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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any 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 enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO  
THE DISPOSAL OF EQUITY INTERESTS IN THE KANDI JV AND  
THE ZHIDOU JV  
AND  
(2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

**Financial Adviser to the Company**



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



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A letter from the Independent Board Committee is set out on page 20 of this circular. A letter from Challenge Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 41 of this circular.

A notice convening the EGM to be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong on Tuesday, 11 October 2016 is set out on pages EGM-1 to EGM-2 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.

23 September 2016

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Challenge Capital” or “Independent Financial Adviser”	Challenge Capital Management Limited, a corporation licensed to carry out, among other activities, Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposals
“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 person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposals”	the Kandi Disposal and the Zhidou Disposal
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Disposals
“GAAP”	generally accepted accounting principles
“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 owned as to 90% by Mr. Li and as to 10% by Mr. Li Xing Xing, the son of Mr. Li, respectively, as at the Latest Practicable Date
“Geely Holding Group”	Geely Holding and its subsidiaries
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee of the Company, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Disposals
“Independent Shareholders”	Shareholder(s) other than Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel, Mr. An Cong Hui and their respective associates
“Jirun Automobile”	浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited), a limited liability company incorporated in the Zhejiang Province, the PRC, and a 99% owned subsidiary of the Company as at the Latest Practicable Date
“Kandi Disposal”	the disposal of 50% of the registered capital of the Kandi JV by Shanghai Maple Guorun to Geely Holding pursuant to the Master Disposal Agreement
“Kandi JV”	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 and is owned as to 50% by Shanghai Maple Guorun, and 50% owned by Kandi Vehicles
“Kandi Sale Shares”	50% of the registered capital of the Kandi JV as at the Latest Practicable Date
“Kandi Technologies”	Kandi Technologies Group, Inc. a limited liability company incorporated in Delaware, the United States of America, the shares of which are listed on the NASDAQ
“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 Kandi Technologies
“Latest Practicable Date”	20 September 2016, being the latest practicable date prior to the dispatch of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	90 calendar days from the date of the Master Disposal Agreement
“Master Disposal Agreement”	The disposal agreement entered into between the Company and Geely Holding on 25 July 2016 in relation to the Kandi Disposal and the Zhidou Disposal

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## DEFINITIONS

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“Mr. Li”	Mr. Li Shu Fu, an executive Director and a substantial Shareholder holding 42.85% interest in the total issued share capital of the Company as at the Latest Practicable Date
“NASDAQ”	the National Association of Securities Dealers Automated Quotations
“percentage ratio(s)”	has the meaning ascribed to it under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China, and for the purposes of this circular excluding Hong Kong, the Macau Special Administrative Region, and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SAIC”	State Administration for Industry and Commerce and its local bureaus
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Maple Guorun”	上海華普國潤汽車有限公司 (Shanghai Maple Guorun Automobile Company Limited), a limited liability company incorporated in the PRC and is indirectly owned as to 99% by the Company as at Latest Practicable Date
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhidou Disposal”	the disposal of 45% of the registered capital of the Zhidou JV by the Zhidou Geely Parties to Geely Holding pursuant to the Master Disposal Agreement
“Zhidou Geely Parties”	comprise Shanghai Maple Guorun and Jirun Automobile
“Zhidou JV”	寧海知豆電動汽車有限公司 (Ninghai Zhidou Electric Vehicles Company Limited), a limited liability company incorporated in the PRC and is owned as to 45% by the Zhidou Geely Parties and as to 55% by the Zhidou JV Parties

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## DEFINITIONS

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“Zhidou JV Parties”	新大洋機電集團有限公司 (Xin Dayang Mechanical and Electrical Group Company Limited*), 鮑文光 (Bao Wenguang*), 金沙江聯合創業投資合夥企業 (Jinshajiang United Venture Investment Partnership Enterprise*), 寧波雙林汽車部件股份有限公司 (Ningbo Shuanglin Automobile Parts and Components Company Limited*), 江西文信實業有限公司 (Jiangxi Wenxin Industrial Company Limited*), 原動力(北京)投資有限公司 (Yuan Dongli (Beijing) Investment Company Limited*), and 寧海銀石投資基金合夥企業(有限合夥)(Ninghai Jinshi Investment Fund Partnership Enterprise (Limited Partnership)*)
“Zhidou Sale Shares”	45% of the registered capital of the Zhidou JV as at the Latest Practicable Date
“%”	per cent

\* For identification purpose only

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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 (*CEO*)  
Mr. An Cong Hui  
Mr. Ang Siu Lun, Lawrence  
Ms. Wei Mei

*Non-Executive Director:*

Mr. Carl Peter Edmund Moriz Forster

*Independent Non-executive Directors:*

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

*Registered Office:*

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

*Principal Place of Business*

*in Hong Kong:*  
Room 2301, 23rd Floor  
Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong

23 September 2016

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL OF EQUITY INTERESTS IN THE KANDI JV AND THE ZHIDOU JV**

**INTRODUCTION**

Reference is made to the Company's announcement dated 25 July 2016, in which the Company announced that (a) Geely Holding as the purchaser entered into the Master Disposal Agreement with the Company (interests in the Kandi JV are held via Shanghai Maple Guorun, and interests in the Zhidou JV are held via the Zhidou Geely Parties), pursuant to which, Geely Holding has conditionally agreed to acquire, and Shanghai Maple Guorun (for the Kandi Disposal) and the Zhidou Geely Parties (for the Zhidou Disposal) have conditionally agreed to sell, (i) the Kandi Sale Shares, being 50% of the registered capital of the Kandi JV; and (ii) the Zhidou Sale Shares, being 45% of the registered capital of Zhidou JV. The aggregate consideration of the Disposals is RMB1,346,486,590 out of which RMB725,412,590 is for the Kandi Disposal and RMB621,074,000 is for the Zhidou Disposal.

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## LETTER FROM THE BOARD

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The Company has established the Independent Board Committee comprising Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang (all of whom are independent non-executive Directors) to advise the Independent Shareholders in respect of the Disposals. Challenge Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection therewith. The appointment of Challenge Capital has been approved by the Independent Board Committee.

The purpose of this circular is to provide you with, inter alia, (i) further information on the Disposals; (ii) the recommendation from the Independent Board Committee in respect of the terms of the Master Disposal Agreement; (iii) the advice from Challenge Capital to the Independent Board Committee and the Independent Shareholders regarding the Disposals; (iv) the notice convening the EGM together with the form of proxy for the purpose of considering and, if thought fit, approving the Disposals; and (v) other information as required under the Listing Rules.

### THE MASTER DISPOSAL AGREEMENT

The principal terms of the Master Disposal Agreement are set out below:

#### Date

25 July 2016 (after trading hours)

#### Parties

Vendor: The Company (interests in the Kandi JV are held via Shanghai Maple Guorun, and interests in the Zhidou JV are held via the Zhidou Geely Parties)

Purchaser: Geely Holding

Shanghai Maple Guorun is principally engaged in the research and development, production, marketing and sale of sedans and related automobile components in the PRC.

Jirun Automobile is principally engaged in the research, development, production, marketing and sales of sedans and related automobile components in the PRC. As at the Latest Practicable Date, each of Shanghai Maple Guorun and Jirun Automobile was owned as to 99% by the Company and 1% by Geely Holding. Geely Holding has a 1% shareholding in each of Shanghai Maple Guorun and Jirun Automobile for the purpose of maintaining strategic relationships with the Group.

Geely Holding and its subsidiaries are principally engaged in the sales of automobiles and related parts and components wholesale and retail businesses.



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## LETTER FROM THE BOARD

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### **Subject matter**

Pursuant to the Master Disposal Agreement, Geely Holding has conditionally agreed to acquire, and Shanghai Maple Guorun (for the Kandi Disposal) and the Zhidou Geely Parties (for the Zhidou Disposal) have conditionally agreed to sell, (i) the Kandi Sale Shares, being 50% of the registered capital of the Kandi JV; and (ii) the Zhidou Sale Shares, being 45% of the registered capital of the Zhidou JV. Details of the Kandi JV and the Zhidou JV are set out in the section headed “INFORMATION ON THE KANDI JV AND THE ZHIDOU JV” below. Completions of the Kandi Disposal and the Zhidou Disposal are inter-conditional.

Pursuant to the entrusted loan agreements dated 17 December 2015 and 17 June 2016, Shanghai Maple Guorun provided an entrusted shareholder’s loan of RMB150,000,000 to the Kandi JV. Pursuant to a novation agreement entered into between Shanghai Maple Guorun, Geely Holding and the Kandi JV on 25 July 2016, all rights of Shanghai Maple Guorun as a lender of the shareholder’s loan will be novated to Geely Holding upon completion of the Kandi Disposal, and Geely Holding will fully repay such entrusted shareholder’s loan of RMB150,000,000 to Shanghai Maple Guorun upon completion of the Kandi Disposal.

In addition, Shanghai Maple Guorun has provided a guarantee in favour of the Kandi JV with an amount of RMB300,000,000. Geely Holding will procure that such guarantee be released before completion of the Kandi Disposal.

Upon completion of the Disposals, the Company’s interests in each of the Kandi JV and the Zhidou JV will be transferred to Geely Holding, and the financial statements of the Kandi JV and the Zhidou JV will no longer be equity-accounted for in the consolidated financial statements of the Group.

### **Consideration**

The aggregate consideration for the Disposals is RMB1,346,486,590, out of which RMB725,412,590 is for the Kandi Disposal and RMB621,074,000 is for the Zhidou Disposal.

The consideration for the Disposals was determined after arm’s length negotiations between the Company and Geely Holding with reference to (i) the historical financial performances of the Kandi JV and the Zhidou JV; and (ii) the future prospects of their respective electric vehicle product portfolios.

30% of the consideration for the Disposals, equivalent to RMB403,945,977, will be payable in cash within 7 calendar days from the date of the Master Disposal Agreement, 40% balance of the consideration for the Disposals, equivalent to RMB538,594,636, will be payable in cash upon the SAIC issuing new business licenses for the Kandi JV and the Zhidou JV showing their new shareholding structures, and the remaining 30% balance of the consideration, equivalent to RMB403,945,977, will be payable in cash within 180 calendar days from the date of the Master Disposal Agreement. Due to uncertainties over the Kandi JV and the Zhidou JV as a result of policies on new energy vehicles in the PRC, the details of which are elaborated in the paragraph headed “Reasons for and benefits of the Disposals” below, it had not been practical for the Company to identify an independent third party purchaser to acquire the two joint venture companies. Under this situation and via arms’ length negotiations between the Company and Geely Holding, the two parties reached a commercial decision to allow Geely Holding to settle a portion of the aggregate consideration within 180 calendar days from the date of the Master Disposal Agreement, also being 90

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## LETTER FROM THE BOARD

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calendar days after the Long Stop Date. Taking into account the above, and that it is known to the Directors that other disposal agreements entered into between Geely Holding and other independent third parties also consist of similar payment terms, the Directors are of the view that the payment term is fair and reasonable.

### **Conditions precedent**

Completion of the Disposals will be subject to and conditional upon the fulfillment or waiver of the following conditions:

- (a) Geely Holding being satisfied with the results of its due diligence work performed on the Kandi JV and the Zhidou JV;
- (b) the Company having complied with the applicable requirements of the Listing Rules relating to the Disposals, including where necessary, the obtaining of Independent Shareholders' approval on the transactions contemplated under the Master Disposal Agreement;
- (c) the receipt of all consents, waivers or approvals from Zhejiang Administration Bureau for Industry and Commerce and Ningbo Administration Bureau for Industry and Commerce Ninghai Branch for Kandi JV and Zhidou JV respectively for or in connection with the execution, delivery and performance of the Master Disposal Agreement; and
- (d) the representations and warranties made by the Company in the Master Disposal Agreement remaining true and correct in all material respects, and the Company having fully carried out its obligations under the Master Disposal Agreement.

Geely Holding will have the right to waive conditions (a) and (d) above in part or in full. As at the Latest Practicable Date, condition (a) of the above has been fulfilled.

In the event that the conditions set out above are not fulfilled on or before the Long Stop Date, any party to the Master Disposal Agreement will have the right to terminate the Master Disposal Agreement by prior written notice to the other party. In the event of such termination, no party to the Master Disposal Agreement may raise any claim against the other party or demand any other party to undertake any liability. All rights, obligations and liabilities under the Master Disposal Agreement will become null and void upon such termination and the Master Disposal Agreement will be of no further effect, save with respect to any antecedent breaches.

### **Representations and warranties**

The Company warrants to Geely Holding that from the date of the Master Disposal Agreement to the completion date:

- (i) subject to satisfaction of condition precedents point (b) and (c) above, the Company shall have the full power and authority to perform its obligations under the Master Disposal Agreement;
- (ii) the information on the Kandi JV and the Zhidou JV set out in the appendices of the Master Disposal Agreement are accurate in all material aspects;

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## LETTER FROM THE BOARD

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- (iii) the entering into and performance of the Master Disposal Agreement shall not result in a breach of any contracts, trusts, guarantees, agreements or applicable laws or regulations;
- (iv) the Group had not previously entered into any agreement and will not enter into any agreement after the date of the Master Disposal Agreement which could restraint it from performing its obligations under the Master Disposal Agreement; and
- (v) the Company is not aware of any material facts or information which could cause an adverse impact on the transactions contemplated under the Master Disposal Agreement.

Geely Holding warrants to the Company that:

- (i) Geely Holding shall have the full power and authority to perform its obligations under the Master Disposal Agreement;
- (ii) Geely Holding is a legally established limited liability company;
- (iii) upon signing of the Master Disposal Agreement, its terms are enforceable and binding on Geely Holding; and
- (iv) the entering into and performance of the Master Disposal Agreement shall not result in a breach of any contracts, trusts, guarantees, agreements or applicable laws or regulations.

### **Completion**

Completion of the Disposals will take place on the date which all the conditions to the Master Disposal Agreement have been fulfilled or such other later date as the parties may agree in writing.

### **INFORMATION ON THE KANDI JV AND THE ZHIDOU JV**

#### **Principal businesses of the Kandi JV and the Zhidou JV**

Kandi JV is a limited liability company incorporated in the PRC on 1 February 2013. It is principally engaged in the investment, research and development, production, marketing and sales of relatively low-end electric vehicles (which are commonly characterised by their lower speed, charging range and technology, and hence lower selling price) in the PRC.

Zhidou JV is a limited liability company incorporated in the PRC on 6 January 2015. It is principally engaged in the research and production of automobile parts, components and engines, sale of relatively low-end electric vehicles (which are commonly characterised by their lower speed, charging range and technology, and hence lower selling price) and the provision of related after-sale services in the PRC.

Ever since the establishments of the Kandi JV and the Zhidou JV, their respective financial statements have always been equity-accounted for in the consolidated financial statements of the Group. Up until the Latest Practicable Date, there has been no material change in control or influence of the Company

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## LETTER FROM THE BOARD

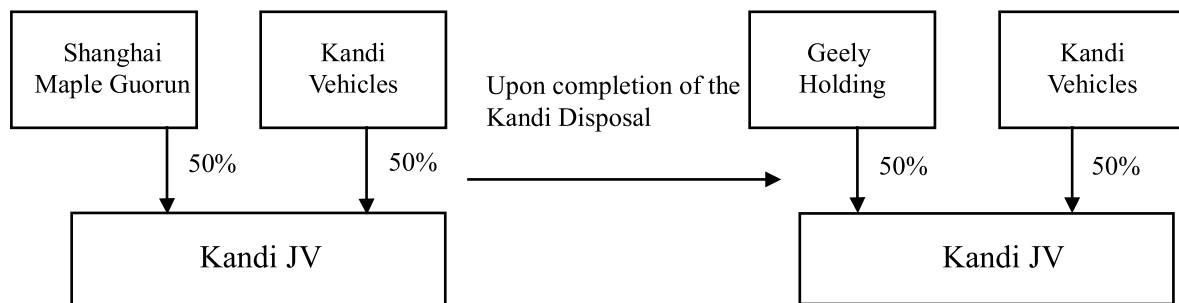
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on both the Kandi JV and the Zhidou JV. For further details on the Group's influence on the day-to-day operations and management of the two joint venture companies, please refer to the section headed "Reasons for and benefits of the Disposals" below.

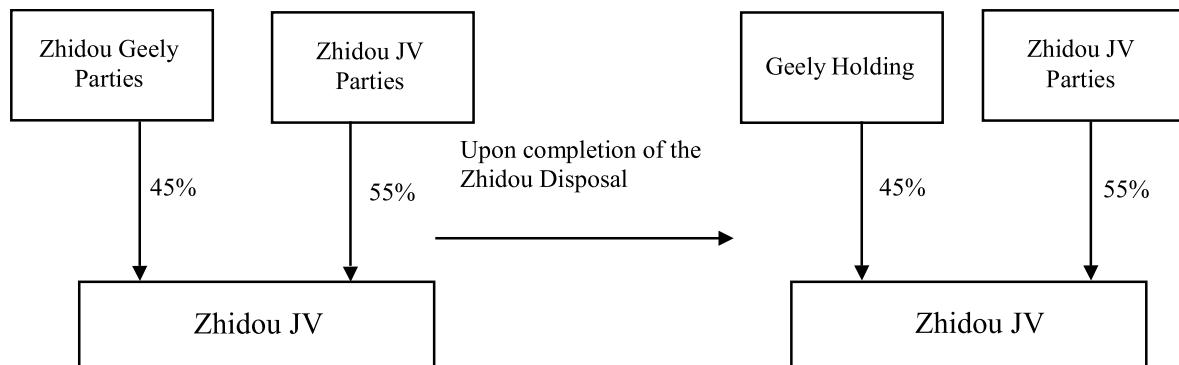
### Shareholding structures of the Kandi JV and the Zhidou JV

The following diagrams set out the shareholding structures of the Kandi JV and the Zhidou JV before and upon completions of the Kandi Disposal and the Zhidou Disposal, respectively:

#### *Kandi JV*



#### *Zhidou JV*



### FINANCIAL INFORMATION OF THE KANDI JV AND ZHIDOU JV

Set out below is the audited financial information of the Kandi JV for the two financial years ended 31 December 2015 and Zhidou JV for the financial year ended 31 December 2015 (as the Zhidou JV was established on 6 January 2015) prepared under the HKFRS, and the unaudited financial information of the Kandi JV and the Zhidou JV for the six months ended 30 June 2016 prepared under the HKFRS, highlighting the key financial statement line items:

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## LETTER FROM THE BOARD

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### Extracts from profit or loss statements of the Kandi JV

	<b>For the year ended 31 December 2014 ("FY2014") (Audited) RMB'000</b>	<b>For the year ended 31 December 2015 ("FY2015") (Audited) RMB'000</b>	<b>For the six months ended 30 June 2015 ("1H2015") (Unaudited) RMB'000</b>	<b>For the six months ended 30 June 2016 ("1H2016") (Unaudited) RMB'000</b>
Revenue	1,325,168	1,818,376	624,852	738,947
Cost of sales	(1,169,326)	(1,440,200)	(496,474)	(638,508)
Selling expenses	(35,402)	(44,788)	(10,021)	(13,915)
Administrative expenses	(60,387)	(89,065)	(55,762)	(48,825)
Finance costs	(8,794)	(42,061)	(24,075)	(27,751)
Operating profit	51,259	202,262	38,520	9,948
Other operating income	9,785	10,828	3,961	9,161
Net profit before taxation	61,044	213,090	42,481	19,109
Net profit after taxation	46,272	166,736	28,669	15,162

### Extracts from cash flow statements of the Kandi JV

	<b>For the year ended 31 December 2015 (Audited) RMB'000</b>	<b>For the six months ended 30 June 2016 (Unaudited) RMB'000</b>
Net cash generated from/(used in) operating activities	123,433	(720,597)
Net cash generated from/(used in) investing activities	(572,474)	500,566
Net cash generated from/(used in) financing activities	604,830	(35,285)

Despite a drop in average selling price of Kandi JV's products during FY2015, Kandi JV's revenue increased from approximately RMB1,325.2 million for FY2014 to RMB1,818.4 million for FY2015 due to the increase in sales volume of electric vehicles during the year. Selling expenses as a percentage of revenue remained relatively stable at approximately 2.7% for FY2014 and 2.5% for FY2015, and administrative expenses increased from approximately RMB60.4 million for FY2014 to RMB89.1 million for FY2015 due to more research and development cost was incurred for the development of a new electric vehicle model. Driven mainly by the increase in revenue and the larger percentage increase in revenue as compared to operating expenses during FY2015, Kandi JV's net profit after taxation increased from approximately RMB46.3 million for FY2014 to RMB166.7 million for FY2015.

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## LETTER FROM THE BOARD

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Due to the uncertainties surrounding the policies regarding eligibility for subsidies, more particularly, the list of electric vehicle models eligible for subsidies under the new requirements of the NEV Notice (as defined in the section headed “Reasons for and benefits of the Disposals” below) have only been issued by the relevant government authority in April 2016, Kandi JV did not sell any electric vehicle during the first four months of year 2016. For further details regarding the policies, please refer to the section headed “Reasons for and benefits of the Disposals” below. Kandi JV did eventually resume its sales in May 2016 and its revenue increased from approximately RMB624.9 million for 1H2015 to RMB738.9 million for 1H2016, the reason of which was due to the increase in sales volume of electric vehicles during 1H2016 as compared to 1H2015 despite a drop in average selling price. Kandi JV’s selling expenses as a percentage of revenue remained relatively stable at approximately 1.6% for 1H2015 and 1.9% for 1H2016, and administrative expenses decreased from approximately RMB55.8 million for 1H2015 to RMB48.8 million for 1H2016 as a result of mainly provision for staff leave due to the capacity constraint of a battery supplier which led to a temporary stop in manufacturing during 1H2015. Finance costs increased from approximately RMB24.1 million for 1H2015 to RMB27.8 million for 1H2016 as a result of Kandi JV obtaining more short term loans during 1H2016 to cover for its operations due to the slowdown in subsidy payments from the PRC government authorities. Debt to equity ratio also increased from approximately 0.8 as at 30 June 2015 to 1.2 as at 30 June 2016. Despite recording higher revenue for 1H2016 as compared to 1H2015, Kandi JV recorded lower net profit after taxation mainly as a result of the decrease in gross profit margin during 1H2016 as compared to 1H2015 due to the drop in average selling price of Kandi JV’s vehicles, and lower negative operating cash flows of approximately RMB720.6 million for 1H2016 mainly as a result of the significant increase in trade and other receivables during 1H2016 as subsidy payments from the PRC government authorities were delayed. Such delay and uncertainties surrounding subsidy payments have begun to put pressure on Kandi JV’s operating cash flows during 1H2016, and Kandi JV may need to continue to fund its operations through borrowings in the foreseeable future.

The Company would like to highlight that the impact of policies affecting the electric vehicle industry in the PRC may not have been fully reflected in the profit or loss statement of the Kandi JV for 1H2016 as the drop in net profit was primarily due to the drop in gross profit margin for 1H2016 as compared to 1H2015 as explained above. Shareholders should, instead, take note of the cash flow statement of the Kandi JV for 1H2016 as the negative cash flows from operating activities clearly show that the ongoing delay and uncertainties surrounding subsidy payments from the PRC government authorities have begun to put a strain on the Kandi JV’s operating cash flows in 2016. The management of the Company expects this trend will continue throughout the remaining period of 2016 and in the foreseeable future, and the profit or loss statements of the Kandi JV are expected to gradually reflect the impact of such policies as the Kandi JV may not be able to sell its electric vehicles at competitive prices due to less subsidies being received (which will hurt demand from consumers) and may need to finance its operations by obtaining more short-term loans (which will increase leverage and overall finance costs) in the foreseeable future.

The unaudited net asset value of the Kandi JV as at 30 June 2016 amounted to approximately RMB1,209.4 million. The net assets of the Kandi JV as at 30 June 2016 comprised total assets of approximately RMB4,679.8 million and total liabilities of approximately RMB3,470.4 million. Total assets mainly comprised current assets such as accounts receivables of approximately RMB2,448.8 million and other receivables of approximately RMB654.0 million, and non-current assets such as fixed assets (mainly production machinery and equipment) of approximately RMB615.7 million and land use rights relating to the Kandi JV’s land and buildings of approximately RMB415.4 million. Total liabilities mainly comprised

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## LETTER FROM THE BOARD

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short-term loans of approximately RMB1,400.1 million and accounts payable of approximately RMB1,235.8 million which arose from the purchase of raw-materials and equipment to be payable to the suppliers of the Kandi JV.

### Extracts from profit or loss statements of the Zhidou JV

	<b>From date of incorporation up to 31 December 2015</b>	<b>For the six months ended 30 June 2015</b>	<b>For the six months ended 30 June 2016</b>
	(Audited)	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,397,588	402,958	539,998
Cost of sales	(2,651,745)	(368,504)	(430,961)
Selling expenses	(267,053)	–	(90,849)
Administrative expenses	(366,487)	(14,793)	(92,170)
Finance costs	(11,435)	(8,034)	(18,055)
Operating profit/(loss)	100,868	11,627	(92,037)
Other operating income/(expense)	13,218	1,001	(9,696)
Net profit/(loss) before taxation	114,086	12,628	(101,733)
Net profit/(loss) after taxation	103,040	12,623	(101,845)

### Extracts from cash flow statements of the Zhidou JV

	<b>From date of incorporation up to 31 December 2015</b>	<b>For the six months ended 30 June 2016</b>
	(Audited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	262,303	(281,692)
Net cash used in investing activities	(315,337)	(66,540)
Net cash generated from financing activities	520,201	566,394

Zhidou JV's revenue of approximately RMB3,397.6 million for FY2015 was much larger than the annualised value of RMB403.0 million for 1H2015 as Zhidou JV acquired a sales company that is principally engaged in the sale of automobile parts and components and established a new sales company that is principally engaged in the sale of electric vehicles during the second half of year 2015. The inclusion of these two sales companies also led to the significant increases in selling and administrative expenses during the second half of year 2015. There were no selling expenses incurred during 1H2015 as the marketing and promotion team for Zhidou JV was only set up in the second half of year 2015.

Similar to Kandi JV, due to the uncertainties surrounding the policies regarding eligibility for subsidies, more particularly, the list of electric vehicle models eligible for subsidies under the new requirements of the NEV Notice (as defined in the section headed "Reasons for and benefits of the

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## LETTER FROM THE BOARD

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Disposals” below) have only been issued by the relevant government authority in April 2016, Zhidou JV did not sell any electric vehicle during the first four months of year 2016. For further details regarding the policies, please refer to the section headed “Reasons for and benefits of the Disposals” below. Although Zhidou JV did eventually resume its sales in May 2016 and its revenue increased from approximately RMB403.0 million for 1H2015 to RMB540.0 million for 1H2016, the reason of which was due to the increase in sales volume of electric vehicles and related parts during 1H2016 as compared to 1H2015 despite a drop in average selling price, Zhidou JV recorded net loss after taxation of approximately RMB101.8 million and negative operating cash flows of approximately RMB281.7 million for 1H2016. Zhidou JV’s net loss was mainly due to the increased level of selling and administrative expenses from its inclusion of two sales companies after 1H2015, and the fact that it did not sell any vehicles during the first four months of year 2016 and therefore did not generate sufficient revenue to cover for the fixed portions of its operating expenses during 1H2016. There was also an increase in finance cost during 1H2016 as Zhidou JV obtained more short terms loans during 1H2016 to cover for its operations due to the slowdown in subsidy payments from the PRC government authorities. This was particularly evident in its negative operating cash flows of approximately RMB281.7 million for 1H2016 due to the significant increase in trade and other receivables during 1H2016 as subsidy payments from the PRC government authorities were delayed. Similar to Kandi JV, the delay and uncertainties surrounding subsidy payments have began to put pressure on Zhidou JV’s operating cash flows during 1H2016, and Zhidou JV may need to continue to fund its operations through borrowings in the foreseeable future.

Compared to Kandi JV, the impacts of policies affecting the electric vehicle industry in the PRC are more apparent in Zhidou JV’s profit or loss statement for 1H2016 as the Zhidou JV turned from recording a net profit for 1H2015 to a net loss for 1H2016. As explained above, as the list of electric vehicle models eligible for subsidies under the new requirements of the NEV Notice was only issued in April 2016 and Zhidou JV only resumed its sales in May 2016, its revenue for 1H2016 was not sufficient to cover for the fixed portions of the increased administrative and selling expenses from the two sales companies which were only incorporated into Zhidou JV’s financials after 1H2015. Besides the net loss posted by Zhidou JV for 1H2016, similar to the Kandi JV, Shareholders should also take note of the cash flow statement of the Zhidou JV for 1H2016 as the negative cash flows from operating activities clearly show that the ongoing delay and uncertainties surrounding subsidy payments from the PRC government authorities have begun to put a strain on the Zhidou JV’s operating cash flows in 2016. The management of the Company expects this trend will continue throughout the remaining period of 2016 and in the foreseeable future, and the profit or loss statements of Zhidou JV are expected to further reflect the impact of such policies as the Zhidou JV may not be able to sell its electric vehicles at competitive prices due to less subsidies being received (which will hurt demand from consumers) and may need to finance its operations by obtaining more short-term loans (which will increase leverage and overall finance costs) in the foreseeable future.

The unaudited net asset value of the Zhidou JV as at 30 June 2016 amounted to approximately RMB1,340.0 million. The net assets of Zhidou JV as at 30 June 2016 comprised total assets of approximately RMB6,956.5 million and total liabilities of approximately RMB5,616.5 million. Total assets mainly comprised current assets such as accounts receivables of approximately RMB3,907.8 million and other receivables of approximately RMB1,090.4 million, and non-current assets such as fixed assets (mainly production machinery and equipment) of approximately RMB392.1 million and goodwill of approximately RMB262.3 million relating to the business combination of the acquisition of its two wholly owned subsidiaries. Total liabilities mainly comprised accounts payables of approximately of RMB2,665.7 million and other payables of approximately RMB2,259.6 million.



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## LETTER FROM THE BOARD

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Subject to final audit, it is expected that the Group will realize a gain on the Disposals on its profit or loss statements of approximately RMB139 million which is calculated by reference to the carrying value of the Kandi JV and the Zhidou JV as at 30 June 2016. The Directors currently intend to apply the proceeds from the Disposals for general working capital of the Group.

### REASONS FOR AND BENEFITS OF THE DISPOSALS

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

Recent policies in the PRC in relation to the eligibility for subsidies, namely the “Notice on Financial Support Policy to Promote the Application of New Energy Vehicles for 2016 to 2020”(關於2016-2020年新能源汽車推廣應用財政支持政策的通知) released on 22 April 2015 (the “NEV Notice”) which have been effective since 2016, have cast an impact on the PRC electric vehicle industry and, together with the fact that the PRC government authorities have been slowing down in their subsidy payments, have introduced uncertainties, in particular, to the Kandi JV and the Zhidou JV. The NEV Notice effectively raised the technical requirements for new energy vehicles to be eligible for government subsidies. In the NEV Notice, it clearly stated that in order to be eligible for government subsidies, all pure electric passenger vehicles shall have (i) a continuous driving range of not less than 100 km; and (ii) a minimum top speed of not less than 100 km/h. As further stated in the NEV Notice, the amount of government subsidies will be reduced by 20% in 2017 and 2018, and by 40% in 2019 and 2020 from 2016’s level. All electric vehicle models produced and sold by the Kandi JV and the Zhidou JV prior to the release of the NEV Notice are not eligible for subsidies under the new requirements of the NEV Notice. After the release of such NEV Notice in April 2015, the Kandi JV and the Zhidou JV immediately commenced upgrading the existing vehicle models, in particular their drive and power systems, in order to meet the requirements of the NEV Notice. The relevant government authority, however, did not publish the new list of electric vehicle models eligible for subsidies until April 2016. As a result, the Kandi JV and the Zhidou JV did not record any sales of electric vehicles during the first four months of year 2016. As all relevant upgrading works had been completed by April 2016, all electric vehicle models sold by Kandi JV and Zhidou JV during 1H2016 were eligible for subsidies under the new requirements of the NEV Notice. During 1H2016, Kandi JV sold electric vehicle models K17A, K10 and K12, and revenue amounted to approximately RMB564.3 million (76% of total revenue), RMB140.5 million (19% of total revenue) and RMB12.2 million (2% of total revenue), respectively. The remaining portions of Kandi JV’s revenue were attributable to the sale of electric vehicle parts and components, and certain product returns. During the same period, Zhidou JV sold electric vehicle models D1 and D2, and revenue amounted to approximately RMB87.6 million (16% of total revenue) and RMB74.2 million (14% of total revenue), respectively. The remaining portions of Zhidou JV’s revenue were attributable to the sale of electric vehicle parts and components, and complete knock down kits.

These recent policy changes, combined with the fact that the PRC government authorities have been delaying the subsidy payments, have therefore introduced uncertainties to, as well as increased the risk profiles of, the Kandi JV and the Zhidou JV when it comes to their operation. If the Kandi JV and the Zhidou JV still remain as joint ventures of the Group, the Group might incur contingent liabilities in providing continuous financial support and/or financial guarantees to the two joint ventures going forward, which will not be in the best interests of the Company and the Shareholders. As elaborated in the section headed “Financial information of the Kandi JV and the Zhidou JV” above, uncertainties surrounding subsidy

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## LETTER FROM THE BOARD

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payments from the PRC government authorities have led to the Kandi JV and the Zhidou JV recording negative operating cash flows during 1H2016, and the management of the Company expects this negative trend will continue in the foreseeable future. For FY2014, FY2015 and 1H2016, in relation to Kandi JV, subsidies amounting to approximately RMB0.5 billion, RMB1 billion and RMB0.3 billion were applied for, out of which approximately RMB0.5 billion, RMB0.4 billion and nil were received, respectively. For FY2014, subsidies were applied for on a quarterly basis, and the subsidies relating to (i) the first quarter of FY2014 were received in June 2014; (ii) the second quarter of FY2014 were received in November 2014; and (iii) the third quarter and the fourth quarter of FY2014 were received together in June 2015. For FY2015, subsidies were applied for in May 2015 and May 2016, and subsidies relating to the May 2015's application were received in August 2015. Subsidies relating to May 2016's application, which amounts to approximately RMB0.6 billion, have not been received. For 1H2016, subsidies amounting to approximately RMB0.3 billion have not been received. For FY2015 and 1H2016, in relation to Zhidou JV, subsidies amounting to approximately RMB1 billion and RMB0.1 billion were applied for, out of which approximately nil and nil were received, respectively. For FY2015, subsidies amounting to approximately RMB1 billion were applied for in January 2016, and no subsidies have been received. For 1H2016, subsidies amounting to approximately RMB0.1 billion have not been received. For the avoidance of doubt, the timing of application for subsidies and the timing of settlement of subsidies are at the discretion of the relevant government authorities in the PRC. As such, the application and settlement patterns may vary each year.

Considering that both the Kandi JV and the Zhidou JV focus on low to medium-end electric vehicles while the strategy of the Group is to focus primarily on medium to high-end automobiles, the Kandi JV and the Zhidou JV, being a 50% and 45% held joint ventures of the Group, have been viewed as relatively passive investments of the Group given the existing governance structure pursuant to the respective shareholders' agreement. Although joint venture companies generally require all decisions to receive unanimous consent from the joint venture parties and pursuant to the respective shareholders' agreement, the respective board of the Kandi JV and the Zhidou JV is being represented by the shareholders on a pro-rata basis according to their shareholding percentages, the day-to-day operations and management of the Kandi JV and the Zhidou JV are led by the general manager of the respective company, and such general manager is appointed by representatives of Kandi Vehicles (for the Kandi JV) and representatives of the Zhidou Geely Parties (for the Zhidou JV). Therefore, given such operational and management structure and constraints, the Group has to exercise its daily operational control on the companies through such general manager in case of, among others, policies on new energy vehicles in the PRC and continued increase in operating costs and burden to fund its working capital, which are the factors which the Kandi JV and the Zhidou JV have recently been experiencing.

As part of the Group's on-going strategy to enhance value for the Shareholders, the Group also plans to consolidate and enhance its product portfolio and thus brand image by focusing on relatively higher-end automobiles going forward. The Kandi JV and the Zhidou JV's current product portfolios therefore represent a mismatch as their product portfolios mainly comprise low to medium-end electric vehicles with general performance.

Lastly, according to the relevant state industrial policies and regulations from National Development and Reform Commission, only domestic enterprises will be able to meet the qualification requirement for applying and obtaining manufacturing licenses for electric vehicles, therefore, under the current shareholding structures, it is difficult for the Kandi JV and the Zhidou JV to apply for their own manufacturing licenses which will allow them to operate independently and benefit their development in the long run since currently

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## LETTER FROM THE BOARD

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both JVs are held 50% and 45% of by the Group. Thus after completion of the Disposals, with Geely Holding becoming one of the shareholders of the Kandi JV and the Zhidou JV, Geely Holding will work with the other joint venture partners to restructure the businesses of the Kandi JV and the Zhidou JV so as to enable them to be more independent, better align their strategies with that of the Geely Holding Group, as well as assisting them to apply for and obtain the aforesaid manufacturing licenses.

Taking into account all of the above, the Directors consider that the Disposals are consistent with the on-going strategy of the Group, and given that the future prospects of the Kandi JV and the Zhidou JV are uncertain, the Disposals will allow the Group to allocate more time and resources to the development of mid to higher-end automobiles, which are expected to enhance value for the Shareholders.

The Directors consider that the Disposals as a whole, although not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### IMPLICATIONS UNDER THE LISTING RULES

Geely Holding is beneficially wholly-owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.85% of the total issued share capital of the Company as at the Latest Practicable Date. As such, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules. Upon completion of the Disposals, as the Kandi JV will be held as to 50% by Geely Holding and will become an associate of Geely Holding, the Kandi JV will also become a connected person of the Company. Accordingly, the Disposals constitute connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable aggregated percentage ratios in respect of the Disposals are more than 5%, the Disposals are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as the applicable aggregated percentage ratios in respect of the Disposals are more than 5% but less than 25%, the Disposals also constitute discloseable transactions for the Company under Chapter 14 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 have material interests in the Disposals by virtue of their interests and/or directorship in Geely Holding. As a result, Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui have abstained from voting on the Board resolutions for approving the Disposals. Furthermore, pursuant to Rule 14A.36 of the Listing Rules, any connected person of the Company with a material interest in the Disposals, and any Shareholder with a material interest in the Disposals and its associates, will not vote in the EGM. As Mr. Li (holding 3,783,099,000 Shares, which represent approximately 42.85% of the total issued share capital of the Company), Mr. Yang Jian (holding 14,475,000 Shares, which represent approximately 0.16% of the total issued share capital of the Company), Mr. Li Dong Hui, Daniel (holding 2,000,000 Shares, which represent approximately 0.02% of the total issued share capital of the Company), Mr. An Cong Hui (holding 15,380,000 Shares, which represent approximately 0.17% of the total issued share capital of the Company) and their respective associates are considered to have material interests in the Disposals as at the Latest Practicable Date, they will abstain from voting on the resolution to approve the Master Disposal Agreement to be put forward at the EGM. Save as disclosed above, no other Shareholders are required to

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## **LETTER FROM THE BOARD**

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abstain from voting to approve the Master Disposal Agreement at the EGM. To the best of the Directors' knowledge and belief, Mr. Li Xing Xing, the son of Mr. Li, had no direct equity interests in the Company as at the Latest Practicable Date.

### **THE EGM**

The EGM will be convened to consider and approve the Disposals. A notice to convene the EGM is set out on pages EGM-1 to EGM-2 of this circular. The EGM will be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong on Tuesday, 11 October 2016 at 10:00 a.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).

### **INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the Disposals are fair and reasonable and in the interest of the Company and Independent Shareholders and the letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Disposals has been set out on page 20 of this circular. Challenge Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the terms and conditions of the Master Disposal Agreement and the letter of advice from Challenge Capital containing its advice in respect of the terms of the Master Disposal Agreement has been set out on pages 21 to 41 of this circular.

### **RECOMMENDATIONS**

Your attention is drawn to the letter from the Independent Board Committee to Independent Shareholders set out on page 20 of this circular and the letter from Challenge Capital on pages 21 to 41 regarding the Disposals and the principal factors and reasons taken into consideration in arriving at the advice.

The Directors consider that although the Disposals are not in the ordinary and usual course of business of the Group, the terms of the Master Disposal Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Master Disposal Agreement. You are advised to read the letter from the Independent Board Committee and the letter from Challenge Capital mentioned above before deciding how to vote on the resolution 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 Challenge Capital, which are respectively set out on page 20 and pages 21 to 41 of this circular. Additional information is also set out in the appendix to this circular.

By order of the board of  
**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 Disposals 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)

23 September 2016

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL OF EQUITY INTERESTS IN THE KANDI JV AND THE ZHIDOU JV**

We refer to the circular dated 23 September 2016 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Master Disposal Agreement. Challenge Capital has been appointed to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 21 to 41 of this circular. Your attention is also drawn to the “Letter from the Board” in this circular and the additional information set out in the appendix thereto.

Having taken into account the advice of Challenge Capital, in particular factors, reasons and recommendation as set out in its letter, we consider that: (i) although the Disposals are not in the ordinary and usual course of business of the Group, the Disposals are on normal commercial terms; (ii) the terms of the Master Disposal Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iii) the entering into of the Master Disposal Agreement thereunder is in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the ordinary resolution to be proposed at the EGM.

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 CHALLENGE CAPITAL

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*The following is the full text of a letter of advice from Challenge Capital Management Limited to the Independent Board Committee and the Independent Shareholders in relation to the Disposals, which has been prepared for the purpose of inclusion in this circular.*



信溢投資策劃有限公司  
CHALLENGE CAPITAL MANAGEMENT LIMITED

3/F, Kailey Tower,  
16 Stanley Street,  
Central, Hong Kong  
23 September 2016

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

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL OF EQUITY INTERESTS IN THE KANDI JV AND THE ZHIDOU JV**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposals, 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 23 September 2016 (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 otherwise defined or the context requires otherwise.

On 25 July 2016, the Company entered into the Master Disposal Agreement with Geely Holding to dispose of the Kandi Sale Shares (representing 50% of the registered capital of the Kandi JV) and the Zhidou Sale Shares (representing 45% of the registered capital of the Zhidou JV) (collectively, the “**Sale Shares**”) to Geely Holding at an aggregate consideration of RMB1,346,486,590 (out of which RMB725,412,590 is for the Kandi Disposal and RMB621,074,000 is for the Zhidou Disposal) (the “**Consideration**”). Completions of the Kandi Disposal and the Zhidou Disposal are inter-conditional. Upon completion of the Disposals, the Group’s interests in each of the Kandi JV and the Zhidou JV (collectively, the “**JVs**”) will be transferred to Geely Holding, and the financial statements of the JVs will no longer be equity-accounted for in the consolidated financial statements of the Company.

As at the Latest Practicable Date, the Kandi JV is held as to 50% by Shanghai Maple Guorun, a 99%-owned subsidiary of the Company, and the Zhidou JV is held as to 45% by the Zhidou Geely Parties, which comprise Shanghai Maple Guorun and Jirun Automobile, each a 99%-owned subsidiary of the Company.

Geely Holding is beneficially wholly-owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.98% of the total issued share capital of the Company as at the Latest Practicable Date. As such, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules. Accordingly, the Disposals constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

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## LETTER FROM CHALLENGE CAPITAL

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As one or more of the applicable aggregated percentage ratios in respect of the Disposals are more than 5%, the Disposals are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable aggregated percentage ratios in respect of the Disposals are more than 5% but less than 25%, the Disposals also constitute discloseable transactions of the Company under Chapter 14 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 have material interests in the Disposals by virtue of their interests and/or directorship in Geely Holding. As a result, Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui have abstained from voting on the Board resolutions for approving the Disposals.

The Independent Board Committee comprising Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng, and Mr. Wang Yang, all being independent non-executive Directors, has been formed to consider the terms of the Disposals. We, Challenge Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Disposals.

We are independent from and not connected with the Company, Geely Holding, or any of their respective associates. Accordingly, we are considered eligible to give independent advice on the Disposals. Apart from normal professional fees payable to us for our services to the Company in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company, Geely Holding, or any of their respective associates.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided to us by the Company, and the opinions expressed by its management. We have assumed that all information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided by the Company, and the opinions expressed by its management, are true, accurate and complete in all material respects as at the date of the Circular and that they may be relied upon in formulating our opinion.

We have also assumed that all views, opinions and statements of intention provided by the advisors and representatives of the Company have been arrived at after due and careful enquiries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Company and its management, nor have we



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## LETTER FROM CHALLENGE CAPITAL

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conducted independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. 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.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Disposals, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our advice in respect of the Disposals, we have considered the following principal factors and reasons:

#### **1. Background of the Disposals**

On 1 February 2013, the Company announced that Shanghai Maple Guorun entered into a framework agreement with Kandi Vehicles for the establishment of the Kandi JV to engage in the investment, research and development, production, marketing and sales of electric vehicles in the PRC. Separately on 8 January 2015, the Zhidou Geely Parties entered into a joint venture agreement with the then joint venture partners for the establishment of the Zhidou JV to engage in the research and production of automobile parts, components and engines, production of electric vehicles, and provision of related after-sale services.

On 22 June 2016, the Company announced that the Zhidou Geely Parties and the Zhidou JV entered into a framework agreement with an independent third party investor for the disposal of the partial interests in the Zhidou JV held by the Zhidou Geely Parties to such investor, subject to due diligence and execution of definitive agreements between the parties. As further announced by the Company on 25 July 2016, the aforementioned disposal did not materialise as the relevant parties could not reach an agreement on the definitive terms for the intended disposal.

As part of the Group's on-going strategy to enhance value for the Shareholders, it is the plan of the Group to consolidate and enhance its product portfolio and thus brand image by focusing on relatively higher-end automobiles going forward. In addition, recent policies issued in the PRC in relation to the eligibility of electric vehicles for subsidies have impacted on the PRC's electric vehicle industry and, together with the slowdown in subsidy payments by the relevant government authorities, have had a negative effect on the Kandi JV and the Zhidou JV.

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## LETTER FROM CHALLENGE CAPITAL

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On 25 July 2016, the Company entered into the Master Disposal Agreement with Geely Holding to dispose of the Sale Shares at the Consideration of RMB1,346,486,590, subject to the terms and conditions of the Master Disposal Agreement. Completions of the Kandi Disposal and the Zhidou Disposal are inter-conditional.

Upon completion of the Disposals, the Group's interests in each of the JVs will be transferred to Geely Holding, and the financial statements of the JVs will no longer be equity-accounted for in the consolidated financial statements of the Company.

### 2. Overview of the Group

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

Set out below is a summary of the audited consolidated financial information of the Company for the years ended 31 December 2014 (“**FY2014**”) and 2015 (“**FY2015**”), and the unaudited consolidated financial information of the Company for the six months ended 30 June 2015 (“**1H2015**”) and 2016 (“**1H2016**”), which are extracted from the Company's annual report for FY2015 (the “**2015 Annual Report**”) and the interim report for 1H2016 (the “**2016 Interim Report**”), respectively:

	<b>FY2014</b> (Audited) <i>RMB'000</i>	<b>FY2015</b> (Audited) <i>RMB'000</i>	<b>1H2015</b> (Unaudited) <i>RMB'000</i>	<b>1H2016</b> (Unaudited) <i>RMB'000</i>
Revenue	21,738,358	30,138,256	13,806,810	18,089,274
Gross profit	3,962,635	5,470,653	2,434,992	3,207,020
Net profit after tax	1,449,128	2,288,662	1,419,547	1,929,888

#### ***For FY2015***

As stated in the 2015 Annual Report, the Group experienced a turnaround in sales in 2015. Sales volume of the Group in the PRC market was up 35.2% from 2014, as compared to a 7.3% year-on-year growth in the overall passenger vehicle market in China in 2015, according to the China Association of Automobile Manufacturers (a self-disciplined and non-profit social organisation founded in Beijing, the PRC in May 1987 with the approval of the Ministry of Civil Affairs of the PRC). The Group's total revenue increased significantly by approximately 38.6% to approximately RMB30.1 billion for FY2015 as a result of better than expected domestic sales volume growth amidst weaker exports. Further, ex-factory average selling price of the Group's vehicles continued to improve in 2015 which was mainly driven by the improvement in the Group's product mix towards a higher proportion of higher-priced models. Together with the increase in overall sales volume and stable profit margin, the Group's net profit after tax grew by approximately 57.9% from approximately RMB1.4 billion for FY2014 to approximately RMB2.3 billion for FY2015.

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## LETTER FROM CHALLENGE CAPITAL

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As further stated in the 2015 Annual Report, the Group will continue to replace its old models with more sophisticated new models equipped with more advanced powertrain technologies, and the new products of the Group should continue to support its overall sales volume growth in 2016, which is evident from the growth in sales volume of the Group in 1H2016 as discussed below.

### *For 1H2016*

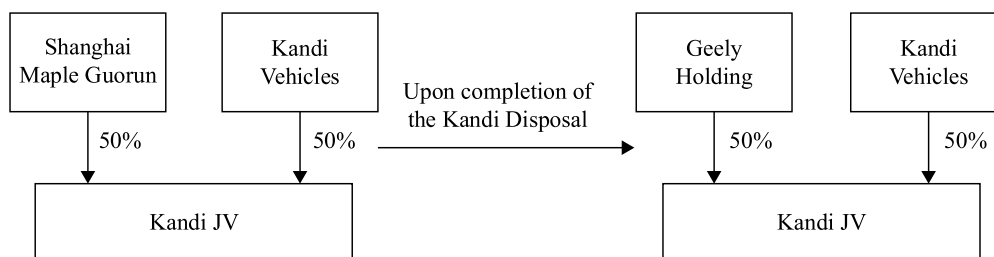
As stated in the 2016 Interim Report, sales performance of the Group continued its strong growth momentum during the first half of 2016. Sales volume of the Group in the PRC market increased by 15% year-on-year during 1H2016, as compared to a 9% year-on-year growth in the overall passenger vehicle market in China during the same period, according to the China Association of Automobile Manufacturers. The Group's total revenue increased significantly by approximately 31.0% to approximately RMB18.1 billion for 1H2016 as a result of the continued growth in domestic sales volume which had outweighed the effect of weaker exports during the period. Furthermore, the Group's focus on higher-priced models continued to result in the improvement of its ex-factory average selling price. Together with the continuous increase in overall sales volume and stable profit margin, the Group's net profit after tax increased by approximately 36.0% from approximately RMB1.4 billion for 1H2015 to approximately RMB1.9 billion for 1H2016.

### 3. Overview of the JVs

#### *Overview of the Kandi JV*

The Kandi JV is a limited liability company incorporated in the PRC on 1 February 2013 and is principally engaged in the investment, research and development, production, marketing and sales of electric vehicles in the PRC.

As at the Latest Practicable Date, the Kandi JV is held as to 50% by Shanghai Maple Guorun and 50% by Kandi Vehicles. Upon completion of the Kandi Disposal, Shanghai Maple Guorun's interests in the Kandi JV will be transferred to Geely Holding. The following diagram sets out the shareholding structure of the Kandi JV before and upon completion of the Kandi Disposal:



Set out below is a summary of the audited consolidated financial information of the Kandi JV for FY2015 and FY2016, and the unaudited consolidated financial information of the Kandi JV for 1H2015 and 1H2016 prepared under the HKFRS:

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## LETTER FROM CHALLENGE CAPITAL

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*Extracts from the profit or loss statements of the Kandi JV*

	<b>FY2014</b>	<b>FY2015</b>	<b>1H2015</b>	<b>1H2016</b>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,325,168	1,818,376	624,852	738,947
Cost of sales	(1,169,326)	(1,440,200)	(496,474)	(638,508)
Selling expenses	(35,402)	(44,788)	(10,021)	(13,915)
Administrative expenses	(60,387)	(89,065)	(55,762)	(48,825)
Finance costs	(8,794)	(42,061)	(24,075)	(27,751)
Operating profit	51,259	202,262	38,520	9,948
Other operating income	9,785	10,828	3,961	9,161
Net profit before tax	61,044	213,090	42,481	19,109
Net profit after tax	46,272	166,736	28,669	15,162

*Extracts from the cash flows statements of the Kandi JV*

	<b>FY2015</b>	<b>1H2016</b>
	(Audited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	123,433	(720,597)
Net cash (used in)/generated from investing activities	(572,474)	500,566
Net cash generated from/(used in) financing activities	604,830	(35,285)

### ***For FY2015***

Revenue of the Kandi JV increased from approximately RMB1,325.2 million for FY2014 to approximately RMB1,818.4 million for FY2015, representing an increase of approximately 37.2%. According to the Letter from the Board, such increase was mainly attributable to the increase in sales volume of electric vehicles despite a decrease in average selling price during FY2015 as compared to FY2014. Selling expenses of the Kandi JV increased by approximately 26.5% from approximately RMB35.4 million for FY2014 to approximately RMB44.8 million for FY2015. As a percentage of revenue, selling expenses of the Kandi JV remained relatively stable and represented approximately 2.5% of revenue for FY2015 as compared to approximately 2.7% for FY2014. Administrative expenses of the Kandi JV increased by approximately 47.5% from approximately RMB60.4 million for FY2014 to approximately RMB89.1 million for FY2015 which was mainly due to the increase in research and development cost incurred in the development a new electric vehicle model during the year. As a result of the larger increase in revenue than the increase in operating expenses, the Kandi JV recorded an increase in net profit after tax from approximately RMB46.3 million for FY2014 to approximately RMB166.7 million for FY2015, representing an increase of approximately 260.3%.

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## LETTER FROM CHALLENGE CAPITAL

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### *For 1H2016*

As disclosed in the Letter from the Board and discussed further in the section headed “Reasons for and benefits of the Disposals” in this letter, the list of electric vehicle models that are eligible for subsidies had not been published by the relevant government authority until April 2016, resulting in no sales of electric vehicles being recorded by the Kandi JV during the first quarter of 2016. Notwithstanding that the Kandi JV had not sold any electric vehicle during the first quarter of 2016 and had experienced a drop in average selling price during 1H2016, revenue of the Kandi JV increased from approximately RMB624.9 million for 1H2015 to approximately RMB738.9 million for 1H2016, representing an increase of approximately 18.3% which was mainly attributable to the increase in sales volume of electric vehicles when the Kandi JV eventually resumed its sales after the release of the said list on qualified electric vehicle models. Selling expenses of the Kandi JV increased by approximately 38.9% from approximately RMB10.0 million for 1H2015 to approximately RMB13.9 million for 1H2016. As a percentage of revenue, selling expenses of the Kandi JV remained relatively stable and represented approximately 1.9% of revenue for 1H2016 as compared to approximately 1.6% for 1H2015. Administrative expenses of the Kandi JV decreased by approximately 12.4% from approximately RMB55.8 million for 1H2015 to approximately RMB48.8 million for 1H2016 which was mainly attributable to the one-off provision for staff leave due to a temporary suspension in manufacturing caused by the capacity constraint of a battery supplier being recorded in 1H2015 but not in 1H2016. Finance costs of the Kandi JV increased from approximately RMB24.1 million for 1H2015 to approximately RMB27.8 million for 1H2016, representing an increase of approximately 15.3%. Such increase was mainly due to the increase in average short-term loans of the Kandi JV to replenish its working capital as the slowdown in government subsidy payments had put a pressure on the operating cash flows of the Kandi JV. Despite recording higher revenue for 1H2016 as compared to 1H2015, net profit after tax of the Kandi JV decreased by approximately 47.1% from approximately RMB28.7 million for 1H2015 to approximately RMB15.2 million for 1H2016 mainly as a result of the decrease in gross profit margin, which in turn was principally due to the drop in the average selling price during the period.

The Kandi JV recorded negative cash flows from operating activities of approximately RMB720.6 million for 1H2016 as resulted mainly from the decline in net profit after tax as discussed above and the significant increase in trade and other receivables during 1H2016 which was largely due to the delays in government subsidy payments during the period. In addition to the negative cash flows from operating activities being recorded during the period, net debt (being total debt less bank balances and cash and pledged bank deposits) to equity ratio of the Kandi JV also increased substantially from approximately 37.5% as at 31 December 2015 to approximately 103.6% as at 30 June 2016. As stated in the Letter from the Board, the delays and uncertainties surrounding subsidy payments have begun to put pressure on the operating cash flows of the Kandi JV, and the Kandi JV may need to continue to fund its operations through borrowings in the foreseeable future.

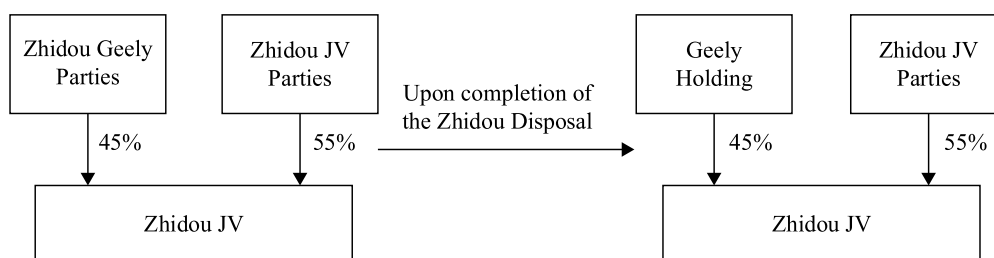
According to the Letter from the Board, the unaudited net asset value of the Kandi JV as at 30 June 2016 amounted to approximately RMB1,209.4 million, comprising total assets of approximately RMB4,679.8 million and total liabilities of approximately RMB3,470.4 million.

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### *Overview of the Zhidou JV*

The Zhidou JV is a limited liability company incorporated in the PRC on 6 January 2015 and is principally engaged in the research and production of automobile parts, components and engines, electric vehicles, and provision of related after-sale services in the PRC.

As at the Latest Practicable Date, the Zhidou JV is held as to 45% by the Zhidou Geely Parties and 55% by the Zhidou JV Parties. Upon completion of the Zhidou Disposal, the Zhidou Geely Parties' interests in the Zhidou JV will be transferred to Geely Holding. The following diagram sets out the shareholding structure of the Zhidou JV before and upon completion of the Zhidou Disposal:



Set out below is a summary of the audited consolidated financial information of the Zhidou JV from its date of incorporation to 31 December 2015 (“**FY2015\***”), and the unaudited consolidated financial information of the Zhidou JV from the date of its incorporation to 30 June 2015 (“**1H2015\***”) and for 1H2016 prepared under the HKFRS:

### *Extracts from the profit or loss statements of the Zhidou JV*

	<b>FY2015*</b> (Audited) <i>RMB'000</i>	<b>1H2015*</b> (Unaudited) <i>RMB'000</i>	<b>1H2016</b> (Unaudited) <i>RMB'000</i>
Revenue	3,397,588	402,958	539,998
Cost of sales	(2,651,745)	(368,504)	(430,961)
Selling expenses	(267,053)	–	(90,849)
Administrative expenses	(366,487)	(14,793)	(92,170)
Finance costs	(11,435)	(8,034)	(18,055)
Operating profit/(loss)	100,868	11,627	(92,037)
Other operating income/(expense)	13,218	1,001	(9,696)
Net profit/(loss) before tax	114,086	12,628	(101,733)
Net profit/(loss) after tax	103,040	12,623	(101,845)

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## LETTER FROM CHALLENGE CAPITAL

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*Extracts from the cash flows statements of the Zhidou JV*

	<b>FY2015*</b>	<b>1H2016</b>
	(Audited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	262,303	(281,692)
Net cash used in investing activities	(315,337)	(66,540)
Net cash generated from financing activities	520,201	566,394

***For 1H2016***

As disclosed in the Letter from the Board and discussed further in the section headed “Reasons for and benefits of the Disposals” in this letter, similar to the Kandi JV, the list of electric vehicle models that are eligible for subsidies had not been published by the relevant government authority until April 2016, resulting in no sales of electric vehicles being recorded by the Zhidou JV during the first quarter of 2016. Notwithstanding that the Zhidou JV had not sold any electric vehicle during the first quarter of 2016 and had experienced a drop in average selling price during 1H2016, revenue of the Zhidou JV increased from approximately RMB403.0 million for 1H2015\* to approximately RMB540.0 million for 1H2016, representing an increase of approximately 34.0%. Such increase was mainly attributable to the increase in sales volume of electric vehicles when the Zhidou JV eventually resumed its sales after the release of the said list on qualified electric vehicle models as well as the increase in sales of electric vehicle related parts. Selling expenses of the Zhidou JV for 1H2016 was approximately RMB90.8 million as compared to nil for 1H2015\*. Administrative expenses of the Zhidou JV increased from approximately RMB14.8 million for 1H2015\* to approximately RMB92.2 million for 1H2016. Both selling expenses and administrative expenses increased substantially for 1H2016 as compared to the same period last year which was mainly due to the inclusion of the two sales companies (one of which is principally engaged in the sale of electric vehicles and the other in the sale of automobile parts and components) which were established and acquired by the Zhidou JV in the second half of 2015. Additionally, the Zhidou JV incurred an one-off expense in relation to the loss on disposal of certain fixed assets of approximately RMB10.0 million during 1H2016. Finance costs of the Zhidou JV increased from approximately RMB8.0 million for 1H2015\* to approximately RMB18.1 million for 1H2016, representing an increase of approximately 124.7%. Such increase was mainly due to the increase in average short-term loans to replenish its working capital as the slowdown in government subsidy payments had put a pressure on the operating cash flows of the Zhidou JV. Despite recording higher revenue for 1H2016 as compared to 1H2015\*, the results of the Zhidou JV swung from a net profit after tax of approximately RMB12.6 million for 1H2015\* to a net loss after tax of approximately RMB101.8 million for 1H2016 which was mainly due to the increased level of selling expenses and administrative expenses incurred as a result of the inclusion of the two sales companies after 1H2015\*, and the fact that the Zhidou JV had not sold any electric vehicles during the first quarter of 2016, and therefore, had not generated sufficient revenue to cover the fixed portion of its operating expenses during 1H2016.

The Zhidou JV also recorded negative cash flows from operating activities of approximately RMB281.7 million for 1H2016 as resulted mainly from the net loss after tax as discussed above and the significant increase in trade and other receivables during 1H2016 which was largely due to the

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delays in government subsidy payments during the period. In addition to the negative cash flows from operating activities being recorded during the period, the Zhidou JV also recorded a net debt to equity ratio of approximately 1.1% as at 30 June 2016 as compared to a net cash position as at 31 December 2015. As stated in the Letter from the Board, the delays and uncertainties surrounding subsidy payments have begun to put pressure on the operating cash flows of the Zhidou JV, and the Zhidou JV may need to continue to fund its operations through borrowings in the foreseeable future.

According to the Letter from the Board, the unaudited net asset value of the Zhidou JV as at 30 June 2016 amounted to approximately RMB1,340.0 million, comprising total assets of approximately RMB6,956.5 million and total liabilities of approximately RMB5,616.5 million.

#### 4. Reasons for and benefits of the Disposals

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

The Kandi JV and the Zhidou JV are both principally engaged in the research and development, production, marketing and sales of relatively low-end electric vehicles, which are commonly characterised by their lower speed, charging range and technology, and hence lower selling price, in the PRC.

As stated in the Letter from the Board, recent policies issued in the PRC in relation to the eligibility of electric vehicles for subsidies have impacted on the PRC's electric vehicle industry and, together with the slowdown in subsidy payments by the relevant government authorities, have had a negative effect on the Kandi JV and the Zhidou JV. More particularly, according to the "Notice on Financial Support Policy to Promote the Application of New Energy Vehicles for 2016 to 2020" (關於2016-2020年新能源汽車推廣應用財政支持政策的通知) released on 22 April 2015 (the "NEV Notice"), technical requirements for new energy vehicles to be eligible for government subsidies (the "New Eligibility Requirements") have been raised effective from 2016. Pursuant to the NEV Notice, in order to meet the New Eligibility Requirements, pure electric passenger vehicles shall have (i) a continuous driving range of not less than 100 km; and (ii) a minimum top speed of not less than 100 km/h. As further stated in the NEV Notice, the amount of government subsidies is scheduled to be reduced by 20% in 2017 and 2018, and by 40% in 2019 and 2020 from 2016's level. The management of the Company further advised that, the list of electric vehicle models that are eligible for subsidies had not been published by the relevant government authority until April 2016, resulting in no sales of electric vehicles being recorded by both JVs in the first quarter of 2016. Furthermore, as disclosed in the Letter from the Board and discussed in the section headed "3. Overview of the JVs" in this letter, the recent delays in government subsidy payments have negatively impacted on the JVs and put a strain on their cash flows as evidenced by the negative operating cash flows being recorded for 1H2016 as well as the increase in net debt, and hence, gearing, of both JVs as at 30 June 2016. More particularly, as advised by the management of the Company, in respect of the sales of electric vehicles by the Kandi JV, subsidies for FY2014 were applied for on a quarterly basis, and the subsidies relating to (i) the first quarter of FY2014 applied in May 2014 were received in June 2014; (ii) the second quarter of FY2014 applied in August 2014 were received in November 2014; and (iii) the third quarter and fourth quarter of FY2014 applied in October 2014 and February 2015, respectively, were received together in June 2015. For FY2015, subsidies were applied for in two batches in May 2015 and May 2016, respectively. Subsidies relating to the May 2015's application were received in August 2015 while subsidies relating to the May 2016's application have not been received as at the Latest Practicable Date. For FY2016, no



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subsidies has been applied for as at the Latest Practicable Date. In respect of the sales of electric vehicles by the Zhidou JV, subsidies for FY2015 were applied for in January 2016 but no subsidies has been received as at the Latest Practicable Date. For FY2016, no subsidies has been applied for as at the Latest Practicable Date. As advised by the management of the Company, the timing of application for subsidies and the corresponding settlement is at the discretion of the relevant government authorities in the PRC, and the application and settlement patterns may vary each year. As such, the Company is unable to predict whether the delays in subsidy payment are temporary or subsisting, and the Company is not aware of any sign of change in circumstances in this respect as at the Latest Practicable Date. In view of the above and the fact that the amount of government subsidies is scheduled to be reduced by 20% in 2017 and 2018, and by 40% in 2019 and 2020 from 2016's level pursuant to the NEV Notice as discussed earlier, the management of the Company expects such negative trend will continue throughout the remaining period of 2016 and in the foreseeable future, which is expected to gradually reflect in the profit or loss statements of the Kandi JV and to further reflect in the profit or loss statements of the Zhidou JV as the JVs may not be able to sell their electric vehicles at competitive prices due to less subsidies being received (which in turn will hurt consumers' demand) and may need to finance their operations by obtaining more short-term loans (which will increase leverages and overall finance costs) in the foreseeable future.

Having considered the above, we concur with the views of the Directors that the delays and uncertainties in government subsidy payments, have introduced uncertainties to, as well as increased the risk profiles of, the JVs, and that the Group may be required to provide continuous financial support to the JVs should these policies continue to remain unfavourable to the operating environment of the JVs in the near future.

It is further mentioned in the Letter from the Board that, as part of the Group's on-going strategy to enhance value for the Shareholders, it is the plan of the Group to consolidate and enhance its product portfolio and thus brand image by focusing on relatively higher-end automobiles going forward. The current product portfolios of the JVs therefore represent a mismatch as their product portfolios mainly comprise low to medium-end electric vehicles with general performance. In view of the above, and as mentioned in the Letter from the Board, although the respective boards of the Kandi JV and the Zhidou JV are being represented by their shareholders on a pro-rata basis according to shareholding percentages pursuant to their respective shareholders' agreements, the Kandi JV and the Zhidou JV have been viewed as relatively passive investments of the Group and the day-to-day operations and management of the JVs are led by the representatives of the respective joint venture partners.

As noted from the 2015 Annual Report, the top selling models of the Group, namely, "New Emgrand", "New Vision", "Geely GC9", and "Geely Kingkong", are all medium to high-end automobiles which together accounted for 76.4% of the Group's total sales volume in 2015. Moreover, on 6 February 2015, the Group announced its acquisition of Zhejiang Jirun Chunxiao Automobile Components Company Limited which, according to the 2015 Annual Report, enhanced the Group's production capabilities in the manufacture of new high-end sedan and sport utility vehicle models, and the Group expects that such new high-end products will become one of the key drivers of the Group's future profitability. The Company also expressed in the 2015 Annual Report that the Group will continue to replace its old models with more sophisticated new models equipped with more advanced powertrain technologies, and the new products of the Group should continue to support its overall sales volume growth in 2016, which is evident from the growth in sales volume of the Group of 11% year-on-year in the first half of 2016 as disclosed in the 2016 Interim Report. The Group's continuous effort in enhancing its product portfolio has not only brought about

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growth in sales volume but improvement in ex-factory average selling price which, according to the 2015 Annual Report, was mainly driven by the improvement in the Group's product mix towards a higher proportion of higher-priced models.

Taking into account the above, we are of the view the Disposals are consistent with the on-going strategy of the Group.

Having considered all of the foregoing, and that the Disposals would allow the Group to reallocate its resources and focus on developing its medium to high-end products and enhancing its overall product portfolio in line with the on-going strategy of the Group, we concur with the view of the Directors that, although the Disposals are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole.

### 5. Principal terms of the Master Disposal Agreement

#### *Date*

25 July 2016 (after trading hours)

#### *Parties*

Vendor: The Company (interests in the Kandi JV are held via Shanghai Maple Guorun, and interests in the Zhidou JV are held via the Zhidou Geely Parties)

Purchaser: Geely Holding

#### *Subject matter*

Pursuant to the Master Disposal Agreement, Geely Holding has conditionally agreed to acquire, and Shanghai Maple Guorun (for the Kandi Disposal) and the Zhidou Geely Parties (for the Zhidou Disposal) have conditionally agreed to sell, (i) the Kandi Sale Shares, being 50% of the registered capital of the Kandi JV; and (ii) the Zhidou Sale Shares, being 45% of the registered capital of the Zhidou JV. Completions of the Kandi Disposal and the Zhidou Disposal are inter-conditional.

Pursuant to the entrusted loan agreements dated 17 December 2015 and 17 June 2016, Shanghai Maple Guorun provided an entrusted shareholder's loan of RMB150,000,000 to the Kandi JV. Pursuant to a novation agreement entered into between Shanghai Maple Guorun, Geely Holding and the Kandi JV on 25 July 2016, all rights of Shanghai Maple Guorun as a lender of the shareholder's loan will be novated to Geely Holding upon completion of the Kandi Disposal, and Geely Holding will fully repay such entrusted shareholder's loan of RMB150,000,000 to Shanghai Maple Guorun upon completion of the Kandi Disposal.

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In addition, Shanghai Maple Guorun has provided a guarantee in favour of the Kandi JV with an amount of RMB300,000,000. Geely Holding will procure that such guarantee be released before completion of the Kandi Disposal.

Please refer to the section headed “Letter from the Board – The Master Disposal Agreement” in the Circular for further details.

### ***Conditions precedent***

Details of the conditions precedent to the Master Disposal Agreement are set out in the section headed “Letter from the Board – The Master Disposal Agreement – Conditions precedent” in the Circular.

### ***Consideration***

Pursuant to the Master Disposal Agreement, the aggregate consideration for the Disposals is RMB1,346,486,590, out of which RMB725,412,590 is for the Kandi Disposal and RMB621,074,000 is for the Zhidou Disposal.

The Consideration was determined after arm’s length negotiations between the Company and Geely Holding with reference to (i) the historical financial performances of the Kandi JV and the Zhidou JV; and (ii) the future prospects of their respective electric vehicle product portfolios.

### ***Payment terms***

Pursuant to the Master Disposal Agreement, the Consideration shall be settled by Geely Holding in the following manner:

- (a) 30% of the Consideration, equivalent to RMB403,945,977, will be payable in cash within 7 calendar days from the date of the Master Disposal Agreement;
- (b) 40% balance of the Consideration, equivalent to RMB538,594,636, will be payable in cash upon the SAIC issuing new business licenses for the Kandi JV and the Zhidou JV showing their new shareholding structures; and
- (c) the remaining 30% balance of the Consideration, equivalent to RMB403,945,977, will be payable in cash within 180 calendar days from the date of the Master Disposal Agreement.

According to the Letter from the Board, due to the uncertainties over the Kandi JV and the Zhidou JV as a result of the policies on new energy vehicles in the PRC (the details of which are elaborated in the Letter from the Board and the section headed “Reasons for and benefits of the Disposals” in this letter), it had not been practical for the Company to identify an independent third party purchaser to acquire the JVs. In this respect, we have reviewed the announcement of the Company dated 22 June 2016 in respect of the entering into of a framework agreement among the Zhidou Geely Parties, the Zhidou JV and an independent third party investor for the disposal of the

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## LETTER FROM CHALLENGE CAPITAL

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partial interests in the Zhidou JV held by the Zhidou Geely Parties. We have also reviewed the announcement of the Company dated 25 July 2016 and noted that the said disposal did not materialise as the relevant parties could not reach an agreement on the definitive terms for the intended disposal. As such, we agree that it had not been practical for the Company to identify an independent third party purchaser to acquire the JVs.

We have been advised that, under such situation and via arms' length negotiations between the Company and Geely Holding, the parties reached a commercial decision to allow Geely Holding to settle a portion of the aggregate consideration within 180 calendar days from the date of the Master Disposal Agreement, also being 90 calendar days after the Long Stop Date. Furthermore, it is known to the Directors that other disposal agreements entered into between Geely Holding and other independent third parties also consist of similar payment terms. In assessing whether such payment terms are normal commercial terms, we have obtained and reviewed a sample disposal agreement entered into between Geely Holding and an independent third party, and noted that such agreement also consists of similar payment terms. We have also reviewed a number of recent transactions entered into by other listed companies on the Stock Exchange, and noted that it is common for the purchaser of an acquisition to settle part of the consideration after completion of the transaction.

In addition to the above, we have also reviewed the announcements of the Company dated 6 February 2015 and 1 June 2016, respectively, in respect of two acquisitions entered into between the Group as purchaser and companies ultimately beneficially owned by Mr. Li and his associates (that is, the ultimate beneficial owner of Geely Holding, the purchaser of the Disposals) as vendor, and noted that both acquisitions consist of similar payment terms. More particularly, agreements for both acquisitions only required the entire amount of the consideration to be settled by the Group within 60 calendar days from their respective completions. Therefore, similar payment terms exist for both situations where the Company is acquiring from or disposing to its connected person.

Taking into account the above, we concur with the view of the Directors that the payment terms for the Disposals are fair and reasonable.

### **6. Analysis on the fairness and reasonableness of the Consideration**

The Consideration for the Sale Shares is RMB1,346,486,590 under the Master Disposal Agreement.

In assessing the fairness and reasonableness of the Consideration, we have considered valuation methods commonly adopted for evaluating a company, namely, price-to-earnings (“P/E”) multiple and price-to-book (“P/B”) multiple approaches. Based on various market analyses and research reports on automobile companies we have obtained and reviewed, it is noted that the P/E multiple is predominantly the more commonly adopted approach in valuing automobile companies. Notwithstanding the foregoing, to assess the fairness and reasonableness of the Consideration, we have compared the P/E and P/B multiples of the Disposals as implied by the Consideration to those of the comparable companies listed on the Stock Exchange (the “Comparable Companies”).

In identifying the Comparable Companies, we have included electric vehicle companies and automobile companies (which are also involved in the manufacture and sale of electric vehicles) with a vast majority of their revenues being generated from the sale of automobiles and automobile parts. Six

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Comparable Companies were identified based on our selection criteria, namely, Guangzhou Automobile Group Company Limited, Great Wall Motor Company Limited, Dongfeng Motor Group Company Limited, BAIC Motor Corporation Limited, Brilliance China Automotive Holdings Limited, and Yadea Group Holdings Limited. To the best of our knowledge and endeavour, the identified list of Comparable Companies is an exhaustive list based on the selection criteria as described above and are in our view fair and representative for the purposes of our analysis.

Independent Shareholders should note that the business, operation, and prospect of the Comparable Companies are not exactly the same as that of the JVs, and thus the P/E and P/B multiples of the Comparable Companies are used only to provide a general reference of the recent valuation multiples of the Hong Kong-listed companies operating in the electric vehicle industry in the PRC. We have not conducted any in-depth investigation into the business and operation of the Comparable Companies save for the aforesaid selection criteria.

The list of the Comparable Companies and their respective P/E and P/B multiples are set out in the table below.

Stock code	Company	Market capitalisation <i>(Note 1)</i> <i>(HK\$ million)</i>	Closing share price <i>(Note 1)</i> <i>(HK\$)</i>	Historical P/E <i>(Note 2)</i> <i>(times)</i>	LTM P/E <i>(Note 3)</i> <i>(times)</i>	P/B <i>(Note 4)</i> <i>(times)</i>
2238 HK	Guangzhou Automobile Group Co., Ltd.	138,587	9.58	11.95	7.89	1.26
2333 HK	Great Wall Motor Co., Ltd.	90,042	7.48	6.89	6.87	1.41
489 HK	Dongfeng Motor Group Co., Ltd.	80,475	9.34	5.65	5.85	0.77
1958 HK	BAIC Motor Corp., Ltd.	52,332	6.89	12.69	12.13	1.24
1114 HK	Brilliance China Automotive Holdings Ltd.	45,690	9.07	10.57	11.18	1.74
1585 HK	Yadea Group Holdings Ltd.	4,800	1.60	10.36	10.36	2.14
			<b>Average</b>	<b>9.68</b>	<b>9.05</b>	<b>1.42</b>
			<b>Median</b>	<b>10.47</b>	<b>9.13</b>	<b>1.33</b>
			<b>Maximum</b>	<b>12.69</b>	<b>12.13</b>	<b>2.14</b>
			<b>Minimum</b>	<b>5.65</b>	<b>5.85</b>	<b>0.77</b>
	<b>The Disposals</b>			<b>10.38</b>	<b>18.84</b>	<b>1.11</b>
				<i>(Note 5)</i>	<i>(Note 6)</i>	<i>(Note 7)</i>

Source: Bloomberg

Notes:

1. Based on the respective closing share prices of the Comparable Companies as at the date of the Master Disposal Agreement

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## LETTER FROM CHALLENGE CAPITAL

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2. Calculated based on the respective closing share prices of the Comparable Companies as at the date of the Master Disposal Agreement divided by their respective earnings per share for the latest completed financial year (the “**Historical P/E**”) as extracted from Bloomberg\*
3. Calculated based on the respective closing share prices of the Comparable Companies as at the date of the Master Disposal Agreement divided by their respective earnings per share for the latest twelve-month period (the “**LTM P/E**”) as extracted from Bloomberg\*
4. Calculated based on the respective closing share prices of the Comparable Companies as at the date of the Master Disposal Agreement divided by their respective book value per share as of the latest published financial period as extracted from Bloomberg\*
5. Calculated by dividing the Consideration by the aggregated net profit attributable to the Sale Shares for the year ended 31 December 2015
6. Calculated by dividing the Consideration by the aggregated net profit attributable to the Sale Shares for the latest twelve-month period, which in turn was calculated by subtracting the aggregated net profit attributable to the Sale Shares for the six months ended 30 June 2015 from the aggregated net profit attributable to the Sale Shares for the year ended 31 December 2015 and adding the aggregated net loss attributable to the Sale Shares for the six months ended 30 June 2016
7. Calculated by dividing the Consideration by the aggregated net assets attributable to the Sale Shares as at 30 June 2016

\* With the exception of Yadea Group Holdings Limited which was listed in the Stock Exchange on 19 May 2016 and the per share data of which is not available from Bloomberg. The Historical P/E, LTM P/E and P/B multiples of Yadea Group Holdings Limited were calculated based on its market capitalisation as at the date of the Master Disposal Agreement divided by the consolidated net profit attributable to shareholders for the latest completed financial year, the consolidated net profit attributable to shareholders for the latest twelve-month period, and the total equity attributable to shareholders as of the latest published financial period, respectively, as extracted from Bloomberg.

The Consideration is (i) approximately 10.38 times the aggregated net profit attributable to the Sale Shares for the year ended 31 December 2015 (the “**Historical Disposal P/E**”); (ii) approximately 18.84 times the aggregated net profit attributable to the Sale Shares for the latest twelve-month period (the “**LTM Disposal P/E**”); and (iii) approximately 1.11 times the aggregated net assets attributable to the Sale Shares as at 30 June 2016 (the “**Disposal P/B**”).

The Historical P/E multiples of the Comparable Companies range between 5.65 times and 12.69 times with average being 9.68 times. As such, the Historical Disposal P/E falls within the range and is higher than the average of the Historical P/E multiples of the Comparable Companies.

Having considered the impact of recent policies in relation to the eligibility of electric vehicles for subsidies in the PRC has on the current financial performances of the JVs as described above, we consider it more appropriate to base our assessment of the Consideration on the analysis using the LTM P/E multiples, which are calculated based on the earnings per share for the latest published twelve-month period and are considered to better reflect the recent financial performance of a company as compared to the Historical P/E multiples.

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The LTM P/E multiples of the Comparable Companies range between 5.85 times and 12.13 times with average being 9.05 times. As such, the LTM Disposal P/E is higher than the range and the average of the LTM P/E multiples of the Comparable Companies.

The P/B multiples of the Comparable Companies range between 0.77 times and 2.14 times with average being 1.42 times. As such, while the Disposal P/B falls within the range of the P/B multiples of the Comparable Companies, it is lower than the average of the P/B multiples of the Comparable Companies. However, as mentioned earlier, based on various market analyses and research reports on automobile companies we have obtained and reviewed, it is noted that the P/E multiple is predominantly the more commonly adopted approach as compared to the P/B multiple in valuing automobile companies.

Furthermore, we have enquired with the Company's management and were given to understand that, in contrast to the Comparable Companies, both JVs have been relying on Geely Holding for its car manufacturing licence (汽車生產資質) for the manufacture of electric vehicles. Moreover, the Kandi JV does not own any proprietary brands but has been selling its electric vehicles under the "Kandi" brand owned by an associate of Kandi Technologies, the holding company of Kandi Vehicles, or the "Geely" brand owned by Geely Holding. We consider that the P/B multiple may not be the most relevant approach in assessing the fairness and reasonableness of the Consideration by reason of its inability to take into account the value of certain intangible assets (such as licences, qualifications and brands) which are crucial to the operation of automobile companies but are often not reflected in the book values.

We noted that the other shareholder of the Kandi JV, Kandi Vehicles, is indirectly wholly-owned by Kandi Technologies, a company listed on NASDAQ. We also noted that a significant portion of Kandi Technologies' revenue and net profit came from its sales to and share of profits of the Kandi JV for the latest financial year. Therefore, we consider it meaningful to include also Kandi Technologies in our analysis.

It should be noted that valuation of companies listed in other countries is subject to different market fundamental, technical, capitalisation and/or sentimental factors. It should also be noted that we have not taken into account the differences in accounting policies and standards as well as tax treatments between Hong Kong and the United States (the "US"), and that such analysis should only be viewed as an additional reference to supplement the analysis based on the Comparable Companies above. We set out below the P/E and P/B multiples of Kandi Technologies.

Stock code	Company	Market capitalisation <i>(Note 1)</i> <i>(US\$ million)</i>	Closing share price <i>(Note 1)</i> <i>(US\$)</i>	Historical P/E <i>(Note 2)</i> <i>(times)</i>	LTM P/E <i>(Note 3)</i> <i>(times)</i>	P/B <i>(Note 4)</i> <i>(times)</i>
KNDI US	Kandi Technologies Group Inc.	343	7.20	23.23	57.01	1.36
	<b>The Disposals</b>			<b>10.38</b>	<b>18.84</b>	<b>1.11</b>

Source: Bloomberg

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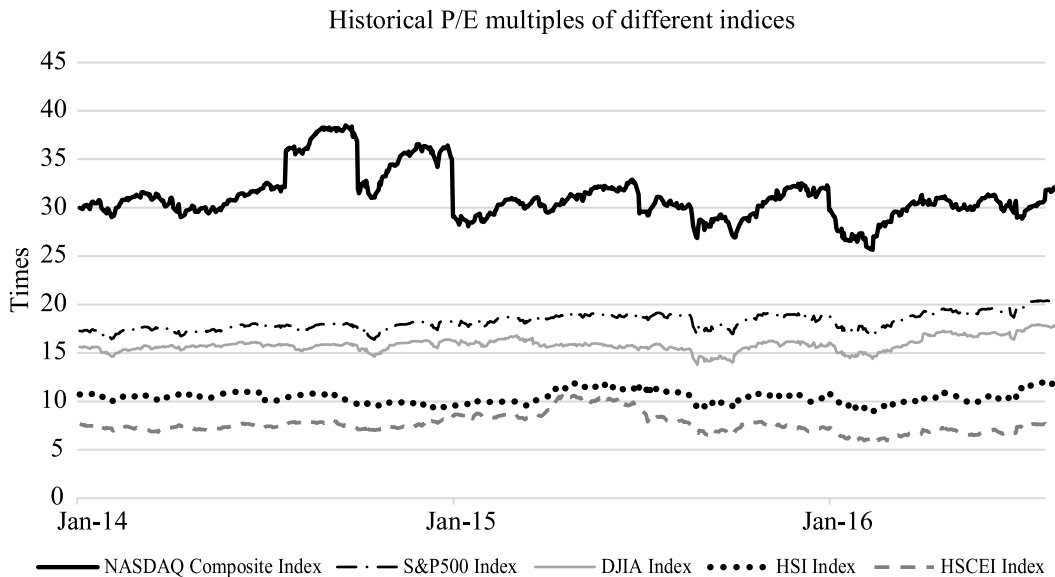
## LETTER FROM CHALLENGE CAPITAL

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*Notes:*

1. Based on the closing share price of Kandi Technologies as at the date of the Master Disposal Agreement
2. Calculated based on the closing share price of Kandi Technologies as at the date of the Master Disposal Agreement divided by its earnings per share for the latest completed financial year as extracted from Bloomberg
3. Calculated based on the closing share price of Kandi Technologies as at the date of the Master Disposal Agreement divided by its earnings per share for the latest twelve-month period as extracted from Bloomberg
4. Calculated based on the closing share price of Kandi Technologies as at the date of the Master Disposal Agreement divided by its book value per share as of the latest published financial period as extracted from Bloomberg

The Historical P/E and LTM P/E multiples of Kandi Technologies are 23.23 times and 57.01 times, respectively. The P/B multiple of the Kandi Technologies is 1.36 times. As such, the Historical P/E, LTM P/E and the P/B multiples of the Disposals implied by the Consideration are lower than that of Kandi Technologies. However, as mentioned earlier, valuation of companies listed in other countries is subject to different market fundamental, technical, capitalisation and/or sentimental factors, and in the case of US-listed companies, it is noted that stocks listed in the US have consistently been trading at higher P/E and P/B multiples than that of Hong Kong in recent years as depicted in the charts below:



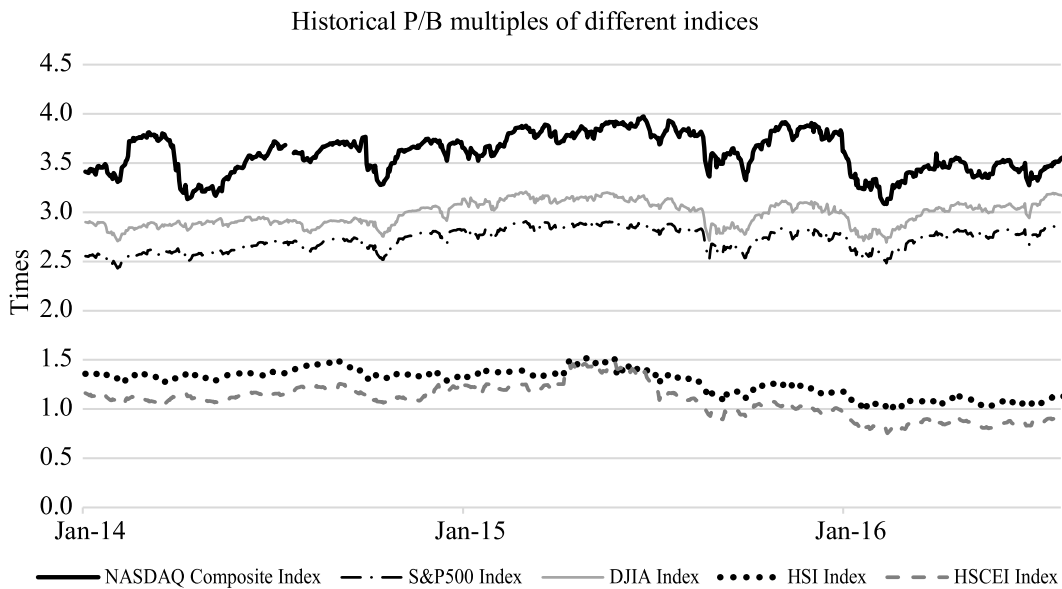
*Source: Bloomberg*



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Source: Bloomberg

From the charts above it can be noted that all of the three major US indices, namely, Dow Jones Industrial Average, S&P 500 and NASDAQ Composite Index, have had higher P/E and P/B multiples than that of the Hang Seng Index and Hang Seng China Enterprises Index throughout the period since 2014 till the Latest Practicable Date. Taking into account the above, in particular, the consistent valuation differential between the Hong Kong and US markets, we are of the view that the above analysis should serve as an additional reference only and that it is more appropriate to base our assessment of the Consideration on the analysis of the Comparable Companies as detailed above.

Having considered the above, more particularly, that:

- (i) the Historical Disposal P/E is within the range and higher than the average of the Historical P/E multiples of the Comparable Companies;
- (ii) the LTM Disposal P/E is higher than the range and the average of the LTM P/E multiples of the Comparable Companies;
- (iii) while the Disposal P/B is within the range but lower than the average of the P/B multiples of the Comparable Companies, we consider that the P/B multiple may not be the most relevant approach in assessing the Consideration for reasons as discussed above; and
- (iv) while the Historical Disposal P/E, LTM Disposal P/E and the Disposal P/B multiples are lower than the Historical P/E, LTM P/E and the P/B multiples of Kandi Technologies, respectively, we consider that it is more appropriate to base our assessment of the Consideration on the analysis of the Comparable Companies for reasons as discussed above,

we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

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### **7. Financial effects of the Disposals**

Upon completion of the Disposals, the Group's interests in each of the JVs will be transferred to Geely Holding, and the financial statements of the JVs will no longer be equity-accounted for in the consolidated financial statements of the Company.

#### *Earnings*

As stated in the Letter from the Board, subject to final audit, it is expected that the Group will realise a gain on disposal on its profit or loss statements of approximately RMB139 million which is calculated by reference to the carrying value of the Kandi JV and the Zhidou JV as at 30 June 2016. Therefore, it is expected that the Disposals would have an immediate positive effect on the earnings of the Group upon completion.

Furthermore, having considered the recent financial performances of the JVs, more particularly, the deterioration in profit of the Kandi JV and the net loss incurred by the Zhidou JV in the first half of 2016 as described above, it is expected that the Disposals would improve the profitability of the Group.

#### *Net assets attributable to Shareholders*

According to the 2016 Interim Report, the net assets attributable to Shareholders of the Company amounted to approximately RMB21.1 billion as at 30 June 2016. Taking into account the estimated gain on disposal of approximately RMB139 million, it is expected that the Disposals would increase the net asset value of the Group upon completion.

#### *Liquidity and working capital*

According to the Letter from the Board, the Directors currently intend to apply the proceeds from the Disposals for general working capital of the Company. Given that the Group would gain additional cash from the net proceeds of the Disposals, it is expected that the Disposals would have a positive effect on the liquidity and working capital position of the Group upon completion.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Disposals.

### **8. Conclusion**

Having taken into account the above, in particular, (i) the reasons for and benefits of the Disposals; (ii) the principal terms of the Master Disposal Agreement; (iii) the analysis on the fairness and reasonableness of the Consideration; and (iv) the financial effects of the Disposals, we are of the view that the terms of the Disposals are on normal commercial terms, 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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## LETTER FROM CHALLENGE CAPITAL

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### RECOMMENDATIONS

Having considered the principal factors and reasons referred to in the above, we are of the opinion that, although the Disposals are not in the ordinary and usual course of business of the Group, the terms of the Master Disposal Agreement are on normal commercial terms, 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.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to be convened to approve the Master Disposal Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of

**Challenge Capital Management Limited**

**Wilson Fok**  
*Managing Director*

**Esther Yuen**  
*Director*

*Mr. Wilson Fok is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance.*

*Ms. Esther Yuen is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance.*

## 1. RESPONSIBILITY STATEMENT

The 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 Group. The Directors having made all reasonable enquires, 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 of this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's and chief executives' interests and short positions

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required: (a) to be 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 under such provisions of the SFO); or which are required, (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which are required, (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

#### (i) Director's interests and short positions in the securities of the Company

Name of Director	Nature of interests	Number or attributable number of Shares		Approximate percentage or attributable percentage of shareholding (%)
		Long position	Short position	
<b>Shares</b>				
Mr. Li ( <i>Note 1</i> )	Interest in controlled corporations	3,759,959,000	–	42.59
Mr. Li ( <i>Note 1</i> )	Personal	23,140,000	–	0.26
Mr. Yang Jian	Personal	14,475,000	–	0.16
Mr. Li Dong Hui, Daniel	Personal	2,000,000	–	0.02
Mr. Gui Sheng Yue	Personal	14,300,000	–	0.16
Mr. An Cong Hui	Personal	15,380,000	–	0.17
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.05
Ms. Wei Mei	Personal	4,170,000	–	0.05
Mr. Yeung Sau Hung, Alex	Personal	350,000	–	0.004

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. Yang Jian	Personal	12,000,000 (Note 2)	–	0.14
Mr. Li Dong Hui, Daniel	Personal	7,000,000 (Note 3)	–	0.08
Mr. Gui Sheng Yue	Personal	11,500,000 (Note 2)	–	0.13
Mr. Gui Sheng Yue	Personal	6,000,000 (Note 4)	–	0.07
Mr. An Cong Hui	Personal	9,000,000 (Note 2)	–	0.10
Mr. Ang Siu Lun, Lawrence	Personal	11,000,000 (Note 2)	–	0.12
Mr. Ang Siu Lun, Lawrence	Personal	5,000,000 (Note 4)	–	0.06
Ms. Wei Mei	Personal	3,000,000 (Note 2)	–	0.03
Ms. Wei Mei	Personal	5,000,000 (Note 3)	–	0.06
Mr. Carl Peter Edmund Moriz Forster	Personal	1,000,000 (Note 4)	–	0.01
Mr. Lee Cheuk Yin, Dannis	Personal	300,000 (Note 2)	–	0.003
Mr. Lee Cheuk Yin, Dannis	Personal	750,000 (Note 4)	–	0.01
Mr. Yeung Sau Hung, Alex	Personal	300,000 (Note 2)	–	0.003
Mr. Yeung Sau Hung, Alex	Personal	750,000 (Note 4)	–	0.01
Mr. An Qing Heng	Personal	1,000,000 (Note 4)	–	0.01
Mr. Wang Yang	Personal	1,000,000 (Note 4)	–	0.01

*Notes:*

1. Proper Glory Holding Inc. (“**Proper Glory**”) and its concert parties in aggregate hold 3,759,959,000 Shares (excluding those held directly by Mr. Li), representing approximately 42.59% of the 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 beneficially wholly owned by Mr. Li and his associate.
2. The interest relates to share options granted on 18 January 2010 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each Share during the period from 18 January 2010 to 17 January 2020. The percentage of shareholding is calculated on the basis that (i) the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that of the Latest Practicable Date.
3. The interest relates to share options granted on 23 March 2012 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$4.07 for each Share during the period from 23 March 2012 to 22 March 2022. The percentage of shareholding is calculated on the basis that (i) the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that of the Latest Practicable Date.
4. The interest relates to share options granted on 9 January 2015 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$2.79 for each Share during the period from 9 January 2016 to 8 January 2020. The percentage of shareholding is calculated on the basis that (i) the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that of the Latest Practicable Date.

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

Name of Director	Name of its associated corporations	Number of Shares in its associated corporations		Approximate percentage of shareholding (%)
		Long position	Short position	
Mr. Li	Proper Glory Holding Inc.	(Note 1)	–	(Note 1)
Mr. Li	Geely Group Limited	50,000	–	60
Mr. Li	Zhejiang Geely Holding Group Company Limited	(Note 2)	–	(Note 2)
Mr. Li	Zhejiang Geely Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li	Shanghai Maple Automobile Company Limited	(Note 4)	–	(Note 4)
Mr. Li	Zhejiang Haoqing Automobile Manufacturing Company Limited	(Note 5)	–	(Note 5)

Name of Director	Name of its associated corporations	Number of Shares in its associated corporations		Approximate percentage of shareholding (%)
		Long position	Short position	
Mr. Li	Zhejiang Jirun Automobile Company Limited	(Note 6)	–	(Note 6)
Mr. Li	Shanghai Maple Guorun Automobile Company Limited	(Note 7)	–	(Note 7)
Mr. Li	Zhejiang Kingkong Automobile Company Limited	(Note 8)	–	(Note 8)
Mr. Li	Zhejiang Ruhoo Automobile Company Limited	(Note 9)	–	(Note 9)
Mr. Li	Hunan Geely Automobile Components Company Limited	(Note 10)	–	(Note 10)
Mr. Li	Chengdu Gaoyuan Automobile Industries Company Limited	(Note 11)	–	(Note 11)
Mr. Li	Jinan Geely Automobile 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 Zhejiang Geely Holding Group Company Limited (“**Geely Holding**”) and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is wholly owned by Mr. Li and his associate. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
- Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
- Zhejiang Geely Automobile Company Limited (“**Zhejiang Geely**”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
- Shanghai Maple Automobile Company Limited (“**Shanghai Maple Automobile**”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
- Zhejiang Haoqing Automobile Manufacturing Company Limited (“**Zhejiang Haoqing**”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
- Zhejiang Jirun Automobile Company Limited (“**Zhejiang Jirun**”) is private company incorporated in the PRC and is 1%-owned by Zhejiang Geely. Zhejiang Geely is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.

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. Shanghai Maple Automobile is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
8. Zhejiang Kingkong Automobile Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
9. Zhejiang Ruhoo Automobile Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
10. Hunan Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing. Zhejiang Haoqing is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.
11. Chengdu Gaoyuan Automobile Industries Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1%-owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li and his associate.
12. Jinan Geely Automobile Company Limited is a private company incorporated in the PRC and is owned as to 90% by Zhejiang Jirun and as to 10% by Shanghai Maple. Zhejiang Jirun and Shanghai Maple is 1%-owned by Zhejiang Geely and Shanghai Maple Automobile, respectively. Both Zhejiang Geely and Shanghai Maple Automobile are private companies incorporated in the PRC and are beneficially wholly owned by Mr. Li and his associate.

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

**(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	Lending pool	
Proper Glory (Note 1)	Beneficial owner	2,471,200,000	-	-	27.99
Geely Holding (Note 1)	Interest in controlled corporation	3,759,872,000	-	-	42.59
Zhejiang Geely (Note 2)	Beneficial owner	776,408,000	-	-	8.79
Geely Group Limited (Note 1)	Beneficial owner Interest in controlled corporation	87,000 2,471,200,000	- -	- -	0.001 27.99
JPMorgan Chase & Co.	Interest in controlled corporation	518,735,663	-	-	5.88
		-	71,515,809	-	0.81
		-	-	211,831,895	2.40
Citigroup Inc.	Interest in controlled cooperation	521,409,099	-	-	5.91
		-	275,606,325	-	3.12
		-	-	266,173,684	3.01

Notes:

1. Proper Glory Holding Inc. (“**Proper Glory**”) is a private company incorporated in the British Virgin Islands and is owned as to 68% by Zhejiang Geely Holding Group Company Limited (“**Geely Holding**”) and as to 32% by Geely Group Limited. Geely Group Limited is a limited liability company incorporated in the British Virgin Islands and is wholly owned by Mr. Li and his associate. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li and his associate.
2. Zhejiang Geely Automobile Company Limited (“**Zhejiang Geely**”) is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li and his associate.

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

Save as disclosed above, 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. COMPETING BUSINESSES

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 that 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.

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.

#### 4. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENT

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 2015, 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.

Save for disclosed 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.

- **Services agreement between the Company and Geely Holding (the services agreement has an effective term until 31 December 2020)**
  - *Sales of complete knock down kits ("CKDs") and sedan tool kits from the Group to the Geely Holding Group*

Pursuant to the services agreement dated 27 November 2009 and the Company's announcement dated 13 November 2015, the Group agreed to supply to the Geely Holding Group the CKDs and sedan tool kits in accordance with the product specifications set out in the services agreement with an aggregate largest annual cap of RMB83,768,317,000.

- *Sales of complete buildup units ("CBUs"), automobile parts and components; and provision of process manufacturing services from the Geely Holding Group to the Group*

Pursuant to the services agreement dated 27 November 2009 and the Company's announcement dated 13 November 2015, the Geely Holding Group agreed to sell to the Group the CBUs, automobile parts and components; and to provide process manufacturing services to the Group in accordance with the product and service specifications set out in the services agreement with an aggregate largest annual cap of RMB115,283,866,000.

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 aforesaid services agreement was held on 31 December 2009 and the services agreement was duly approved by the then Independent Shareholders.

- ***Loan guarantee agreement between the Company and Geely Holding (the loan guarantee agreement has an effective term until 31 December 2018)***

Pursuant to the loan guarantee agreement dated 13 November 2015 and the Company's announcement dated 13 November 2015, the Group agreed to provide guarantees (including the pledge of certain lands, buildings and facilities of the Group) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Group's subsidiaries in relation to the manufacture and research and development of sedans of the Group with the largest annual cap being RMB1,500,000,000.

As the applicable percentage ratios of the continuing connected transactions contemplated under the loan guarantee agreement are higher than 5% on an annual basis, the loan guarantee 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 loan guarantee agreement was held on 30 December 2015 and the loan guarantee agreement was duly approved by the then Independent Shareholders.

- ***Electric vehicle agreement between the Company and Geely Holding (the electric vehicle agreement has an effective term until 31 December 2018)***

Pursuant to the electric vehicle agreement dated 13 November 2015, the Group agreed to sell the CBUs for electric vehicles to the Geely Holding Group in accordance with the product and service specifications set out in the electric vehicle agreement with the largest annual cap being RMB4,000,000,000.

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' meeting in respect of the aforesaid electric vehicle agreement was held on 30 December 2015 and the electric vehicle agreement was duly approved by the then Independent Shareholders.

- ***CBU agreement between the Company and Geely Holding, as supplemented by a supplemental CBU agreement (the CBU agreement and the supplemental CBU agreement have an effective term until 31 December 2017)***

Pursuant to the CBU agreement dated 12 December 2014 and the supplemental CBU agreement dated 13 November 2015, the Group agreed to sell to the Geely Holding Group the CBUs, in accordance with the product and service specifications set out in the CBU agreement with the largest annual cap being RMB868,088,000.

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

- ***IT services agreement between the Company and Geely Holding (the IT services agreement has an effective term until 31 December 2018)***

Pursuant to the IT services agreement dated 13 November 2015, the Geely Holding Group agreed to provide certain information technology ("IT") services to the Group with the largest annual cap being RMB70,827,000.

As the applicable percentage ratios of the continuing connected transactions contemplated under the IT services agreement are less than 5% on an annual basis, the IT 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.

- ***Business travel services agreement between the Company and Geely Holding (the business travel services agreement has an effective term until 31 December 2018)***

Pursuant to the business travel services agreement dated 13 November 2015, the Geely Holding Group agreed to provide business travel and related services to the Group with the largest annual cap being RMB126,732,000.

As the applicable percentage ratios of the continuing connected transactions contemplated under the business travel services agreement are 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.

- **The Volvo finance cooperation agreements between Genius AFC and VCDC and ZJSH (the Volvo finance cooperation agreements have an effective term until 31 December 2018) (capitalized terms were defined in the circular of the Company dated 28 January 2016)**

- *Wholesale facility agreement between Genius AFC and Volvo wholesale dealers (the wholesale facility agreement has an effective term until 31 December 2018)*

Pursuant to the wholesale facility agreement dated 11 December 2015, Genius AFC will provide vehicles financing to Volvo wholesale dealers to facilitate their purchase of Volvo-branded vehicles with the largest annual cap being RMB49,000 million.

As the applicable percentage ratios of the continuing connected transactions contemplated under the wholesale facility agreement are higher than 5% on an annual basis, the wholesale facility 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 wholesale facility agreement was held on 18 February 2016 and the wholesale facility agreement was duly approved by the then Independent Shareholders.

- *Retail loan cooperation agreement between Genius AFC and Volvo retail consumers (the retail loan cooperation agreement has an effective term until 31 December 2018)*

Pursuant to the retail loan cooperation agreement dated 11 December 2015, dealers of Volvo 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 RMB11,000 million.

As the applicable percentage ratios of the continuing connected transactions contemplated under the retail loan cooperation agreement are higher than 5% on an annual basis, the retail loan 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 retail loan cooperation agreement was held on 18 February 2016 and the retail loan cooperation agreement was duly approved by the then Independent Shareholders.

- *Baoji acquisition agreement between Baoji Geely with Jirun Automobile (capitalized terms were defined in the circular of the Company dated 21 July 2016)*

Pursuant to the Baoji acquisition agreement dated 1 June 2016, Jirun Automobile has conditionally agreed to acquire and Baoji Geely has conditionally agreed to sell the entire registered capital of the Baoji Target, for RMB702,206,798.

As the applicable percentage ratios of the discloseable and connected transactions contemplated under the Baoji acquisition agreement are higher than 5% on an annual basis, the Baoji acquisition 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 Baoji acquisition agreement was held on 8 August 2016 and the Baoji acquisition agreement was duly approved by the then Independent Shareholders.

- ***Shanxi acquisition agreement between Baoji Geely with Jirun Automobile (capitalized terms were defined in the circular of the Company dated 21 July 2016)***

Pursuant to the Shanxi acquisition agreement dated 1 June 2016, Jirun Automobile has conditionally agreed to acquire and Shanxi New Energy has conditionally agreed to sell the entire registered capital of the Shanxi Target, for RMB720,244,135.

As the applicable percentage ratios of the discloseable and connected transactions contemplated under the Shanxi acquisition agreement are higher than 5% on an annual basis, the Shanxi acquisition 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 Shanxi acquisition agreement was held on 8 August 2016 and the Shanxi acquisition agreement was duly approved by the then Independent Shareholders.

- ***Kandi automobile parts supply agreement between the Company and Kandi JV (the Kandi automobile parts supply agreement has an effective term until 31 December 2018)***

Pursuant to the Kandi automobile parts supply agreement dated 25 July 2016, the Group agreed to sell automobile parts and components to the Kandi JV with the largest annual cap being RMB317,991,000.

As the applicable percentage ratios of the continuing connected transactions contemplated under the Kandi automobile parts supply agreement are less than 5% on an annual basis, the 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.

- *EV CKD supply agreement between the Company and Geely Holding (the EV CKD supply agreement has an effective term until 31 December 2018)*

Pursuant to the EV CKD supply agreement dated 25 July 2016, the Group agreed to sell to the Geely Holding Group CKDs in accordance with the product specifications set out in the EV CKD supply agreement with the largest annual cap being RMB1,185,914,000.

As the applicable percentage ratios of the continuing connected transactions contemplated under the EV CKD supply agreement are less than 5% on an annual basis, the 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.

## 5. 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)).

## 6. 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 2015, the date to which the latest published audited accounts of the Company have been made up.

## 7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Challenge Capital Management Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Challenge Capital:

- 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;
- 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 2015, 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.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) had been entered into by the members of the Group after the date being two years immediately preceding the date of the announcement dated 25 July 2016 but on or before the date of this circular and which are or may be material:

- (a) the Master Disposal Agreement;
- (b) the acquisition agreement dated 1 June 2016 entered into between 寶雞吉利汽車有限公司 (Baoji Geely Automobile Company Limited) (“**Baoji Geely**”), a wholly owned subsidiary of 浙江豪情汽車製造有限公司 (Zhejiang Haoqing Automobile Manufacturing Company Limited) (“**Zhejiang Haoqing**”), pursuant to which 浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited) agreed to acquire and Baoji Geely agreed to sell the entire issued share capital of 寶雞吉利汽車部件有限公司 (Baoji Geely Automobile Components Company Limited) for a consideration of RMB702,206,798;
- (c) the acquisition agreement dated 1 June 2016 entered into between 山西新能源汽車工業有限公司 (Shanxi New Energy Automobile Industrial Company Limited) (“**Shanxi Geely**”), a wholly owned subsidiary of 浙江豪情汽車製造有限公司 (Zhejiang Haoqing Automobile Manufacturing Company Limited) (“**Zhejiang Haoqing**”), pursuant to which 浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited) agreed to acquire and Shanxi Geely agreed to sell the entire issued share capital of 山西吉利汽車部件有限公司 (Shanxi Geely Automobile Components Company Limited) for a consideration of RMB720,244,135;
- (d) the assets disposal agreement dated 4 March 2015 entered into between the Company and 浙江萬里揚變速器股份有限公司 (Zhejiang Wanliyang Transmission Co. Ltd.) (“**Zhejiang Wanliyang**”), an independent third party to the Company and its connected persons, pursuant to which the Group agreed to sell and Zhejiang Wanliyang agreed to purchase the assets, which mainly comprised transmission production lines and related equipment, for a total consideration of RMB300 million;
- (e) the acquisition agreement entered into between Zhejiang Jirun Automobile Company Limited, a 99% owned subsidiary of the Company, and Zhejiang Geely Automobile Company Limited on 6 February 2015 in relation to the acquisition of the entire registered capital of 浙江吉潤春曉汽車部件有限公司 (Zhejiang Jirun Chunxiao Automobile Components Company Limited) for a consideration of RMB1,137,840,545;
- (f) the joint venture agreement dated 8 January 2015 entered into between two subsidiaries of the Company and independent third parties regarding the establishment of a joint venture company with the registered capital of RMB1,000 million engaging in the research and production of automobile parts, components and engines, production of electric vehicles and the provision of related after-sale service; and

- (g) the three disposal agreements dated 21 July 2014 entered into between (i) the Company and Proper Glory Holding Inc. regarding the Company's disposal of the entire issued share capital of DSI Holdings Pty Limited for a total consideration of AUD88,353,755 (Proper Glory is a connected person of the Company); (ii) Hunan Geely Automobile Components Company Limited ("**Hunan Automobile Components**"), 99% indirect owned subsidiary of the Company, and Zhejiang Geely Automobile Parts and Components Company Limited ("**Zhejiang Geely Components**") regarding Hunan Automobile Components' disposal of 50% of the registered capital of Hunan Jisheng International Drivetrain System Company Limited for a consideration of RMB85,500,000 (Zhejiang Geely Components is a connected person of the Company); and (iii) Jinan Geely Automobile Components Company Limited ("**Jinan Automobile Components**"), 99% indirect owned subsidiary of the Company, and Zhejiang Geely Components regarding Jinan Automobile Components' disposal of the entire issued share capital of Shandong Geely Gearbox Company Limited for a consideration of RMB100,000,000 (Zhejiang Geely Components is a connected person of the Company).

## 9. GENERAL

- (a) The registered office of the Company is situated at P.O. Box 309, Ugland Town, 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 the case of inconsistency.

## 10. 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, 11 October 2016:

- (a) the Articles of Association;
- (b) the annual report of the Company for the two years ended 31 December 2014 and 2015;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 20 of this circular;

- (d) the letter from Challenge Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 41 of this circular;
- (e) the written consent from Challenge Capital referred to in the paragraph headed “Expert’s qualification and consent” in this appendix;
- (f) the material contracts as referred to under the paragraph headed “Material contracts” in this appendix; and
- (g) this circular.

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## NOTICE OF THE 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 the shareholders (the “**Shareholders**”) of Geely Automobile Holdings Limited (the “**Company**”) will be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Tuesday, 11 October 2016 at 10:00 a.m. or at any adjustment thereof for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

To consider and, if though fit, pass with or without amendment, the following resolution as an ordinary resolution of the Company:

1. “**THAT:**

- (a) the conditional agreement dated 25 July 2016 (the “**Master Disposal Agreement**”) (a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for the purpose of identification) 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**”) pursuant to which Geely Holding will:
  - (i) acquire from 上海華普國潤汽車有限公司 (Shanghai Maple Guorun Automobile Company Limited) (“**Shanghai Maple Guorun**”), a 99% owned subsidiary of the Company, its 50% interest in the registered capital of 康迪電動汽車集團有限公司 (Kandi Electric Vehicles Group Co., Ltd.), a 50% held joint venture company of the Company, and accept the novation of an entrusted shareholder’s loan in the amount of RMB150,000,000 from Shanghai Maple Guorun and the repayment of such loan to Shanghai Maple Guorun; and
  - (ii) acquire from Shanghai Maple Guorun and 浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited), both being 99% owned subsidiaries of the Company, their aggregate 45% interest in the registered capital of the 寧海知豆電動汽車有限公司 (Ninghai Zhidou Electric Vehicles Company Limited), a 45% held joint venture company of the Company,

for an aggregate consideration of RMB1,346,486,590 be and are hereby approved, ratified and confirmed; and

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## NOTICE OF THE EGM

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- (b) any one or more directors of the Company be and is/are hereby authorized to do all such acts and things which he/she/they may consider necessary, desirable or expedient to implement the transactions contemplated under the Master Disposal Agreement and completion thereof.”

By Order of the Board  
**Geely Automobile Holdings Limited**  
**David C.Y. Cheung**  
*Company Secretary*

Hong Kong, 23 September 2016

*Notes:*

- (1) Any 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 of the Company.
- (2) 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 meeting or any adjournment thereof.
- (3) 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, the non-executive director of the Company is Mr. Carl Peter Edmund Moriz Forster and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang.*