 31 August 2020, with an increase of 2% for each of the two years ending 31 December 2023 that is below the average increase rates of the year-end overall retail financing penetration of the PRC automobile financing industry in both 2018 and 2019;
- the projected unit sales of LYNK & CO-branded vehicles to the LYNK & CO Retail Customers for each of the three years ending 31 December 2023 by the LYNK & CO Dealers under the LYNK & CO Financing Arrangements being estimated with reference to the historical sales volume of comparable vehicles currently available in the PRC automobile market, together with generally stable average wholesale/retail unit price and average vehicle loan amount per unit of LYNK & CO-branded vehicles, were considered and adopted by Genius AFC in the LYNK & CO Financing Projections; and
- the continuous support of the PRC government to the automobile industry (including the measures under the Notice issued in April 2020 supporting, among others, automobile consumer financing to stabilise and expand automobile consumption in the PRC) as discussed in the paragraph headed “Industry Outlook” above, as well as the COVID-19 situation in the PRC tends to remain fairly stable with the PRC’s economic recovery from COVID-19 seems to be underway based on the regular updates from the World Health Organisation up to the Latest Practicable Date, that in totality is expected to create supportive environments for future sales of LYNK & CO-branded vehicles under the LYNK & CO Financing Arrangements.

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On the basis of the above, we concur with the Directors' view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to set the LYNK & CO Wholesale Annual Caps and the LYNK & CO Retail Annual Caps at the proposed levels.

### ***1.8 Principal Terms of the Fengsheng Finance Cooperation Agreement***

Below set out the details of the principal terms of the Fengsheng Finance Cooperation Agreement as stated in the Letter from the Board:

#### *Date*

4 November 2020 (after trading hours)

#### *Parties*

Genius AFC and Fengsheng Sales

Fengsheng Sales is principally engaged in the sale of Maple-Branded Vehicles and the wholesale and retail businesses of related parts and components.

#### *Subject matter*

The Fengsheng Finance Cooperation Agreement sets out the terms under which Genius AFC will provide vehicle financing services to the Fengsheng Retail Customers to assist them to buy the Maple-Branded Vehicles from the Fengsheng Dealers.

#### *Term*

The Fengsheng Finance Cooperation Agreement shall have an initial term of three years and shall then continue unless and until terminated by either party by giving at least six months prior written notice. Such continuation/renewal shall be approved by (i) the regulators of the Company (that is, the Stock Exchange), if required; and (ii) the independent Shareholders.

#### *Conditions precedent*

The Fengsheng Finance Cooperation Agreement shall take effect upon:

- (i) the approval of the Independent Shareholders on the Fengsheng Financing Arrangements; and
- (ii) the approval of the Stock Exchange on the Fengsheng Financing Arrangements, if required.

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### *Termination*

Fengsheng Sales may terminate the Fengsheng Finance Cooperation Agreement with immediate effect if (i) Genius AFC becomes insolvent; or (ii) Genius AFC materially breaches, or materially fails to comply with, the Fengsheng Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Fengsheng Sales giving Genius AFC written notice of such breach subject to the remediation clause under the Fengsheng Finance Cooperation Agreement.

Genius AFC may terminate the Fengsheng Finance Cooperation Agreement with immediate effect if (i) Fengsheng Sales becomes insolvent; or (ii) Fengsheng Sales materially breaches, or materially fails to comply with, the Fengsheng Finance Cooperation Agreement or any other agreement entered into or in connection with the Fengsheng Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Genius AFC giving Fengsheng Sales written notice of such breach subject to the remediation clause under the Fengsheng Finance Cooperation Agreement.

### *Cooperation*

Fengsheng Sales will (i) use its reasonable endeavours to procure the Fengsheng Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC; and (ii) use its reasonable endeavours to grant subsidies to a Fengsheng Dealer who is covered by the Fengsheng Retail Financing Business for the promotional campaigns in relation to the retail financing services offered by Genius AFC to the Fengsheng Retail Customers from such Fengsheng Dealers, provided that the final choice of financial partner will always be made by the Fengsheng Retail Customers (the “**Fengsheng Retail Subsidies**”).

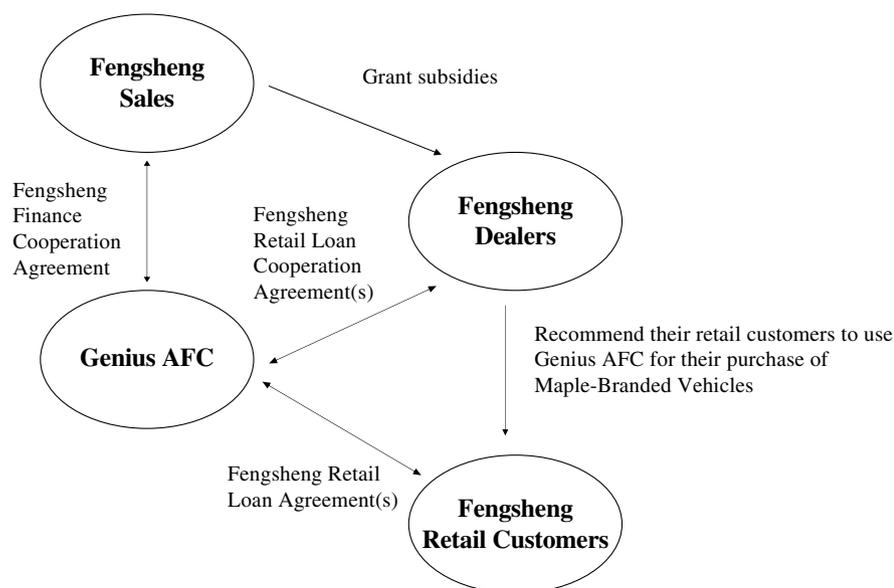
Genius AFC will not be the exclusive provider of vehicle loans as described in the Fengsheng Finance Cooperation Agreement to the Fengsheng Retail Customers. Notwithstanding the foregoing, shall another independent vehicle financing company offer vehicle financing services under the same conditions, Genius AFC will be the preferred partner of Fengsheng Sales for the provision of vehicle financing services (the “**Fengsheng Preferred Partnership Provision**”).

The mode of cooperation between Genius AFC and Fengsheng Sales for the Fengsheng Retail Financing Business are summarised as below:

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### *Pricing policy*

Genius AFC will enter into the Fengsheng Retail Loan Agreements with the Fengsheng Retail Customers for the Fengsheng Retail Financing Business. Genius AFC shall ensure that the terms of the Fengsheng Retail Loan Agreements are competitive at all times during the term of the Fengsheng Finance Cooperation Agreement, and such terms will be in line with general automobile financing industry practice. Notwithstanding the foregoing, Genius AFC will have the sole discretion in determining the final pricing to be applied to the Fengsheng Retail Customers.

The Fengsheng Finance Cooperation Agreement provides guidance with respect to the interest rates charged by Genius AFC for the Fengsheng Retail Financing Business. The interest rates, at the time of each setting, for the loans provided by Genius AFC to the Fengsheng Retail Customers shall be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with.

In practice, given that Genius AFC will not be the exclusive provider of financing services to the Fengsheng Retail Customers, which are independent third parties to Genius AFC, the sales and marketing department of Genius AFC will communicate with the Fengsheng Dealers on an ongoing basis to keep abreast of the market information. Please refer to the paragraph headed "Internal control measures in relation to the Automobile Financing Arrangements" set out in the Letter from the Board for details of the internal control procedures for determining the pricing of the vehicle financing services provided by Genius AFC.

For the same basis as discussed in the paragraph headed "Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Pricing policy" above, we (i) concur with the view of the Directors that it is fair and

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reasonable for Genius AFC to make reference to the PBOC base lending rates for similar type of loan as the minimum starting point to determine its lending interest rate under the Fengsheng Retail Financing Business; and (ii) consider it to be fair and reasonable for Genius AFC to adopt the same bases of determination of the lending interest rates under the Fengsheng Financing Arrangements.

### *Lending risk*

All lending risk assessments and decisions will be the sole responsibility of Genius AFC, and such decisions shall conform to applicable regulatory requirements. The extension of financing in any form to any Fengsheng Retail Customer is subject to satisfactory credit risk assessment in accordance with Genius AFC's credit risk management procedures and all other internal risk and management policies as from time to time determined by Genius AFC at its sole discretion.

For the Fengsheng Retail Financing Business, Genius AFC will adopt similar credit risk assessment and loan approval procedures as those for the LYNK & CO Retail Financing. Please refer to the paragraph headed "Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Lending risk" above for further details.

As confirmed by the management of Genius AFC, the credit risk assessment procedures adopted in the Fengsheng Financing Arrangements were devised and established pursuant to the Auto Loan Management Measures which is the principal law and regulation of the PRC in relation to the risk assessment and decision of auto finance company.

### *Loan term*

The maximum loan term for each Fengsheng Retail Customer shall be 60 months.

The abovementioned loan terms set out the Fengsheng Finance Cooperation Agreement are in compliance with the relevant provisions stipulated in the Auto Loan Management Measures that the term of automobile loans may not be longer than five years, and accordingly are considered to be fair and reasonable.

### *Subsidies*

Fengsheng Sales will provide subsidies to the Fengsheng Dealers who enter into the Fengsheng Retail Loan Cooperation Agreements with Genius AFC for the benefits of the retail borrowers in the Fengsheng Retail Financing Business, subject to the final assessment of the market situation (such as sales performance of the Maple-Branded Vehicles) by Fengsheng Sales. The terms and period of such subsidies shall be determined by Fengsheng Sales in its quarterly sales incentive policies.

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For the same basis as discussed in the paragraph headed “Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Subsidies” above, we consider that the provision of the financing support by Fengsheng Sales to the Fengsheng Dealers for the purpose of the Fengsheng Financing Arrangements is in line with our research results.

### *Security*

Under the Fengsheng Retail Loan Agreements, acceptable securities may include security over the Fengsheng Retail Customers’ vehicles and/or different types of guarantees.

The abovementioned security provision is in line with article 24 of the Auto Loan Management Measures, detail of which are set out in the paragraph headed “Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Security” above.

Having considered the forgoing, in particular (i) the adherence of the Auto Loan Management Measures; (ii) Genius AFC is to be the sole decision maker for the final pricing to be applied to the Fengsheng Retail Customers; and (iii) the relevant internal control measures (as detailed in the paragraph headed “Internal control measures in relation to the Automobile Financing Arrangements” set out in the Letter from the Board) to be put in place to ensure adherence of the pricing policy as stipulated in the Fengsheng Finance Cooperation Agreement, we consider that the terms of the Fengsheng Finance Cooperation Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

### ***1.9 Fengsheng Retail Loan Agreements***

Genius AFC will enter into the Fengsheng Retail Loan Cooperation Agreements with the Fengsheng Dealers, pursuant to which the Fengsheng Dealers will recommend their retail customers (that is, the Fengsheng Retail Customers) to use Genius AFC for obtaining vehicle loans to finance their purchase of the Maple-Branded Vehicles.

After the commencement of the Fengsheng Retail Financing Business, Genius AFC will further enter into the Fengsheng Retail Loan Agreements with the Fengsheng Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such Fengsheng Retail Customers to facilitate their purchase of the Maple-Branded Vehicles. The terms of the Fengsheng Retail Loan Agreements (including, among other things, pricing, loan term, credit limits, etc.) are expected to be consistent with the terms of the Fengsheng Finance Cooperation Agreement as disclosed above.

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### 1.10 Fengsheng Financing Annual Caps

(i) *Maximum new financing amounts under the Fengsheng Financing Arrangements*

There is no historical transaction amount for the Fengsheng Retail Financing Business as it is expected to be commenced in the first quarter of 2021 (subject to the approval of the Independent Shareholders at the EGM). The table below sets out the proposed Fengsheng Financing Annual Caps for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
Maximum new financing amounts to be provided by Genius AFC to the Fengsheng Retail Customers under the Fengsheng Retail Financing Business (RMB' million)	72.3	120.5	241.0
Year-on-year increase	N/A	66.7%	100.0%

As stated in the Letter from the Board, when determining the proposed Fengsheng Financing Annual Caps, Genius AFC has taken into account (i) the projected units of the Maple-Branded Vehicles to be sold by the Independent Fengsheng Dealers, which have a total number of over 40 as at the Latest Practicable Date, for the three years ending 31 December 2023 based on Fengsheng's estimation. The projected units of the Maple-Branded Vehicles to be sold by the Independent Fengsheng Dealers for each of the years ending 31 December 2022 and 2023 represent a year-on-year expected increase of over 50%; (ii) the projected average retail selling price and average vehicle loan amount for each unit of the Maple-Branded Vehicles for the three years ending 31 December 2023; and (iii) the estimated retail financing penetration of the Fengsheng Retail Financing Business of 10% for each of the three years ending 31 December 2023 (the "**Fengsheng Retail Financing Penetration**"). The Fengsheng Retail Financing Penetration represents the estimated percentage of the Fengsheng Retail Customers' purchases which will be financed by loans provided by Genius AFC. It is also stated in the Letter from the Board that the adoption of a low Fengsheng Retail Financing Penetration is mainly due to (i) the early stage of development of the Fengsheng Retail Financing Business which usually take longer time to increase the retail financing penetration; and (ii) the relatively low selling prices of the Maple-Branded Vehicles which results in lower demand for vehicle loans.

(ii) *Assessment of the basis for determination*

In order to assess the fairness and reasonableness of the Fengsheng Financing Annual Caps, we have obtained and reviewed the projection of the estimated maximum new financing amounts in relation to the Fengsheng Retail Financing Business for the

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three years ending 31 December 2023 prepared by Genius AFC (the “**Fengsheng Financing Projection**”), and also discussed with the management of Genius AFC about the underlying principal bases and assumptions relating thereto. In assessing the reasonableness of the Fengsheng Financing Projection, we have requested for and made enquiries about (i) the latest available list of confirmed Fengsheng Dealers; (ii) the estimated sales volume of the Maple-Branded Vehicles under the Fengsheng Retail Financing Business mutually agreed between Genius AFC and Fengsheng for the three years ending 31 December 2023; and (iii) the estimated unit prices of the Maple-Branded Vehicles for each of the three years ending 31 December 2023. Based on our discussion with the management of Genius AFC, other factors such as the Fengsheng Retail Subsidies to be given by Fengsheng Sales and the Fengsheng Preferred Partnership Provision in support of the Fengsheng Retail Financing Business have also been taken into account by Genius AFC when determining the Fengsheng Retail Financing Penetration, which is one of the key elements of the Fengsheng Financing Projection.

As confirmed by the management of Genius AFC, as at the Latest Practicable Date, there were over 40 Fengsheng Dealers for the Fengsheng Retail Financing Business. The management of Genius AFC further confirmed that there will be no restriction imposed on the coverage on the dealership network, sales area and vehicle types under the Fengsheng Financing Arrangements for each of the three years ending 31 December 2023, which, in view of the Directors, would facilitate Genius AFC to achieve the Fengsheng Retail Financing Penetration.

In addition to the above, based on our work performed in relation to the Fengsheng Financing Annual Caps, it is also noted that:

- the Fengsheng Retail Financing Penetration which is estimated to remain at a steady rate of 10% for the three years ending 31 December 2023 is (i) substantially less than the 2019 Market Overall Retail Financing Penetration; and (ii) similar to the actual retail financing penetration rate of approximately 11.7% recorded by Genius AFC in the initial stage of another existing retail financing arrangement;
- the projected number of unit of the Maple-Branded Vehicles to be sold by the Independent Fengsheng Dealers to the Fengsheng Retail Customers under the Fengsheng Financing Arrangements for the three years ending 31 December 2023 being estimated based on Fengsheng’s latest indicative supply of the Maple-Branded Vehicles under the Fengsheng Financing Arrangements, together with generally stable average retail unit price and average vehicle loan amount per unit of the Maple-Branded Vehicles, were considered and adopted by Genius AFC in the Fengsheng Financing Projection; and

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- the continuous support of the PRC government to promote the production and use of NEEV and the measures under the Notice issued in April 2020 supporting, among others, automobile consumer financing to stabilise and expand automobile consumption in the PRC as discussed in the paragraph headed “Industry Outlook” above, as well as the COVID-19 situation in the PRC tends to remain fairly stable with the PRC’s economic recovery from COVID-19 seems to be underway based on the regular updates from the World Health Organisation up to the Latest Practicable Date, that in totality is expected to create supportive environments for future sales of the Maple-Branded Vehicles under the Fengsheng Financing Arrangements.

On the basis of the above, we concur with the Directors’ view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to set the Fengsheng Financing Annual Caps at the proposed levels.

### ***1.11 Principal Terms of the Geely Holding Finance Cooperation Agreement***

Below set out the details of the principal terms of the Geely Holding Finance Cooperation Agreement as stated in the Letter from the Board:

#### *Date*

4 November 2020 (after trading hours)

#### *Parties*

Genius AFC and Geely Holding

Geely Holding is principally engaged in the sales of automobiles and related parts and components wholesale and retail business.

#### *Subject matter*

Under the Geely Holding Finance Cooperation Agreement, Geely Holding will use its reasonable endeavours to procure the Geely Holding Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC for the purchase of the Geely Holding-Owned Brands Vehicles. Genius AFC will enter into the individual finance cooperation agreement with the Geely Holding Automobile Entities pursuant to the Geely Holding Finance Cooperation Agreement. In addition, under the Geely Holding Finance Cooperation Agreement, Geely Holding shall procure the Connected Geely Dealers, which have been operated by the Geely Holding Group from 2020, to recommend their retail customers to use Genius AFC for the obtaining of vehicle loans to finance their purchase of Geely-Branded Vehicles. After the

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commencement of the Geely Holding Retail Financing Business, Genius AFC will enter into individual Geely Holding Retail Loan Agreements and Geely Retail Loan Agreements with the Geely Retail Customers respectively.

### *Term*

The Geely Holding Finance Cooperation Agreement shall have an initial term of three years and shall then continue unless and until terminated by either party by giving at least six months prior written notice. Such continuation/renewal shall be approved by (i) the regulators of the Company (that is, the Stock Exchange), if required; and (ii) the independent Shareholders.

### *Conditions precedent*

The Geely Holding Finance Cooperation Agreement shall take effect upon:

- (i) the approval of the Independent Shareholders on the Geely Holding Financing Arrangements; and
- (ii) the approval of the Stock Exchange on the Geely Holding Financing Arrangements, if required.

### *Termination*

Geely Holding may terminate the Geely Holding Finance Cooperation Agreement with immediate effect if (i) Genius AFC becomes insolvent; or (ii) Genius AFC materially breaches, or materially fails to comply with, the Geely Holding Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Geely Holding giving Genius AFC written notice of such breach subject to the remediation clause under the Geely Holding Finance Cooperation Agreement.

Genius AFC may terminate the Geely Holding Finance Cooperation Agreement with immediate effect if (i) Geely Holding becomes insolvent; or (ii) Geely Holding materially breaches, or materially fails to comply with, the Geely Holding Finance Cooperation Agreement or any other agreement entered into or in connection with the Geely Holding Finance Cooperation Agreement and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of Genius AFC giving Geely Holding written notice of such breach subject to the remediation clause under the Geely Holding Finance Cooperation Agreement.

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### *Principal terms regarding the mode of cooperation between Genius AFC and Geely Holding*

Geely Holding will use its reasonable endeavours to procure the Geely Holding Dealers and the Connected Geely Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC for the purchase of the Geely Holding-Owned Brands Vehicles and the Geely-Branded Vehicles, respectively. Genius AFC will provide vehicles loans and related services to the Geely Retail Customers to finance their purchase of the Geely Holding-Owned Brands Vehicles or the Geely-Branded Vehicles from the Geely Holding Dealers and the Connected Geely Dealers, respectively.

### *Cooperation among Genius AFC, Geely Holding Automobile Entities and Geely Holding Dealers*

Pursuant to the Geely Holding Finance Cooperation Agreement, Genius AFC will enter into the individual finance cooperation agreements with the Geely Holding Automobile Entities in which the major terms of the individual finance cooperation agreements are set out in the appendix to the Geely Holding Finance Cooperation Agreement (the “**Finance Cooperation Agreement Template**”).

The details of principal terms of the Finance Cooperation Agreement Template are set out below:

### *Cooperation*

The Geely Holding Automobile Entities will (i) use their reasonable endeavours to procure the Geely Holding Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC; (ii) use their reasonable endeavours to grant subsidies to a dealer who is covered by the Geely Holding Retail Financing Business for the promotional campaigns in relation to the retail financing services offered by Genius AFC to the retail customers from such dealers, provided that the final choice of financial partner will always be made by the Geely Retail Customers (the “**Geely Holding Retail Subsidies**”).

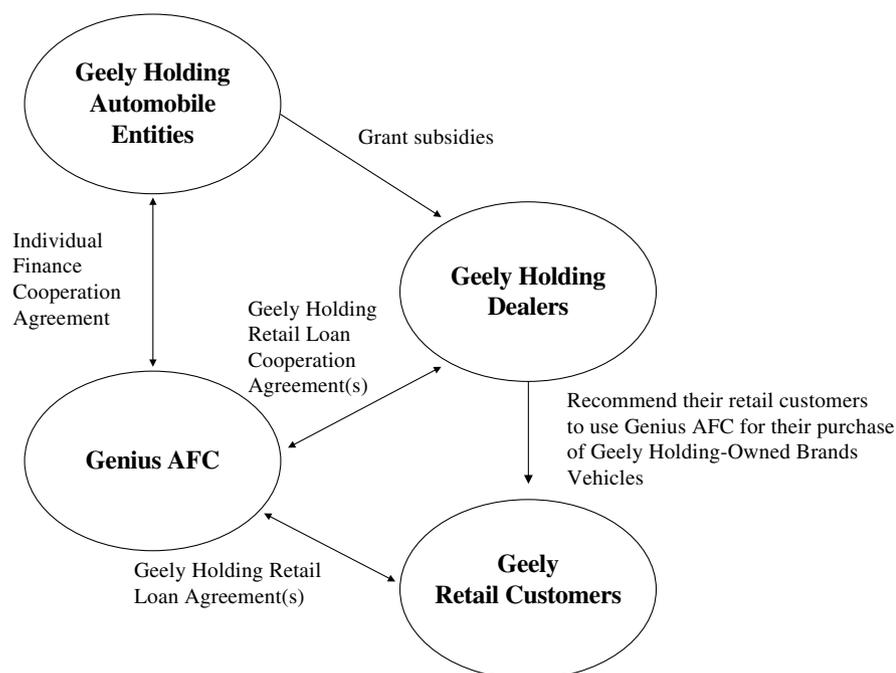
Genius AFC will not be the exclusive provider of vehicle loans as described in the Finance Cooperation Agreement Template to the Geely Retail Customers. Notwithstanding the foregoing, shall another independent vehicle financing company offer vehicle financing services under the same conditions, Genius AFC will be the preferred partner of Geely Holding Automobile Entities for the provision of vehicle financing services (the “**Geely Holding Preferred Partnership Provision**”).

The mode of cooperation between Genius AFC and Geely Holding Automobile Entities for the Geely Holding Retail Financing Business are summarised as below:

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Genius AFC will enter into the Geely Holding Retail Loan Cooperation Agreements with the Geely Holding Dealers, pursuant to which the Geely Holding Dealers will recommend the Geely Retail Customers to use Genius AFC for obtaining vehicle loans to finance their purchase of the Geely Holding-Owned Brands Vehicles.

### *Pricing policy*

Genius AFC will enter into the Geely Holding Retail Loan Agreements with the Geely Retail Customers for the Geely Holding Retail Financing Business. Genius AFC shall ensure that the terms of the Geely Holding Retail Loan Agreements are competitive at all times during the term of the Finance Cooperation Agreement Template, and such terms will be in line with general automobile financing industry practice. Notwithstanding the foregoing, Genius AFC will have the sole discretion in determining the final pricing to be applied to the Geely Retail Customers.

The Finance Cooperation Agreement Template provides guidance with respect to the interest rates charged by Genius AFC for the provision of the retail financing services to the Geely Retail Customers. The interest rates, at the time of each setting, for the loans provided by Genius AFC to the Geely Retail Customers shall be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with.

In practice, given that Genius AFC will not be the exclusive provider of financing services to the Geely Retail Customers, which are independent third parties to Genius AFC, the sales and marketing department of Genius AFC will communicate with the Geely Holding Dealers on an ongoing basis to keep abreast of the market

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information and to ensure that the terms of the Geely Holding Retail Financing Business offered by Genius AFC are competitive at all times in light of the fierce competition in the PRC automobile financing industry. Please refer to the paragraph headed “Internal control measures in relation to the Automobile Financing Arrangements” set out in the Letter from the Board for details of the internal control procedures for determining the pricing of the services provided by Genius AFC.

For the same basis as discussed in the paragraph headed “Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Pricing policy” above, we (i) concur with the view of the Directors that it is fair and reasonable for Genius AFC to make reference to the PBOC base lending rates for similar type of loan as the minimum starting point to determine its lending interest rate under the Finance Cooperation Agreement Template; and (ii) consider it to be fair and reasonable for Genius AFC to adopt the same bases of determination of the lending interest rates under the Finance Cooperation Agreement Template.

### *Lending risk*

All lending risk assessments and decisions will be the sole responsibility of Genius AFC, and such decisions shall conform to applicable regulatory requirements. The extension of financing in any form to any retail customer is subject to satisfactory credit risk assessment in accordance with Genius AFC’s credit risk management procedures and all other internal risk and management policies as from time to time determined by Genius AFC at its sole discretion.

For the Geely Holding Retail Financing Business, Genius AFC will adopt similar credit risk assessment and loan approval procedures as those for the LYNK & CO Retail Financing. Please refer to the paragraph headed “Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Lending risk” above for further details.

As confirmed by the management of Genius AFC, the credit risk assessment procedures adopted in the Geely Holding Retail Financing Business were devised and established pursuant to the Auto Loan Management Measures which is the principal law and regulation of the PRC in relation to the risk assessment and decision of auto finance company.

### *Loan term*

The maximum loan term for each Geely Retail Customer shall be 60 months.

The abovementioned loan terms set out the Finance Cooperation Agreement Template are in compliance with the relevant provisions stipulated in the Auto Loan Management Measures that the term of automobile loans may not be longer than five years, and accordingly are considered to be fair and reasonable.

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### *Subsidies*

Geely Holding Automobile Entities will provide subsidies to the Geely Holding Dealers who enter into the Geely Holding Retail Loan Cooperation Agreement with Genius AFC for the benefits of the retail borrowers in the Geely Holding Retail Financing Business, subject to the final assessment of the market situation (such as sales performance of the Geely Holding-Owned Brands Vehicles) by the Geely Holding Automobile Entities. The terms and period of such subsidies shall be determined by the Geely Holding Automobile Entities in their quarterly sales incentive policies.

For the same basis as discussed in the paragraph headed “Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Subsidies” above, we consider that the provision of the financing support by Geely Holding Automobile Entities to the Geely Holding Dealers for the purpose of the Geely Holding Financing Arrangements is in line with our research results.

### *Security*

Under the individual Geely Holding Retail Loan Agreement, acceptable securities may include security over the respective vehicles and/or different types of guarantees.

The abovementioned security provision is in line with article 24 of the Auto Loan Management Measures, detail of which are set out in the paragraph headed “Automobile Financing Arrangements – Principal terms of the LYNK & CO Finance Cooperation Agreement – Security” above.

### *Cooperation between Genius AFC and the Connected Geely Dealers*

Pursuant to the Geely Holding Finance Cooperation Agreement, Geely Holding will use its reasonable endeavours to procure the Connected Geely Dealers to recommend their retail customers to use the retail financing services provided by Genius AFC for the purchase of the Geely-Branded Vehicles. Genius AFC will enter into the Geely Retail Loan Cooperation Agreements with the Connected Geely Dealers, pursuant to which the Connected Geely Dealers will recommend the Geely Retail Customers to use Genius AFC for obtaining vehicle loans to finance their purchase of the Geely-Branded Vehicles. The terms and conditions of the retail loan cooperation agreement to be entered between Genius AFC and the Connected Geely Dealers are on normal commercial terms and on terms no less favourable to the Group than terms available to or from (as applicable) the Independent Geely Dealers to the Group.

Having considered the forgoing, in particular (i) the adherence of the Auto Loan Management Measures; (ii) Genius AFC is to be the sole decision maker for the final pricing to be applied to the Geely Retail Customers; and (iii) the relevant internal control measures (as detailed in the paragraph headed “Internal control measures in relation to the Automobile Financing Arrangements” set out in the Letter from the Board) to be put in place to ensure adherence of the pricing policy as stipulated in the Geely Holding Finance Cooperation

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Agreement, we consider that the terms of the Geely Holding Finance Cooperation Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

### ***1.12 Geely Holding Retail Loan Agreements***

Pursuant to the Geely Holding Retail Loan Cooperation Agreements, Genius AFC will then further enter into the Geely Holding Retail Loan Agreements with the Geely Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such Geely Retail Customers to facilitate their purchase of Geely Holding-Owned Brands Vehicles. The terms of the Geely Holding Retail Loan Agreements (including, among other things, pricing, loan term, credit limits, etc.) are expected to be consistent with the terms of the Finance Cooperation Agreement Template as disclosed above.

### ***1.13 Geely Retail Loan Agreements***

Pursuant to the Geely Retail Loan Cooperation Agreements, Genius AFC will further enter into the Geely Retail Loan Agreements with the Geely Retail Customers, pursuant to which Genius AFC will provide vehicle financing to such Geely Retail Customers to facilitate their purchase of Geely-Branded Vehicles. The terms of the Geely Retail Loan Agreements (including, among other things, pricing, loan term, credit limits, etc.) are expected to be consistent with the terms of the Finance Cooperation Agreement Template as disclosed above.

### ***1.14 Geely Holding Financing Annual Caps***

(i) *Maximum new financing amounts under the Geely Holding Financing Arrangements*

There is no historical transaction amount for the Geely Holding Financing Arrangements as it is expected to be commenced in the first quarter of 2021 (subject to the approval of the Independent Shareholders at the EGM). The table below sets out the proposed Geely Holding Financing Annual Caps for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
Maximum new financing amounts to be provided by Genius AFC to the Geely Retail Customers under the Geely Holding Retail Financing Business (RMB' million)	279.8	377.9	606.5
Year-on-year increase	N/A	35.1%	60.5%

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As stated in the Letter from the Board, when determining the Geely Holding Financing Annual Caps, Genius AFC has taken into account (i) the projected units of the Geely Holding-Owned Brands Vehicles (including Lotus-branded vehicles, Polestar-branded vehicles and the commercial vehicles of the Geely Holding Group) to be sold by the Independent Geely Holding Dealers, which have a total number of nine as at the Latest Practicable Date, for the three years ending 31 December 2023 given that the Connected Geely Holding Dealers have not yet been set up. The projected units of the Geely Holding-Owned Brands Vehicles to be sold by the Independent Geely Holding Dealers for each of the years ending 31 December 2022 and 2023 represent a year-on-year expected increase of over 20%. The projected sales volume of Lotus-branded vehicles, Polestar-branded vehicles and the commercial vehicles of the Geely Holding Group under the Geely Holding Retail Financing Business were based on the estimation indicated by Lotus, Polestar and Geely Holding, respectively; (ii) the projected unit sales of the Geely-Branded Vehicles by the Connected Geely Dealers, which have a total number of five as at the Latest Practicable Date, for the three years ending 31 December 2023 with reference to the historical sales volume of the Geely-Branded Vehicles via the Connected Geely Dealers for the eight months ended 31 August 2020. The projected unit sales of the Geely-Branded Vehicles for the years ending 31 December 2022 and 2023, represent a year-on-year increase of over 10% and over 50%, respectively; (iii) the projected average retail selling prices and average vehicle loan amount for each unit of the Geely Holding-Owned Brands Vehicles and the Geely-Branded Vehicles for each of the three years ending 31 December 2023; the projected average retail selling price and average vehicle loan amount for each unit of the Geely-Branded Vehicles have been determined with reference to the historical retail selling price and average vehicle loan amount per each unit of the Geely-Branded Vehicles for the vehicle financing services offered via the Independent Geely Dealers for the eight months ended 31 August 2020; (iv) the estimated retail financing penetration of the financing services for the Geely-Branded Vehicles of 34%, 38% and 42% for each of the three years ending 31 December 2023, respectively (the “**Geely Retail Financing Penetration**”); and (v) the estimated average retail financing penetration of the financing services for the Geely Holding-Owned Brands Vehicles of 15%, 16% and 16% for each of the three years ending 31 December 2023, respectively (the “**Geely Holding Retail Financing Penetration**”).

It is also stated that when determining the Geely Retail Financing Penetration, Genius AFC has made reference to the historical average retail penetration of the Geely-Branded Vehicles sold by the Independent Geely Dealers which was approximately 33% for the eight months ended 31 August 2020. Genius AFC expects the Geely Retail Financing Penetration to grow by 4% for each of the two years ending 31 December 2023 provided that the Connected Geely Dealers will be procured by the Geely Holding Group to undertake more promotional activities for the retail financing services offered by Genius AFC. Also, when determining the Geely Holding Retail Financing Penetration, Genius AFC has considered the popularity of the brands and the relationship with the Geely Holding Automobile Entities including Polestar and Lotus, as well as the expected demand of retail financing services from the retail customers for their purchase of the Geely Holding-Owned Brands Vehicles.

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(ii) *Assessment of the basis for determination*

In order to assess the fairness and reasonableness of the Geely Holding Financing Annual Caps, we have obtained and reviewed the projection of the estimated maximum new financing amounts in relation to the Geely Holding Retail Financing Business for the three years ending December 2023 prepared by Genius AFC (the “**Geely Holding Financing Projection**”), and also discussed with the management of Genius AFC about the underlying principal bases and assumptions relating thereto. In assessing the reasonableness of the Geely Holding Financing Projection, we have requested for and made enquiries about, among others, (i) the vehicles types/models under the Geely Holding Financing Arrangements; (ii) the historical average retail financing penetration for the Geely-Branded Vehicles via the Independent Geely Dealers; (iii) the latest available list of confirmed Geely Holding Dealers; (iv) the historical sales volume of the Geely-Branded Vehicles via the Connected Geely Dealers for the eight months ended 31 August 2020 which forms the basis for determining the expected sales amounts of the Geely-Branded Vehicles for the three years ending 31 December 2023; (v) the estimated sales volume of Lotus-branded vehicles, Polestar-branded vehicles and the commercial vehicles of the Geely Holding Group under the Geely Holding Retail Financing Business mutually agreed between Genius AFC and Lotus, Polestar or Geely Holding; and (vi) the estimated unit prices and average vehicle loan amount of Lotus-branded vehicles, Polestar-branded vehicles and the commercial vehicles of the Geely Holding Group for each of the three years ending 31 December 2023. Based on our discussion with the management of Genius AFC, other factors such as the Geely Holding Retail Subsidies to be given by the Geely Holding Automobile Entities and the Geely Holding Preferred Partnership Provision in support of the Geely Holding Retail Financing Business have also been taken into account by Genius AFC when determining the Geely Holding Retail Financing Penetration and the Geely Retail Financing Penetration, each being a key element of the Geely Holding Financing Projection.

It has come to our knowledge that when preparing the Geely Holding Financing Projection, the latest business development and performance of the Company and Geely Holding is a key factor considered by Genius AFC in making business growth assumptions. Our attention has been drawn to the Company’s recent published monthly reports which reveal that the Company is showing encouraging results in the second quarter and the third quarter of 2020 after the downturn in 2019, with period-on-period increases of approximately 13.8% and 12.6% being recorded for such periods respectively. According to the official website of Geely Holding, Geely Holding achieved a sales volume of approximately 2.2 million units for the year ended 31 December 2019 despite the challenging market conditions, among which NEEV (including but not limited to NEEV under Polestar and Geely Holding) recorded a year-on-year increase of approximately 50.6%. In view of the recent economy recovery in the PRC from the COVID-19 pandemic and a series of supportive policies and measures implemented by the PRC government as discussed in the paragraph headed “Industry Outlook – Automobile Industry in the PRC” above, the Company expects that barring any unforeseen circumstances, the Geely Holding-Owned Brands Vehicles and the Geely-Branded Vehicles will continue the growth momentum for the foreseeable future.

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Besides, other driving factors that have been considered by Genius AFC when estimating the projected future consumption of the Geely Holding-Owned Brands Vehicles and the Geely-Branded Vehicles through the Geely Holding Dealers and the Connected Geely Dealers include, in particular, the continuing product expansion of the Geely Holding-Owned Brands Vehicles and the Geely-Branded Vehicles in the next three years.

As confirmed by the management of Genius AFC, as at the Latest Practicable Date, there were a total of nine Geely Holding Dealers and five Connected Geely Dealers. The management of Genius AFC further confirmed that there will be no restriction imposed on the coverage on the dealership network, sales area and vehicle types for the Geely Holding Financing Arrangements for each of the three years ending 31 December 2023, which, in the view of the Directors, would facilitate Genius AFC to achieve the Geely Retail Financing Penetration and the Geely Holding Retail Financing Penetration.

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In addition to the above, based on our work performed in relation to the Geely Holding Financing Annual Caps, it is also noted that:

- the actual retail financing penetration rate of approximately 11.7% recorded by Genius AFC in the initial stage of another existing retailing financing arrangement was adopted as the base rate that Genius AFC used as a basis when it was determining the Geely Holding Retail Financing Penetration before factoring in other considerations, such as the popularity of the brands including Polestar and Lotus;
- the Geely Holding Retail Financing Penetration which remains relatively stable for the three years ending 31 December 2023 is less than the 2019 Market Overall Retail Financing Penetration;
- the Geely Retail Financing Penetration was determined by Genius AFC with reference to the historical average retail financing penetration of the Geely-Branded Vehicles sold by the Independent Geely Dealers which was approximately 33% for the eight months ended 31 August 2020, with the adoption of 4% increase for each of the two years ending 31 December 2023 that is in line with the year-on-year increase in the overall retail financing penetration of about 4.2% recorded by the PRC automobile financing industry in 2019;
- the projected number of unit sales of the Geely Holding-Owned Brands Vehicles under the Geely Holding Financing Arrangements for the three years ending 31 December 2023 being estimated based on the Geely Holding Group's latest indicative supply of Lotus-branded vehicles, Polestar-branded vehicles and the commercial vehicles of the Geely Holding Group, together with generally stable average retail unit price and average vehicle loan amount per unit of such vehicles, were considered and adopted by Genius AFC in the Geely Holding Financing Projection; and
- the projected number of unit sales of the Geely-Branded Vehicles with generally stable pricing and vehicle financing for the three years ending 31 December 2023 were determined based on the historical sales volume of the Geely-Branded Vehicles via the Connected Geely Dealers for the eight months ended 31 August 2020, and after taking into account the pro-rata effect caused by the expected expansion in the dealership network as a result of the addition of the Connected Geely Dealers that would create an enlarged dealership network with a sales target of approximately 7,200 Geely-Branded Vehicles for the year ending 31 December 2021; and
- the continuous supports of the PRC government to the automobile industry (including the measures under the Notice issued in April 2020 supporting, among others, automobile consumer financing to stabilise and expand

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automobile consumption) as discussed in the paragraph headed “Industry Outlook” above, as well as the COVID-19 situation in the PRC tends to remain fairly stable with the PRC’s economic recovery from COVID-19 seems to be underway based on the regular updates from the World Health Organisation up to the Latest Practicable Date, that in totality is expected to create supportive environments for future sales of the Geely-Branded Vehicles and the Geely Holding-Owned Brands Vehicles under the Geely Holding Financing Arrangements.

On the basis of the above, we concur with the Directors’ view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to set the Geely Holding Financing Annual Caps at the proposed levels.

### 2. Master CKDs and Automobile Components Sales Agreement

#### *2.1 Background of and Reasons for Entering into the Master CKDs and Automobile Components Sales Agreement*

According to the 2018 Proton Sales Announcement and the 2018 Kandi Supply Announcement, the Group has extended its product type to create new revenue streams by way of entering into the 2018 Proton Sales Agreement and the 2018 Kandi Supply Agreement with the Geely Holding Group and the Kandi Group respectively, with the underlying automobile products catering for certain Proton-branded vehicles or Maple-Branded Vehicles (as the case may be). As advised by the Company, in view of the imminent expiration of the three-year term of the 2018 Proton Sales Agreement ending 31 December 2020 and in order to streamline the transaction management function within the Group for continuing connected transactions of common nature, the Company and Geely Holding entered into the Master CKDs and Automobile Components Sales Agreement that sets out the terms on which the parties thereto will conduct business transactions involving sales of CKDs and automobile components (including those applicable to the Proton-branded vehicles and the Maple-Branded Vehicles) for the three years ending 31 December 2023. To this end, having considered the matter in a holistic manner, the Company proposed that the 2018 Kandi Supply Agreement with a term of three years ending 31 December 2021 will be superseded by the Master CKDs and Automobile Components Sales Agreement upon the commencement of the Master CKDs and Automobile Components Sales Agreement (subject to the Independent Shareholders’ approval) and shall become null and void and have no effect accordingly.

As advised by the management of the Group, it is currently expected that under the CKDs and Automobile Components Sales Transactions, the majority of the Group’s CKDs and automobile components (including car body, finishing coat, etc.) will be supplied to the Geely Holding Group for its onward sales to the Proton Group to be used in the Proton-branded vehicles, including but not limited to models specified in the licensing agreement entered into between the Company and Geely Holding on 24 September 2018 (the “**Proton Licensing Agreement**”, as detailed in the 2018 Proton Sales Announcement). As confirmed by the

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Company, the Proton Licensing Agreement is in full force and effect as at the Latest Practicable Date, and under the current situation, neither one of the parties thereto has intention to terminate the Proton Licensing Agreement in accordance with the terms thereof.

We are also given to understand that besides the subsequent onward sales to the Proton Group and the Fengsheng Group (i.e. Kandi Group before change of name as referred to in the Letter from the Board), the ultimate use of the Group's CKDs and automobile components to be procured by the Geely Holding Group pursuant to the Master CKDs and Automobile Components Sales Agreement is currently planned to extend to also include the Geely Holding-Owned Brands Vehicles including the Farizon-branded vehicles. The Company believes that the Group will benefit from the enlarged target vehicle range/group of the Geely Holding Group for its own use and self-consumption or for re-sale purposes, for the commercial reasons that, inter alia, it will allow the Group to further capitalise on its own technical know-how and existing production capability, while exploiting the licensed intellectual properties and technology under the Proton Licensing Agreement and the R&D Services and Technology Licensing Agreement as detailed in the announcement of the Company dated 4 November 2020, to generate additional income through the CKDs and Automobile Components Sales Transactions.

### ***2.2 Principal Terms of the Master CKDs and Automobile Components Sales Agreement***

Below set out the details of the principal terms of the Master CKDs and Automobile Components Sales Agreement as stated in the Letter from the Board:

#### *Date*

4 November 2020 (after trading hours)

#### *Parties*

Vendor: The Company

Purchaser: Geely Holding

For detail of Geely Holding's principal business, please refer to the paragraph headed "Automobile Financing Arrangements – Principal terms of the Geely Holding Finance Cooperation Agreement" above.

#### *Term*

The Master CKDs and Automobile Components Sales Agreement has a term from 1 January 2021 to 31 December 2023.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Subject matter*

Pursuant to the Master CKDs and Automobile Components Sales Agreement, it was conditionally agreed that the Group will sell, and Geely Holding Group will purchase, CKDs and automobile components in relation to vehicle models including Proton-branded vehicles, Maple-Branded Vehicles, Farizon-branded vehicles, etc.

The sales of CKDs and automobile components by the Group to the Geely Holding Group will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) other independent third parties to the Company.

### *Condition precedent*

The Master CKDs and Automobile Components Sales Agreement is subject to the Company having complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the Master CKDs and Automobile Components Sales Agreement.

If the above condition has not been fulfilled on or before 31 December 2020 (or such later date as the parties may agree in writing), the Master CKDs and Automobile Components Sales Agreement will lapse and all the obligations and liabilities of the parties under the Master CKDs and Automobile Components Sales Agreement will cease and terminate.

### *Termination*

Either party may terminate the Master CKDs and Automobile Components Sales Agreement (i) by giving the other three months prior written notice; or (ii) at any time if (a) either party ceases business, or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of laws or regulations, declares bankrupt, or is unable to perform its obligations under the Master CKDs and Automobile Components Sales Agreement due to force majeure; or (b) Geely Holding ceases to be a connected person of the Company.

### *Pricing basis*

Pursuant to the Master CKDs and Automobile Components Sales Agreement, the CKDs and automobile components in relation to vehicle models including Proton-branded vehicles, Maple-Branded Vehicles, Farizon-branded vehicles etc. will be sold by the Group to the Geely Holding Group at prices calculated on a cost-plus basis according to:

- (i) the actual costs of manufacturing the CKDs and automobile components by the Group (including related taxes); plus

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- (ii) an agreed margin rate

As stated in the Letter from the Board, the margin rate under the CKDs and Automobile Components Sales Transactions will be determined by the Company and Geely Holding after arm's length negotiation with reference to the median of the three-year weighted average cost-plus-margins of comparable companies producing similar products as stated in a transfer pricing analysis report issued by an independent certified public accountant firm or an institution with equivalent qualification (the "**Determining Reference Rate**"). The Company has confirmed to us that for the three years ending 31 December 2023, the Group and the Geely Holding Group will adopt the said pricing mechanism as standard practice when determining the unit price of the relevant CKDs and automobile components and facilitating the overall pricing of the CKDs and Automobile Components Sales Transactions as and when required. For the determination of the actual margin rate adopted in the calculation of the CKDs and Automobile Components Sales Annual Caps, please refer to the paragraph headed "Master CKDs and Automobile Components Sales Agreement – CKDs and Automobile Components Sales Annual Caps – Determination of the margin rate" below.

As confirmed by the Company, as at the Latest Practicable Date, the Group had only engaged in sales of CKDs and automobile components with the Geely Holding Group and the Fengsheng Group, but no independent third parties. Based on the information available on the website of the Stock Exchange as at the Latest Practicable Date, we have, on a best effort basis, identified and made reference to, as far as we are aware, nine comparable transactions regarding sales or purchase of automobiles, materials and automotive components to or from connected persons for the period from 1 January 2018 and up to the Latest Practicable date (the "**Automobile Products Comparable Transactions**"), which involved six companies whose shares are currently listed on the Stock Exchange. We have reviewed the pricing basis of the Automobile Products Comparable Transactions, and noted that in line with the pricing term stipulated in the Master CKDs and Automobile Components Sales Agreement, the cost-plus approach had also been adopted by the parties thereto as the pricing basis in four of the Automobile Products Comparable Transactions. Given the fact that (i) the principal business of the listed companies under the Automobile Products Comparable Transactions is similar to that of the Group; (ii) the period of selecting the comparable transactions (i.e. from 1 January 2018 and up to the Latest Practicable Date) represents a more recent and reasonable period that covered market transactions undertaken by listed companies on the Stock Exchange which took place around two to three years preceding the Latest Practicable Date; and (iii) for the period between 1 January 2018 and the Latest Practicable Date, to the best of our knowledge and belief, the Automobile Products Comparable Transactions represent an exhaustive list of transactions involving sales and purchase of automobiles, materials and automotive components, each constituted a continuing connected transaction of a company listed on the Stock Exchange pursuant to the Listing Rules, we consider that the Automobile Products Comparable Transactions would serve as fair and representative samples for the purpose of drawing a meaningful comparison with the pricing basis stipulated in the Master CKDs and Automobile Components Sales Agreement.

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In light of the above, we concur with the view of the Directors that the cost-plus approach being adopted as the pricing basis under the Master CKDs and Automobile Components Sales Agreement that allows the Group to cover its actual manufacturing cost of the CKDs and automobile components and related tax expenses with it being accompanied by a margin rate to be determined based on the Determining Reference Rate will enable the parties to establish fair and reasonable unit selling prices of the CKDs and automobile components under the CKDs and Automobile Components Sales Transactions.

### 2.3 *CKDs and Automobile Components Sales Annual Caps*

(i) *The historical transaction amounts in relation to the 2018 Proton Sales Agreement*

Set out below are (i) the historical transaction amounts derived from the 2018 Proton Sales Agreement (the “**Proton Historical Transaction Amounts**”) for each of two years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the annual caps for the transactions contemplated under the 2018 Proton Sales Agreement for the three years ending 31 December 2020 (the “**Existing Proton Sales Annual Caps**”) and their respective utilisation rates, as extracted from the Letter from the Board:

	<b>For the year ended 31 December</b>		<b>For the eight months ended</b>
	<b>2018</b>	<b>2019</b>	<b>31 August</b>
	<i>(RMB' million)</i>	<i>(RMB' million)</i>	<i>(RMB' million)</i>
	(audited)	(audited)	(unaudited)
Proton Historical Transaction Amounts	253.9 <i>(Note 1)</i>	2,722.8	788.6
	<b>For the year ended/ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Existing Proton Sales Annual Caps <i>(RMB' million)</i>	398.7 <i>(Note 1)</i>	3,803.5	4,147.7
Utilisation rates	63.7%	71.6%	19.0%
			<i>(Note 2)</i> (for eight months only)

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*Notes:*

1. The Proton Historical Transaction Amounts and the annual cap for the year ended 31 December 2018 only cover the period commencing from the date on which the 2018 Proton Sales Agreement became unconditional (i.e. 24 September 2018) to 31 December 2018.
2. Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated based on the Proton Historical Transaction Amounts for the eight months ended 31 August 2020 divided by the annual cap for the full financial year ending 31 December 2020.

The Proton Historical Transaction Amounts were approximately RMB253.9 million, RMB2,722.8 million and RMB788.6 million for the two years ended 31 December 2019 and the eight months ended 31 August 2020 respectively, representing approximately 63.7%, 71.6% and 19.0% of the Existing Proton Sales Annual Caps for the corresponding years. As stated in the Letter from the Board, the relatively low utilisation rate of the annual cap for the year ended 31 December 2018 under the 2018 Proton Sales Agreement was due to the slower-than-expected start-up of the sales network in the Licensed Regions which in turn led to a lower-than-expected sales volume of certain Proton-branded vehicles. It is also stated that the increase in the utilisation rate of the annual cap for the year ended 31 December 2019 was due to the increase in sales of the Proton-branded vehicles in Malaysia which resulted in increase in demand for the CBUs, CKDs and related after-sales parts of the relevant vehicles. Further, the low utilisation rate of the annual cap for the eight months ended 31 August 2020 was primarily due to the lower-than-expected sales of Proton-branded vehicles in Malaysia due to the outbreak of COVID-19. However, the Directors expect that the sales of the Proton-branded vehicles will recover gradually as the effect of COVID-19 eases.

*(ii) The historical transaction amounts in relation to the 2018 Kandi Supply Agreement*

Set out below are (i) the historical transaction amounts derived from the 2018 Kandi Supply Agreement (the “**Kandi Historical Transaction Amounts**”) for the year ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the annual caps for the transactions contemplated under the 2018 Kandi Supply Agreement for the three years ending 31 December 2021 (the “**Existing Kandi Sales Annual Caps**”) and their respective utilisation rates, as extracted from the Letter from the Board:

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	For the year ended 31 December 2019 <i>(RMB' million)</i> (audited)	For the eight months ended 31 August 2020 <i>(RMB' million)</i> (unaudited)	For the year ending 31 December 2021 <i>(RMB' million)</i>
Kandi Historical Transaction Amounts	0.5	29.8	N/A
	<b>For the year ended/ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
Existing Kandi Sales Annual Caps <i>(RMB' million)</i>	227.6	295.9	384.6
Utilisation rates	0.2%	10.1% <i>(Note)</i> (for eight months only)	N/A

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2020 was calculated based on the Kandi Historical Transaction Amounts for the eight months ended 31 August 2020 divided by the annual cap for the full financial year ending 31 December 2020.

The Kandi Historical Transaction Amounts were approximately RMB0.5 million and RMB29.8 million for the year ended 31 December 2019 and the eight months ended 31 August 2020, respectively, representing approximately 0.2% and 10.1% of the Existing Kandi Sales Annual Caps for the corresponding years. As stated in the letter from the Board, the low utilisation rate of the annual cap for the year ended 31 December 2019 was due to the slowdown in the supply of the Maple-Branded Vehicles (previously under the brand of Kandi) which required further upgrade on the technologies and performance efficiency. It is also stated that due to the outbreak of COVID-19, the introduction of the modified models was postponed which led to a drop in the sales volume of the Maple-Branded Vehicles and adversely affected the demand of the automobile parts and components from the Fengsheng Group (previously known as Kandi Group), resulting in a low utilisation rate of the annual cap for the eight months ended 31 August 2020.

*(iii) Determination of the margin rate*

Pursuant to the pricing term stipulated in the Master CKDs and Automobile Components Sales Agreement, when estimating the maximum transaction amount under the CKDs and Automobile Components Sales Transactions for the three years ending 31 December 2023, a margin rate of 6.87% (the “**Supply Margin Rate**”) was adopted by the Group with reference to the Determining Reference Rate of 6.87% set out in the

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transfer pricing analysis report prepared and issued by an independent certified public accountant firm (the “**Independent CPA**”) on 30 September 2020 (the “**Supply Pricing Analysis Report**”).

Based on our review on the Supply Pricing Analysis Report, and as ascertained by the Independent CPA, we noted that after taking into account, among others, the types of CKDs and automobile components comparable to those under the CKDs and Automobile Components Sales Transactions, the Independent CPA has identified 15 companies for the CKDs and Automobile Components Sales Transactions (the “**Supply Relevant Companies**”) that are principally engaged in the manufacturing and sales of automobile components and parts and evaluated their cost-plus-margin (the “**Supply Evaluation**”). As referred to in the Supply Pricing Analysis Report, the median of the three-year weighted average cost-plus-margin of the Supply Relevant Companies is 6.87%.

To ascertain the Independent CPA is suitably qualified possessing related experiences and competence to undertake the Supply Evaluation and issue the Supply Pricing Analysis Report, we have reviewed and enquired into (i) the scope of work stipulated in the engagement letter entered into between the Independent CPA and Geely Holding in relation to the Supply Evaluation; and (ii) the Independent CPA’s qualifications and experiences that are relevant to the Supply Evaluation as provided by the Independent CPA. Given the aforesaid, we are satisfied with the Independent CPA’s qualifications and experiences relating to the Supply Evaluation, and therefore consider that the Independent CPA is experienced and competent in performing the Supply Evaluation as well as preparing and issuing the Supply Pricing Analysis Report. The Independent CPA has also confirmed to us that it is independent from any member of the Group, the Geely Holding Group, the Proton Group or the Fengsheng Group.

Further, we have also discussed with the Independent CPA regarding the methodology adopted and the bases and assumptions used in the Supply Pricing Analysis Report. As advised by the Independent CPA, except for the assumption that the public financial information of the Supply Relevant Companies is complete and accurate, no other major assumptions were made when conducting the Supply Evaluation and preparing the Supply Pricing Analysis Report. As to the methodology adopted in the Supply Evaluation, in the course of our discussion with the Independent CPA, we were given to understand that the Supply Relevant Companies were selected by the Independent CPA after considering their (i) place of incorporation; (ii) profitability in the past three years; and (iii) principal business and product offering. According to the Supply Pricing Analysis Report, the Supply Relevant Companies are (i) located in either the PRC or Taiwan and listed on the Shenzhen Stock Exchange, the Shanghai Stock Exchange, the National Equities Exchange and Quotations or the Taiwan Stock Exchange Corporation; (ii) profit-making in at least one year out of the most recent three financial years; and (iii) engaged in similar principal business activities with product mix consists of the automotive parts and components that the Group currently intends to supply under the CKDs and Automobile Components Sales Transactions. It is stated in the Supply Pricing Analysis Report that the weighted

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average cost-plus-margins of the Supply Relevant Companies were computed based on their respective public financial information for the past three consecutive financial years, ranging from approximately 1.15% to 19.23% with a median in the quartile interval of approximately 6.87%.

As further advised by the Independent CPA, the methodology adopted in the Supply Pricing Analysis Report is (i) commonly adopted in evaluation of comparability analysis for cost-plus-margin and consistent with normal market practice; and (ii) in accordance with the Public Notice of the State Administration of Taxation Regarding the Release of the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures (the “**Public Notice 6**”) issued by the State Administration of Taxation in the PRC.

Apart from discussing with the Independent CPA as detailed above, we have also (i) on a best effort basis, conducted an independent background check on the Supply Relevant Companies, and noted that the Supply Relevant Companies were appropriately selected based on the aforementioned selection criteria adopted by the Independent CPA in the Supply Evaluation and that the cost-plus-margins of the Supply Relevant Companies calculated based on the information publicly available to us are consistent with those stated in the Supply Pricing Analysis Report; and (ii) reviewed the Public Notice 6, and noted that the Public Notice 6 (a) provides details of the factors for selecting the comparable companies that should be considered in the comparability analysis, including but not limited to the nature of principal business and location of corporation; and (b) is adopted by the relevant tax authorities to conduct comparability analysis for evaluating comparable companies in terms of financial ratios (including cost-plus-margin). Based on the above and after taking into account that (i) all the public financial information of the Supply Relevant Companies used in the Supply Evaluation was all audited based on the respective annual reports of the Supply Relevant Companies; and (ii) the methodology adopted in analysing the Supply Relevant Companies in the Supply Pricing Analysis Report (including the selection basis of the Supply Relevant Companies, the adoption of weighted average method in calculating the cost-plus-margins for the past three consecutive years and the adoption of the median value in the quartile interval as the result value in assessing the Supply Relevant Companies’ cost-plus-margins) was referred to the Public Notice 6, we are of the view that the methodology adopted and the bases and assumption used in the Supply Pricing Analysis Report are fair and reasonable.

In addition to the abovementioned work done, we have also estimated and made references to the cost-plus-margins of other automobile companies whose shares are currently listed on the Stock Exchange principally engaging in the automobile industry in the PRC, being reported as profit-making in their latest fiscal year with the total amount of their turnover or the majority (i.e. more than 50%) of their total turnover derived from manufacturing and sale of automobile and related components according to their published financial information for the latest fiscal year. To the best of our knowledge and endeavour, we have identified five listed companies (the “**CKDs Market Comparables**”) which met the said selection criteria and they are exhaustive as

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far as we are aware of. We have not subjectively excluded any of the CKDs Market Comparables. Given that setting additional selection criteria (such as history of operation and size of the CKDs Market Comparables) will narrow down the number of the CKDs Market Comparables, we have not considered and included the aforesaid additional selection criteria for our analysis. Shareholders should note that, inter alia, the respective businesses, operations, financial status and prospects of the Group and the Geely Holding Group are not the same as the CKDs Market Comparables.

Set out below are the estimated cost-plus-margins of the CKDs Market Comparables based on their respective latest published financial information:

Company name (Stock code)	Principal business	Cost-plus-margins <i>(Note)</i>  (%)
BYD Company Limited (1211)	Automobiles business including the production and sales of new energy vehicles and traditional fuel vehicles, handset components and assembly business, rechargeable batteries and photovoltaic business while actively expanding its urban rail transportation business	8.5
Dongfeng Motor Group Company Limited* (489)	Manufacture and sale of automobiles, engines and other automotive parts and rendering of financing services	4.2
Great Wall Motor Company Limited* (2333)	Manufacture and sale of automobiles and automotive parts and components	12.5
Wuling Motors Holdings Limited (305)	Trading and manufacturing of automotive components, engines and specialized vehicles	1.5
Xin Point Holdings Limited (1571)	Manufacture and sale of automotive and electronic components	10.6
	<b>Maximum</b>	<b>12.5</b>
	<b>Minimum</b>	<b>1.5</b>
	<b>Average</b>	<b>7.5</b>

*Note:* The estimated cost-plus-margins of the CKDs Market Comparables are computed for illustration purpose only, based on the financial figures according to their respective annual reports for the financial year ended 31 December 2019 published on the website of the Stock Exchange.

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It is noted that the Supply Margin Rate is within the range of approximately 1.5% and 12.5% for the cost-plus-margins of the CKDs Market Comparables and below the average of the cost-plus-margins of the CKDs Market Comparables of approximately 7.5%.

On the basis of all the above, and pursuant to the pricing term stipulated in the Master CKDs and Automobile Components Sales Agreement, we concur with the view of the Directors that it is fair and reasonable to propose the CKDs and Automobile Components Sales Annual Caps for the three years ending 31 December 2023 based on the Supply Margin Rate.

(iv) *CKDs and Automobile Components Sales Annual Caps*

Set out below are the details of the proposal annual caps for the sales of CKDs and automobile components by the Group to the Geely Holding Group for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
	(RMB' million)	(RMB' million)	(RMB' million)
CKDs and Automobile Components Sales Annual Caps	5,945.6	9,163.7	12,027.1

The CKDs and Automobile Components Sales Annual Caps are RMB5,945.6 million, RMB9,163.7 million and RMB12,027.1 million for each of the three years ending 31 December 2023, respectively. As stated in the Letter from the Board and ascertained by the management of the Group, the CKDs and Automobile Components Sales Annual Caps were determined by the Directors with reference to:

- the estimated number of units of CKDs and automobile components for the use in the Proton-branded vehicles (consisting of certain existing Proton-branded vehicles and a new Proton-branded vehicles expected to be launched in 2022, collectively, the “**Relevant Proton-Branded Vehicles**”) and the Maple-Branded Vehicles (consisting of the existing Maple-Branded Vehicles, a new model expected to be launched in 2021 and the introduction of an updated version of an existing vehicle model in 2022, collectively, the “**Relevant Maple-Branded Vehicles**”) to be sold by the Group to the Geely Holding Group for the three years ending 31 December 2023 where Proton-branded vehicles account for the majority of the estimated number of unit sales for every year, which in turn was determined based on the respective projected unit sales of the Relevant Proton-Branded Vehicles and the Relevant Maple-Branded Vehicles for the three years ending 31 December 2023;

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- the estimated number of units of CKDs and automobile components of a new Farizon-branded vehicle model expected to be launched by the Geely Holding Group at the end of 2020 (the “**Relevant Farizon-Branded Vehicles**”) based on its projected unit sales for the three years ending 31 December 2023;
- the estimated actual cost of manufacturing the CKDs and automobile components for the use of the Relevant Proton-Branded Vehicles, the Relevant Maple-Branded Vehicles and the Relevant Farizon-Branded Vehicles respectively (including but not limited to the material costs, labour costs and overhead costs) and the related taxes for the three years ending 31 December 2023. For the existing Proton-branded vehicles, the estimated actual cost of manufacturing CKDs and automobile components was determined with reference to the historical cost per unit for the eight months ended 31 August 2020; and
- the margin rate of 6.87% over such estimated manufacturing costs of CKDs and automobile components with reference to the Supply Pricing Analysis Report.

In addition, we are also given to understand that the increase in the CKDs and Automobile Components Sales Annual Caps is considered by the Group the most likely to happen primarily based on its expectation that the gradual easing of the COVID-19 effect goes hand in hand with the product development plans of the Proton Group and the Fengsheng Group that is believed to help promote and drive up sales growth in a weakening economy.

Save as disclosed above, please also refer to the paragraph headed “Continuing Connected Transactions – Master CKDs and Automobile Components Sales Agreement – Pricing basis, historical transaction amounts and proposed CKDs and Automobile Components Sales Annual Caps – Basis of determination of the proposed annual caps” set out in the Letter from the Board for further details of the factors considered by the Directors in determining the CKDs and Automobile Components Sales Annual Caps.

(v) *Assessment of the basis for determination*

In our assessment of the fairness and reasonableness of the CKDs and Automobile Components Sales Annual Caps, we have reviewed, among others, the sales projection in respect of the CKDs and Automobile Components Sales Transactions for the three years ending 31 December 2023 (the “**CKDs and Automobile Components Sales Projection**”) prepared and provided by the Group and the underlying bases and assumptions relating thereto. In assessing the reasonableness of the CKDs and Automobile Components Sales Projection which shows that the majority of the CKDs and automobile components are expected to be supplied to the Geely Holding Group for its onward sales to the Proton Group, we have requested for and made enquiries about, among others, (i) the product mix and the estimated number of

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units of the relevant CKDs and automobile components to be sold by the Group to the Geely Holding Group for each of the three years ending 31 December 2023 based on the Geely Holding Group's latest indicative demand, with a significant year-on-year increase of approximately 51.7% and 31.2% for self-consumption or onward sales purposes for the two years ending 31 December 2022 and 2023, respectively; (ii) the projected sales volume of the Relevant Proton-Branded Vehicles, the Relevant Maple-Branded Vehicles and the Relevant Farizon-Branded Vehicles, respectively, for each of the three years ending 31 December 2023 and the corresponding demand for the relevant CKDs and automobile components; (iii) the estimated demand of CKDs and automobile components for use in the Relevant Proton-Branded Vehicles and the Relevant Maple-Branded Vehicles for the three years ending 31 December 2023 as indicated by Proton and Fengsheng, respectively; (iv) the cost components and the estimated manufacturing cost of the relevant CKDs and automobile components for each of the three years ending 31 December 2023; (v) the respective production capacity of the Proton Group, the Fengsheng Group and the Geely Holding Group; and (vi) the Supply Pricing Analysis Report.

Based on our independent work done and discussion with the management of the Group on the underlying bases and assumptions that have been taken into account by the Directors in setting the CKDs and Automobile Components Sales Annual Caps, we concur with the view of the Directors that it is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole to set the CKDs and Automobile Components Sales Annual Caps at the proposed levels, after taking into consideration the following principal factors:

- that the CKDs and Automobile Components Sales Annual Caps were determined in accordance with the pricing basis under the Master CKDs and Automobile Components Sales Agreement which is considered to be fair and reasonable, details of which are set out in the paragraph headed "Master CKDs and Automobile Components Sales Agreement – Principal terms of the Master CKDs and Automobile Components Sales Agreement – Pricing basis" above;
- that the Supply Margin Rate as determined based on the Determining Reference Rate of 6.87% set out in the Supply Pricing Analysis Report was fully adopted in calculating the unit selling prices of the CKDs and automobile components in the CKDs and Automobile Components Sales Projection;
- that the cost schedule of the relevant CKDs and automobile components (in particular for the existing Proton-branded vehicles, being estimated based on the historical cost per unit for the eight months ended 31 August 2020) comprises the cost components including but not limited to raw materials, direct labour, manufacturing overhead, administration expenses and the relevant tax based on the rates that have been enacted by the State

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Taxation Administration of the PRC or other applicable government authorities in the PRC in determining the unit selling prices of the relevant CKDs and automobile components;

- that the Proton Licensing Agreement is in full force and effect as at the Latest Practicable Date, and under the current situation, neither one of the parties thereto has intention to terminate the Proton Licensing Agreement in accordance with the terms thereof;
- the commencement dates of the production of a new vehicle model under each of the Proton Group, the Fengsheng Group and the Geely Holding Group relevant to the CKDs and Automobile Components Sales Transactions, expecting to be around 2022, 2021 and 2020, respectively;
- that the projected unit sales of the Proton-branded vehicles in the Licensed Regions for the three years ending 31 December 2023 were indicated by the Proton Group based on its estimation made with reference to the historical sales volume of similar vehicles currently available in the automobile markets within the Licensed Regions which are considered to be comparable to Proton-branded vehicles in terms of specification by the Proton Group;
- along with the business development including but not limited to the establishment of a manufacturing plant of the Proton Group in Malaysia in 2019, Proton recorded a significant increase in sale volume of approximately 54.7% for the year ended 31 December 2019 as compared to the prior year, as advised by the Company based on the official website of Proton; and
- despite the impact brought by the outbreak of COVID-19 and preventive measures intended to mitigate the spread of COVID-19 through social distancing enacted in Malaysia in 2020, sales of Proton still manage to bound back since May 2020, and recorded a compound annual growth rate of approximately 20.3% from May 2020 to September 2020 in term of sale volume, as advised by the Company based on the official website of Proton.

Based on the factors and reasons discussed above, we are of the view that the CKDs and Automobile Components Sales Annual Caps were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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### 3. Master CKDs and Automobile Components Purchase Agreement

#### *3.1 Background of and Reasons for Entering into the Master CKDs and Automobile Components Purchase Agreement*

Pursuant to the Master CKDs and Automobile Components Purchase Agreement, the Group will procure CKDs and automobile components for the Geely-Branded Vehicles, including but not limited to Vision X6 vehicle model and a new vehicle model under Geely brand expected to be launched in the second quarter of 2021 (the “**Geely New Model**”), from the Geely Holding Group. The Company advised that the CKDs and Automobile Components Purchase Transactions form part of its long-term strategic plan for improving the efficiency of the Group’s overall production capacity and the operational flexibility within the Group in support of sustainable development in business.

Based on our discussion with the management of the Group, we are given to understand that Vision X6 vehicle model which first appeared in the PRC automobile market in 2016 has already reached the decline stage and has been experiencing declining end-market demand since 2019. Against this background, Vision X6 vehicle model is expected to fade out of the market gradually, as a result of which the Group disposed the relevant manufacturing facilities in July 2020 as detailed in the Company’s announcement dated 9 July 2020 in which it is particularly stated that the production utilisation rate of such manufacturing facilities had dropped to about 71% in 2019 as compared to about 98% and 94% in 2017 and 2018, respectively. Since then, the Group has been exploring avenues of economic cooperation to enable the continuous market presence of Vision X6 vehicle model while considering a gradual withdrawal of it from the market in due course. As stated in the Letter from the Board, considering the decreasing production volume of Vision X6 vehicle model given the decreasing demand from the end customers, the Company considers that the procurement of CKDs and automobile components of Vision X6 vehicle model from the Geely Holding Group will enable the Group to achieve better cost efficiencies of sharing the production plant with the Geely Holding Group instead of manufacturing Vision X6 vehicle model by the Group itself.

In respect of the Geely New Model, the Company confirmed that the existing production facilities of the Group are not well-equipped as the new production facility owned by the Geely Holding Group for the production of the Geely New Model and/or the specific CKDs and automobile components, and it would also not be practical or economical at present for the Group to acquire or construct fully-compatible facilities under the current circumstances. Instead, as stated in the Letter from the Board, the Company considers that the CKDs and Automobile Components Purchase Transactions will allow the Group to benefit from cost efficiencies of sharing the same production facilities and also save significant cost of capital investment. Also, given the expertise of the Geely Holding Group in automobile product development and production, coupled with its in-depth knowledge of the specifications of the Geely-Branded Vehicles gained from the long-term close working relationship with the Group, the Directors believe that the CKDs and Automobile Components Purchase Transactions will enable the Group to secure a reliable source for high-quality CKDs and automobile components supplies.

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Based on the foregoing, we concur with the view of the Directors that the CKDs and Automobile Components Purchase Transactions represent an opportunity for the Company to create economic benefit while pursuing profitability.

### ***3.2 Principal Terms of the Master CKDs and Automobile Components Purchase Agreement***

Below set out the details of the principal terms of the Master CKDs and Automobile Components Purchase Agreement as stated in the Letter from the Board:

#### *Date*

4 November 2020 (after trading hours)

#### *Parties*

Vendor: Geely Holding

Purchaser: The Company

For detail of Geely Holding's principal business, please refer to the paragraph headed "Automobile Financing Arrangements – Principal terms of the Geely Holding Finance Cooperation Agreement" above.

#### *Term*

The Master CKDs and Automobile Components Purchase Agreement has a term from 1 January 2021 to 31 December 2023.

#### *Subject matter*

Pursuant to the Master CKDs and Automobile Components Purchase Agreement, it was conditionally agreed that the Group will purchase, and the Geely Holding Group will sell CKDs and automobile components under Geely brand including Vision X6 vehicle model, etc.

The purchase of CKDs and automobile components by the Group from the Geely Holding Group will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) other independent third parties to the Company.

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### *Condition precedent*

The Master CKDs and Automobile Components Purchase Agreement is subject to the Company having complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the Master CKDs and Automobile Components Purchase Agreement.

If the above condition has not been fulfilled on or before 31 December 2020 (or such later date as the parties may agree in writing), the Master CKDs and Automobile Components Purchase Agreement will lapse and all the obligations and liabilities of the parties under the Master CKDs and Automobile Components Purchase Agreement will cease and terminate.

### *Termination*

Either party may terminate the Master CKDs and Automobile Components Purchase Agreement (i) by giving the other three months prior written notice; or (ii) at any time if (a) either party ceases business, or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of laws or regulations, declares bankrupt, or is unable to perform its obligations under the Master CKDs and Automobile Components Purchase Agreement due to force majeure; or (b) Geely Holding ceases to be a connected person of the Company.

### *Pricing basis*

Pursuant to the Master CKDs and Automobile Components Purchase Agreement, the CKDs and automobile components for the Geely-Branded Vehicles including the Vision X6 vehicle model, etc. will be purchased by the Group from the Geely Holding Group at prices calculated on a cost-plus basis according to:

- (i) the actual costs of manufacturing CKDs and automobile components by the Geely Holding Group (including related taxes); plus
- (ii) an agreed margin rate

As stated in the Letter from the Board, the margin rate under the CKDs and Automobile Components Purchase Transactions will be determined by the Company and Geely Holding after arm's length negotiation with reference to the Determining Reference Rate. The Company has confirmed to us that for the three years ending 31 December 2023, the Group and the Geely Holding Group will adopt the said pricing mechanism as standard practice when determining the unit price of the relevant CKDs and automobile components and facilitating the overall pricing of the CKDs and Automobile Components Purchase Transactions as and when required. For the determination of the actual margin rate adopted in the calculation of the CKDs and Automobile Components Purchase Annual Caps, please refer to the paragraph headed

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“Master CKDs and Automobile Components Purchase Agreement – CKDs and Automobile Components Purchase Annual Caps – Determination of the margin rate” below.

As confirmed by the Company, as at the Latest Practicable Date, the Group had not engaged in purchases of CKDs and/or automobile components, directly or indirectly, in the PRC with any independent third parties. We are also confirmed that the Group had not yet identified any independent third party for its purchase of CKDs and/or automobile components as at the Latest Practicable Date. As alternative reference, we have made reference to the Automobile Products Comparable Transactions as detailed in the paragraph headed “Master CKDs and Automobile Components Sales Agreement – Principal terms of the Master CKDs and Automobile Components Sales Agreement – Pricing basis” above, and likewise we concur with the view of the Directors that it is fair and reasonable to have the cost-plus approach with the margin rate to be determined based on the Determining Reference Rate being adopted as the pricing basis under the Master CKDs and Automobile Components Purchase Agreement.

### 3.3 *CKDs and Automobile Components Purchase Annual Caps*

#### (i) *Determination of the margin rate*

Pursuant to the pricing term stipulated in the Master CKDs and Automobile Components Purchase Agreement, when estimating the maximum transaction amount under the CKDs and Automobile Components Purchase Transactions for the three years ending 31 December 2023, a margin rate of 3.15% (the “**Purchase Margin Rate**”) was adopted by the Group with reference to the Determining Reference Rate of 3.15% set out in the transfer pricing analysis report prepared and issued by the Independent CPA on 22 September 2020 (the “**Purchase Pricing Analysis Report**”).

Based on our review on the Purchase Pricing Analysis Report, and as ascertained by the Independent CPA, we noted that after taking into account, among others, the types of CKDs and automobile components comparable to those under the CKDs and Automobile Components Purchase Transactions, the Independent CPA has identified nine companies for the CKDs and Automobile Components Purchase Transactions (the “**Purchase Relevant Companies**”) that are principally engaged in the contract manufacturing of automobile components and parts and evaluated their cost-plus-margins (the “**Purchase Evaluation**”). As referred to in the Purchase Pricing Analysis Report, the median of the three-year weighted average cost-plus-margins of the Purchase Relevant Companies is 3.15%.

We, on a best effort basis, have carried out the same independent work done as we performed for the Supply Pricing Analysis Report and the Supply Evaluation to assess the qualification and competence of the Independent CPA and the appropriateness of the methodology adopted and the underlying bases and assumptions used by the Independent CPA in the Purchase Pricing Analysis Report, as well as an independent background check on the Purchase Relevant Companies. Our

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findings of our independent work performed for the Purchase Pricing Analysis Report and the Purchase Evaluation are consistent with those in regard to the Supply Pricing Analysis Report and the Supply Evaluation.

In particular, as being the same as the Supply Pricing Analysis Report, we noted that except for the assumption that the public financial information of the Purchase Relevant Companies is complete and accurate, no other major assumptions were made by the Independent CPA when conducting the Purchase Evaluation and preparing the Purchase Pricing Analysis Report. As to the methodology adopted in the Purchase Evaluation, in the course of our discussion with the Independent CPA, we were given to understand that the Purchase Relevant Companies were selected by the Independent CPA after considering their (i) place of incorporation; (ii) profitability in the past three years; and (iii) principal business and product offering. According to the Purchase Pricing Analysis Report, the Purchase Relevant Companies are (i) located in Asia-Pacific regions such as the PRC, India, Korea and Thailand and are listed on the Shanghai Stock Exchange, National Stock Exchange of India Ltd., Korea Exchange or the Stock Exchange of Thailand, respectively; (ii) profit-making in at least one year out of the most recent three financial years; and (iii) engaged in similar principal business activities with product mix consists of the automotive parts and components that the Group currently intends to procure under the CKDs and Automobile Components Purchase Transactions. It is stated in the Purchase Pricing Analysis Report that the weighted average cost-plus-margins of the Purchase Relevant Companies were computed based on their respective public financial information for the past three consecutive financial years, ranging from approximately (0.59)% to 16.45% with a median in the quartile interval of approximately 3.15%.

In light of the above and on the same basis as provided for in the paragraph headed “Master CKDs and Automobile Components Sales Agreement – CKDs and Automobile Components Sales Annual Caps – Determination of the margin rate” above, we are of the view that the methodology adopted and the bases and assumption used in the Purchase Pricing Analysis Report are fair and reasonable.

In addition to the abovementioned work done, we have also estimated and made references to the cost-plus-margins of other automobile companies as discussed in the paragraph headed “Master CKDs and Automobile Components Sales Agreement – CKDs and Automobile Components Sales Annual Caps – Determination of the margin rate”. It is noted that the Purchase Margin Rate is within the range of approximately 1.5% to 12.5% for the cost-plus-margins of the CKDs Market Comparables and below the average of the cost-plus-margins of the CKDs Market Comparables of approximately 7.5%.

On the basis of all the above, and pursuant to the pricing term stipulated in the Master CKDs and Automobile Components Purchase Agreement, we concur with the view of the Directors that it is fair and reasonable to propose the CKDs and Automobile Components Purchase Annual Caps for the three years ending 31 December 2023 based on the Purchase Margin Rate.

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(ii) *CKDs and Automobile Components Purchase Annual Caps*

Set out below are the details of the proposed annual caps for the purchase of CKDs and automobile components by the Group from the Geely Holding Group for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
	(RMB' million)	(RMB' million)	(RMB' million)
CKDs and Automobile Components			
Purchase Annual Caps	11,953.9	26,346.8	23,842.7

The CKDs and Automobile Components Purchase Annual Caps are RMB11,953.9 million, RMB26,346.8 million and RMB23,842.7 million for each of the three years ending 31 December 2023, respectively. As stated in the Letter from the Board, the CKDs and Automobile Components Purchase Annual Caps were determined by the Directors with reference to:

- the estimated number of units of the CKDs and automobile components in relation to Vision X6 vehicle model and the Geely New Model to be purchased from the Geely Holding Group by the Group for the three years ending 31 December 2023. Such estimation was determined based on (i) the projected unit sales of Vision X6 vehicle model for the three years ending 31 December 2023 with reference to the actual sales volume for the three years ended 31 December 2019 and the eight months ended 31 August 2020; and (ii) the projected unit sales of the Geely New Model expected to be launched in the second quarter of 2021 for the three years ending 31 December 2023 which was estimated with reference to the historical sales volume of a vehicle currently available in the automobile market which is considered to be comparable to such new vehicle model in terms of specification by the Group;
- the estimated costs of manufacturing the relevant CKDs and automobile components in relation to Vision X6 vehicle model and the Geely New Model (including, but not limited to, the material costs, labour costs and overhead costs) and the related taxes for the three years ending 31 December 2023. For Vision X6 vehicle model, the estimated cost of manufacturing CKDs and automobile components was determined with reference to the historical cost per unit for the eight months ended 31 August 2020; and
- the margin rate of 3.15% over such estimated manufacturing costs of the relevant CKDs and automobile components respectively with reference to the Purchase Pricing Analysis Report.

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Save as disclosed above, please also refer to the paragraph headed “Continuing Connected Transactions – Master CKDs and Automobile Components Purchase Agreement – Pricing basis, historical transaction amounts and proposed CKDs and Automobile Components Purchase Annual Caps – Basis of determination of the proposed annual caps” set out in the Letter from the Board for further details of the factors considered by the Directors in determining the CKDs and Automobile Components Purchase Annual Caps.

*(iii) Assessment of the basis for determination*

In our assessment of the fairness and reasonableness of the CKDs and Automobile Components Purchase Annual Caps, we have reviewed the purchase budget in respect of the CKDs and Automobile Components Purchase Transactions for the three years ending 31 December 2023 (the “**CKDs and Automobile Components Purchase Budget**”) prepared and provided by the Group and the underlying bases and assumptions relating thereto. In assessing the reasonableness of the CKDs and Automobile Components Purchase Budget which shows that all the relevant CKDs and automobile components are expected to be procured from the Geely Holding Group for the manufacturing of Vision X6 vehicle model and the Geely New Model, we have requested for and made enquiries about, among others, (i) the product mix and the estimated number of units of the relevant CKDs and automobile components to be purchased by the Group from the Geely Holding Group for each of the three years ending 31 December 2023; (ii) the actual sales volume of Vision X6 vehicle model for the three years ended 31 December 2019 and the eight months ended 31 August 2020; (iii) the projected sales volume of Vision X6 vehicle model and the Geely New Model for each of the three years ending 31 December 2023 and the corresponding demand for the relevant CKDs and automobile components; (iv) the cost components and the estimated manufacturing cost of the relevant CKDs and automobile components for each of the three years ending 31 December 2023; and (v) the Purchase Pricing Analysis Report.

Based on our independent work done and discussion with the management of the Group on the underlying bases and assumptions that have been taken into account by the Directors in setting the CKDs and Automobile Components Purchase Annual Caps, we concur with the view of the Directors that it is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole to set the CKDs and Automobile Components Purchase Annual Caps at the proposed levels, after taking into consideration the following principal factors:

- that the CKDs and Automobile Components Purchase Annual Caps were determined in accordance with the pricing basis under the Master CKDs and Automobile Components Purchase Agreement which is considered to be fair and reasonable, details of which are set out in the paragraph headed

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“Master CKDs and Automobile Components Purchase Agreement – Principal terms of the Master CKDs and Automobile Components Purchase Agreement – Pricing basis” above;

- that the Purchase Margin Rate as determined based on the Determining Reference Rate of 3.15% set out in the Purchase Pricing Analysis Report was fully adopted in calculating the unit purchase prices of the relevant CKDs and automobile components in the CKDs and Automobile Components Purchase Budget;
- that the cost schedule of the relevant CKDs and automobile components (in particular for Vision X6 vehicle model, being estimated based on the historical cost per unit for the eight months ended 31 August 2020) comprises the cost components including but not limited to raw materials, direct labour, manufacturing overhead, administration expenses and the relevant tax based on the rates that have been enacted by the State Taxation Administration of the PRC or other applicable government authorities in the PRC in determining the unit purchase prices of the relevant CKDs and automobile components;
- that the projected sale volume of the Geely New Model for the three years ending 31 December 2023 was estimated with reference to the historical sales volume of a vehicle currently available in the automobile market which is considered to be comparable to the Geely New Model in terms of specification by the Group;
- that given the continuous downward trend in the sales volume of Vision X6 vehicle model since 2019 for the reasons discussed in the paragraph headed “Master CKDs and Automobile Components Purchase Agreement – Background of and Reasons for entering into the Master CKDs and Automobile Components Purchase Agreement” above, the actual sales volume for the two years ended 31 December 2018 and 2019 amounted to approximately 123,000 units and 84,000 units which represent year-on-year decreases of approximately 3.1% and 31.7%, respectively; and
- the continuous supports of the PRC government to the automobile industry (including the measures under the Notice issued in April 2020 supporting, among others, automobile consumer financing to stabilise and expand automobile consumption) as discussed in the paragraph headed “Industry Outlook” above, as well as the COVID-19 situation in the PRC tends to remain fairly stable with the PRC’s economic recovery from COVID-19 seems to be underway based on the regular updates from the World Health Organisation up to the Latest Practicable Date, that in totality is expected to create supportive environments for future sales of the Geely-Branded Vehicles including the Geely New Model.

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Based on the factors and reasons discussed above, we are of the view that the CKDs and Automobile Components Purchase Annual Caps were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

#### 4. New Powertrain Sales Agreement

##### *4.1 Background of and Reasons for Entering into the New Powertrain Sales Agreement*

Since 2018, the Group has been selling the Powertrain Products to the LYNK & CO Group for use in LYNK & CO-branded vehicles and, to a lesser extent, the Geely Holding Group for use in certain Volvo-branded vehicles and Geely Holding-Owned Brands Vehicles under the 2017 Powertrain Sales Agreement which is due to expire on 31 December 2020. To facilitate the continuous sales of the Powertrain Products upon expiry, the said parties opted to renew the Powertrain Sales Transactions for another three consecutive years by way of entering into the New Powertrain Sales Agreement (the “**Renewal of the Powertrain Sales Transactions**”). In particular, according to the Letter from the Board, the Renewal of the Powertrain Sales Transactions is to be conducted under the circumstances that the application of the Powertrain Products will be extended to cater for a wider range of vehicle models (including the commercial vehicle models within the Geely Holding-Owned Brands Vehicles, the Proton-branded vehicles and certain Geely-Branded Vehicles) as the development of the vehicles engines and transmissions manufactured by the Group improves, thereby providing more potential of revenue generation for the Company. The Company confirmed that as at the Latest Practicable Date, no Powertrain Products had ever been sold by the Group to any independent third party, and the Group has not identified any independent third-party customer for the Powertrain Products.

As advised by the management of the Group, in addition to being light weight and compact, the Powertrain Products possess advanced technologies and superior performance in terms of power output and fuel consumption (for engines) and transmission efficiency (for transmissions) which meet the needs of the LYNK & CO Group and the Geely Holding Group essentially for the manufacturing of high performance and multi-functional vehicles. The management of the Group also stressed that the intended purposes of the Powertrain Products to be procured by the Geely Holding Group under the Renewal of the Powertrain Sales Transactions are for (i) self-manufacturing of CKDs for Vision X6 vehicle model under Geely brand and the Geely New Model which is meant for the CKDs and Automobile Components Purchase Transactions; (ii) embedment in Volvo-branded vehicles and its own commercial vehicles (including Farizon-branded vehicles); and (iii) its onward sales to the Proton Group for use in Proton-branded vehicles. On the other hand, the Powertrain Products to be sold to the LYNK & CO Group are for the sole purpose of its production of the full range of LYNK & CO-branded vehicles, which is expected to continue to contribute the most sales amount to the Powertrain Sales Transactions under the New Powertrain Sales Agreement. For further details, please refer to the paragraph headed “New Powertrain Sales Agreement – Powertrain Sales Annual Caps – Assessment of the basis of determination” below.

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Despite the uncertainties in the economic prospect due to the outbreak of COVID-19 and the market conditions of the PRC automobile industry, the Directors remain confident in the PRC automobile market given the signs of recovery after a historic fall in economic activity in the first half of 2020 and the imminent implementation of the China 6 Standard (as extended to 1 January 2021). The Directors also expect that sales of high-performance vehicles (including NEEVs) will offer positive momentum to drive consumption of the Group's Powertrain Products in the coming years. Furthermore, it is also the belief of the Directors that the Group will experience an increasing demand for its Powertrain Products alongside the broadened vehicle group of the Geely Holding Group and the ongoing product development of the target auto brands, in particular the LYNK & CO-branded vehicles.

In light of the above, and after principally taking into account the fact that (i) the Powertrain Sales Transactions fit in with the direction or strategic plan of the Group allowing the Company to continue to capitalise on the Group's manufacturing competency and capability in the automobile industry as a way to create a recurring revenue stream; (ii) the Renewal of the Powertrain Sales Transactions are related to the CKDs and Automobile Components Purchase Transactions in such a way that both transactions can complement each other to ensure the smooth operation of the Group (please refer to the section headed "Master CKDs and Automobile Components Purchase Agreement" above for further details); and (iii) the sales momentum that may be created as a result of the ability of the Group to improve its vehicles engines and transmissions making them suitable for a wider range of applications, we concur with the view of the Directors that the Renewal of the Powertrain Sales Transactions are beneficial to the Group in this respect.

#### ***4.2 Principal Terms of the New Powertrain Sales Agreement***

Below set out the details of the principal terms of the New Powertrain Sales Agreement as stated in the Letter from the Board:

##### *Date*

4 November 2020 (after trading hours)

##### *Parties*

Vendor: The Company

Purchaser: LYNK & CO and Geely Holding

LYNK & CO is principally engaged in the manufacture and sale of LYNK & CO-branded vehicles, and the provision of after-sales parts.

For detail of Geely Holding's principal business, please refer to the paragraph headed "Automobile Financing Arrangements – Principal terms of the Geely Holding Finance Cooperation Agreement" above.

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### *Term*

The New Powertrain Sales Agreement has a term from 1 January 2021 to 31 December 2023.

### *Subject matter*

Pursuant to the New Powertrain Sales Agreement, the Group agreed to sell the Powertrain Products to the LYNK & CO Group and the Geely Holding Group.

The Powertrain Sales Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) the independent third parties to the Company.

### *Condition precedent*

The New Powertrain Sales Agreement is subject to the Company having complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the New Powertrain Sales Agreement.

If the above condition has not been fulfilled on or before 31 December 2020 (or such later date as the parties may agree in writing), the New Powertrain Sales Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

### *Termination*

The New Powertrain Sales Agreement may be terminated if:

- (i) a three-month prior written notice to terminate the New Powertrain Sales Agreement is served by any party;
- (ii) any party ceases business, or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as resulted from material violation of the laws or regulations, declares bankrupt, is unable to perform its obligations under the New Powertrain Sales Agreement due to force majeure; or
- (iii) Geely Holding, LYNK & CO or any of their respective associates cease to be connected persons of the Company.

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### *Pricing basis*

Pursuant to the New Powertrain Sales Agreement, the Powertrain Products will be sold to the LYNK & CO Group and the Geely Holding Group at prices determined based on the formula below:

Selling price = C1 plus margin rate

Where:

C1 = actual costs incurred by the Group in the manufacturing of the Powertrain Products plus related taxes.

As stated in the Letter from the Board, the margin rate under the Powertrain Sales Transactions will be determined among the Company, LYNK & CO and Geely Holding after arm's length negotiation with reference to the Determining Reference Rate. The Company has confirmed to us that for the three years ending 31 December 2023, the Group, the LYNK & CO Group and the Geely Holding Group will adopt the said pricing mechanism as standard practice when determining the respective unit price of the Powertrain Products and facilitating the overall pricing of the Powertrain Sales Transactions as and when required. For the determination of the actual margin rate adopted in the calculation of the Powertrain Sales Annual Caps, please refer to the paragraph headed "New Powertrain Sales Agreement – Powertrain Sales Annual Caps – Determination of the margin rate" below.

As confirmed by the management of the Group, as at the Latest Practicable Date, the Group had only engaged in sales of the Powertrain Products to the LYNK & CO Group and the Geely Holding Group, but no independent third parties. We are also confirmed that the Group had not yet identified any independent third party for its sales of the Powertrain Products as at the Latest Practicable Date. As alternative reference, we have made reference to the Automobile Products Comparable Transactions as detailed in the paragraph headed "Master CKDs and Automobile Components Sales Agreement – Principal terms of the Master CKDs and Automobile Components Sales Agreement – Pricing basis" above, and likewise we concur with the view of the Directors that it is fair and reasonable to have the cost-plus approach with the margin rate to be determined based on the Determining Reference Rate being adopted as the pricing basis under the New Powertrain Sales Agreement.

### **4.3 Powertrain Sales Annual Caps**

#### *(i) Historical transaction amounts*

Set out below are the details of (i) the historical transaction amounts of the Powertrain Sales Transactions for the two years ended 31 December 2019 and the eight months ended 31 August 2020 (the "**Powertrain Historical Transaction Amounts**");



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As advised by the management of the Group, the deterioration of consumer confidence in the PRC caused by the completed elimination of purchase tax subsidies for fuel efficient vehicles, plus the rush by local governments in China to speedily implement the China 6 Standard are believed to be some of the key factors for the intense competition in the PRC automobile market that led to decline in the vehicles demand in the PRC. In particular, it is believed that the early adoption of the China 6 Standard had highly affected the performance of the PRC automobile industry as customers were more cautious and adopted a wait-and-see attitude. All the above, in the view of the Directors, could have contributed to the decline in the demand of the Powertrain Products from the Geely Holding Group and the LYNK & CO Group, as well as the utilisation rates, for the two years ended 31 December 2019.

*(ii) Determination of the margin rate*

Pursuant to the pricing term stipulated in the New Powertrain Sales Agreement, when estimating the maximum transaction amount under the Powertrain Sales Transactions for the three years ending 31 December 2023, a margin rate of 6% (the “**Powertrain Margin Rate**”) was adopted by the Group with reference to the Determining Reference Rate of 6% set out in the transfer pricing analysis report prepared and issued by the Independent CPA on 30 September 2020 (the “**Powertrain Pricing Analysis Report**”).

Based on our review on the Powertrain Pricing Analysis Report, and as ascertained by the Independent CPA, we noted that the Independent CPA has identified 16 companies (the “**Powertrain Relevant Companies**”) that are principally engaged in the manufacturing and sales of vehicle engines, transmissions and/or their related parts and components and evaluated their cost-plus-margins (the “**Powertrain Evaluation**”). As referred to in the Powertrain Pricing Analysis Report, the median of the three-year weighted average cost-plus-margins of the Powertrain Relevant Companies is 6%.

We, on a best effort basis, have carried out the same independent work done as we performed for (i) the Supply Pricing Analysis Report and the Supply Evaluation; and (ii) the Purchase Pricing Analysis Report and the Purchase Evaluation to assess the qualification and competence of the Independent CPA and the appropriateness of the methodology adopted and the underlying bases and assumptions used by the Independent CPA in the Powertrain Pricing Analysis Report, as well as an independent background check on the Powertrain Relevant Companies. Our findings of our independent work performed for the Powertrain Pricing Analysis Report and the Powertrain Evaluation are consistent with those in regard to (i) the Supply Pricing Analysis Report and the Supply Evaluation; and (ii) the Purchase Pricing Analysis Report and the Purchase Evaluation.

In particular, as being the same as the Supply Pricing Analysis Report and the Purchase Pricing Analysis Report, we noted that except for the assumption that the public financial information of the Powertrain Relevant Companies is complete and accurate, no other major assumptions were made by the Independent CPA when

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conducting the Powertrain Evaluation and preparing the Powertrain Pricing Analysis Report. As to the methodology adopted in the Powertrain Evaluation, in the course of our discussion with the Independent CPA, we were given to understand that the Powertrain Relevant Companies were selected by the Independent CPA after considering their (i) place of incorporation; (ii) profitability in the past three years; and (iii) principal business. According to the Powertrain Pricing Analysis Report, the Powertrain Relevant Companies are (i) located in either the PRC or Taiwan and listed on the Shenzhen Stock Exchange, the Shanghai Stock Exchange, the National Equities Exchange and Quotations or the Taiwan Stock Exchange Corporation; (ii) profit-making which generated a net aggregate profit for a period of the past three consecutive years; and (iii) principally engaged in the manufacturing and sales of vehicle engines, transmissions and/or their related parts and components. It is stated in the Powertrain Pricing Analysis Report that the weighted average cost-plus-margins of the Powertrain Relevant Companies were computed based on their respective public financial information for the past three consecutive years, ranging from approximately 0.6% to 29.0% with a median of approximately 6.0%.

In light of the above and on the same basis as provided for in the paragraph headed “Master CKDs and Automobile Components Sales Agreement – CKDs and Automobile Components Sales Annual Caps – Determination of the margin rate” above, we are of the view that the methodology adopted and the bases and assumptions used in the Powertrain Pricing Analysis Report are fair and reasonable. In addition to abovementioned work done, we have also estimated and made references to the cost-plus-margins of other automobile companies whose shares are currently listed on the Stock Exchange principally engaging in the automobile industry, being reported as profit-making in their latest fiscal year with the total amount of their turnover or the majority (i.e. more than 50%) of their total turnover derived from manufacturing and sales of powertrain components according to their published financial information for the latest fiscal year. To the best of our knowledge and endeavor, we have identified three listed companies (the “**Powertrain Market Comparables**”) which met the said selection criteria and they are exhaustive as far as we are aware of. We have not subjectively excluded any Powertrain Market Comparables. Given that setting additional selection criteria (such as place of operation, history of operation and size of the Powertrain Market Comparables) will narrow down the number of the Powertrain Market Comparables, we have not considered and included the aforesaid additional selection criteria for our analysis. Shareholders should note that, inter alia, the respective businesses, operations, financial status and prospectus of the Group, the Geely Holding Group and the LYNK & CO Group are not the same as the Powertrain Market Comparables.

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Set out below are the estimated cost-plus-margins of the Powertrain Market Comparables based on their respective latest published full-year financial information:

Company name (Stock code)	Principal business	Cost-plus-margins <sup>(Note)</sup> (%)
Johnson Electric Holdings Limited (179)	Manufacture and sale of motion systems	6.9
Xinchen China Power Holdings Limited (1148)	Development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles	3.4
BeijingWest Industries International Limited (2339)	Manufacture, sale and trading of automotive parts and components	13.5
	<b>Maximum</b>	<b>13.5</b>
	<b>Minimum</b>	<b>3.4</b>
	<b>Average</b>	<b>7.9</b>

*Note:* The estimated cost-plus-margins of the Powertrain Market Comparables are computed for illustration purpose only, based on the financial figures according to their respective annual reports for the financial year ended 31 December 2019 or 31 March 2020 published on the website of the Stock Exchange.

It is noted that the Powertrain Margin Rate is within the range of approximately 3.4% to 13.5% for the cost-plus-margins of the Powertrain Market Comparables and below the average cost-plus-margins of the Powertrain Market Comparables of approximately 7.9%.

On the basis of all the above, and pursuant to the pricing term stipulated in the New Powertrain Sales Agreement, we concur with the view of the Directors that it is fair and reasonable to propose the Powertrain Sales Annual Caps for the three years ending 31 December 2023 base on the Powertrain Margin Rate.

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(iii) *Powertrain Sales Annual Caps*

Set out below the proposed annual caps for the Powertrain Sales Transactions for each of the three years ending 31 December 2023:

	For the year ending 31 December		
	2021	2022	2023
	(RMB' million)	(RMB' million)	(RMB' million)
Powertrain Sales Annual Caps	9,047.3	15,527.6	18,232.5

The Powertrain Sales Annual Caps are RMB9,047.3 million, RMB15,527.6 million and RMB18,232.5 million for the three years ending 31 December 2023, respectively. It is noted that an upward trend is expected by the Directors in the Powertrain Sales Annual Caps for the term of the Renewal of the Powertrain Sales Transactions.

As stated in the Letter from the Board, the Powertrain Sales Annual Caps were determined by the Directors with reference to (i) the estimated number of units of the Powertrain Products for the existing vehicle engine models to be sold by the Group to the LYNK & CO Group for its existing and new LYNK & CO-branded vehicles and the Geely Holding Group for (a) use in the commercial vehicles and the Volvo-branded vehicles of the Geely Holding Group; (b) the manufacturing of CKDs of Vision X6 vehicle model and the Geely New Model; and (c) for its onward sales of the Powertrain Products to the Proton Group based on the respective demand for such Powertrain Products for the three years ending 31 December 2023, which in turn were determined based on the projected production units of the respective vehicles of the LYNK & CO Group and the Geely Holding Group that will be equipped with the Powertrain Products manufactured by the Group for the same product; (ii) the estimated actual costs of manufacturing the Powertrain Products (including but not limited to labour costs, material costs and overhead costs) and the related taxes for the three years ending 31 December 2023. The estimated actual manufacturing costs of the Powertrain Products was determined with reference to the historical unit cost per each type of the Powertrain Products to be used for the eight months ended 31 August 2020; and (iii) the margin rate of 6% over such projected manufacturing costs with reference to the Powertrain Pricing Analysis Report.

Save as disclosed above, please also refer to the paragraph headed "Continuing Connected Transactions – The New Powertrain Sales Agreement – Basis of determination of the proposed annual caps" set out in the Letter from the Board for further details of the factors considered by the Directors in determining the Powertrain Sales Annual Caps.

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*(iv) Assessment of the basis of determination*

In our assessment of the fairness and reasonableness of the Powertrain Sales Annual Caps, we have obtained and reviewed the sales budget for the Powertrain Sales Transactions for the three years ending 31 December 2023 (the “**Powertrain Sales Budget**”) compiled by the Group and also discussed with the Group about the underlying bases and assumptions relating thereto. In assessing the reasonableness of the Powertrain Sales Budget which shows that the majority of the Powertrain Products is expected to be supplied to the LYNK & CO Group for use in the LYNK & CO-branded vehicles, we have requested for and made enquiries about, among others, (i) the types of the Powertrain Products to be required by the Geely Holding Group and the LYNK & CO Group and their ultimate use; (ii) the list of the existing and new vehicle models by brands that are related to the Renewal of the Powertrain Sales Transactions (collectively, the “**Powertrain Related Vehicles**”), as well as the recent sales performance in respect of the existing models whereas, for new models, reference is made to other branded vehicles currently available in the PRC automobile market that are identified and considered by the Group as comparable in terms of specification; (iii) the estimated demand of the Powertrain Products for use in Volvo-branded vehicles for the three years ending 31 December 2023 as indicated by the Volvo Group; (iv) the cost schedule of the Powertrain Products; and (v) the Powertrain Pricing Analysis Report.

Based upon our review of the Powertrain Sales Budget, and as ascertained by the Company, we noted that the Powertrain Products are currently expected to continue to be mainly sold to the LYNK & CO Group for use in the full range of the LYNK & CO-branded vehicles during the term of the New Powertrain Sales Agreement, despite that the target vehicle group of the Geely Holding Group for the use of the Powertrain Products is now not just confined to the Geely Holding-Owned Brands Vehicles and Volvo-branded vehicles but also encompass Proton-branded vehicles and Geely-Branded Vehicles (comprising Vision X6 vehicle model and the Geely New Model). Hence, we put the recent business performance and product development of the LYNK & CO Group in context. As advised by the management of the Group, since the launch of its first model in late-2017, LYNK & CO strives for brand awareness and business growth by way of actively expanding its product offerings. We are given to understand that the LYNK & CO Group will continue to increase new model offerings to further enrich its product portfolio aimed at catering for various market segments and different customer purchasing preference on product specifications. As at the Latest Practicable Date, there are five LYNK & CO-branded vehicle models with different versions/specifications rolled out and sold in the PRC automobile market. It is also noted that while its sales and marketing strategies are still underway with the PRC being identified as the initial target market for LYNK & CO-branded vehicles with 275 physical stores in the PRC at the end of 30 June 2020, LYNK & CO has been expanding its sales beyond the PRC to new markets in Southeast Asia and Western Europe in the second half of 2020. For further details of the recent business performance of the LYNK & CO Group, please refer to the paragraph headed “Automobile Financing Arrangements – LYNK & CO Wholesale Annual Caps and LYNK & CO Retail Annual Caps – Assessment of the basis for determination”.

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As extracted from the official website of Volvo, the overall sales volume of Volvo-branded vehicles was approximately 705,000 units for the year ended 31 December 2019, representing an increase of approximately 9.8% as compared to that of approximately 642,000 units for the year ended 31 December 2018. In line with the global trend in the automobile industry, the sales of Volvo-branded vehicles was affected by the outbreak of COVID-19 during which the overall sales volume for the first quarter of 2020 decreased by approximately 18.2% as compared to the same period of the prior year. Notwithstanding this, the sales performance of Volvo-branded vehicles from April 2020 to September 2020 is encouraging that shows signs of recovery, with a compound annual growth rate of approximately 16.3% was recorded for the relevant period. In particular, the Volvo-branded vehicles recorded a month-on-month growth of approximately 32.0% in September 2020. The management of the Group further advised that considering the abovementioned sales record of Volvo-branded vehicles, the Group was optimistic towards its sales of the Powertrain Products to the Geely Holding Group for use in Volvo-branded vehicles.

Moreover, it is noted that the pricing margin on the Powertrain Products is another key factor considered by the Group in determining the unit selling prices as one of the core components of the Powertrain Sales Budget. It is noted that the Powertrain Margin Rate adopted by the Group in estimating the maximum transaction amount set out in the Powertrain Sales Budget is the same as the Determining Reference Rate of 6% as referred to in the Powertrain Pricing Analysis Report. For details of our independent work on the reasonableness of the Group's adoption of the Powertrain Margin Rate in the Powertrain Sales Budget, please refer to the paragraph headed "New Powertrain Sales Agreement – Powertrain Sales Annual Caps – Determination of the margin rate" above.

In light of the above, and principally taking into account the following factors, we concur with the Directors' view that it is fair and reasonable and in the interests of the Company and the Shareholders to set the Powertrain Sales Annual Caps at the proposed levels:

- that the Powertrain Sales Annual Caps were determined in accordance with the pricing basis under the New Powertrain Sales Agreement which is considered to be fair and reasonable, details of which are set out under the paragraph headed "New Powertrain Sales Agreement – Principal terms of the New Powertrain Sales Agreement – Pricing basis" above;
- that the Powertrain Margin Rate as determined based on the Determining Reference Rate of 6% set out in the Powertrain Pricing Analysis Report was fully adopted in calculating the unit selling prices of the Powertrain Products in the Powertrain Sales Budget;
- that the cost schedule of the Powertrain Products (being estimated based on the historical unit cost per each type of the existing Powertrain Products for the eight months ended 31 August 2020) comprises the cost

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components including but not limited to raw material, direct labour, manufacturing overhead, administration expenses and the relevant tax based on the rates that have been enacted by the State Taxation Administration of the PRC or other applicable government authorities in the PRC in determining the unit selling prices of the Powertrain Products;

- that (i) the extended use of the Powertrain Products catering for a wider range of vehicle models; and (ii) the projected production volume of the Powertrain Related Vehicles and/or the indicative demand for the Powertrain Products from the Geely Holding Group and the LYNK & CO Group have been taken into account during the preparation of the Powertrain Sales Budget;
- that the projected unit sales of LYNK & CO-branded vehicles for the three years ending 31 December 2023 was estimated with reference to the historical sales volume of the existing models or comparable vehicles currently available in the PRC automobile market;
- that the recent sales performance of LYNK & CO-branded vehicles is showing signs of recovery, with a double-digit compound annual growth rate of approximately 13.0% was recorded in sales volume from April 2020 to September 2020, spurred by, among others, the reopening of showrooms and physical stores from lockdown measures designed to curtail the spread of COVID-19;
- that the projected unit sales of the Powertrain Products for use in the Volvo-branded vehicles for the three years ending 31 December 2023 were based on the latest indicative demand from the Volvo Group to the Geely Holding Group;
- the increasing usage of the Powertrain Products by the Geely Holding Group as a result of the entering into of the CKDs and Automobile Components Purchase Agreement; and
- that the COVID-19 situation in the PRC tends to remain fairly stable based on the latest data on confirmed COVID-19 cases reported by the World Health Organisation as at the Latest Practicable Date, together with (i) the increasing trend for high performance vehicles in the PRC automobile market; and (ii) the continuous supports of the PRC government to the automobile industry (including the measures under the Notice issued in April 2020 supporting, among others, automobile consumer financing to stabilise and expand automobile consumption) as discussed in the paragraph headed “Industry Outlook” above, that in totality is expected to create supportive environments for future sales of the Powertrain Related Vehicles.

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Based on the factors and reasons discussed above, we are of the view that the Powertrain Sales Annual Caps were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### **D. MONITORING AND REPORTING**

#### **1. Internal Control of the Group**

We noted that the Group and/or Genius AFC have adopted internal control measures and policies for the purpose of monitoring the execution and implementation of the Continuing Connected Transactions, including specific monitoring and reporting measures and procedures to ensure compliance with the respective terms stipulated in the LYNK & CO Finance Cooperation Agreement, the Fengsheng Finance Cooperation Agreement, the Geely Holding Finance Cooperation Agreement, the Master CKDs and Automobile Components Sales Agreement, the Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement. For details of the underlying monitor and reporting procedures of the relevant internal control measures adopted by the Group and/or Genius AFC, please refer to the paragraphs headed “Internal control measures in relation to the Automobile Financing Arrangements”, “Internal control measures in relation to pricing for the Master CKDs and Automobile Components Sales Agreement”, “Internal control measures in relation to pricing for the Master CKDs and Automobile Components Purchase Agreement” and “Relevant Internal Control Measures” set out in the Letter from the Board.

#### **2. Requirements of the Listing Rules**

For each financial year of the Company during the term of the LYNK & CO Finance Cooperation Agreement, the Fengsheng Finance Cooperation Agreement, the Geely Holding Finance Cooperation Agreement, the Master CKDs and Automobile Components Sales Agreement, the Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement, the transactions contemplated thereunder will be subject to review by the independent non-executive Directors and the Company’s independent auditors as required by Rules 14A.55 and 14A.56 of the Listing Rules. The independent non-executive Directors must confirm in the Company’s annual report that the Continuing Connected Transactions have been entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or better; and
- according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Listing Rules require that the Company to engage its independent auditors to report on the Continuing Connected Transactions for each of the relevant financial years of the Company and that the Company’s independent auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that such transactions:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- have not been approved by the Board;
- were not, in all material respects, in accordance with the pricing basis for the Continuing Connected Transactions;
- were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- have exceeded the 2021-2023 Annual Caps.

### OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons discussed above, we consider that the Continuing Connected Transactions (i) are entered into in the ordinary and usual course of business of the Group and on normal commercial terms; and (ii) the terms thereof, as well as the 2021-2023 Annual Caps, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Renewal of the LYNK & CO Financing Arrangements, the Fengsheng Finance Cooperation Agreement, the Geely Holding Finance Cooperation Agreement, the Master CKDs and Automobile Components Sales Agreement, the Master CKDs and Automobile Components Purchase Agreement and the New Powertrain Sales Agreement, as well as the 2021-2023 Annual Caps.

Yours faithfully,

for and on behalf of

**DAKIN CAPITAL LIMITED**

**Kinson Li**

**Annie Kwong**

*Managing Director*

*Director*

*Note:* Mr. Kinson Li is a licensed person and a responsible officer of Dakin Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in corporate finance industry. Ms. Annie Kwong is a licensed person and a responsible officer of Dakin Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in corporate finance industry.

*The English translation of the Chinese names in this letter, where indicated with \* is included for information purpose only and should not be regarded as the official English names of such Chinese names.*

*In case of any discrepancy, inconsistency or ambiguity between the English and Chinese versions of this letter, the English version shall prevail.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules were as follows:

#### (i) Director's and chief executive's interests and short positions in the shares of the Company

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable
		Long position	Short position	percentage of shareholding (%)
<b>Shares</b>				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporations	4,019,478,000	–	40.96
Mr. Li Shu Fu	Personal	23,140,000	–	0.24
Mr. Yang Jian	Personal	6,000,000	–	0.06
Mr. Li Dong Hui, Daniel	Personal	2,104,000	–	0.02
Mr. Gui Sheng Yue	Personal	14,585,000	–	0.15
Mr. An Cong Hui	Personal	4,966,000	–	0.05
Mr. Ang Siu Lun, Lawrence	Personal	4,000,000	–	0.04
Mr. Lee Cheuk Yin, Dannis	Personal	900,000	–	0.009
Mr. Wang Yang	Personal	1,000,000	–	0.01

*Note:*

- Proper Glory Holding Inc. (“**Proper Glory**”) and its concert parties in aggregate hold interests of 4,019,478,000 shares, representing approximately 40.96% of the total issued share capital of the Company as at the Latest Practicable Date. Proper Glory is a private company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited.

**(ii) Director’s and chief executive’s interests and short positions in the derivatives of the Company**

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding (%)
		Long position	Short position	
<b>Share Options</b>				
Mr. Li Dong Hui, Daniel	Personal	1,400,000 <sup>(Note 1)</sup>	–	0.02
Ms. Wei Mei	Personal	1,000,000 <sup>(Note 1)</sup>	–	0.01

*Note:*

- The interest relates to share options granted on 23 March 2012 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each Share during the period from 23 March 2012 to 22 March 2022. The percentage of shareholding is calculated on the basis that (i) the options are fully exercised; and (ii) the number of total issued share capital of the Company when the options are exercised is the same as that as the Latest Practicable Date.

(iii) *Director's interest and short positions in the securities of the associated corporations of the Company*

Name of director	Name of the associated corporations	Number of shares in the associated corporations		Approximate percentage of shareholding (%)
		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	–	60
Mr. Li Shu Fu	Zhejiang Geely Holding Group Company Limited	(Note 2)	–	(Note 2)
Mr. Li Shu Fu	Zhejiang Geely Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Shanghai Maple Automobile Company Limited	(Note 4)	–	(Note 4)
Mr. Li Shu Fu	Zhejiang Haoqing Automobile Manufacturing Company Limited	(Note 5)	–	(Note 5)
Mr. Li Shu Fu	Zhejiang Jirun Automobile Company Limited	(Note 6)	–	(Note 6)
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	(Note 7)	–	(Note 7)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 8)	–	(Note 8)
Mr. Li Shu Fu	Hunan Geely Automobile Components Company Limited	(Note 9)	–	(Note 9)
Mr. Li Shu Fu	Baoji Geely Automobile Components Company Limited	(Note 10)	–	(Note 10)
Mr. Li Shu Fu	Shanxi Geely Automobile Components Company Limited	(Note 11)	–	(Note 11)
Mr. Li Shu Fu	Zhejiang Jirun Chunxiao Automobile Components Company Limited	(Note 12)	–	(Note 12)

*Notes:*

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

3. Zhejiang Geely Automobile Company Limited (“**Zhejiang Geely**”) is a private company incorporated in the PRC and is owned as to 71.05% by Geely Holding, as to 2.96% by other Mr. Li’s interested entities and as to 25.99% by independent third parties.
4. Shanghai Maple Automobile Company Limited (“**Shanghai Maple Automobile**”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
5. Zhejiang Haoqing Automobile Manufacturing Company Limited (“**Zhejiang Haoqing**”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
6. Zhejiang Jirun Automobile Company Limited (“**Zhejiang Jirun**”) is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely.
7. Shanghai Maple Guorun Automobile Company Limited (“**Shanghai Maple**”) is a private company incorporated in the PRC and is 1%-owned by Shanghai Maple Automobile.
8. Zhejiang Ruhoo Automobile Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing.
9. Hunan Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing.
10. Baoji Geely Automobile Components Company Limited is a private company incorporated in the PRC and is wholly owned by Zhejiang Jirun.
11. Shanxi Geely Automobile Components Company Limited is a private company incorporated in the PRC and is wholly owned by Zhejiang Jirun.
12. Zhejiang Jirun Chunxiao Automobile Components Company Limited is a private company incorporated in the PRC and is wholly owned by Zhejiang Jirun.

**(b) Interests and short positions in Shares and underlying Shares of other persons**

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

(i) *Substantial Shareholders (as defined in the SFO)*

Name	Nature of interests	Number of shares held		Approximate percentage of shareholding (%)
		Long position	Short position	
Proper Glory Holding Inc. (Note 1)	Beneficial owner	2,636,705,000	–	26.87
Geely Holding (Note 1)	Interest in controlled corporation	4,019,391,000	–	40.96
Geely Group Limited (Note 1)	Beneficial owner	87,000	–	0.001
	Interest in controlled corporation	2,636,705,000	–	26.87
Zhejiang Geely (Note 2)	Beneficial owner	796,562,000	–	8.12

*Notes:*

- Proper Glory is a private 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 private company incorporated in the British Virgin Islands and is owned as to 60% by Mr. Li Shu Fu, as to 35.85% by Mr. Li Xu Bing, an elder brother of Mr. Li Shu Fu, and as to 4.15% by Mr. An Cong Hui, an executive director of the Company. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
- Zhejiang Geely is a private company incorporated in the PRC and is owned as to 71.05% by Geely Holding, as to 2.96% by other Mr. Li's interested entities and as to 25.99% by independent third parties.

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

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

### 3. FURTHER INFORMATION CONCERNING DIRECTORS

#### (a) Directors' service agreements

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

#### (b) Competing interests

The Group is principally engaged in the research, production, marketing and sales of sedans and related automobile components in the PRC. Geely Holding, which is ultimately owned by Mr. Li and his associate, 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 Geely Holding will constitute competing businesses (the "**Competing Businesses**") to those currently engaged by the Group. Mr. Li has undertaken to the Company (the "**Undertaking**") on 20 November 2008 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. In addition, it is required that Mr. Li informs the Group of all potential Competing Businesses carried out by him or his associates.

In August 2010, Geely Holding completed the acquisition of Volvo Car Corporation, which manufactures Volvo cars, a range of family sedans, wagons and sport utility cars, and has 2,500 dealerships in 100 markets (the "**Volvo Acquisition**"). Although the Group is not a party to the Volvo Acquisition nor in any discussions with Geely Holding to cooperate with Geely Holding in relation to the Volvo Acquisition, Geely Holding has provided an irrevocable undertaking to the Company on 27 March 2010 to the effect that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive Directors, Geely Holding will, and will procure its associates (other than the Group) to sell to the Group all or any part of the businesses and related assets of the Volvo Acquisition, and such transfer will be subject to the terms and conditions being fair and reasonable, and being in compliance with applicable requirements of the Listing Rules, other applicable laws and regulations and other necessary approvals and consents on terms to be mutually agreed. Despite the fact that the Geely Holding Group is principally engaged in similar business activities as the Group, their respective product offerings do not overlap as the Geely Holding Group's product mix consists of premium automobiles (such as the Volvo brand), which cater for consumers with relatively higher spending power and hence, the Geely Holding Group is considered to operate in a different market segment when compared to the Group. Premium automobiles, which mainly represent Geely Holding Group's product mix, generally refer to vehicles with higher quality, better performance, more precise construction, technologically innovative functions, or features that convey prestige and a strong brand name, whereas economy automobiles, which mainly represent the Group's product mix, generally refer to automobiles that are practical, lightweight and relatively inexpensive for consumers when compared to premium automobiles. Although the Group manufactures sport utility vehicles, they are still not yet compatible to premium

automobiles in terms of vehicle class, construction, brand image and pricing. As such, the Competing Businesses of the Geely Holding Group can be defined and delineated from the business of the Group by different products offering (i.e. premium versus economy automobiles) and brand names.

In May 2017, Geely Holding has entered into a heads of agreement for the acquisition of 49.9% equity interests in Proton Holdings Bhd (the “**Proton Acquisition**”). Proton is a producer of a range of family sedans which is active in the Southeast Asia market and is a potential competitor of the Group. The Proton Acquisition has been completed in October 2017. Although the Group is not a party to the Proton Acquisition, to protect the interests of the Group, Geely Holding has provided an irrevocable undertaking to the Company on 29 November 2017 to the effect that upon being notified of any decision by the Company pursuant to a resolution resolved by a majority of the independent non-executive Directors, Geely Holding will, and will procure its associates (other than the Group) to transfer to the Group all or any part of the equity/businesses and related assets of the Proton Acquisition, and such transfer will be subject to the terms and conditions being fair and reasonable, and being in compliance with applicable requirements of the Listing Rules, other applicable laws and regulations and other necessary approvals and consents on terms to be mutually agreed. Although the vehicles being produced by Proton Holdings Bhd occupy the same market segment as that of the Group, they could be distinguished from the products of the Group in that they are right-hand drive vehicles and are primarily being market to right-hand drive markets in Southeast Asia. The Group is currently not producing any right-hand drive vehicles and does not possess any right-hand drive models. As such, Proton is considered to be operating in a different market that can be distinguished from the business of the Group.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors nor any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**(c) Directors’ interests in assets, contracts or arrangements**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of or leased to any member of the Group.

***Disposal agreement between the Company and Geely Holding***

Pursuant to the disposal agreement dated 9 July 2020, the Group agreed to sell and Geely Holding agreed to acquire the entire registered capital of 成都高原汽車工業有限公司 (Chengdu Gaoyuan Automobile Industries Company Limited) for a net cash consideration of approximately RMB76.3 million.

*Disposal agreement between Zhejiang Jirun and Geely Automobile*

Pursuant to the disposal agreement dated 9 July 2020, Zhejiang Jirun agreed to sell and Geely Automobile agreed to acquire the entire registered capital of 寧波北侖吉利汽車製造有限公司 (Ningbo Beilun Geely Automotive Manufacturing Co. Ltd.\*) for a cash consideration of approximately RMB729.4 million.

*Disposal agreement between Zhejiang Jirun and Zhejiang Jichuang*

Pursuant to the disposal agreement dated 9 July 2020, Zhejiang Jirun agreed to sell and Zhejiang Jichuang agreed to acquire the entire registered capital of Ningbo Jining for a cash consideration of approximately RMB30.5 million.

Save for disclosed in the Circular and below, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is material in relation to the business of the Group.

*Proton sales agreement between the Company and Geely Holding (the Proton sales agreement has an effective term until 31 December 2020)*

Pursuant to the proton sales agreement dated 24 September 2018 (“the **Proton Sales Agreement**”), the Group agreed to sell to the Geely Holding Group CBUs, CKDs and related after-sales parts of the Licensed Models (as defined in the announcement of the Company dated 24 September 2018) with the largest annual cap being RMB4,147,700,000 for the three years ending 31 December 2020.

As the applicable percentage ratios of the continuing connected transactions contemplated under the Proton Sales Agreement are over 0.1% but less than 5% on an annual basis, the Proton Sales Agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

*Automobile parts supply agreement among the Company, Geely Holding and LYNK & CO (the automobile parts supply agreement has an effective term from 1 January 2019 to 31 December 2021)*

Pursuant to the automobile parts supply agreement dated 5 October 2018, the Group agreed to supply automobile parts and components to the Geely Holding Group and LYNK & CO with the largest annual cap being RMB247,202,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the automobile parts supply agreement are over 0.1% but less than 5% on an annual basis, the automobile parts supply agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

***Business travel services agreement dated 5 October 2018 between the Company and Geely Holding (the business travel services agreement dated 5 October 2018 has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the business travel services agreement dated 5 October 2018, the Geely Holding Group agreed to provide business travel and related services to the Group with the largest annual cap being RMB661,550,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the business travel services agreement are over 0.1% but less than 5% on an annual basis, the business travel services agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Electric vehicle CKD supply agreement dated 5 October 2018 between the Company and Geely Holding (the electric vehicle CKD supply agreement dated 5 October 2018 has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the electric vehicle CKD supply agreement dated 5 October 2018 (the "Zhidou EV CKD Supply Agreement"), the Group agreed to sell to the Geely Holding Group electric vehicle CKDs in accordance with the product specifications set out in the electric vehicle CKD supply agreement with the largest annual cap being RMB3,270,180,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the Zhidou EV CKD Supply Agreement are over 0.1% but less than 5% on an annual basis, the Zhidou EV CKD Supply Agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Kandi automobile parts supply agreement dated 5 October 2018 between the Company and Kandi (the Kandi automobile parts supply agreement dated 5 October 2018 has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the Kandi automobile parts supply agreement dated 5 October 2018, the Group agreed to sell automobile parts and components to the Kandi with the largest annual cap being RMB384,621,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the Kandi Automobile Parts Supply Agreement are over 0.1% but less than 5% on an annual basis, Kandi Automobile Parts Supply Agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Warehouse services agreement between the Company and LYNK & CO (the warehouse services agreement has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the warehouse services agreement dated 5 October 2018, the Group agreed to provide warehouse services for the after-sales parts and other automobile components to the LYNK & CO Group with the largest annual cap being RMB182,889,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the warehouse services agreement are over 0.1% but less than 5% on an annual basis, the warehouse services agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Services agreement dated 5 October 2018 between the Company and Geely Holding (the services agreement has an effective term from 1 January 2019 to 31 December 2021)***

- *Sales of CKDs from the Group to the Geely Holding Group*

Pursuant to the services agreement dated 5 October 2018, the Group conditionally agreed to supply to the Geely Holding Group the CKDs manufactured by the Group with the largest annual cap of RMB293,775,381,000 for the three years ending 31 December 2021.

- *Sales of CBUs, automobile parts and component from the Geely Holding Group to the Group*

Pursuant to the services agreement, the Geely Holding Group agreed to sell to the Group the CBUs, automobile parts and components to the Group with an aggregate largest annual cap of RMB362,984,212,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the services agreement are higher than 5% on an annual basis, the services agreement is subject to the reporting, annual review, announcement requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Shareholders' meeting in respect of the services agreement was held on 7 December 2018 and the services agreement was duly approved by the then Independent Shareholders.

***Electric vehicle agreement among the Company, Geely Holding and the GGL (the electric vehicle agreement has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the electric vehicle agreement dated 5 October 2018, the Group conditionally agreed to sell the CBUs of electric vehicles to the Geely Holding Group and the GGL Group with the largest annual cap being RMB22,060,747,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the electric vehicle agreement are higher than 5% on an annual basis, the electric vehicle agreement is subject to the reporting, annual review, announcement requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Shareholders' meetings in respect of the electric vehicle agreement was held on 7 December 2018 and the electric vehicle agreement was duly approved by the then Independent Shareholders.

***Automobile components procurement agreement between the Company and Geely Holding (the automobile components procurement agreement has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the automobile components procurement agreement dated 5 October 2018, the Group conditionally agreed to procure automobile components manufactured by and from the Geely Holding Group with the largest annual cap being RMB33,591,637,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the automobile components procurement agreement are higher than 5% on an annual basis, the automobile components procurement agreement is subject to the reporting, annual review, announcement requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Shareholders' meetings in respect of the aforementioned automobile components procurement agreement was held on 7 December 2018 and the automobile components procurement agreement was duly approved by the then Independent Shareholders.

***EV finance cooperation agreement between Genius AFC and Geely Holding (the EV finance cooperation agreement will have an effective term from 1 January 2019 to 31 December 2021)***

- *Wholesale facility agreements between Genius AFC and the EV Dealers (as defined in the circular of the Company dated 20 November 2018) (the wholesale facility agreements will have an effective term from 1 January 2019 to 31 December 2021 subject to the approval by the Independent Shareholders)*

Pursuant to the EV finance cooperation agreement dated 5 October 2018, Genius AFC agreed to enter into wholesale facility agreements with the EV Dealers to provide vehicle financing to the EV Dealers to facilitate their purchase of Geely EVs (as defined in the circular of the Company dated 20 November 2018) with the largest annual cap being RMB5,406 million for the three years ending 31 December 2021.

- *Retail loan cooperation agreements between Genius AFC and the EV Dealers (as defined in the circular of the Company dated 20 November 2018) (the retail loan cooperation agreements will have an effective term from 1 January 2019 to 31 December 2021 subject to the approval by the Independent Shareholders)*

Pursuant to the EV finance cooperation agreement dated 5 October 2018, Genius AFC agreed to enter into retail loan cooperation agreements with the EV Dealers pursuant to which the EV Dealers shall recommend the retail consumers to use Genius AFC for obtaining vehicle loans to finance their purchase of Geely EVs (as defined in the circular of the Company dated 20 November 2018) with the largest annual cap being RMB4,834 million for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the EV finance cooperation agreement are higher than 5% on an annual basis, the EV finance cooperation agreement is subject to the reporting, annual review, announcement requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Shareholders' meeting in respect of the aforesaid EV finance cooperation agreement was held on 7 December 2018 and the EV finance cooperation agreement will be duly approved by the Independent Shareholders.

***Volvo finance cooperation agreements among Genius AFC, Volvo Car Distribution (Shanghai) Co., Ltd. and 中嘉汽車製造(上海)有限公司 (Zhongjia Automobile Manufacturing (Shanghai) Company Limited\*) (currently renamed as 沃爾沃汽車(亞太)投資控股有限公司 (Volvo Car (Asia Pacific) Investment Holding Co., Ltd.)) (the Volvo finance cooperation agreements have an effective term until 31 December 2021)***

- *Wholesale facility agreements between Genius AFC and the Volvo Dealers (as defined in the circular of the Company dated 26 February 2019) (the wholesale facility agreements have an effective term until 31 December 2021)*

Pursuant to the Volvo finance cooperation agreement dated 11 December 2015, Genius AFC agreed to enter into wholesale facility agreements with the Volvo Dealers to provide vehicle financing to the Volvo Dealers to facilitate their purchase of Volvo-branded vehicles with the largest annual cap being RMB15,107 million for the three years ending 31 December 2021.

- *Retail loan cooperation agreements between Genius AFC and the Volvo Dealers (as defined in the circular of the Company dated 26 February 2019) (the retail loan cooperation agreements have an effective term until 31 December 2021)*

Pursuant to the Volvo finance cooperation agreement dated 11 December 2015, Genius AFC agreed to enter into retail loan cooperation agreements with the Volvo Dealers pursuant to which the Volvo Dealers shall recommend the retail consumers to use Genius AFC for obtaining vehicle loans to finance their purchase of Volvo-branded vehicles with the largest annual cap being RMB12,045 million for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the Volvo finance cooperation agreements are higher than 5% on an annual basis, the Volvo finance cooperation agreement is subject to the reporting, annual review, announcement requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Shareholders' meeting in respect of the aforesaid Volvo finance cooperation agreement was held on 18 February 2016 and the Volvo finance cooperation agreement was duly approved by the then Independent Shareholders. The renewal of Volvo finance cooperation agreement with a term from 1 January 2019 to 31 December 2021 was duly approved by the then Independent Shareholders at Shareholders' meeting held on 15 March 2019.

***CBUs sales agreement between the Company and Geely Holding (the CBU sales agreement has an effective term from 1 January 2020 to 31 December 2021)***

Pursuant to the CBUs sales agreement dated 26 November 2019, and the Company's announcements dated 12 December 2014 and 26 November 2019, the Group agreed to supply to the Geely Holding Group the CBUs and related after-sales parts, components and accessories manufactured by the Group with an aggregate largest annual cap of RMB2,628,596 for the two years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the CBUs sales agreement are over 0.1% but less than 5% on an annual basis, the CBUs sales agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

*Operation services agreement between the Company, Geely Holding and LYNK & CO (the operation services agreement has an effective term from 26 November 2019 to 31 December 2021)*

Pursuant to the operation services agreement dated 26 November 2019, the Group agreed to provide to the Geely Holding Group and the LYNK & CO Group (as defined in the announcement of the Company dated 26 November 2019), operation services that mainly include IT, logistics, finance, human resources and other administrative functions with an aggregate largest annual cap of RMB1,964.5 million and the Group agreed to procure from the Geely Holding Group operation services that mainly include manufacturing engineering services, construction management services and other engineering services with an aggregate largest annual of RMB269.5 million for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the operation services agreement are over 0.1% but less than 5% on an annual basis, the operation services agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**(d) Director's Service Contracts**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**4. LITIGATION**

As at the Latest Practicable Date, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company.

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, the date to which the latest published audited accounts of the Company have been made up.

## 6. QUALIFICATION OF EXPERTS

The following is the qualification of the experts or professional advisers who have given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Dakin Capital Limited	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activities

As at the Latest Practicable Date, Dakin Capital Limited:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2019, the date to which the latest audited financial statements of the Group was made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group during the two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the joint venture agreement dated 20 December 2018 entered into between Zhejiang Powertrain and 寧德時代新能源科技股份有限公司 (Contemporary Amperex Technology Company Limited\* or “**CATL Battery**”) pursuant to which they agreed to form a joint venture to principally engage in the research and development, manufacture and sale of battery cells, battery modules and battery packs. Pursuant to such joint venture agreement, the registered capital of the joint venture is RMB1,000,000,000, and is contributed as to 49% (equivalent to RMB490,000,000) in cash by Zhejiang Powertrain and as to 51% (equivalent to RMB510,000,000) in cash by CATL Battery;
- (ii) the acquisition agreement dated 29 April 2019 entered into between Zhejiang Powertrain and Yiwu Engines pursuant to which Zhejiang Powertrain agreed to acquire and Yiwu Engines agreed to sell the entire registered capital of 義烏吉利動力總成有限公司 (Yiwu Geely Powertrain Company Limited\*) for a cash consideration of RMB332,205,872;

- (iii) the joint venture agreement dated 12 June 2019 entered into between Shanghai Maple and LG Chem Ltd. pursuant to which they agreed to form a joint venture to principally engage in the production and sales of batteries for electric vehicles. Pursuant to such joint venture agreement, the registered capital of the joint venture is US\$188,000,000, and is contributed as to 50% (equivalent to US\$94,000,000) in cash by Shanghai Maple and as to 50% (equivalent to US\$94,000,000) in cash by LG Chem Ltd.;
- (iv) the disposal agreement dated 26 November 2019 entered into between Zhejiang Jirun, Shanghai Maple and Geely Industry pursuant to which Zhejiang Jirun and Shanghai Maple agreed to sell and Geely Industry agreed to acquire the entire registered capital of 濟南吉利汽車有限公司 (Jinan Geely Automobile Company Limited\*) for a cash consideration of approximately RMB507.1 million;
- (v) the subscription agreement dated 27 November 2019 entered into between the Company, Barclays Bank PLC, BNP Paribas, Merrill Lynch (Asia Pacific) Limited, The Hong Kong and Shanghai Banking Corporation Limited, UBS AG Hong Kong Branch, Bank of China Limited, Singapore Branch, CLSA Limited, DBS Bank Limited and Standard Chartered Bank in relation to the issue of US\$500 million senior perpetual capital securities, raising gross proceeds of approximately US\$498.2 million;
- (vi) the placing agreement dated 29 May 2020 entered into between the Company and the placing agents pursuant to which the Company agreed to appoint the placing agents, and the placing agents agreed to act (on a several but not joint nor joint and several basis) as placing agents for procuring, on a best effort basis, as agents of the Company, places for 600,000,000 placing shares at the placing price of HK\$10.8 per placing share, raising net proceeds of approximately HK\$6,447 million;
- (vii) the disposal agreement dated 9 July 2020 entered into between the Company and Geely Holding pursuant to which the Group agreed to sell and Geely Holding agreed to acquire the entire registered capital of 成都高原汽車工業有限公司 (Chengdu Gaoyuan Automobile Industries Company Limited) for a net cash consideration of approximately RMB76.3 million;
- (viii) the disposal agreement dated 9 July 2020 entered into between Zhejiang Jirun and Geely Automobile pursuant to which Zhejiang Jirun agreed to sell and Geely Automobile agreed to acquire the entire registered capital of 寧波北侖吉利汽車製造有限公司 (Ningbo Beilun Geely Automotive Manufacturing Co. Ltd.\*) for a cash consideration of approximately RMB729.4 million; and
- (ix) the disposal agreement dated 9 July 2020 entered into between Zhejiang Jirun and Zhejiang Jichuang pursuant to which Zhejiang Jirun agreed to sell and Zhejiang Jichuang agreed to acquire the entire registered capital of 寧波吉寧汽車零部件有限公司 (Ningbo Jining Automobile Components Co. Ltd.\*) for a cash consideration of approximately RMB30.5 million.

## 8. GENERAL

- (a) The registered office of the Company is situated at P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is situated at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

- (b) The company secretary of the Company is Mr. Cheung Chung Yan, David, a fellow member of the Association of Chartered Certified Accountants.
- (c) The share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM on Tuesday, 22 December 2020:

- (a) The copies of the Master CKDs and Automobile Components Sales Agreement, the Master CKDs and Automobile Components Purchase Agreement, the New Powertrain Sales Agreement, the LYNK & CO Finance Cooperation Agreement, the Fengsheng Finance Cooperation Agreement and the Geely Holding Finance Cooperation Agreement.
- (b) the memorandum and articles of association of the Company;
- (c) the audited consolidated financial statements of the Group for the financial years ended 31 December 2018 and 31 December 2019;
- (d) the condensed consolidated financial statements of the Group for the six months ended 30 June 2020;
- (e) the contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (f) the letter from the Independent Board Committee;
- (g) the letter from Independent Financial Adviser;
- (h) the written consent from Dakin Capital Limited referred to in the paragraph headed "Qualification of experts" in this appendix; and
- (i) this circular.

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## NOTICE OF EGM

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# GEELY

吉利汽車控股有限公司

## GEELY AUTOMOBILE HOLDINGS LIMITED

*(Incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Geely Automobile Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 22 December 2020 at 4:00 p.m. or at any adjustment thereof for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

To consider and, if though fit, pass (with or without amendment), the following resolutions as ordinary resolutions of the Company:

1. “**THAT:**

- a) the conditional master agreement dated 4 November 2020 (the “**Sales Agreement**”) entered into between the Company and 浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Company Limited) (“**Geely Holding**”, together with its subsidiaries, the “**Geely Holding Group**”), a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Group agreed to sell complete knock down kits and automobile components to the Geely Holding Group, be and are hereby approved, ratified and confirmed;
- b) the annual cap amounts in respect of the sales of complete knock down kits and automobile components for each of the three financial years ending 31 December 2023 be and are hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Sales Agreement.”

2. “**THAT:**

- a) the conditional master agreement dated 4 November 2020 (the “**Purchase Agreement**”) entered into between the Company and Geely Holding, a copy of which is tabled at the meeting and marked “**B**” and initialed by the chairman of the meeting for identification

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purpose, pursuant to which, the Group agreed to purchase complete knock down kits and automobile components from the Geely Holding Group, be and are hereby approved, ratified and confirmed;

- b) the annual cap amounts in respect of the purchase of complete knock down kits and automobile components for each of the three financial years ending 31 December 2023 be and are hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Purchase Agreement.”

3. **“THAT:**

- a) the conditional agreement dated 4 November 2020 (the **“New Powertrain Sales Agreement”**) entered into between the Company, Geely Holding and LYNK & CO (as defined in the circular of the Company dated 1 December 2020 (the **“Circular”**)), a copy of which is tabled at the meeting and marked **“C”** and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Group agreed to sell vehicle engines, transmissions and related after-sales parts to the Geely Holding Group and the LYNK & CO Group (as defined in the Circular), be and are hereby approved, ratified and confirmed;
- b) the annual cap amounts in respect of the sales of vehicle engines, transmissions and related after-sales parts for each of the three financial years ending 31 December 2023 be and are hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the New Powertrain Sales Agreement.”

4. **“THAT:**

- a) the renewal of cooperation agreement dated 3 November 2017 (the **“LYNK & CO Finance Cooperation Agreement”**) and entered into between Genius AFC (as defined in the Circular) and LYNK & CO Sales (as defined in the Circular), a copy of which is tabled at the meeting and marked **“D”** and initialed by the chairman of the meeting for identification purpose, pursuant to which, Genius AFC agreed to supply vehicle financing to the LYNK & CO Dealers (as defined in the Circular) and LYNK & CO Retail Customers (as defined in the Circular) for their purchase of LYNK & CO-branded vehicles, be and are hereby approved, ratified and confirmed;

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- b) the LYNK & CO Wholesale Annual Caps (as defined in the Circular) and the LYNK & CO Retail Annual Caps (as defined in the Circular) in respect of the Genius AFC's provision of maximum new financing amounts to LYNK & CO Dealers (as defined in the Circular) and LYNK & CO Retail Customers (as defined in the Circular), respectively as set out in the Circular for each of the three financial years ending 31 December 2023 be and are hereby approved; and
  - c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to delegate an appropriate officer overseeing the management and operation of Genius AFC to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be necessary, appropriate, desirable or expedient to implement and/or give effects to the LYNK & CO Finance Cooperation Agreement and the LYNK & CO Financing Arrangements (as defined in the Circular)."
5. **“THAT:**
- a) the conditional agreement dated 4 November 2020 (the **“Fengsheng Finance Cooperation Agreement”**) entered into between Genius AFC and Fengsheng Sales (as defined in the Circular), a copy of which is tabled at the meeting and marked **“E”** and initialed by the chairman of the meeting for identification purpose, pursuant to which, Genius AFC agreed to supply vehicle financing to the Fengsheng Retail Customers (as defined in the Circular) for their purchase of Maple-Branded Vehicles (as defined in the Circular), be and are hereby approved, ratified and confirmed;
  - b) the Fengsheng Financing Annual Caps (as defined in the Circular) in respect of the Genius AFC's provision of maximum new financing amounts to Fengsheng Retail Customers (as defined in the Circular), as set out in the Circular for each of the three financial years ending 31 December 2023 be and are hereby approved; and
  - c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to delegate an appropriate officer overseeing the management and operation of Genius AFC to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be necessary, appropriate, desirable or expedient to implement and/or give effects to the Fengsheng Finance Cooperation Agreement and the Fengsheng Financing Arrangements (as defined in the Circular)."
6. **“THAT:**
- a) the conditional agreement dated 4 November 2020 (the **“Geely Holding Finance Cooperation Agreement”**) entered into between Genius AFC and Geely Holding (as defined in the Circular), a copy of which is tabled at the meeting and marked **“F”** and initialed by the chairman of the meeting for identification purpose, pursuant to which,

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Genius AFC agreed to supply vehicle financing to Geely Retail Customers (as defined in the Circular) for their purchase of Geely Holding-Owned Brands Vehicles (as defined in the Circular) and Geely-Branded Vehicles (as defined in the Circular), be and are hereby approved, ratified and confirmed;

- b) the Geely Holding Financing Annual Caps (as defined in the Circular) in respect of the Genius AFC's provision of maximum new financing amounts to Geely Retail Customers (as defined in the Circular), as set out in the Circular for each of the three financial years ending 31 December 2023 be and are hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to delegate an appropriate officer overseeing the management and operation of Genius AFC to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be necessary, appropriate, desirable or expedient to implement and/or give effects to the Geely Holding Finance Cooperation Agreement and the Geely Holding Financing Arrangements (as defined in the Circular)."

By order of the Board  
**Geely Automobile Holdings Limited**  
**David C.Y. Cheung**  
*Company Secretary*

Hong Kong, 1 December 2020

*Notes:*

- (1) In order to establish entitlements of attending and voting at the forthcoming extraordinary general meeting of the Company to be held on 22 December 2020, the register of members of the Company will be closed from 17 December 2020 to 22 December 2020 (both days inclusive), during such period no transfer of shares of the Company will be registered. All transfers of shares of the Company, accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on 16 December 2020.
- (2) Any shareholder of the Company (the "**Shareholder**") entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a Shareholder.
- (3) In order to be valid, a proxy form in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of authority, must be deposited at the Company's Hong Kong share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof.
- (4) In case of joint shareholdings, the vote of the senior joint Shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Shareholder(s) and for this purposes seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.

*As at the date of this notice, 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, 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.*