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

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

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

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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) CONTINUING CONNECTED TRANSACTIONS; AND  
(2) DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE ACQUISITIONS**

**Financial adviser to Geely Automobile Holdings Limited**



**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 44 to 45 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 46 to 100 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 Friday, 7 December 2018 at 4:30 p.m. is set out on pages EGM-1 to EGM-4 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.

20 November 2018

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## DEFINITIONS

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

“2009 Services Agreement”	the agreement dated 27 November 2009 entered into between the Company and Geely Holding for (i) the sale of CKDs and Vehicle Tool Kits by the Group to the Geely Holding Group; and (ii) the sale of CBUs, automobile parts and components, and provision of process manufacturing services by the Geely Holding Group to the Group
“2015 Electric Vehicle Agreement”	the agreement dated 13 November 2015 entered into between the Company and Geely Holding for the sale of CBUs of electric vehicles by the Group to the Geely Holding Group
“2016 Supplemental EV Agreement”	the supplemental agreement to the 2015 Electric Vehicle Agreement dated 5 October 2016 entered into between the Company and Geely Holding to revise the annual caps for the transactions contemplated under the 2015 Electric Vehicle Agreement
“Acquisitions”	the TZ Acquisition and the GZ Acquisition, collectively
“Acquisition Agreements”	the TZ Acquisition Agreement and the GZ Acquisition Agreement, collectively
“Assets Acquisition Agreement”	the agreement dated 5 October 2018 entered into between the Company and Geely Holding for the purchase by the Group from the Geely Holding Group of the assets which primarily consist of imported machinery and equipment. For details, please refer to the announcement of the Company dated 5 October 2018 in relation to the exempted connected transaction
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Automobile Components Procurement Agreement”	the master agreement dated 5 October 2018 entered into between the Company and Geely Holding for the procurement of automobile components by the Group from the Geely Holding Group
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays, Sundays and public holidays) on which banks are open for business in Hong Kong and the PRC

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## DEFINITIONS

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“Business Travel Services Agreement”	the master agreement dated 5 October 2018 entered into between the Company and Geely Holding for the provision of certain business travel services (including, but not limited to, the booking of air tickets, accommodations and other transportations, and exhibition and conference related services) by the Geely Holding Group to the Group. For details, please refer to the announcement of the Company dated 5 October 2018 in relation to the exempted continuing connected transactions
“Cao Cao”	a new energy focused ride hailing and mobility service in the PRC
“CKD(s)”	Complete Knock Down Kit(s) (整車成套件), a complete kit needed to assemble a vehicle
“CBU(s)”	Complete Buildup Unit(s) (整車), a complete vehicle after the final assembly
“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
“Continuing Connected Transactions”	transactions contemplated under the Services Agreement, the Electric Vehicle Agreement, and the Automobile Components Procurement Agreement
“Dakin Capital” or “Independent Financial Adviser”	Dakin Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Continuing Connected Transactions; and (ii) the Acquisitions
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve (i) the Continuing Connected Transactions; and (ii) the Acquisitions
“Electric Vehicle Agreement”	the master agreement dated 5 October 2018 entered into among the Company, Geely Holding and GGL for the sale of CBUs of electric vehicles by the Group to the Geely Holding Group and the GGL Group
“Exempted Connected Transaction”	the acquisition pursuant to the Assets Acquisition Agreement

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## DEFINITIONS

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“Exempted Continuing Connected Transactions”	transactions contemplated under (i) the Proton Sales Agreement; (ii) the Kandi Automobile Parts Supply Agreement; (iii) the Zhidou EV CKD Supply Agreement; (iv) the Geely Holding & LYNK & CO Automobile Parts Supply Agreement; (v) the LYNK & CO Warehouse Services Agreement; and (vi) the Business Travel Services Agreement
“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 the PRC, and is ultimately wholly owned by Mr. Li and his associate
“Geely Holding Group”	Geely Holding and its subsidiaries
“Geely Holding & LYNK & CO Automobile Parts Supply Agreement”	a master agreement dated 5 October 2018 entered into among the Company, Geely Holding and LYNK & CO for the supply of automobile parts and components by the Group to the Geely Holding Group and the LYNK & CO Group. For details, please refer to the announcement of the Company dated 5 October 2018 in relation to the exempted continuing connected transactions
“Geely Ningbo”	吉利集團(寧波)有限公司 (Geely Group (Ningbo) Company Limited*), a limited liability company incorporated in the PRC, and is ultimately wholly owned by Mr. Li
“GGL”	吉利集團有限公司 (Geely Group Company Limited*), a private limited liability company incorporated in the PRC, and is ultimately wholly owned by Mr. Li and his associate
“GGL Group”	GGL and its subsidiaries
“Guiyang Engines”	貴陽吉利發動機有限公司 (Guiyang Geely Engines Company Limited*), a private limited liability company incorporated in the PRC owned as to 88.64% by Zhejiang Geely as at the Latest Practicable Date
“GZ Acquisition”	the acquisition of the entire registered capital of the GZ Target by Zhejiang Dongli from Guiyang Engines pursuant to the GZ Acquisition Agreement
“GZ Acquisition Agreement”	the acquisition agreement entered into between Zhejiang Dongli and Guiyang Engines on 5 October 2018 in relation to the GZ Acquisition
“GZ Properties”	an industrial complex located in Baiyun District, Guiyang City, Guizhou Province, the PRC

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## DEFINITIONS

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“GZ Property Value”	market value of the GZ Properties as stated in the Valuation Report
“GZ Shareholder’s Loan”	interest-free loan up to a maximum amount of RMB1,157.2 million on the completion date of the GZ Acquisition made to the GZ Target by the Geely Holding Group
“GZ Target”	貴州吉利發動機有限公司(Guizhou Geely Engine Company Limited*), a limited liability company incorporated in the PRC, and a wholly owned subsidiary of Guiyang Engines as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“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 relation to (i) the Continuing Connected Transactions; and (ii) the Acquisitions
“Independent Shareholders”	Shareholder(s) other than Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel, Mr. An Cong Hui and their respective associates
“Independent Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer
“Kandi”	康迪電動汽車集團有限公司 (Kandi Electric Vehicles Group Co., Ltd.*), a limited liability company incorporated in the PRC and owned as to (i) 26.08% and 23.92% by GGL and Geely Ningbo, respectively; and (ii) 50% by Kandi Vehicles
“Kandi Automobile Parts Supply Agreement”	a master agreement dated 5 October 2018 entered into between the Company and Kandi for the supply of automobile parts and components by the Group to the Kandi Group. For details, please refer to the announcement of the Company dated 5 October 2018 in relation to the exempted continuing connected transactions.
“Kandi Group”	Kandi and its subsidiaries
“Kandi Vehicles”	浙江康迪車業有限公司 (Zhejiang Kandi Vehicles Co., Ltd.*), a limited liability company incorporated in the PRC and is indirectly wholly owned by Kandi Technologies

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## DEFINITIONS

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“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 Nasdaq
“Latest Practicable Date”	14 November 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LYNK & CO”	領克投資有限公司 (LYNK & CO Investment Co., Ltd.*), a Chinese-foreign equity joint venture of the Company established in the PRC and owned as to 50% by Zhejiang Jirun, 20% by Zhejiang Haoqing and 30% by VCI
“LYNK & CO Group”	LYNK & CO and its subsidiaries
“LYNK & CO Warehouse Services Agreement”	a master agreement dated 5 October 2018 entered into between the Company and LYNK & CO for the provision of warehouse services (including, but not limited to, warehouse rental, storage shelf and moving equipment rental, warehouse management etc.) by the Group to the LYNK & CO Group. For details, please refer to the announcement of the Company dated 5 October 2018 in relation to the exempted continuing connected transactions.
“Mr. Li”	Mr. Li Shu Fu, an executive Director and a substantial Shareholder together with his associate holding 44.41% interests in the total issued share capital of the Company as at the Latest Practicable Date
“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
“Proton Sales Agreement”	the agreement entered into between the Company and Geely Holding on 24 September 2018 in relation to the sale of CBUs, CKDs and related after-sales parts of certain vehicle models developed by the Group. For details, please refer to the announcement of the Company dated 24 September 2018.
“RMB”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“SAIC”	State Administration for Industry and Commerce or its local bureaus
“Services Agreement”	the agreement dated 5 October 2018 entered into between the Company and Geely Holding (i) for the sale of CKDs by the Group to the Geely Holding Group; and (ii) for the sale of CBUs, automobile parts and components by the Geely Holding Group to the Group
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“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)
“sq.m.”	square meter(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taizhou Engines”	台州吉利羅佑發動機有限公司 (Taizhou Geely Luoyou Engines Company Limited*), a private limited liability company incorporated in the PRC, and a wholly owned subsidiary of Zhejiang Geely as at the Latest Practicable Date
“Target Companies”	the TZ Target and the GZ Target, collectively
“TZ Acquisition”	the acquisition of the entire registered capital of the TZ Target by Zhejiang Dongli from Taizhou Engines pursuant to the TZ Acquisition Agreement
“TZ Acquisition Agreement”	the acquisition agreement entered into between Zhejiang Dongli and Taizhou Engines on 5 October 2018 in relation to the TZ Acquisition
“TZ Properties”	an industrial complex located in Economic Development District, Taizhou City, Zhejiang Province, the PRC
“TZ Property Value”	market value of the TZ Properties as stated in the Valuation Report
“TZ Shareholder’s Loan”	interest-free loan up to a maximum amount of RMB1,534.7 million on the completion date of the TZ Acquisition made to the TZ Target by the Geely Holding Group



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## DEFINITIONS

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“TZ Target”	台州濱海吉利發動機有限公司(Taizhou Binhai Geely Engine Company Limited*), a limited liability company incorporated in the PRC, and a wholly owned subsidiary of Taizhou Engines as at the Latest Practicable Date
“Valuation Report”	the valuation report on the TZ Properties and the GZ Properties prepared by the Independent Valuer
“Vehicle Tool Kit(s)”	a tool kit(s) for subsequent basic repairs and maintenance of the vehicle
“Youxing Technology”	杭州優行科技有限公司 (Hangzhou Youxing Technology Company Limited*), a limited liability company incorporated in the PRC and owned as to 90.53% by GGL
“Zhejiang Dongli”	浙江吉利動力總成有限公司 (Zhejiang Geely Dongli Zongcheng Company Limited*) (formerly known as 浙江吉利羅佑發動機有限公司 (Zhejiang Geely Luoyou Engines Company Limited*)), a private company incorporated in the PRC and indirectly owned as to 99.1% by the Company as at the Latest Practicable Date
“Zhejiang Geely”	浙江吉利汽車有限公司 (Zhejiang Geely Automobile Company Limited*), a private company incorporated in the PRC and owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li’s interested entities as at the Latest Practicable Date
“Zhidou”	知豆電動汽車有限公司 (Zhidou Electric Vehicles Company Limited*), a limited liability company incorporated in the PRC, and is owned as to 26.44% by Geely Ningbo and 73.56% by other independent third parties
“Zhidou EV CKD Supply Agreement”	a master agreement dated 5 October 2018 entered into between the Company and Geely Holding for the supply of CKDs for electric vehicles by the Group to the Geely Holding Group. For details, please refer to the announcement of the Company dated 5 October 2018 in relation to the exempted continuing connected transactions
“Zhidou Group”	Zhidou and its subsidiaries
“%”	per cent

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

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## LETTER FROM THE BOARD

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# GEELY

吉利汽車控股有限公司

**GEELY AUTOMOBILE HOLDINGS LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

*Executive Directors:*

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

*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

*Principal Place of Business in*

*Hong Kong:*

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

20 November 2018

*To the Shareholders,*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS; AND  
(2) DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE ACQUISITIONS**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 5 October 2018 in relation to, among other things, (i) the Continuing Connected Transactions; and (ii) the Acquisitions.

The purpose of this circular is to provide you with information, among other things, (i) further information about the Continuing Connected Transactions and the Acquisitions; (ii) the recommendation of the Independent Board Committee on the Continuing Connected Transactions and the Acquisitions; (iii) the

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## LETTER FROM THE BOARD

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advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions and the Acquisitions; and (iv) other information as required under the Listing Rules together with the notice of the EGM.

### CONTINUING CONNECTED TRANSACTIONS

#### (A) Services Agreement

Reference is made to the Company's announcements dated 27 November 2009, 13 November 2015, 18 October 2016 and 7 November 2017 in relation to the 2009 Services Agreement, pursuant to which (i) the Group agreed to sell CKDs and Vehicle Tool Kits to the Geely Holding Group; and (ii) the Geely Holding Group agreed to sell CBUs, automobile parts and components, and provide process manufacturing services to the Group.

The 2009 Services Agreement was entered into between the Company and Geely Holding on 27 November 2009 and has a term of 11 years from 1 January 2010 to 31 December 2020. On 5 October 2018 (after trading hours), the Company and Geely Holding entered into the Services Agreement for a term of three years from 1 January 2019 to 31 December 2021 to replace the 2009 Services Agreement. Principal terms of the Services Agreement are set out below:

#### *Date*

5 October 2018 (after trading hours)

#### *Parties*

The Company and Geely Holding

As at the Latest Practicable Date, Geely Holding is ultimately wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 44.41% of the total issued share capital of the Company as at the Latest Practicable Date. The Geely Holding Group is principally engaged in the sale of automobiles and related parts and components wholesale and retail business.

#### *Term*

From 1 January 2019 to 31 December 2021

#### *Condition precedent*

The Services Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Services Agreement.

If the above condition is not fulfilled on or before 31 December 2018 (or such later date as the parties may agree in writing), the Services Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

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## LETTER FROM THE BOARD

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### *Termination*

In addition to the non-fulfillment of the condition precedent above, the Services Agreement may be terminated if:

- (i) a written agreement is entered into between the parties to terminate the Services Agreement;
- (ii) either party ceases business, is subject to attachment or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of the laws or regulations, declares bankruptcy, is unable to perform its obligations under the Services Agreement due to force majeure; or
- (iii) Geely Holding and its associates (as defined in the Listing Rules) cease to be connected persons of the Company.

### *(1) Sale of CKDs by the Group to the Geely Holding Group*

#### Subject matter

Pursuant to the Services Agreement, the Group conditionally agreed to sell, and the Geely Holding Group conditionally agreed to purchase, CKDs manufactured by the Group.

During the course of the Services Agreement, the Geely Holding Group may request additional services other than the aforesaid services from the Group which will be based on normal commercial terms and determined by the parties to the Services Agreement on arm's length basis and in compliance with the Listing Rules. Such additional services, if any, will be related to services (such as modification of CKDs) that may be required in the process of manufacturing CKDs for new vehicle models in the future. Since the commencement of the 2009 Services Agreement and up to the Latest Practicable Date, the Geely Holding Group has not requested for such additional services from the Group.

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

#### Pricing Basis

Pursuant to the Services Agreement, the CKDs, depending on the specifications and models, will be sold to the Geely Holding Group based on the selling prices of CBUs to end customers, less distribution costs, the applicable PRC taxes (being mainly consumption tax and value-added tax) and other necessary and reasonable expenses (such as staff salary and other office expenses), plus any new energy vehicle subsidies received (in the case of electric vehicles).

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## LETTER FROM THE BOARD

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### Payment term

Payment of CKDs delivered under the Services Agreement will be satisfied within 90 days from product delivery.

### Historical transaction amounts and proposed annual caps

As announced by the Company in its announcement dated 7 November 2017, in view of the better-than-expected demand for the Group's products, the Board resolved to revise upward the annual caps under the 2009 Services Agreement for the years ended/ending 31 December 2017 and 2018, which were approved by the then Independent Shareholders on 27 December 2017. The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; and (ii) the annual caps for the sale of CKDs and Vehicle Tool Kits by the Group to the Geely Holding Group pursuant to the 2009 Services Agreement for the three years ending 31 December 2018.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the seven months ended 31 July	Approved annual caps for the year ended/ending 31 December		
	2016	2017	2018	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)			
Sale of CKDs and Vehicle Tool Kits by the Group to the Geely Holding Group	50,643,474	86,056,421	53,288,882	54,402,278	88,809,841	121,443,520
Utilisation rate of annual caps				93%	97%	44% (Note)

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2018 was calculated by dividing the historical transaction amount for the seven months ended 31 July 2018 by the approved annual cap for the full financial year ending 31 December 2018.

The table below sets out the proposed annual caps for the sale of CKDs pursuant to the Services Agreement for each of the three years ending 31 December 2021.

	Proposed annual caps for the year ending 31 December		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Sale of CKDs by the Group to the Geely Holding Group (Note)	191,208,876	250,203,103	293,775,381

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## LETTER FROM THE BOARD

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*Note:* Under the 2009 Services Agreement, products being sold by the Group to the Geely Holding Group include both CKDs and Vehicle Tool Kits, while pursuant to the Services Agreement, products to be sold by the Group to the Geely Holding Group will only be limited to CKDs. Notwithstanding the foregoing, historically, almost all of the products sold by the Group to the Geely Holding Group under the 2009 Services Agreement were CKDs.

### Basis of determination of the proposed annual caps

The proposed annual caps for the sale of CKDs to the Geely Holding Group by the Group were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected unit sales of the Group for the three years ending 31 December 2021; (iii) the projected average selling price of CBUs to end customers for the three years ending 31 December 2021; and (iv) the applicable PRC tax rates, the new energy vehicle subsidies and the projected distribution costs and other necessary expenses for the three years ending 31 December 2021.

### (2) *Sale of CBUs, automobile parts and components by the Geely Holding Group to the Group*

#### Subject matter

Pursuant to the Services Agreement, the Geely Holding Group conditionally agreed to sell, and the Group conditionally agreed to purchase, CBUs, automobile parts and components.

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

#### Pricing basis

Pursuant to the Services Agreement, the CBUs, depending on the models, will be sold to the Group based on the selling prices of CBUs to end customers, less distribution costs. The automobile parts and components to be sold by the Geely Holding Group to the Group will be based on the original purchase cost plus the actual costs (mainly the staff costs and office expenses) incurred by the Geely Holding Group in the procurement process of such automobile parts and components.

#### Payment term

Payment for CBUs, automobile parts and components delivered under the Services Agreement will be satisfied within 90 days from product delivery.

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## LETTER FROM THE BOARD

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### Historical transaction amounts and proposed annual caps

As announced by the Company in its announcement dated 7 November 2017, in view of the better-than-expected demand for the Group's products, the Board resolved to revise the annual caps under the 2009 Services Agreement for the years ended/ending 31 December 2017 and 2018, which were approved by the then Independent Shareholders on 27 December 2017. The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; and (ii) the annual caps for the purchase of CBUs and the purchase of automobile parts and components by the Group from the Geely Holding Group pursuant to the 2009 Services Agreement for the three years ending 31 December 2018.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the seven months ended 31 July	Approved annual caps for the year ended/ ending 31 December		
	2016	2017	2018	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)			
Purchase of CBUs by the Group from the Geely Holding Group	51,659,054	89,033,862	54,433,378	55,665,152	93,295,760	127,350,870
Utilisation rate of annual caps				93%	95%	43% (Note)
Purchase of automobile parts and components by the Group from the Geely Holding Group	9,085,445	16,620,634	10,435,326	11,282,384	17,940,062	26,009,872
Utilisation rate of annual caps				81%	93%	40% (Note)

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2018 was calculated by dividing the historical transaction amount for the seven months ended 31 July 2018 by the approved annual cap for the full financial year ending 31 December 2018.

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## LETTER FROM THE BOARD

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The table below sets out the proposed annual caps for the purchase of CBUs and the purchase of automobile parts and components by the Group pursuant to the Services Agreement for each of the three years ending 31 December 2021.

	Proposed annual caps for the year ending		
	31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of CBUs by the Group from the Geely Holding Group	192,992,507	250,201,867	303,907,912
Purchase of automobile parts and components by the Group from the Geely Holding Group	38,094,017	50,052,689	59,076,300

Basis of determination of the proposed annual caps

The proposed annual caps for the purchase of CBUs by the Group from the Geely Holding Group were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected unit sales of the Group for the three years ending 31 December 2021; (iii) the projected average selling price of CBUs to end customers for the three years ending 31 December 2021; and (iv) the projected distribution costs for the three years ending 31 December 2021.

The proposed annual caps for the purchase of automobile parts and components by the Group from the Geely Holding Group were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected sales of the Group for three years ending 31 December 2021; and (iii) the historical percentage of purchase costs of automobile parts and components from the Geely Holding Group relative to the total sales of the Group.

The Directors (including the independent non-executive Directors) are of the view that the Services Agreement is entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and the terms and the proposed annual caps of the Services Agreement for the three years ending 31 December 2021 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### (B) Electric Vehicle Agreement

Reference is made to the Company's announcements dated 13 November 2015 and 5 October 2016 in relation to the 2015 Electric Vehicle Agreement and the 2016 Supplemental EV Agreement, respectively. Pursuant to the 2015 Electric Vehicle Agreement, the Group conditionally agreed to sell, and the Geely Holding Group conditionally agreed to purchase, CBUs of electric vehicles.



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## LETTER FROM THE BOARD

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The 2015 Electric Vehicle Agreement was entered into between the Company and Geely Holding on 13 November 2015 and has a term of three years from 1 January 2016 to 31 December 2018. In light of the upcoming expiry of the 2015 Electric Vehicle Agreement and the emerging demand of electric vehicles from the GGL group, on 5 October 2018 (after trading hours), the Company, Geely Holding and GGL entered into the Electric Vehicle Agreement for a term of three years from 1 January 2019 to 31 December 2021. Principal terms of the Electric Vehicle Agreement are set out below:

***Date***

5 October 2018 (after trading hours)

***Parties***

Vendor: The Company

Purchasers: Geely Holding and GGL

Please refer to the paragraph headed “Continuing Connected Transactions – (A) Services Agreement – Parties” for further details regarding Geely Holding.

As at the Latest Practicable Date, GGL is ultimately wholly owned by Mr. Li and his associate. The GGL Group is principally engaged in the manufacture of automobiles and vehicle engines.

***Subject matter***

Pursuant to the Electric Vehicle Agreement, the Group conditionally agreed to sell, and the Geely Holding Group and the GGL Group conditionally agreed to purchase, CBUs of electric vehicles.

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

***Term***

From 1 January 2019 to 31 December 2021

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## LETTER FROM THE BOARD

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### ***Pricing basis***

The selling price of the CBUs of electric vehicles will be determined on an arm's length basis and on normal commercial terms with reference to the prevailing market price for similar products, and will not be lower than the prices offered to other independent third party distributors by the Group. The prevailing market price as described above will be determined based on the following:

- (i) the price of the same or similar CBUs of electric vehicles available to other independent third party distributors in the same or proximate regions on normal commercial terms and in the ordinary course of business; or
- (ii) if (i) is not applicable, the price of the same or similar CBUs of electric vehicles available to other independent third party distributors in the PRC agreed on normal commercial terms and in the ordinary course of business.

The Group has adopted adequate and effective internal control policy to ensure that the selling price of CBUs of electric vehicles will not be lower than the prices offered by the independent third parties. For details of the relevant internal control measures, please refer to the paragraph headed "Relevant internal control measures – Electric Vehicle Agreement". The Group recorded sales of CBUs of electric vehicles to independent third party distributors starting from June 2018. Up to the Latest Practicable Date, sales of CBUs of electric vehicles to independent third party distributors amounted to approximately RMB883.2 million with selling price not higher than the price offered to the Geely Holding Group. The Directors expect that with the growth of market demand of electric vehicles, the sales of CBUs of electric vehicles to independent third parties will increase in the following years.

### ***Payment term***

Payment for the transactions contemplated under the Electric Vehicle Agreement will be satisfied within 90 days from product delivery.

### ***Condition precedent***

The Electric Vehicle Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Electric Vehicle Agreement.

If the above condition is not fulfilled on or before 31 December 2018 (or such later date as the parties may agree in writing), the Electric Vehicle Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

## LETTER FROM THE BOARD

### *Termination*

In addition to the non-fulfillment of the condition precedent above, the Electric Vehicle Agreement may be terminated if:

- (i) a three-month prior written notice to terminate the Electric Vehicle Agreement is served by either party;
- (ii) either party ceases business, is subject to attachment or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of the laws or regulations, declares bankruptcy, or is unable to perform its obligations under the Electric Vehicle Agreement due to force majeure; or
- (iii) Geely Holding, GGL and their respective associates (as defined in the Listing Rules) cease to be connected persons of the Company.

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

As announced by the Company in its announcement dated 5 October 2016, in view of the increasing demand for the Group's electric and new energy vehicle products, the Company and Geely Holding entered into the 2016 Supplemental EV Agreement to revise upward the annual caps under the 2015 Electric Vehicle Agreement for the three years ending 31 December 2018, which were approved by the then Independent Shareholders on 28 November 2016. The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; and (ii) the annual caps for the sale of CBUs of electric vehicles by the Group to the Geely Holding Group pursuant to the 2015 Electric Vehicle Agreement and the 2016 Supplemental EV Agreement for the three years ending 31 December 2018.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the seven months ended 31 July	Approved annual caps for the year ended/ ending 31 December		
	2016	2017	2018	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)			
Sale of CBUs of electric vehicles by the Group to the Geely Holding Group	2,229,908	2,757,205	2,156,527	2,254,000	5,463,020	9,487,180
Utilisation rate of annual caps				99%	50%	23% (Note)

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2018 was calculated by dividing the historical transaction amount for the seven months ended 31 July 2018 by the approved annual cap for the full financial year ending 31 December 2018.

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## LETTER FROM THE BOARD

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The table below sets out the proposed annual caps for the sale of CBUs of electric vehicles by the Group to the Geely Holding Group and the GGL Group pursuant to the Electric Vehicle Agreement for the three years ending 31 December 2021.

	Proposed annual caps for the year ending		
	31 December		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Sale of CBUs of electric vehicles by the Group to the Geely Holding Group and the GGL Group	14,281,494	22,060,747	17,693,967

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

The proposed annual caps for the sale of CBUs of electric vehicles by the Group to the Geely Holding Group and the GGL Group were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected units of electric vehicles to be sold to the Geely Holding Group based on the sales budget of the Group for the three years ending 31 December 2021; (iii) the projected units of electric vehicles to be sold to the GGL Group based on the estimated demand from the GGL Group for the three years ending 31 December 2021; and (iv) the projected average selling price of electric vehicles to end customers for the three years ending 31 December 2021. Under the 2015 Electric Vehicle Agreement, CBUs of electric vehicles have only been sold to the Geely Holding Group to take advantage of the fact that certain subsidiaries of the Geely Holding Group are eligible to the new energy vehicle subsidies granted by the PRC government in certain regions of the PRC which effectively lower the end customers' purchase price of the Group's electric vehicles in those regions. Pursuant to the Electric Vehicle Agreement, CBUs of electric vehicles will also be sold to the GGL Group for use by Youxing Technology, a subsidiary of the GGL Group which operates Cao Cao, the first domestic new energy focused ride hailing and mobility service in the PRC.

The Directors (including the independent non-executive Directors) are of the view that the Electric Vehicle Agreement is entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and the terms and the proposed annual caps of the Electric Vehicle Agreement for the three years ending 31 December 2021 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **(C) Automobile Components Procurement Agreement**

Principal terms of the Automobile Components Procurement Agreement are set out below:

#### ***Date***

5 October 2018 (after trading hours)

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## LETTER FROM THE BOARD

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### ***Parties***

Vendor: Geely Holding

Purchaser: The Company

Please refer to the paragraph headed “Continuing Connected Transactions – (A) Services Agreement – Parties” for further details regarding Geely Holding.

### ***Subject matter***

Pursuant to the Automobile Components Procurement Agreement, the Group conditionally agreed to procure, and the Geely Holding Group conditionally agreed to supply, automobile components (including batteries, motors, electronic control system products, headlights, car seats etc.) from the Geely Holding Group.

For the avoidance of doubt, the automobile components to be procured by the Group from the Geely Holding Group pursuant to the Automobile Components Procurement Agreement are those that are manufactured by the Geely Holding Group, while the automobile parts and components to be sold to the Group by the Geely Holding Group pursuant to the Services Agreement are those that are procured by the Geely Holding Group from other independent third party suppliers for onward selling to the Group (that is, the Geely Holding Group is providing procurement services to the Group). For the reasons as described above, the pricing bases for the automobile components to be sold by the Geely Holding Group to the Group under the Services Agreement and the Automobile Components Procurement Agreement are different.

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

### ***Pricing basis***

The selling price of the automobile components will be determined on an arm’s length basis and on normal commercial terms with reference to the prevailing market price for similar products, and will be on terms no less favourable than those offered by the Geely Holding Group to other independent third parties or those offered to the Group by other independent third parties.

### ***Term***

From 1 January 2019 to 31 December 2021

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## LETTER FROM THE BOARD

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### *Condition precedent*

The Automobile Components Procurement Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Automobile Components Procurement Agreement.

If the above condition has not been fulfilled on or before 31 December 2018 (or such later date as the parties may agree in writing), the Automobile Components Procurement Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

### *Termination*

In addition to the non-fulfillment of the condition precedent above, the Automobile Components Procurement Agreement may be terminated if:

- (i) a three-month prior written notice to terminate the Automobile Components Procurement Agreement is served by either party;
- (ii) either party ceases business, is subject to attachment or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of the laws or regulations, declares bankruptcy, is unable to perform its obligations under the Automobile Components Procurement Agreement due to force majeure; or
- (iii) Geely Holding and its associates (as defined in the Listing Rules) cease to be connected persons of the Company.

### *Proposed annual caps*

There are no historical figures for the transactions contemplated under the Automobile Components Procurement Agreement as the Group has not procured automobile components manufactured by the Geely Holding Group previously. The table below sets out the proposed annual caps for the procurement of automobile components by the Group from the Geely Holding Group pursuant to the Automobile Components Procurement Agreement for the three years ending 31 December 2021.

	Proposed annual caps for the year ending		
	31 December		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Purchase of automobile components by the Group from the Geely Holding Group	13,746,783	25,845,381	33,591,637

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## LETTER FROM THE BOARD

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

The proposed annual caps for the procurement of automobile components by the Group from the Geely Holding Group were determined by the Directors with reference to (i) the projected units of each type of automobile components to be procured by the Group from the Geely Holding Group, which in turn was determined with reference to the projected unit sales of the Group's vehicles based on its sales budget for the three years ending 31 December 2021; and (ii) the projected unit selling price for each type of automobile components for the three years ending 31 December 2021.

The Directors (including the independent non-executive Directors) are of the view that the Automobile Components Procurement Agreement is entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and the terms and the proposed annual caps of the Automobile Components Procurement Agreement for the three years ending 31 December 2021 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITIONS

### (A) The TZ Acquisition Agreement

Principal terms of the TZ Acquisition Agreement are set out below:

#### *Date*

5 October 2018 (after trading hours)

#### *Parties*

Vendor: Taizhou Engines

Purchaser: Zhejiang Dongli

Zhejiang Dongli is principally engaged in the research, development, production, marketing and sale of engines and related components in the PRC, and is an indirect 99.1% owned subsidiary of the Company. The remaining 0.9% interests in Zhejiang Dongli is indirectly held by other Mr. Li's interested entities as at the Latest Practicable Date.

Taizhou Engines is principally engaged in the preparation and construction of engine manufactory projects. Taizhou Engines is wholly owned by Zhejiang Geely, which in turn is owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li's interested entities.

#### *Subject matter*

Pursuant to the TZ Acquisition Agreement, Zhejiang Dongli conditionally agreed to acquire, and Taizhou Engines conditionally agreed to sell, the entire registered capital of the TZ Target. Details of the TZ Target are set out in the paragraph headed "Discloseable and connected transactions in relation to the Acquisitions – Information on the Target Companies".

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## LETTER FROM THE BOARD

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Upon completion of the TZ Acquisition, the TZ Target will become a wholly owned subsidiary of Zhejiang Dongli, and the financial statements of the TZ Target will be consolidated into the financial statements of the Group.

### *Consideration*

The consideration for the TZ Acquisition is RMB781,274,109, which will be payable in cash within 30 calendar days from the date of completion of the TZ Acquisition.

The consideration for the TZ Acquisition was determined after arm's length negotiations between Zhejiang Dongli and Taizhou Engines with reference to (i) the net asset value of the TZ Target prepared under the HKFRS as at 31 August 2018 of approximately RMB778.9 million; and (ii) the valuation premium of the TZ Properties of approximately RMB2.4 million, being the difference between (a) the TZ Property Value of RMB346.8 million; and (b) the carrying value of the TZ Properties of approximately RMB344.4 million as at 31 August 2018.

It is expected that the consideration for the TZ Acquisition will be funded by internal resources of the Group.

### *Undertaking in respect of the TZ Properties*

The TZ Properties is an industrial complex located in Economic Development District, Taizhou City, Zhejiang Province, the PRC. According to the Valuation Report, as at 31 August 2018, the TZ Properties comprised:

- (i) a parcel of land with a total site area of 144,281 sq.m.; and
- (ii) 14 industrial and ancillary buildings with a total gross floor area of 111,945.36 sq.m., the construction of which is expected to be completed in the fourth quarter of 2018 (the **"TZ Construction-In-Progress"**).

As at the Latest Practicable Date, Taizhou Engines holds one real estate rights certificate, one construction land planning permit, two construction work planning permits and two construction work commencement permits for the TZ Properties. According to the legal opinions from the PRC legal adviser to the Company, the above certificates and permits for the TZ Properties are true, legal and valid. In light of the time it takes to transfer the relevant certificates and permits for the TZ Properties from Taizhou Engines to the TZ Target, which is unlikely to be completed before the completion of the TZ Acquisition, Taizhou Engines has undertaken to Zhejiang Dongli in the TZ Acquisition Agreement that the legal titles of the TZ Properties will be transferred to the TZ Target in accordance with the applicable laws in the PRC on or before 31 December 2020, subject to completion of the TZ Acquisition.

As stated in the legal opinions from the PRC legal adviser to the Company, (i) the TZ Construction-In-Progress is in compliance with the requirements of the relevant laws; (ii) according to the "Explanatory Note Regarding the Status of the Undertaking of the Application Procedures for Real Estate Rights Certificates by Taizhou Engines" (關於台州吉利羅佑發動機有限公司辦理不動



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## LETTER FROM THE BOARD

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產權證相關事宜的情況說明) (the “**TZ Explanatory Note**”) approved by Taizhou Land and Resources Bureau Economic Development District Branch (台州市國土資源局開發區分局) on 21 September 2018, upon completing the general procedures for obtaining real estate rights certificates, including the acceptance for fire safety, acceptance for greening, land acceptance, archive, quality inspection filing, property survey procedures, etc. with the relevant authorities, there are no legal impediments to the obtaining of the title certificates for the TZ Construction-In-Progress; and (iii) the use of the TZ Properties by the TZ Target for production will not be affected even before the completion of the transfer of the legal titles of the TZ Properties.

Pursuant to the TZ Acquisition Agreement, subject to completion of the TZ Acquisition, in the event that the obtaining and transfer of the legal titles of the TZ Properties cannot be completed on or before 31 December 2020, Taizhou Engines will (i) indemnify Zhejiang Dongli and the Company for the loss arising therefrom, which will equal to the then valuation of the TZ Properties prepared by a third party valuer approved by the parties to the TZ Acquisition Agreement (the “**TZ Indemnification Amount**”); and (ii) pay to Zhejiang Dongli a penalty calculated based on an annual interest rate of 4.35% of the TZ Indemnification Amount (the “**TZ Penalty**”), which was determined after arm’s length negotiations between the parties to the TZ Acquisition Agreement with reference to the prevailing interest rate of 4.35% on a short term loan (within one year), offered by the People’s Bank of China. The Directors (including the independent non-executive Directors) consider that the basis for determining the TZ Indemnification Amount is fair and reasonable and in the interests of the Company and the Shareholders as a whole given that both the TZ Indemnification Amount (that is, the amount payable by Taizhou Engines to Zhejiang Dongli if the legal titles of the TZ Properties cannot be obtained on or before 31 December 2020) and the portion of the consideration attributable to the TZ Properties payable by Zhejiang Dongli to Taizhou Engines under the TZ Acquisition are based on the then valuation of the TZ Properties prepared by an independent valuer. The Directors (including the independent non-executive Directors) consider the rate for calculating the TZ Penalty of 4.35% per annum fair and reasonable after taking into account (i) as at the Latest Practicable Date, the Company does not consider there is better investment opportunity for the funds which, subject to completion of the TZ Acquisition, will be used to settle the consideration for the TZ Acquisition; and (ii) the weighted average effective interest rate of the bank borrowings of the Group was 2.62% for the year ended 31 December 2017 and 3.15% for the six months ended 30 June 2018.

In the event that the obtaining and transfer of the legal titles of the TZ Properties cannot be completed on or before 31 December 2020, it is the intention of the parties to the TZ Acquisition Agreement to appoint an independent valuer as soon as practicable to determine the then valuation of the TZ Properties, and the TZ Indemnification Amount together with the TZ Penalty, which will be calculated with retrospective effect since the date of completion of the TZ Acquisition, and will be indemnified and paid in full by Taizhou Engines in cash as soon as practicable but in any event not later than 30 calendar days upon the issuance of the then valuation of the TZ Properties prepared by the independent valuer. In the event that the obtaining and transfer of the legal titles of the TZ Properties cannot be completed on or before 31 December 2020, the Company will make an announcement to update the Shareholders of the status of the TZ Properties as well as the actual and/or potential impact thereof on the Company.

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## LETTER FROM THE BOARD

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Notwithstanding the foregoing, Taizhou Engines, being the existing holder of the real estate rights certificates and the relevant permits for the TZ Properties, has undertaken to Zhejiang Dongli and the TZ Target that, subject to completion of the TZ Acquisition, the TZ Target can continue to occupy and use the TZ Properties free of charge regardless of whether the obtaining and/or transfer of the legal titles of the TZ Properties can be completed on or before 31 December 2020 or at all. Taking into account the opinions of the PRC legal adviser and the undertakings by Taizhou Engines as abovementioned, the operation of the TZ Target is not expected to be impacted even if the obtaining and/or transfer of the legal titles of the TZ Properties cannot be completed on or before 31 December 2020.

Having considered (i) the basis for determination of the consideration for the TZ Acquisition as disclosed in the section headed “(A) The TZ Acquisition – Consideration” above; (ii) the legal opinions from the PRC legal adviser to the Company that (a) the use of the TZ Properties by the TZ Target for production will not be affected even before the completion of transfer of the legal titles of the TZ Properties from Taizhou Engines to the TZ Target; and (b) there are no legal impediments to the obtaining of the title certificates for the TZ Construction-In-Progress upon completing the general procedures for obtaining real estate rights certificates with the relevant authorities; and (iii) in the event that the obtaining and transfer of the legal titles of the TZ Properties cannot be completed on or before 31 December 2020, Taizhou Engines will indemnify Zhejiang Dongli and the Company for the TZ Indemnification Amount, and will pay to Zhejiang Dongli the TZ Penalty, the Directors (including the independent non-executive Directors) consider the TZ Acquisition fair and reasonable.

### ***TZ Shareholder’s Loan***

Pursuant to the TZ Acquisition Agreement, the outstanding TZ Shareholder’s Loan up to a maximum amount of RMB1,534.7 million on the completion date of the TZ Acquisition will be repaid by the Group to the Geely Holding Group within three months from the completion of the TZ Acquisition. Such TZ Shareholder’s Loan is fully exempted from the continuing connected transaction requirements under the Listing Rules as it is interest free, conducted on normal commercial terms and is not secured by the assets of the Group.

### ***Conditions precedent***

Completion of the TZ Acquisition will be subject to and conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (i) Zhejiang Dongli being satisfied with the results of its due diligence review on the TZ Target, including, but not limited to, the possession by the TZ Target of all approvals, consents and permits, and completion of all filings necessary to conduct the business operations of the TZ Target;
- (ii) the Company having obtained the Independent Shareholders’ approval at the EGM for the TZ Acquisition Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

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## LETTER FROM THE BOARD

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- (iii) the obtaining of all approvals, consents, filings and/or waivers from the relevant government authorities or third parties required for the TZ Acquisition, including but not limited to, the obtaining of the new business license of the TZ Target and the SAIC's website indicating that Zhejiang Dongli is the sole shareholder of the TZ Target;
- (iv) the representations and warranties made by Taizhou Engines in the TZ Acquisition Agreement remaining true and accurate in all material respects and not misleading in any respect, and Taizhou Engines having performed fully its obligations under the TZ Acquisition Agreement on or before completion of the TZ Acquisition; and
- (v) (a) there being no material adverse change in the existence, business and financial positions of the TZ Target; and (b) no statute, regulation, proceeding or order pertaining to the TZ Target having been promulgated, put into effect, commenced, granted or issued that is subsisting or pending as at the date of completion of the TZ Acquisition that would or could reasonably be expected to prohibit or restrict the consummation of the transactions contemplated under the TZ Acquisition Agreement.

In the event that the conditions set out above are not fulfilled or waived (conditions (ii) and (iii) above are not capable of being waived) within 60 calendar days from the date of the TZ Acquisition Agreement (or such later date as the parties may agree in writing), any party to the TZ Acquisition Agreement will have the right to terminate the TZ Acquisition Agreement by prior written notice to the other party. In the event of such termination, no party to the TZ Acquisition Agreement may raise any claim against the other party or demand the other party to undertake any liability. All rights, obligations and liabilities under the TZ Acquisition Agreement will become null and void upon such termination and the TZ Acquisition Agreement will be of no further effect, save with respect to any antecedent breaches.

### ***Completion of the TZ Acquisition***

Completion of the TZ Acquisition will take place on the second Business Day after all the conditions precedent to the TZ Acquisition Agreement have been fulfilled or waived (as the case may be) or such later date as the parties may agree in writing.

## **(B) The GZ Acquisition Agreement**

Principal terms of the GZ Acquisition Agreement are set out below:

### ***Date***

5 October 2018 (after trading hours)

### ***Parties***

Vendor:      Guiyang Engines

Purchaser:   Zhejiang Dongli

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## LETTER FROM THE BOARD

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Please refer to the paragraph headed “Discloseable and connected transactions in relation to the Acquisitions – (A) The TZ Acquisition – Parties” for further details regarding Zhejiang Dongli.

Guiyang Engines is principally engaged in the preparation and construction of engine manufactory projects. Guiyang Engines is owned as to 88.64% by Zhejiang Geely and as to 11.36% by an independent third party to the Group. Zhejiang Geely in turn is owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li’s interested entities.

### *Subject matter*

Pursuant to the GZ Acquisition Agreement, Zhejiang Dongli conditionally agreed to acquire, and Guiyang Engines conditionally agreed to sell, the entire registered capital of the GZ Target. Details of the GZ Target are set out in the paragraph headed “Discloseable and connected transactions in relation to the Acquisitions – Information on the Target Companies”.

Upon completion of the GZ Acquisition, the GZ Target will become a wholly owned subsidiary of Zhejiang Dongli, and the financial statements of the GZ Target will be consolidated into the financial statements of the Group.

### *Consideration*

The consideration for the GZ Acquisition is RMB484,003,363, which will be payable in cash within 30 calendar days from the date of completion of the GZ Acquisition.

The consideration for the GZ Acquisition was determined after arm’s length negotiations between Zhejiang Dongli and Guiyang Engines with reference to (i) the net asset value of the GZ Target prepared under the HKFRS as at 31 August 2018 of approximately RMB483.8 million; and (ii) the valuation premium of the GZ Properties of approximately RMB250,744, being the difference between (a) the sum of the GZ Property Value of RMB258.2 million; and (b) the carrying value of the GZ Properties of approximately RMB257.9 million as at 31 August 2018.

It is expected that the consideration for the GZ Acquisition will be funded by internal resources of the Group.

### *Undertaking in respect of the GZ Properties*

The GZ Properties is an industrial complex located in Baiyun District, Guiyang City, Guizhou Province, the PRC. According to the Valuation Report, as at 31 August 2018, the GZ Properties comprised:

- (i) a parcel of land with a total site area of 134,523 sq.m.; and
- (ii) 5 industrial and ancillary buildings with a total gross floor area of 133,661.56 sq.m., the construction of which is expected to complete in the first quarter of 2019 (the “**GZ Construction-In-Progress**”).

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, Guiyang Engines holds one real estate rights certificate, one construction land planning permit, one construction work planning permit and one construction work commencement permits for the GZ Properties. According to the legal opinions from the PRC legal adviser to the Company, the above certificate and permits for the GZ Properties are true, legal and valid. In light of the time it takes to transfer the relevant certificates and permits for the GZ Properties from Guiyang Engines to the GZ Target, which is unlikely to be completed before the completion of the GZ Acquisition, Guiyang Engines has undertaken to Zhejiang Dongli in the GZ Acquisition Agreement that the legal titles of the GZ Properties will be transferred to the GZ Target in accordance with the applicable laws in the PRC on or before 31 December 2020 subject to completion of the GZ Acquisition.

As stated in the legal opinions from the PRC legal adviser to the Company, (i) the GZ Construction-In-Progress is in compliance with the requirements of the relevant laws; (ii) upon completing the general procedures for obtaining real estate rights certificates, including the acceptance for fire safety, acceptance for greening, land acceptance, archive, quality inspection filing, property survey procedures, etc. with the relevant authorities, there are no legal impediments to the obtaining of the title certificates for the GZ Construction-In-Progress; and (iii) the use of the GZ Properties by the GZ Target for production will not be affected even before the completion of the transfer of the legal titles of the GZ Properties.

Pursuant to the GZ Acquisition Agreement, subject to completion of the GZ Acquisition, in the event that the obtaining and transfer of the legal titles of the GZ Properties cannot be completed on or before 31 December 2020, Guiyang Engines will (i) indemnify Zhejiang Dongli and the Company for the loss arising therefrom, which will equal to the then valuation of the GZ Properties prepared by a third party valuer approved by the parties to the GZ Acquisition Agreement (the “**GZ Indemnification Amount**”); and (ii) pay to Zhejiang Dongli a penalty calculated based on an annual interest rate of 4.35% of the GZ Indemnification Amount (the “**GZ Penalty**”), which was determined after arm’s length negotiations between the parties to the GZ Acquisition Agreement with reference to the prevailing interest rate of 4.35% on a short term loan (within one year), offered by the People’s Bank of China. The Directors (including the independent non-executive Directors) consider that the basis for determining the GZ Indemnification Amount is fair and reasonable and in the interests of the Company and the Shareholders as a whole given that both the GZ Indemnification Amount (that is, the amount payable by Guiyang Engines to Zhejiang Dongli if the legal titles of the GZ Properties cannot be obtained on or before 31 December 2020) and the portion of the consideration attributable to the GZ Properties payable by Zhejiang Dongli to Guiyang Engines under the GZ Acquisition are based on the then valuation of the GZ Properties prepared by an independent valuer. The Directors (including the independent non-executive Directors) consider the rate for calculating the GZ Penalty of 4.35% per annum fair and reasonable after taking into account (i) as at the Latest Practicable Date, the Company does not consider there is better investment opportunity for the funds which, subject to completion of the GZ Acquisition, will be used to settle the consideration for the GZ Acquisition; and (ii) the weighted average effective interest rate of the bank borrowings of the Group was 2.62% for the year ended 31 December 2017 and 3.15% for the six months ended 30 June 2018.

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## LETTER FROM THE BOARD

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In the event that the obtaining and transfer of the legal titles of the GZ Properties cannot be completed on or before 31 December 2020, it is the intention of the parties to the GZ Acquisition Agreement to appoint an independent valuer as soon as practicable to determine the then valuation of the GZ Properties, and the GZ Indemnification Amount together with the GZ Penalty, which will be calculated with retrospective effect since the date of completion of the GZ Acquisition, and will be indemnified and paid in full by Guiyang Engines in cash as soon as practicable but in any event not later than 30 calendar days upon the issuance of the then valuation of the GZ Properties prepared by the independent valuer. In the event that the obtaining and transfer of the legal titles of the GZ Properties cannot be completed on or before 31 December 2020, the Company will make an announcement to update the Shareholders of the status of the GZ Properties as well as the actual and/or potential impact thereof on the Company.

Notwithstanding the foregoing, Guiyang Engines, being the existing holder of the real estate rights certificates and the relevant permits for the GZ Properties, has undertaken to Zhejiang Dongli and the GZ Target that, subject to completion of the GZ Acquisition, the GZ Target can continue to occupy and use the GZ Properties free of charge regardless of whether the obtaining and/or transfer of the legal titles of the GZ Properties can be completed on or before 31 December 2020 or at all. Taking into account the opinions of the PRC legal adviser and the undertakings by Guiyang Engines as abovementioned, the operation of the GZ Target is not expected to be impacted even if the obtaining and/or transfer of the legal titles of the GZ Properties cannot be completed on or before 31 December 2020.

Having considered (i) the basis for determination of the consideration for the GZ Acquisition as disclosed in the section headed “(B) The GZ Acquisition – Consideration” above; (ii) the legal opinions from the PRC legal adviser to the Company that (a) the use of the GZ Properties by the GZ Target for production will not be affected even before the completion of transfer of the legal titles of the GZ Properties from Guiyang Engines to the GZ Target; and (b) there are no legal impediments to the obtaining of the title certificates for the GZ Construction-In-Progress upon completing the general procedures for obtaining real estate rights certificates with the relevant authorities; and (iii) in the event that the obtaining and transfer of the legal titles of the GZ Properties cannot be completed on or before 31 December 2020, Guiyang Engines will indemnify Zhejiang Dongli and the Company for the GZ Indemnification Amount, and will pay to Zhejiang Dongli the GZ Penalty, the Directors (including the independent non-executive Directors) consider the GZ Acquisition fair and reasonable.

### ***GZ Shareholder’s Loan***

Pursuant to the GZ Acquisition Agreement, the outstanding GZ Shareholder’s Loan up to a maximum amount of RMB1,157.2 million on the completion date of the GZ Acquisition will be repaid by the Group to the Geely Holding Group within three months from the completion of the GZ Acquisition. Such GZ Shareholder’s Loan is fully exempted from the continuing connected transaction requirements under the Listing Rules as it is interest free, conducted on normal commercial terms and is not secured by the assets of the Group.

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## LETTER FROM THE BOARD

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### *Conditions precedent*

Completion of the GZ Acquisition will be subject to and conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (i) Zhejiang Dongli being satisfied with the results of its due diligence review on the GZ Target, including, but not limited to, the possession by the GZ Target of all approvals, consents and permits, and completion of all filings necessary to conduct the business operations of the GZ Target;
- (ii) the Company having obtained the Independent Shareholders' approval at the EGM for the GZ Acquisition Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;
- (iii) the obtaining of all approvals, consents, filings and/or waivers from the relevant government authorities or third parties required for the GZ Acquisition, including but not limited to, the obtaining of the new business license of the GZ Target and the SAIC's website indicating that Zhejiang Dongli is the sole shareholder of the GZ Target;
- (iv) the representations and warranties made by Guiyang Engines in the GZ Acquisition Agreement remaining true and accurate in all material respects and not misleading in any respect, and Guiyang Engines having performed fully its obligations under the GZ Acquisition Agreement on or before completion of the GZ Acquisition; and
- (v) (a) there being no material adverse change in the existence, business and financial positions of the GZ Target; and (b) no statute, regulation, proceeding or order pertaining to the GZ Target having been promulgated, put into effect, commenced, granted or issued that is subsisting or pending as at the date of completion of the GZ Acquisition that would or could reasonably be expected to prohibit or restrict the consummation of the transactions contemplated under the GZ Acquisition Agreement.

In the event that the conditions set out above are not fulfilled or waived (conditions (ii) and (iii) above are not capable of being waived) within 60 calendar days from the date of the GZ Acquisition Agreement (or such later date as the parties may agree in writing), any party to the GZ Acquisition Agreement will have the right to terminate the GZ Acquisition Agreement by prior written notice to the other party. In the event of such termination, no party to the GZ Acquisition Agreement may raise any claim against the other party or demand the other party to undertake any liability. All rights, obligations and liabilities under the GZ Acquisition Agreement will become null and void upon such termination and the GZ Acquisition Agreement will be of no further effect, save with respect to any antecedent breaches.

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## LETTER FROM THE BOARD

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### *Completion of the GZ Acquisition*

Completion of the GZ Acquisition will take place on the second Business Day after all the conditions precedent to the GZ Acquisition Agreement have been fulfilled or waived (as the case may be) or such later date as the parties may agree in writing.

### *Information on the Target Companies*

#### *Principal businesses of the Target Companies*

(a) The TZ Target

The TZ Target is a private limited liability company incorporated in the PRC on 10 August 2018. It is principally engaged in the technology research and development, technology consultancy services, manufacture and sale of automobile engines, and the provision of after-sales services in the PRC.

A production facility with a planned production capacity of 360,000 units of engines per annum of the TZ Target is currently under construction. It is currently expected that the construction of the TZ Properties will be completed in the fourth quarter of 2018 and commercial production will commence in the first quarter of 2019. The major product to be produced by the TZ Target is four-cylinder turbo-charged engine.

(b) The GZ Target

The GZ Target is a private limited liability company incorporated in the PRC on 14 August 2018. It is principally engaged in the technology research and development, technology consultancy services, manufacture and sale of automobile engines, and the provision of after-sales services in the PRC.

A production facility with a planned production capacity of 360,000 units of engines per annum of the GZ Target is currently under construction. It is currently expected that the construction of the GZ Properties will be completed and commercial production will commence in the first quarter of 2019. The major product to be produced by the GZ Target is three-cylinder turbo-charged engine.

#### *Shareholding structures of the Target Companies*

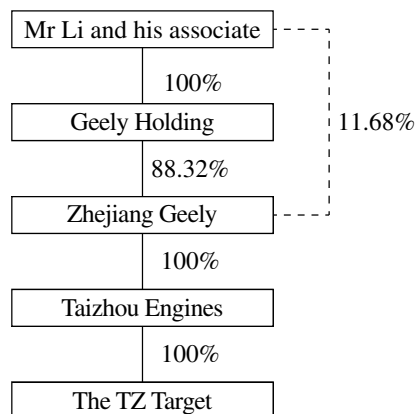
The following diagrams set out the shareholding structures of the Target Companies before and upon completion of the Acquisitions:



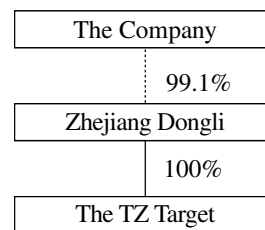
## LETTER FROM THE BOARD

(a) The TZ Target

**As at the date of this announcement**



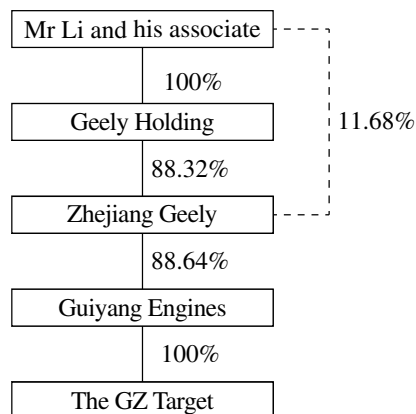
**Upon completion of the TZ Acquisition**



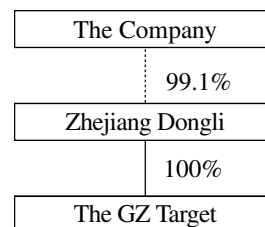
— Direct interests  
 ..... Indirect interests  
 - - - - Through Mr. Li's interested entities

(b) The GZ Target

**As at the date of this announcement**



**Upon completion of the GZ Acquisition**



— Direct interests  
 ..... Indirect interests  
 - - - - Through Mr. Li's interested entities

***Financial information on the Target Companies***

Set out below is the unaudited financial information of the TZ Target and the GZ Target for the periods as indicated below prepared under the HKFRS:

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## LETTER FROM THE BOARD

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(a) The TZ Target

**From 10  
August 2018  
to 31  
August 2018  
(Unaudited)  
RMB'000**

Revenue	–
Loss before taxation	(119)
Loss after taxation	(119)

The unaudited net asset value of the TZ Target as at 31 August 2018 amounted to approximately RMB778.9 million, which consisted of total assets of approximately RMB1,802.8 million and total liabilities of approximately RMB1,023.9 million. Total assets mainly comprised the TZ Properties and machinery and equipment for manufacturing purposes of approximately RMB1,086.2 million. Total liabilities mainly comprised trade and other payables of approximately RMB1,023.9 million, which primarily represented the TZ Shareholder's Loan for the construction of the TZ Properties and purchase of machinery and equipment. As at 31 August 2018 and the Latest Practicable Date, the outstanding TZ Shareholder's Loan amounted to approximately RMB1,023.9 million and RMB1,031.3 million, respectively.

(b) The GZ Target

**From 14  
August 2018  
to 31  
August 2018  
(Unaudited)  
RMB'000**

Revenue	–
Loss before taxation	(84)
Loss after taxation	(84)

The unaudited net asset value of the GZ Target as at 31 August 2018 amounted to approximately RMB483.8 million, which consisted of total assets of approximately RMB1,159.1 million and total liabilities of approximately RMB675.4 million. Total assets mainly comprised the GZ Properties and machinery and equipment for manufacturing purposes of approximately RMB907.0 million. Total liabilities mainly comprised trade and other payables of approximately RMB675.4 million, which primarily represented the GZ Shareholder's Loan for the construction of the GZ Properties and purchase of machinery

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## LETTER FROM THE BOARD

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and equipment. As at 31 August 2018 and the Latest Practicable Date, the outstanding GZ Shareholder's Loan amounted to approximately RMB675.4 million and RMB699.2 million, respectively.

### **REASONS FOR AND BENEFITS OF (I) THE CONTINUING CONNECTED TRANSACTIONS; AND (II) THE DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITIONS**

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

The GGL Group is principally engaged in the manufacture of automobiles and vehicle engines.

### **The Continuing Connected Transactions**

#### ***Services Agreement***

- (i) *Sale of CKDs by the Group to the Geely Holding Group and the purchase of CBUs by the Group from the Geely Holding Group*

Pursuant to the Services Agreement, the Group will sell to the Geely Holding Group CKDs, and purchase from the Geely Holding Group CBUs, automobile parts and components for a term of three years from 1 January 2019 to 31 December 2021. Under the Services Agreement, the Geely Holding Group will perform final assembly of the CKDs purchased from the Group, facilitate payment of the PRC consumption tax, and then sell the CBUs assembled from the CKDs back to the Group for distribution to end customers. Regarding the sale of CKDs to Geely Holding Group and the sale of CBUs by Geely Holding Group, the net financial effect on the Group is represented as the service cost of final assembly on the CKDs charged by the Geely Holding Group and the relevant consumption taxes levied on the CBUs upon being sold back to the Group, which are included in the "Cost of sales" in the consolidated income statement of the Group. As the Group is not in possession of the automobile catalogue issued by the National Development Reform Commission in the PRC, which is required to effect payment of the PRC consumption tax, the Directors (including the independent non-executive Directors) are of the view that the above arrangement will ensure smooth operation of the Group as the services to be provided by the Geely Holding Group, which possesses the said automobile catalogue, will facilitate the payment of such PRC consumption tax.

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## LETTER FROM THE BOARD

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(ii) *Purchase of automobile parts and components by the Group from the Geely Holding Group*

The automobile parts and components to be sold to the Group by the Geely Holding Group pursuant to the Services Agreement will be those that are procured by the Geely Holding Group from other independent third party suppliers for onward selling to the Group (that is, the Geely Holding Group is providing procurement services to the Group). The Directors (including the independent non-executive Directors) are of the view that the procurement services to be provided by the Geely Holding Group will help reduce the administrative burden on the Group of having to deal with numerous different suppliers and will enable the Group to secure a stable source of raw materials at competitive prices leveraging on the long-term relationships established between the Geely Holding Group and the suppliers of those automobile parts and components.

***Electric Vehicle Agreement***

The Group has been selling electric vehicles through the Geely Holding Group pursuant to the 2015 Electric Vehicle Agreement which will expire on 31 December 2018. In light of the upcoming expiry of the 2015 Electric Vehicle Agreement and the emerging demand of electric vehicles from the GGL Group, the Group entered into the Electric Vehicle Agreement on 5 October 2018 (after trading hours) for the sale of electric vehicles to the Geely Holding Group and the GGL Group.

With increasing public awareness of the importance of environmental protection and the PRC's government policy relating to saving fuel and reducing vehicle emission, major automobile manufacturers are actively developing and promoting electric vehicles and hybrid vehicles. The Board has long recognised the development potential of the electric vehicle market in the PRC. As disclosed in the Company's interim report for the six months ended 30 June 2018, the Group announced and started to implement its new energy vehicle strategy named "Blue Geely Initiatives" in November 2015, which is a 5-year campaign demonstrating the Group's dedication to transforming into the industry leader in new energy vehicle technologies. The initiative's target is that up to 90% of the Group's total sales volume would be in the form of new energy vehicles by 2020.

As advised by the legal adviser of the Company, in certain regions of the PRC where the Group has operation, only the company admitted into the automobile catalogue issued by the National Development Reform Commission in the PRC (the "**Catalogue Company**") or subsidiaries controlled by the Catalogue Company is eligible to the new energy vehicle subsidies granted by the PRC government which effectively lower the end customers' purchase price of the electric vehicles in those regions. Since the Company and its subsidiaries are not qualified to be the Catalogue Company currently and certain subsidiaries of the Geely Holding Group are operating as the Catalogue Companies, the Directors (including the independent non-executive Directors) are of the view that the sale of electric vehicles through the Geely Holding Group under the Electric Vehicle Agreement is essential for the Group to remain price competitive and hence facilitating the Group's sale of electric vehicles in those regions. Notwithstanding the foregoing, the Group will apply for the new energy vehicle subsidies in the relevant regions when it is permissible under relevant PRC laws.

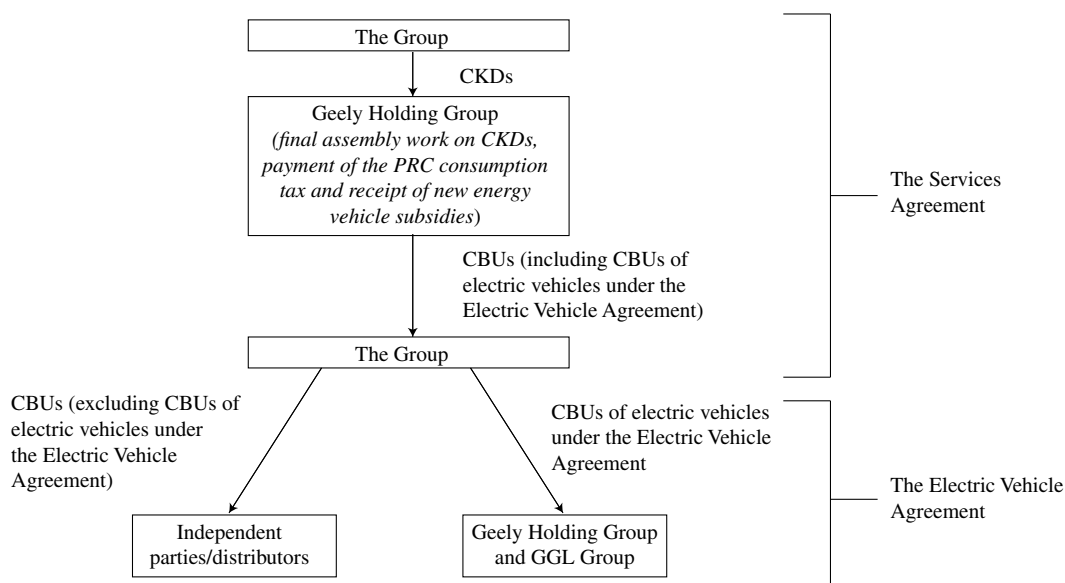
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## LETTER FROM THE BOARD

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Furthermore, under the 2015 Electric Vehicle Agreement, CBUs of electric vehicles have only been sold to the Geely Holding Group to take advantage of its eligibility to the new energy vehicle subsidies as described above. Pursuant to the Electric Vehicle Agreement, CBUs of electric vehicles will also be sold to the GGL Group for use by Youxing Technology, a subsidiary of the GGL Group which operates Cao Cao, the first domestic new energy focused ride hailing and mobility service in the PRC. Currently, Cao Cao is operating in more than 25 cities in the PRC with more than 20,000 designated drivers. The Directors (including the independent non-executive Directors) are of the view that the sale of CBUs of electric vehicles to the GGL Group pursuant to the Electric Vehicle Agreement will enhance the market awareness of the Group's electric vehicles as well as generate additional revenue to the Group.

The following flow chart sets out the simplified flow of various parts and processes under the Services Agreement and the Electric Vehicle Agreement:



### ***Automobile Components Procurement Agreement***

Pursuant to the Automobile Components Procurement Agreement, the Group will procure automobile components (including batteries, motors, electronic control system products, headlights, car seats etc.) from and manufactured by the Geely Holding Group. The Directors (including the independent non-executive Directors) are of the view that the entering into of the Automobile Components Procurement Agreement is beneficial to the Group as the automobile components to be supplied by the Geely Holding Group will be on terms no less favourable than those offered to the Group by other independent third parties, and the Automobile Components Procurement Agreement will enable the Group to a secure stable and reliable supply of automobile components in an efficient and responsive manner, given the long-standing cooperation and relationship between the Group and the Geely Holding Group.

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## LETTER FROM THE BOARD

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Having considered the foregoing, the Directors (including the independent non-executive Directors) are of the view that the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms and the proposed annual caps of the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **The Acquisitions**

As disclosed in the section headed “Discloseable and connected transactions in relation to the Acquisitions – Information on the Target Companies”, the Target Companies will be principally engaged in the technology research and development, technology consultancy services, manufacture and sale of automobile engines, and the provision of after-sales services in the PRC.

Upon completion of the Acquisitions, the vehicle engines to be manufactured by the Target Companies will mainly be sold to the Geely Holding Group for use in the Volvo-branded vehicles and to the LYNK & CO Group for use in the LYNK & CO-branded vehicles, and will also be used in the Group’s future top-end vehicle model at a later stage. The vehicle engines to be manufactured by the Target Companies will possess superior performance in terms of power output and fuel consumption as well as characteristics of low carbon emission, which are targeted to meet the needs of the Group, the LYNK & CO Group and the Geely Holding Group for high performance and multi-functional vehicles.

The total consideration for the Acquisitions is RMB1,265,277,472. Despite that as at 30 June 2018, the Group had bank balances and cash of RMB16.2 billion, and that the management of the Company does not consider there is better investment opportunity for the funds which, subject to completion of the Acquisitions, will be used to settle the consideration for the Acquisitions, the total consideration for the Acquisitions is still a relatively substantial amount of capital commitment by the Group and will reduce the working capital of the Group. Notwithstanding the foregoing, having considered that the Acquisitions will bring the Group additional production capacities of engines which will generate income for the Group on a long-term basis, the Directors (including the independent non-executive Directors) consider that, although the Acquisition Agreements and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the Acquisitions are on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **RELEVANT INTERNAL CONTROL MEASURES**

In order to ensure that the aforesaid pricing bases for the Continuing Connected Transactions are adhered to, the Company will or will continue to (as the case may be) adopt the following internal control measures:

#### **Services Agreement**

*(i) Sale of CKDs from the Group to the Geely Holding Group*

For the sales of CKDs by the Group, the operation department of the Group will review the relevant cost and benefit items, which include mainly distribution costs, the applicable PRC taxes, the new energy vehicle subsidies and other necessary expenses, and will coordinate with the sales

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## LETTER FROM THE BOARD

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department of the Group to ensure that the selling price of CKDs are determined properly. The finance department of the Group will review the aforesaid works carried out by the operation department as well as the cost and expenses reports generated by the accounting systems on a quarterly basis to ensure the continuing connected transactions being implemented in accordance with the pricing policies. The Group and the Geely Holding Group will negotiate on a half-yearly basis (or more frequently if it is determined necessary) the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by the Group in such transactions.

**(ii) *Sale of CBUs, automobile parts and components from the Geely Holding Group to the Group***

For the purchases of CBUs by the Group, the sales department of the Group will keep track of the expected selling price of vehicles and relevant cost items, which mainly include distribution costs, and will review such information on a monthly basis and determine the selling price of vehicles on a quarterly basis when the market is stable (or more frequently if it is determined necessary) to ensure the fairness of the selling price of the CBUs. The finance department of the Group will review the aforesaid works carried out by the sales department on a quarterly basis to ensure that the continuing connected transactions are being implemented in accordance with the pricing policies. For the purchase of automobile parts and components by the Group, the Group and the Geely Holding Group will negotiate on a half-yearly basis (or more frequently if it is determined necessary) the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by both parties in such transactions.

### **Electric Vehicle Agreement**

The Group will monitor the expected selling price of electric vehicles and relevant cost items, which mainly include distribution costs, to ensure the fairness of the selling price of CBUs of electric vehicles. The Group maintains a database, which is updated monthly, to store all the aforesaid pricing and cost information. Such database allows the sales department of the Group to keep up-to-date records of the unit prices of products sold by the Group so that its sales teams can timely obtain the relevant pricing information as the basis to determine the price range for the CBUs of electric vehicles to be sold to Geely Holding Group. The Group also has a designated market research team to keep track of selling prices of similar electric vehicles in the market for competing brands through public available information on a quarterly basis to ensure CBUs of electric vehicles are being sold at prices that are comparable to the market, and will share their findings with the sales teams and finance department accordingly. The sales and finance departments will check the information provided by the market research team to ensure reasonableness with regard to the comparables selected by the market research team. If the selling price of electric vehicles is required to be revised, the sales and finance departments will hold a meeting to revise and confirm the selling price with reference to the market. The finance department of the Group will also ensure the relevant continuing connected transactions are conducted on normal commercial terms, in the ordinary course of business and will not be prejudicial to the interest of the Company and the Shareholders as a whole. Moreover, the transactions contemplated under the Electric Vehicle Agreement will be supervised and monitored by the Group's general managers in charge to ensure both agreements are conducted on normal commercial terms, in the ordinary course of business and will not be prejudicial to the interests of the Company and its Independent Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **Automobile Components Procurement Agreement**

The Group's procurement department will obtain quotations for similar products from independent third party suppliers. Based on the technical and quality requirements, at least three suppliers will be shortlisted by the Group's procurement department, quality department and research institute. The procurement committee formed by the procurement department, quality department, research institute and the finance department will then compare the prices offered by the shortlisted independent third party suppliers to that offered by the Geely Holding Group to the Group to ensure the fairness of the selling price of the automobile components offered by the Geely Holding Group. Moreover, the transactions contemplated under the Automobile Components Procurement Agreement will be supervised and monitored by the Group's procurement committee to ensure the Automobile Components Procurement Agreement is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Independent Shareholders as a whole.

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

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

#### **Continuing Connected Transactions**

As at the Latest Practicable Date, both Geely Holding and GGL are wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 44.41% of the total issued share capital of the Company as at the Latest Practicable Date. As such, each of Geely Holding and GGL is an associate of Mr. Li and a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Services Agreement, the Electric Vehicle Agreement and the Automobile Components Procurement Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the respective proposed annual caps on an annual basis for the Continuing Connected Transactions exceed 5%, the Continuing Connected Transactions (including their respective proposed annual caps) are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the announcements of the Company dated 24 September 2018 and 5 October 2018 in relation to the Exempted Continuing Connected Transactions. With reference to Rule 14A.82 of the Listing Rules, each of the Exempted Continuing Connected Transactions is not applicable for aggregation



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## LETTER FROM THE BOARD

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with each of the Continuing Connected Transactions due to differences in nature of the product or services, or the parties involved. For details of the Exempted Continuing Connected Transactions, please refer to the section headed “Other information in relation to the Exempted Continuing Connected Transactions and the Exempted Connected Transaction”.

### **The Acquisitions**

As at the Latest Practicable Date, Taizhou Engines is wholly owned by Zhejiang Geely while Guiyang Engines is owned as to 88.64% by Zhejiang Geely and as to 11.36% by an independent third party to the Company. Zhejiang Geely in turn is owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li's interested entities. As such, each of Zhejiang Geely, Taizhou Engines and Guiyang Engines is an associate of Mr. Li and a connected person of the Company. Accordingly, the Acquisitions constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Although the applicable percentage ratios in respect of the Acquisitions on an aggregate basis are less than 5%, one or more of the applicable percentage ratios of the Acquisitions together with the previous acquisitions of the Group within one year aggregated pursuant to Rule 14A.81 of the Listing Rules as a whole is more than 5% but less than 25%. For details of the previous acquisitions, please refer to the announcements of the Company dated 7 November 2017 and 18 July 2018. As such, the Acquisitions 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 percentage ratios of the Acquisitions together with the previous acquisitions of the Group within one year aggregated pursuant to Rule 14.22 of the Listing Rules as a whole is more than 5% but less than 25%, the Acquisitions also constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules.

Reference is made to the announcement of the Company dated 5 October 2018 in relation to the Exempted Connected Transaction. With reference to Rule 14A.82 of the Listing Rules, the Assets Acquisition Agreement is not applicable for aggregation with each of the Acquisitions due to difference in nature of the assets acquired. For details of the Exempted Connected Transaction, please refer to the section headed “Other information in relation to the Exempted Continuing Connected Transactions and the Exempted Connected Transaction”.

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

Mr. Li and his associates together holding 3,987,588,000 Shares (representing approximately 44.41% of the total issued share capital of the Company), Mr. Yang Jian and his associates together holding 14,475,000 Shares (representing approximately 0.16% of the total issued share capital of the Company), Mr. Li Dong Hui, Daniel and his associates together holding 4,200,000 Shares (representing approximately 0.05% of the total issued share capital of the Company), and Mr. An Cong Hui and his associates together

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## LETTER FROM THE BOARD

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holding 16,280,000 Shares (representing approximately 0.18% of the total issued share capital of the Company) as at the Latest Practicable Date, will all abstain from voting on the resolutions to be proposed at the EGM to approve the Continuing Connected Transactions and the Acquisitions.

As at the Latest Practicable Date, the Company is not in negotiation nor has an intention to enter into any continuing connected transactions with its connected persons after completion of the Acquisitions which are expected to be arisen from the Acquisitions but are not within the scope of the existing continuing connected transactions of the Company which have been announced and approved by the Independent Shareholders as at the Latest Practicable Date.

### EGM

The EGM will be convened to consider and approve the Continuing Connected Transactions and the Acquisitions. A notice to convene the EGM is set out on pages EGM-1 to EGM-4 of this circular.

The EGM will be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong on Friday, 7 December 2018 at 4:30 p.m.. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time scheduled for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be).

### RECOMMENDATION

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

The text of the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 46 to 100 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 44 to 45 of this circular.

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

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## LETTER FROM THE BOARD

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The Board (including the independent non-executive Directors) considers that, although the Acquisition Agreements and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Acquisition Agreements and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

### **OTHER INFORMATION IN RELATION TO THE EXEMPTED CONTINUING CONNECTED TRANSACTIONS AND THE EXEMPTED CONNECTED TRANSACTION**

#### **(A) Proton Sales Agreement**

Reference is made to the Company's announcement dated 24 September 2018 in relation to the Proton Sales Agreement. On 24 September 2018 (after trading hours), the Company and Geely Holding entered into the Proton Sales Agreement pursuant to which the Group agreed to sell, and the Geely Holding Group agreed to procure, CBUs, CKDs and related after-sales parts of certain vehicle models developed by the Group, namely, the NL-3 Model (also known as "Geely Boyue" (吉利博越) Model, which is a sport utility vehicle model), the SX11 Model (a new sport utility vehicle model) and the VF11 Model (a new multi-purpose vehicle model), for a term of three years ending on 31 December 2020. The CBUs, CKDs and related after-sales parts of the said vehicle models to be procured by the Geely Holding Group pursuant to the Proton Sales Agreement will be sold to Proton Holdings Berhad, a private limited liability company incorporated in Malaysia and owned as to 49.9% by the Geely Holding Group, and its subsidiaries for their sale, marketing and distribution in the licensed regions including Negara Brunei Darussalam, Republic of Indonesia, Malaysia, Republic of Singapore, Thailand and other regions to be agreed between the Company and Geely Holding.

The annual caps under the Proton Sales Agreement for the three years ending 31 December 2020 are approximately RMB398.7 million, RMB3,803.5 million and RMB4,147.7 million, respectively.

#### **(B) Kandi Automobile Parts Supply Agreement**

Reference is made to the Company's announcement dated 5 October 2018 in relation to the Kandi Automobile Parts Supply Agreement. On 5 October 2018 (after trading hours), the Company and Kandi entered into the Kandi Automobile Parts Supply Agreement pursuant to which the Group agreed to supply automobile parts and components manufactured by the Group to the Kandi Group for a term of three years from 1 January 2019 to 31 December 2021. The automobile parts and components to be supplied by the Group will be used by the Kandi Group for its assembly into CKDs for electric vehicles which will be ultimately sold to end customers under its own brand.

The annual caps under the Kandi Automobile Parts Supply Agreement for the three years ending 31 December 2021 are approximately RMB227.6 million, RMB295.9 million and RMB384.6 million, respectively.

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## LETTER FROM THE BOARD

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### **(C) Zhidou EV CKD Supply Agreement**

Reference is made to the Company's announcement dated 5 October 2018 in relation to the Zhidou EV CKD Supply Agreement. On 5 October 2018 (after trading hours), the Company and Geely Holding entered into the Zhidou EV CKD Supply Agreement pursuant to which the Group agreed to supply CKDs for electric vehicles manufactured by the Group to the Geely Holding Group for a term of three years from 1 January 2019 to 31 December 2021. The CKDs for electric vehicles to be sold to the Geely Holding Group will be sold onwards by the Geely Holding Group to the Zhidou Group for its distribution to end customers under its own brand.

The annual caps under the Zhidou EV CKD Supply Agreement for the three years ending 31 December 2021 are approximately RMB2,180.1 million, RMB2,725.2 million and RMB3,270.2 million, respectively.

### **(D) Geely Holding & LYNK & CO Automobile Parts Supply Agreement**

On 5 October 2018 (after trading hours), the Company, Geely Holding and LYNK & CO entered into the Geely Holding & LYNK & CO Automobile Parts Supply Agreement pursuant to which the Group agreed to supply, and the Geely Holding Group and the LYNK & CO Group agreed to procure, automobile parts and components manufactured by the Group for a term of three years from 1 January 2019 to 31 December 2021. The automobile parts and components to be supplied by the Group will be used by the Geely Holding Group and the LYNK & CO Group for their manufacture of vehicles.

The annual caps under the Geely Holding & LYNK & CO Automobile Parts Supply Agreement for the three years ending 31 December 2021 are approximately RMB157.7 million, RMB189.3 million and RMB247.2 million, respectively.

### **(E) LYNK & CO Warehouse Services Agreement**

On 5 October 2018 (after trading hours), the Company and LYNK & CO entered into the LYNK & CO Warehouse Services Agreement pursuant to which the Group agreed to provide, and the LYNK & CO Group agreed to procure, warehouse services (including, but not limited to, warehouse rental, storage shelf and moving equipment rental, warehouse management etc.) for the after-sales parts and other automobile components of the LYNK & CO Group for a term of three years from 1 January 2019 to 31 December 2021. The warehouse services to be provided by the Group will cover the after-sales parts and other automobile components which are ready to be sold to the customers by the LYNK & CO Group.

The annual caps under the LYNK & CO Warehouse Services Agreement for the three years ending 31 December 2021 are approximately RMB61.2 million, RMB103.8 million and RMB182.9 million, respectively.

### **(F) Business Travel Services Agreement**

Reference is made to the Company's announcement dated 5 October 2018 in relation to the Business Travel Services Agreement. On 5 October 2018 (after trading hours), the Company and Geely Holding entered into the Business Travel Services Agreement pursuant to which the Group agreed to procure the

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## LETTER FROM THE BOARD

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business travel services (including, but not limited to, the booking of air tickets, accommodations and other transportations, and exhibition and conference related services) from the Geely Holding Group for a term of three years from 1 January 2019 to 31 December 2021.

The annual caps under the Business Travel Services Agreement for the three years ending 31 December 2021 are approximately RMB356.8 million, RMB482.0 million and RMB661.6 million, respectively.

### **(G) Assets Acquisition Agreement**

On 5 October 2018 (after trading hours), the Company and Geely Holding entered into the Assets Acquisition Agreement pursuant to which the Group agreed to purchase, and the Geely Holding Group agreed to sell, the assets which primarily consist of imported machinery and equipment for use in the Group's production and research and development, including machinery and equipment for (i) CKD production (such as welding robots, painting robots etc.), research and development (such as crash test dummies, dummy positioning and data collection systems etc.) and (ii) engine production and research and development, for a maximum consideration of approximately RMB679.9 million. The machinery and equipment acquired pursuant to the Assets Acquisition Agreement are not for use by the Target Companies.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser, which are respectively set out on pages 44 to 45 and pages 46 to 100 of this circular. Additional information is also set out in the appendices to this circular.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation from the Independent Board Committee to Independent Shareholders in relation to the Continuing Connected Transactions and the Acquisitions 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)

20 November 2018

*To the Independent Shareholders,*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS; AND  
(2) DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE ACQUISITIONS**

We refer to the circular dated 20 November 2018 (the “**Circular**”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as an Independent Shareholder whether the Independent Board Committee is of the view that the terms of the Continuing Connected Transactions and the Acquisitions are entered into in the ordinary and usual course of business of the Group, fair and reasonable, on normal commercial terms and in the interests of the Company and the Independent Shareholders.

We wish to draw your attention to the letter from the Board as set out on pages 8 to 43 of the Circular and the letter from the Independent Financial Adviser as set out on pages 46 to 100 of the Circular which contains, inter alia, their advice and recommendation to us regarding the terms of the Continuing Connected Transactions and the Acquisitions with the principal factors and reasons for those advice and recommendation.

### **RECOMMENDATION**

Having taken into account the advice and recommendation of the Independent Financial Adviser, we are of the view that, (i) the terms of the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group, and are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole; and (ii) although the Acquisition Agreements and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Group, the terms of the Acquisition Agreements and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Continuing Connected Transactions and the Acquisitions.

Yours faithfully,

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

**Mr. Lee Cheuk Yin, Dannis**

**Mr. Yeung Sau Hung, Alex**

**Mr. An Qing Heng**

**Mr. Wang Yang**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



20 November 2018

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

Dear Sirs,

### **(1) CONTINUING CONNECTED TRANSACTIONS; AND (2) DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITIONS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Services Agreement; (ii) the Electric Vehicle Agreement; (iii) the Automobile Components Procurement Agreement; and (iv) the Acquisition Agreements, details of which are set out in the letter from the board (the **“Letter from the Board”**) contained in the circular to the Shareholders dated 20 November 2018 (the **“Circular”**), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 5 October 2018 (after trading hours), with the aim of replacing the 2009 Services Agreement, the Company and Geely Holding entered into the Services Agreement pursuant to which (i) the Group conditionally agreed to sell CKDs to the Geely Holding Group (the **“CKDs Transaction”**); and (ii) the Geely Holding Group conditionally agreed to sell CBUs (the **“CBUs Transaction”**), automobile parts and components (the **“Procurement Service Transaction”**, together with the CKDs Transaction and the CBUs Transaction, hereinafter collectively referred to as the **“Services Transactions”**), for a term of three years from 1 January 2019 to 31 December 2021. Pursuant to the Services Agreement, the respective annual caps for the three years ending 31 December 2021 in respect of (i) the CKDs Transaction are proposed to be approximately RMB191.2 billion, RMB250.2 billion and RMB293.8 billion, respectively; (ii) the CBUs Transaction are proposed to be approximately RMB193.0 billion, RMB250.2 billion and RMB303.9 billion, respectively; and (iii) the Procurement Service Transaction are proposed to be approximately RMB38.1 billion, RMB50.1 billion and RMB59.1 billion, respectively (collectively referred to as the **“Service Caps”**).

In view of the upcoming expiry of the 2015 Electric Vehicle Agreement, on 5 October 2018 (after trading hours), the Company, Geely Holding and GGL entered into the Electric Vehicle Agreement pursuant to which the Group conditionally agreed to sell CBUs of electric vehicles (the **“EV CBUs”**) to the Geely



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Holding Group and the GGL Group (the “**EV Transaction**”) for a term of three years from 1 January 2019 to 31 December 2021. Pursuant to the Electric Vehicle Agreement, the annual caps for the EV Transaction are proposed to be approximately RMB14.3 billion, RMB22.1 billion and RMB17.7 billion for the three years ending 31 December 2021, respectively (the “**EV Caps**”).

Along with the Services Agreement and the Electric Vehicle Agreement, on 5 October 2018 (after trading hours), the Company and Geely Holding also entered into the Automobile Components Procurement Agreement pursuant to which the Group conditionally agreed to procure automobile components from the Geely Holding Group (the “**Procurement Transaction**”) for a term of three years from 1 January 2019 to 31 December 2021. Pursuant to the Automobile Components Procurement Agreement, the annual caps for the Procurement Transaction are proposed to be approximately RMB13.7 billion, RMB25.8 billion and RMB33.6 billion for the three years ending 31 December 2021, respectively (the “**Procurement Caps**”).

As at the Latest Practicable Date, both Geely Holding and GGL are wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 44.41% of the total issued share capital of the Company as at the Latest Practicable Date. As such, each of Geely Holding and GGL is an associate of Mr. Li and a connected person of the Company under the Listing Rules. Accordingly, the Services Transactions, the EV Transaction and the Procurement Transaction constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the respective proposed annual caps on an annual basis for the Continuing Connected Transactions exceed 5%, the Continuing Connected Transactions (including their respective proposed annual caps) are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

On 5 October 2018 (after trading hours), Zhejiang Dongli (formerly known as 浙江吉利羅佑發動機有限公司 (Zhejiang Geely Luoyou Engines Company Limited\*)), an indirect 99.1% owned subsidiary of the Company with the remaining 0.9% shareholding interests being indirectly held by other Mr. Li’s interested entities as at the Latest Practicable Date, entered into (i) the TZ Acquisition Agreement with Taizhou Engines, pursuant to which Zhejiang Dongli conditionally agreed to acquire, and Taizhou Engines conditionally agreed to sell, the entire registered capital of the TZ Target, for a cash consideration of RMB781,274,109; and (ii) the GZ Acquisition Agreement with Guiyang Engines, pursuant to which Zhejiang Dongli conditionally agreed to acquire, and Guiyang Engines conditionally agreed to sell, the entire registered capital of the GZ Target, for a cash consideration of RMB484,003,363.

As at the Latest Practicable Date, Taizhou Engines is wholly owned by Zhejiang Geely while Guiyang Engines is owned as to 88.64% by Zhejiang Geely and as to 11.36% by an independent third party to the Company. Zhejiang Geely is owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li’s interested entities. As such, each of Zhejiang Geely, Taizhou Engines and Guiyang Engines is an associate of Mr. Li and a connected person of the Company. Accordingly, the Acquisitions constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Although the applicable percentage ratios in respect of the Acquisitions on an aggregate basis are less than 5%, one or more of the applicable percentage ratios of the Acquisitions together with the previous acquisitions of the Group within one year aggregated pursuant to Rule 14A.81 of the Listing Rules as a whole is more than 5% but less than 25%. (For details of the previous acquisitions, please refer to the circulars of the Company dated 8 December 2017 and 16 August 2018) As such, the Acquisitions are subject to the reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang, each being an independent non-executive Director, has been established to advise the Independent Shareholders on whether the Services Agreement, the Electric Vehicle Agreement, the Automobile Components Procurement Agreement and the Acquisition Agreements are entered into in the ordinary and usual course of business of the Group, and on normal commercial terms, and the terms thereof as well as the Service Caps, the EV Caps and the Procurement Caps are fair and reasonable and in the interests of the Company and the Independent Shareholders. We, Dakin Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

As at the Latest Practicable Date, Dakin Capital Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Dakin Capital Limited. Apart from acting as the Independent Financial Adviser, we also acted three times as an independent financial adviser to the independent board committee of the Company and the Independent Shareholders during the last two years and up to the date hereof. The date of the first relevant circular containing our letter of advice was 8 December 2017 and the nature of the transactions set out therein were (i) discloseable and connected transactions in relation to certain acquisitions; (ii) continuing connected transactions upon completion of the said acquisitions; and (iii) further revision of annual caps for the transactions under the 2009 Services Agreement. The other two relevant circulars dated 16 August 2018 and 20 November 2018 containing our letters of advice regarded discloseable and connected transactions in relation to certain acquisitions and continuing connected transactions in relation to certain financing arrangement, respectively. Apart from normal professional fees paid or payable to us in connection with such appointments as an independent financial adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company or any other parties to the relevant transactions that could reasonably be regarded as relevant to our independence. Accordingly, we consider that such business relationship would not affect our independence.

### **BASIS OF OUR OPINION**

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Latest Practicable Date. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Target Companies, and we have not been furnished with any such evaluation or appraisal, save and except for the Valuation Report as set out in Appendix I to the Circular. The Valuation Report was prepared by the Independent Valuer. Since we are not experts in the valuation of land and/or properties, we have relied solely upon the Valuation Report for the valuation of the TZ Properties and the GZ Properties as at 31 August 2018.

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

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to (i) the Services Agreement, the Electric Vehicle Agreement, the Automobile Components Procurement Agreement and the Continuing Connected Transactions; and (ii) the Acquisition Agreements and the Acquisitions, we have taken into account the following principal factors and reasons:

#### A. CONTINUING CONNECTED TRANSACTIONS

##### 1. Principal business activities and recent performance 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It is disclosed in the Company's announcement dated 8 October 2018 that the Group had achieved around 72.0% of its full year sales volume target of 1,580,000 units for 2018 contributed by a total sales volume of 1,136,858 units for the first nine months of 2018 which represented (i) approximately 91.2% of the total sales volume in 2017; and (ii) an increase of approximately 37.4% as compared to the same period of 2017.

Set out below are the interim results of the Group for the six months ended 30 June 2018 as extracted from the Company's interim report for the six months ended 30 June 2018 (the **"2018 Interim Report"**):

	For the six months ended 30 June		Period on period change
	2018	2017	
	RMB'000	RMB'000	%
	(unaudited)	(unaudited)	
Revenue	53,708,605	39,423,646	36.2
Gross profit	10,837,269	7,554,132	43.5
Profit for the period	6,735,898	4,386,388	53.6

As depicted by the table above, the Group recorded a significant increase in revenue of approximately 36.2% for the six months ended 30 June 2018 as compared to the same period in the prior year. For the same six-month period, the Group's gross profit and profit also increased substantially by approximately 43.5% and 53.6%, respectively. According to the 2018 Interim Report, the aforesaid growth was mainly due to (i) the strong sales performance of the Group's sedan and sport utility vehicle models; and (ii) the improvement in gross profit margin ratio due to better product mix (i.e. higher proportion of higher margin models) and economies of scale.

As disclosed in the 2018 Interim Report, since the commercial launch of the Group's first electric vehicle model "Emgrand EV" in 2015, "Emgrand EV" had consistently ranked amongst the best-selling full size electric vehicle model in the PRC over the past few years. The Directors are of the view that the Group has already established good customer recognition in the PRC for the quality and performance of its electric vehicles. It is also stated in the 2018 Interim Report that new energy vehicles would be the Group's focus in new products offering in 2018, during which new energy vehicles have been and will be added to all the Group's major lines. This aimed at catering for various market segments including the sport utility vehicle market and different customer purchasing preference on product specifications. For the six months ended 30 June 2018, the Group's sales of new energy vehicle models amounted to 14,362 units, up by approximately 71% from the same period in 2017. Particularly, in May 2018 and June 2018, the Group had launched one new energy vehicle model "Borui GE" (with both mild hybrid electric vehicle version and plugin-hybrid-electric version) and one new crossover electric vehicle model "Emgrand GSe" in the PRC respectively, which had received strong market acceptance and their sales performance well exceeded the expectation of the Company's management. As advised by the management of the Group, 2,554 units of Borui GE and 367 units of Emgrand GSe were sold up to 30 June 2018, which contributed to approximately 20.3% of the total units of new energy vehicle models during the six months ended 30 June 2018. With an

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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aim to further speed up the pace of new energy vehicle products offering for most of its major vehicle model lines, the Group will continue to increase its new model offerings in the new energy sector in the upcoming years. We noted that based on the current product development schedule of the Group, the Company currently intends to launch more new vehicle models by the end of 2021, of which some of them are expected to be new electric vehicle and plugin-hybrid-electric vehicles (“**PHEV**”) models (together with Borui GE and Emgrand GSe, the “**New EV Models**”). The launch of the New EV Models along with the Group’s existing electric and new energy vehicles is expected to capture the increasing demand for electric and new energy vehicles in the PRC.

### 2. Information on the counterparties

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

The GGL Group is principally engaged in the manufacture of automobiles and vehicle engines and its subsidiary, Youxing Technology, is operating Cao Cao. As stated in the Letter from the Board, Cao Cao is the first domestic new energy focused ride hailing and mobility service currently operating in more than 25 cities in the PRC with more than 20,000 designated drivers.

### 3. Overview of the PRC automobile industry

#### 3.1 Industry performance

Automobile industry is regarded as one of the important pillars of the national economy in 《汽車產業中長期發展規劃》 (the Medium and Long-term Development Plan for the Automotive Industry) jointly issued by the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Science and Technology on 25 April 2017 (the “**Plan**”). To promote the PRC automobile industry, the Plan envisages the PRC becoming a top automobile country in the world over the next ten years. In particular, the Plan aims to have several top ten (i) new-energy automobile companies of the world by 2020; (ii) automobile sellers of the world by 2025; and (iii) automobile parts companies of the world by 2025. The Plan designates the new-energy automobile as one of the key areas to develop.

According to the China Association of Automobile Manufacturers (the “**CAAM**”), a non-profit social organisation founded in Beijing in 1987 with the approval of the Ministry of Civil Affairs of the PRC which consists of enterprises and institutions engaging in the production and management of automobiles, automobile parts and vehicle-related industries in the PRC and is formed for the purpose of developing and promoting the PRC automobile industry and the implementation of national principles and policies relating to the PRC automobile industry, the sales volume of passenger vehicles in the PRC grew from approximately 13.8 million units in 2010 to approximately 25.0 million units in 2017, representing an increase of approximately 81.2%. For the first seven months in 2018, the sales of passenger cars were approximately 19.5 million units, up approximately 3.4% year-on-year. CAAM also announced that the sales of new energy vehicles (consisting of electric vehicles and hybrid electric vehicles) increased to approximately 777,000 units in 2017, representing a

year-on-year increase of approximately 53.3%. For the first seven months of 2018, new energy vehicles sold in the PRC amounted to approximately 496,000 units, representing a year-on-year growth of approximately 97.1%.

### **3.2 Supportive national policies and measures relating to the PRC new energy vehicles market**

In addition to the Plan, to support its commitment to encourage the development of the electric and new energy vehicles market, the PRC government has also implemented a series of other supporting policies and measures in promoting electric and new energy vehicles. For instance, along with (i) the implementation of 《節能與新能源汽車產業發展規劃(2012-2020)》 (The Development Plan of Energy Saving and New Energy Vehicles Industry (2012-2020)) by the State Council of the PRC to promote and develop the domestic energy-saving and new energy vehicle industry with a sales target of five million new energy vehicles to be sold by 2020; and (ii) the emphasis placed on boosting technological innovations in the manufacturing of new energy vehicles and promoting the use of electric cars, plug-in hybrids and fuel cell vehicles, included in its latest Five-Year Plan, the PRC government has introduced a grant towards the sale of electric vehicles in the PRC (the “**PRC Government Grant**”) to encourage and promote the use and development of new energy vehicles in the PRC. It is noted that the PRC Government Grant is generally calculated on a per-unit basis based on the number of electric vehicles sold by the PRC corporates with possession of the Automobile Products Catalogue (as defined in the paragraph headed “The Services Agreement – The CKDs Transaction and the CBUs Transaction” below), which is required to facilitate the obtaining of the PRC Government Grant. The supporting targets of the PRC Government Grant are the end customers of new energy vehicles in the PRC.

On 27 December 2017, four ministries of the People’s Republic of China, namely, the Ministry of Industry and Information Technology, Ministry of Finance, Ministry of Science and Technology and State Administration of Taxation jointly issued an announcement of continuing to waive purchase taxes on new energy vehicles for the next three years, effective from 1 January 2018 to 31 December 2020, to encourage green transportation and boost sales of the new energy vehicles. This is an extension of a purchase tax waiver that was raised out in 2014 as part of measures to reduce energy consumption. The tax exemption covers fully electric, hybrid and fuel-cell vehicles. The PRC government will continue to add new energy vehicles models to the list of cars eligible for the tax exemption, if the new energy vehicles model meets a set of technical, quality, safety and efficiency standard.

Recently, the State Council of the People’s Republic of China issued the “Three-Year Action Plan to Win the Blue Sky Defense War”《打贏藍天保衛戰三年行動計劃》 (the “**Three-Year Action Plan**”) on 3 July 2018 to speed up the upgrade of the structure of vehicles for the development of the green transportation system which, in turn, is expected to promote the use of new energy vehicles in the PRC. The Three-year Action Plan stated that in 2020, the production and sales volume of new energy vehicles will reach 2 million units per year in the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It is evident that the PRC government has been making a concerted effort to stimulate the development and use of electric and new energy vehicles in the PRC and sustain the continuous growth in demand for electric and new energy vehicles. It is believed that the milestones in the PRC government's support for the electric and new energy vehicles market has clearly demonstrated the PRC government's dedication to the overall market development. Further, the growing trend of the sales of electric and new energy vehicles in the PRC throughout the years has reinforced the Directors' belief that the abovementioned plans and policies adopted by the PRC government will continue to have positive impacts on the overall development of the electric and new energy vehicles market. Also, it is expected that the prevailing market conditions will enable the sale of the Group's electric and new energy vehicles to keep up with the growth momentum and continue to achieve positive sales performance for the rest of the year 2018 and the three years ending 31 December 2021.

### **A1. THE SERVICES AGREEMENT**

#### **1. Background of and reasons for the Services Agreement**

Reference is made to the Company's circulars dated 14 December 2009, 6 December 2012, 14 December 2015, 11 November 2016 and 8 December 2017 in relation to the 2009 Services Agreement as approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 31 December 2009. The 2009 Services Agreement was entered into between the Company and Geely Holding on 27 November 2009 pursuant to which (i) the Group agreed to sell CKDs and the Vehicle Tool Kits to the Geely Holding Group; and (ii) the Geely Holding Group agreed to sell CBUs, automobile parts and components, and provide manufacturing services to the Group for a term of 11 years from 1 January 2010 to 31 December 2020.

On 5 October 2018 (after trading hours), with the aim of replacing the 2009 Services Agreement, the Company and Geely Holding entered into the Services Agreement in respect of the CKDs Transaction, the CBUs Transaction and the Procurement Service Transaction for a term of three years from 1 January 2019 to 31 December 2021. The Company confirmed that (1) the replacement of the 2009 Services Agreement by the Services Agreement was determined based on mutually agreement between the Company and Geely Holding; (2) save for, inter alia, (i) the reduced scope of services to be provided by the parties (i.e. the discontinuation of both the Group's sales of the Vehicle Tool Kits to the Geely Holding Group and the Geely Holding Group's provision of manufacturing services to the Group); (ii) the shortening of the term to three years; (iii) the adoption of the Service Caps; and (iv) the update of the condition precedent, all other terms of the Services Agreement are principally the same; and (3) upon completion, the Services Agreement will only take effect on 1 January 2019 while the 2009 Services Agreement will cease to have effect concurrently, that is the terms of the Services Agreement will override all those set out in the 2009 Services Agreement, regardless of the actual duration of the 2009 Services Agreement as stipulated therein.

#### ***1.1 The CKDs Transaction and the CBUs Transaction***

We were advised by the Company that it is the regulatory requirement under the PRC laws that automobile manufacturers are required to be approved by and obtain the relevant automobile products catalogue from the National Development Reform Commission of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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PRC (the “**Automobile Products Catalogue**”) to carry out automobile manufacturing business and facilitate the payment of the consumption tax for the sales of automobiles in the PRC. We were further advised by the Group’s management that none of the members of the Group is currently in possession of the Automobile Products Catalogue and it would not be practical at present for the Group to apply for such accreditation. On the other hand, certain members of the Geely Holding Group have already been approved as automobile manufacturers in the PRC with the relevant Automobile Products Catalogue for certain types of automobiles in the PRC which accredits them to, among others, import and operate certain molding equipment required for the manufacturing of certain automobile parts and components which form part of the CKDs.

We are also given to understand that pursuant to the terms of the 2009 Services Agreement, certain members of the Geely Holding Group which possess the relevant Automobile Products Catalogue have been performing the final assembly of the CKDs supplied by the Group (being the manufacturing process of the CBUs) and facilitating payment of the PRC consumption tax for the sales of the CBUs (each composing of a CKD) on behalf of the Group. As confirmed with the management of the Group, it is noted that (i) the Vehicle Tool Kits is merely a tool kit(s) for subsequent basic repairs and maintenance of the vehicle and is not a necessary component used in the final assembly of the CKDs to make CBUs; and (ii) almost all of the products sold by the Group to the Geely Holding Group under the 2009 Services Agreement historically were CKDs. It is also noted that after performing the aforesaid final assembly procedure, the CBUs were sold by the Geely Holding Group to the Group’s sales companies for onward distribution and sales to independent dealers or end customers. The Company confirmed that there will be no change in the said operation mode regarding the manufacturing and sales of the Group’s CBUs (the “**CBUs Operation Mode**”) throughout the duration of the Services Agreement. As the Group is not in possession of the Automobile Products Catalogue, the CBUs Operation Mode will continue to ensure smooth operation of the Group, as the services to be provided by the Geely Holding Group would help facilitate payment of the PRC consumption tax.

Having considered the aforesaid regulatory requirement under the PRC laws regarding the Automobile Products Catalogue and that the types of automobiles specified under the particular Automobile Products Catalogue possessed by the relevant members of the Geely Holding Group include the categories to which the CBUs belong, the Directors consider that it is in the interest of the Group to continue engaging in the CKDs Transaction and the CBUs Transaction.

### ***1.2 The Procurement Service Transaction***

As advised by the Company, the Group has been procuring certain automobile parts and components for use in the manufacturing of the CKDs and the Vehicle Tool Kits through other members of the Geely Holding Group on a sole source basis for more than ten years. Given the growing demand for its vehicles in the PRC market along with the overall business expansion over the years, it is utmost important for the Group to continue to secure a reliable source of supply of the required automobile parts and components at competitive prices for its production of CKDs and hence CBUs, enabling it to remain competitive in the market.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the Letter from the Board, unlike those specified under the Automobile Components Procurement Agreement as detailed in the paragraph headed “The Automobile Components Procurement Agreement – Background of and reasons for the Automobile Components Procurement Agreement” below, the automobile parts and components to be sold to the Group by the Geely Holding Group pursuant to the Services Agreement will be those that are procured by the Geely Holding Group from other independent third party suppliers for onward selling to the Group (that is, the Geely Holding Group is providing procurement services to the Group). The Directors are of the view that the Procurement Services Transaction will continue to help reduce administrative burden on the Group of having to deal with numerous different suppliers and enable the Group to secure a stable source of raw materials at competitive prices leveraging on the long-term relationships established between the Geely Holding Group and the independent third party suppliers of those automobile parts and components. Accordingly, continuation of such procurement arrangement between the Group and the Geely Holding Group is considered to be beneficial to the Group’s business in this respect.

Given the nature of the Services Transactions, it is reasonable to expect that the Services Transactions will continue to take place on a regular and frequent basis and in the ordinary and usual course of business of the Group in future. As such, we are of the view that the Services Transactions are essential for the Group in ensuring the continued smooth operation of its business of manufacturing and trading of automobiles, automobile parts and related automobile components for the three years ending 31 December 2021.

Based on the foregoing, we are of the view that the entering into of the Services Agreement is conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

### **2. Principal terms of the Services Agreement**

Details of the principal terms of the Services Agreement are as follows:

***Date***

5 October 2018 (after trading hours)

***Parties***

The Company and Geely Holding

***Term***

From 1 January 2019 to 31 December 2021

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Subject matter*

#### *(i) CKDs Transaction*

The Group conditionally agreed to sell, and the Geely Holding Group conditionally agreed to purchase, the CKDs manufactured by the Group.

During the course of the Services Agreement, the Geely Holding Group may request additional services other than the aforesaid services from the Group which will be based on normal commercial terms and determined by the parties to the Services Agreement on arm's length basis and in compliance with the Listing Rules. Such additional services, if any, will be related to services (such as modification of CKDs) that may be required in the process of manufacturing CKDs for new vehicle models in the future. Since the commencement of the 2009 Services Agreement and up to the Latest Practicable Date, the Geely Holding Group has not requested for such additional services from the Group.

We have discussed with the management of the Group regarding the nature of the possible additional services, and were advised that (i) all the CKDs to be supplied to the Geely Holding Group pursuant to the Services Agreement will be solely used for the manufacturing of the CBUs by the Geely Holding Group on behalf of the Group; and (ii) provision of such additional services will be subject to the then capability and capacity of the Group and will likely relate to the modifications of the CKDs by the Group to accommodate new vehicle models.

#### *(ii) CBUs Transaction*

The Geely Holding Group conditionally agreed to sell, and the Group conditionally agreed to purchase, CBUs. The Group's management confirmed that all the CBUs to be manufactured by the Geely Holding Group on behalf of the Group are to be sold to the Group for onward distribution and sales to independent dealers or end customers.

#### *(iii) Procurement Service Transaction*

The Geely Holding Group conditionally agreed to sell, and the Group conditionally agreed to purchase, automobile parts and components.

### *Pricing basis*

#### *(i) CKDs Transaction*

The CKDs, depending on the specifications and models, will be sold to the Geely Holding Group based on the selling prices of CBUs to end customers, less distribution costs, the applicable PRC taxes (being mainly consumption tax and value-added tax) and other necessary and reasonable expenses (such as staff salary and other office expenses), plus any new energy vehicle subsidies received (in the case of electric vehicles).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *CBUs Transaction*

The CBUs, depending on the models, will be sold to the Group based on the selling prices of CBUs to end customers, less distribution costs.

(iii) *Procurement Service Transaction*

The automobile parts and components to be sold by the Geely Holding Group to the Group will be based on the original purchase cost plus the actual costs (mainly the staff costs and office expenses) incurred by the Geely Holding Group in the procurement process of such automobile parts and components.

Save as disclosed above, it is also stated in the Letter from the Board that all the CBUs Transaction, the CKDs Transaction and the Procurement Service Transaction will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the Company than terms available to or from (as applicable) other independent third parties to the Company.

According to the management of the Group, pursuant to the pricing basis of the CBUs Transaction, the selling price of the CBUs, depending on the models, to be sold by the Geely Holding Group to the Group shall be determined based on the selling price of the relevant vehicle to end customers after deduction of the related distribution costs. It is noted that the aforesaid distribution costs mainly consist of any commission or payment the Group may need to pay its dealers, distributors or sales agents or advertising and after-sales service expenses and the distribution costs incurred by the distributors.

The management of the Group confirmed that in line with the Group's current practice, the consideration payable by the Group to the Geely Holding Group under the CBUs Transaction is only to reimburse the actual PRC taxes (mainly the consumption tax and value-added tax) and other necessary and reasonable expenses (such as staff salary and other office expenses) payable by the Geely Holding Group on behalf of the Group and the actual purchase cost of the CKDs, and therefore no profit would be generated by the Geely Holding Group resulting from sale of the CBUs to the Group.

The management of the Group expects that given the pricing terms of the CKDs Transaction and the CBUs Transaction as discussed above, in line with its current practice, the Group will potentially gain profit from the sale of the CKDs to the Geely Holding Group should the unit selling prices of the CKDs be in excess of the corresponding unit manufacturing costs of the CKDs and the profitability relating thereto would be principally subject to the Group's final selling prices of the vehicle to independent dealers or end customers to be determined by the Group at its sole discretion.

Further, we have also discussed with the management of the Group about the determining factors for the selling prices of the automobile parts and components under the Procurement Service Transaction, and noted that in line with the Group's current practice, the consideration payable by the Group to the Geely Holding Group is only to reimburse the actual

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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costs (including the purchase cost of the automobile parts and components and the related labour, administrative and transportation costs) to be incurred in the procurement process by the Geely Holding Group, and therefore no profit would be generated by the Geely Holding Group as a result of its sales of automobile parts and components to the Group.

The Company confirmed that each of the aforesaid pricing bases as provided under the Services Agreement has been determined with reference to the pricing terms stipulated in the 2009 Services Agreement and after arm's length negotiations between the Company and Geely Holding based on the earning objectives of the Group and a pricing policy whereby (i) the final selling prices of the vehicle to independent dealers or end customers will be determined by the Group at its sole discretion with reference to the then prevailing market rates; (ii) the Group will bear the risks of loss and the rewards of its manufacturing and sales of vehicles; (iii) any possible profit to be derived therefrom will only be realised from the sales transaction relating to the CKDs; and (iv) the consideration payable by the Group to the Geely Holding Group under the Services Agreement is only to cover the reimbursement of most of the related expenses actually incurred by the Geely Holding Group in support of the Group's manufacturing and sales of vehicle business in the PRC, after taking into account the supporting role of the Geely Holding Group in assisting the Group in the undertaking of its principal activities as well as the implementation of its business expansion plans in the PRC.

To sum up, as confirmed by the Company, given that the Group will continue to adopt the same CBUs Operation Mode in conducting its manufacturing and sales of CBUs in the PRC throughout the term of the Services Agreement and the pricing terms in relation to the CKDs Transaction and the CBUs Transaction stipulated in the Services Agreement and the 2009 Services Agreement are principally the same, the Group will therefore continue to have exactly the same net financial effect of the CKDs Transaction and the CBUs Transaction being represented as the sum of (i) the service cost of the final assembly on the CKDs to be charged by the Geely Holding Group; and (ii) the relevant consumption taxes levied on the CBUs upon being sold to the Group, which will continue to be included in the "Cost of sales" in the consolidated income statement of the Group. This is consistent with the relevant disclosure made by the Board in the Company's circular dated 8 December 2017.

In light of the foregoing, we concur with the view of the Directors that the bases for pricing determination under the Services Agreement are fair and reasonable, on better than normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### ***Payment term***

Payment of CKDs, CBUs, automobile parts and components delivered under the Services Agreement will be satisfied within 90 days from product delivery.

### ***Condition precedent***

The Services Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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If the above condition is not fulfilled on or before 31 December 2018 (or such later date as the parties may agree in writing), the Services Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

### *Termination*

In addition to the non-fulfillment of the condition precedent above, the Services Agreement may be terminated if:

- (i) a written agreement is entered into between the parties to terminate the Services Agreement;
- (ii) either party ceases business, is subject to attachment or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of the laws or regulations, declares bankruptcy, is unable to perform its obligations under the Services Agreement due to force majeure; or
- (iii) Geely Holding and its associates (as defined in the Listing Rules) cease to be connected persons of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. The Service Caps

Set out below are the details of (i) the historical transaction amount of each of the Services Transactions for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the comparison of the transaction amounts with the respective approved annual caps for the three years ending 31 December 2018 (the “**Service Transactions Utilisation Rate(s)**”); and (iii) the Service Caps:

	Historical Transaction Amounts			The Service Caps		
	For the year ended		For the seven	For the year ending 31 December		
	31 December		months ended			
	2016	2017	31 July	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CKDs Transaction	50,643,474	86,056,421	53,288,882	191,208,876	250,203,103	293,775,381
Approved annual cap for the three years ending 31 December 2018	54,402,278	88,809,841	121,443,520	N/A	N/A	N/A
Service Transactions Utilisation Rate	93.1%	96.9%	43.9% (Note)	N/A	N/A	N/A
CBUs Transaction	51,659,054	89,033,862	54,433,378	192,992,507	250,201,867	303,907,912
Approved annual cap for the three years ending 31 December 2018	55,665,152	93,295,760	127,350,870	N/A	N/A	N/A
Service Transactions Utilisation Rate	92.9%	95.4%	42.7% (Note)	N/A	N/A	N/A
Procurement Service Transaction	9,085,445	16,620,634	10,435,326	38,094,017	50,052,689	59,076,300
Approved annual cap for the three years ending 31 December 2018	11,282,384	17,940,062	26,009,872	N/A	N/A	N/A
Service Transactions Utilisation Rate	80.5%	92.6%	40.1% (Note)	N/A	N/A	N/A

*Note:* Service Transactions Utilisation Rate for the year ending 31 December 2018 was calculated by dividing the historical transaction amount for the seven months ended 31 July 2018 by the approved annual cap for the full financial year ending 31 December 2018.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***3.1 The historical transaction amounts of the CKDs Transaction, the CBUs Transaction and the Procurement Service Transaction***

It is noted that the Service Transactions Utilisation Rates for the two years ended 31 December 2017 were relatively high in general. For the seven months ended 31 July 2018, the historical transaction amounts of the CKDs Transaction, the CBUs Transaction and the Procurement Service Transaction were approximately RMB53,288,882,000, RMB54,433,378,000 and RMB10,435,326,000 respectively, each accounted for about 40% of the corresponding approved full-year annual caps as at 31 July 2018. The Company confirmed that the Group sold a total of 1,136,858 units of vehicles for the first nine months of 2018, representing an increase of approximately 37.4% from the same period last year and achieving around 72.0% of the Group's full-year sales volume target of 1,580,000 units in 2018.

### ***3.2 The bases of determination of the Service Caps***

For the three years ending 31 December 2021, the proposed annual caps of (i) the CKDs Transaction are RMB191,208,876,000, RMB250,203,103,000 and RMB293,775,381,000; (ii) the CBUs Transaction are RMB192,992,507,000, RMB250,201,867,000 and RMB303,907,912,000; and (iii) the Procurement Service Transaction are RMB38,094,017,000, RMB50,052,689,000 and RMB59,076,300,000, respectively. It is noted that an upward trend is generally expected by the Directors for each of the Service Caps for the period from 1 January 2019 to 31 December 2021.

As stated in the Letter from the Board, the proposed annual caps for the CKDs Transaction were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected unit sales of the Group for the three years ending 31 December 2021; (iii) the projected average selling price of CBUs to end customers for the three years ending 31 December 2021; and (iv) the applicable PRC tax rates, the new energy vehicle subsidies and the projected distribution costs and other necessary expenses for the three years ending 31 December 2021.

The proposed annual caps for the CBUs Transaction were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected unit sales of the Group for the three years ending 31 December 2021; (iii) the projected average selling price of CBUs to end customers for the three years ending 31 December 2021; and (iv) the projected distribution costs for the three years ending 31 December 2021.

The proposed annual caps for the Procurement Service Transaction were determined by the Directors with reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected sales of the Group for three years ending 31 December 2021; and (iii) the historical percentage of purchase costs of automobile parts and components from the Geely Holding Group relative to the total sales of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In our assessment of the fairness and reasonableness of the Service Caps, we have reviewed the sales projection in respect of the CKDs Transaction, the CBU's Transaction and the Procurement Service Transaction for the three years ending 31 December 2021 prepared by the Group. We have also reviewed (i) the overall sale performance of the Group for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the Group's overall manufacturing capacity schedule from 2019 to 2021; (iii) the list of new vehicle models (including the New EV Models) that are expected to be launched by the Group during the remaining period of 2018 and up to 2021; (iv) the projected average selling price to end customers for the three years ending 31 December 2021; (v) the applicable PRC tax rates, the new energy vehicle subsidies and the projected distribution costs and other necessary expenses for the three years ending 31 December 2021; (vi) the historical percentage of purchase costs of those automobile parts and components from the Geely Holding Group (procured by the Geely Holding Group from other independent third party suppliers for onward selling to the Group) relative to the total sales of the Group; and (vii) the general sale pattern and market performance of the PRC automobile industry reported by CAAM. Based on our independent workdone and our discussion with the management of the Group on the underlying bases and assumptions relating the aforesaid sales projection, we noted that the Directors have principally taken into account (i) the historical transaction amounts of the CKDs Transaction, the CBU's Transaction and the Procurement Service Transaction for the seven months ended 31 July 2018; (ii) the actual total sales volume of the Group's vehicles for the seven months ended 31 July 2018; (iii) the expansion of the Group's overall manufacturing capacity; (iv) the continued positive sales performance of the existing vehicle models; (v) the unit selling prices of each type of vehicle models under the CKDs Transaction and the CBU's Transaction remains relatively stable for the three years ending 31 December 2021; (vi) the new vehicles models that are expected to be launched by the Group by the end of 2021; and (vii) the Directors' assumption on the tax rates on sales of automobile vehicles in the PRC remain unchanged for the three years ending 31 December 2021.

We concur with the Directors' view that it is fair and reasonable and in the interests of the Company and the Shareholders to set the Service Caps at the proposed levels, in particular after taking into consideration the following:

- that the Service Caps were determined in accordance with the pricing basis under the Services Agreement which is considered to be fair and reasonable, details of which are set out under the subsection headed "Principal terms of the Services Agreement" above;
- the recent overall business performance of the Group as detailed above, in particular, increasing its total sales volume of vehicles for the nine months ended 30 September 2018 by approximately 37.4% as compared to the same period last year while achieving around 72.0% of its full-year sales volume target of 1,580,000 units in 2018;
- the expected expansion of the Group's overall manufacturing capacity for the three years ending 31 December 2021 resulting from, inter alia, the recent acquisitions of the entire registered capital of 杭州吉利汽車有限公司 (Hangzhou



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Geely Automobile Company Limited\*), 寧波吉潤汽車部件有限公司 (Ningbo Jirun Automobile Components Company Limited\*) and 貴州吉利汽車部件有限公司 (Guizhou Geely Automobile Components Company Limited\*) from the Geely Holding Group as detailed in the Company's circular dated 16 August 2018 (the "**Previous Acquisitions**"), thereby increasing production capacity with additional outputs of approximately 690,000 units of CKDs in 2019 to accommodate the production of six new vehicle models of the Group to be launched by 2021;

- that the growth of the Group's sales volume of approximately 42.7% for the seven months ended 31 July 2018 as compared to the same period in 2017 was significantly higher than the growth of the sales volume of passenger vehicles in the PRC of approximately 3.4% reported by CAAM for the relevant period;
- that the product portfolio is expected to expand to include additional new vehicle models (including the New EV Models) by the end of 2021 with their selling prices adopted in the sales projection in respect of the CKD Transaction and the CBU Transaction are comparable to the prevailing market prices of similar models currently available in the PRC automobile market;
- that the selling price per vehicle to end customers, projected distribution costs and other necessary and reasonable expenses (such as staff salary and other office expenses) are generally estimated to remain relatively steady for 2019 to 2021;
- that the projected distribution costs incurred by the Group in calculating the annual caps under the CKDs Transaction and the CBUs Transaction for each of the three years ending 31 December 2021 are estimated at approximately 4.37% of the selling price of the relevant vehicle to end customers, which is in line with the historical percentage of distribution and selling expenses relative to the total sales of the Group for the year ended 31 December 2017;
- that the annual caps of the Procurement Service Transaction for each of the three years ending 31 December 2021 were determined based on the historical percentage of the total purchase costs incurred by the Group for those automobile parts and components supplied by the Geely Holding Group relative to the total sales of the Group for the year ended 31 December 2017 of approximately 18.0%; and
- the adoption of an estimated consumption tax rate being mainly within the range of 3% to 5% for the transactions relating to the CKDs Transaction (subject to the engine size of the relevant vehicle models and the subsidy scheme for electric and new energy vehicles) based on the existing consumption tax rates applicable for the sale of different vehicles in the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3.3 Conclusion

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

## A2. THE ELECTRIC VEHICLE AGREEMENT

### 1. Background of and reasons for the Electric Vehicle Agreement

Reference is made to the Company's circulars dated 14 December 2015 and 11 November 2016 in relation to the 2015 Electric Vehicle Agreement and the 2016 Supplemental EV Agreement, respectively. Pursuant to the 2015 Electric Vehicle Agreement entered into on 13 November 2015, the Group conditionally agreed to sell, and the Geely Holding Group conditionally agreed to purchase, the EV CBUs for a term of three years from 1 January 2016 to 31 December 2018. In light of the upcoming expiry of the 2015 Electric Vehicle Agreement, based on terms which are principally the same as those stipulated in the 2015 Electric Vehicle Agreement and the emerging demand of electric vehicles from the GGL Group, the Company, Geely Holding and GGL entered into the Electric Vehicle Agreement on 5 October 2018 (after trading hours) for a term of three years from 1 January 2019 to 31 December 2021.

According to the Company's circular dated 11 November 2016, the Group had launched its first electric vehicle in February 2016 in view of the development potential in the medium to high-end new energy vehicle market in the PRC. Since then, the Group has been engaging in sales of electric and new energy vehicles through the Geely Holding Group in the PRC pursuant to the 2015 Electric Vehicle Agreement for the purpose of enabling the Group to take advantage of the Geely Holding Group's eligibility to the PRC Government Grant in certain regions of the PRC where the Group has operation, thereby gaining competitive edge through the benefit derived therefrom, details of which are set out in the paragraph headed "Overview of the PRC automobile industry – Supportive national policies and measures relating to the PRC new energy vehicles market" above. Given the fact that as at the Latest Practicable Date, none of the members of the Group was in possession of the relevant Automobile Products Catalogue for the obtaining of the PRC Government Grant, the Directors are of the view that the EV transaction is essential for the Group enabling it to remain price competitive, and hence facilitating its sale of electric vehicles in the PRC.

In addition to the sales of the EV CBUs to the Geely Holding Group, pursuant to the Electric Vehicle Agreement, the EV CBUs will also be sold to the GGL Group for use by its subsidiary, Youxing Technology which operates Cao Cao to provide domestic new energy vehicles focused ride hailing and mobility service. As advised by the management of the Group, Youxing Technology, based on its adopted environmentally friendly concept, will primarily use the Group's new energy vehicles (including the Emgrand EV) after considering their features of zero emissions and zero pollution in the course of providing its ride hailing and mobility service through Cao Cao in the urban environment of the PRC. In light of the above, the Directors are of the view that besides creating a diversified income stream for the Group, the sales transaction with the GGL Group contemplated under the Electric Vehicle Agreement is expected to help enhance the market awareness and presence

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of the Group's electric vehicles across the cities in the PRC within the operating network of Cao Cao. Furthermore, alongside the increasing focus of the Group on its electric and new energy vehicles business aimed at transforming into one of the industry leaders in new energy vehicles technology, the said business strategy with clientele expansion in relation to the sales of the EV CBUs is expected to be an integral and underpinning part of the blueprint for the Group to achieve its long-term growth objectives, allowing it to maintain its competitive advantage in market evolution. Moreover, the EV Transaction with expanded customer base adheres to the Group's new energy vehicle strategy named "Blue Geely Initiatives" announced in November 2015, which is a 5-year campaign adopted by the Group with an initiative target of up to 90% of the Group's total sales volume to be in the form of new energy vehicles by 2020 as detailed in the 2018 Interim Report.

As discussed above, as opposed to the Group, certain subsidiaries of the Geely Holding Group are eligible for the PRC Government Grant given their possession of the relevant Automobile Products Catalogue being the prerequisite for obtaining the PRC Government Grant in certain regions of the PRC where the Group has operation. Accordingly, the EV Transaction will enable the Group to continue to enjoy the benefit of the PRC Government Grant by way of effectively lowering the end customers' purchase price of its electric and new energy vehicles being sold through the Geely Holding Group in those regions. In this regard, the entering into of the Electric Vehicle Agreement is essential for facilitating the Group's sale of electric and new energy vehicles in the PRC.

Given the nature of the EV Transaction, it is reasonable to expect that the EV Transaction will continue to take place on a regular and frequent basis and in the ordinary and usual course of business of the Group in future. As such, we are of the view that the EV Transaction is essential for the Group in ensuring the continued smooth operation of its business of manufacturing and trading of automobiles, automobile parts and related automobile components for the three years ending 31 December 2021.

Based on the foregoing and after taking into consideration (i) the growth potential in the demand for electric and new energy vehicles in the PRC driven by the continuous support of the PRC government to promote the production and use of electric and new energy vehicles; and (ii) the EV Transaction is in line with the Group's growth strategy in relation to electric and new energy vehicles business, we concur with the Directors' view that the entering into of the Electric Vehicle Agreement is conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

### **2. Principal terms of the Electric Vehicle Agreement**

Details of the principal terms of the Electric Vehicle Agreement are as follows:

#### ***Date***

5 October 2018 (after trading hours)

#### ***Parties***

Vendor:                      The Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Purchasers: Geely Holding and GGL

***Term***

From 1 January 2019 to 31 December 2021

***Subject matter***

Pursuant to the Electric Vehicle Agreement, the Group conditionally agreed to sell, and the Geely Holding Group and the GGL Group conditionally agreed to purchase, the EV CBUs.

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

***Pricing basis***

The selling price of the EV CBUs will be determined on an arm's length basis and on normal commercial terms with reference to the prevailing market price for similar products, and shall not be lower than the prices offered to other independent third party distributors by the Group. The prevailing market price as described above will be determined based on the following:

- (i) the price of the same or similar EV CBUs available to other independent third party distributors in the same or proximate regions on normal commercial terms and in the ordinary course of business; or
- (ii) if (i) is not applicable, the price of the same or similar EV CBUs available to other independent third party distributors in the PRC agreed on normal commercial terms and in the ordinary course of business.

Given the fact that the pricing terms stipulated in both the 2015 Electric Vehicle Agreement and the Electric Vehicles Agreement are the same, for reference purposes, we have made enquiry of the management of the Group about the bases for determining the unit selling prices of the Group's existing electric vehicles sold to the Geely Holding Group pursuant to the 2015 Electric Vehicle Agreement. We were given to understand that such unit selling prices were determined with reference to the then prevailing market prices of the same or similar EV CBUs available to other independent third party distributors in the same or proximate regions (in the PRC if there is no prevailing market price can be obtained in the same or proximate regions) and after taking into account the PRC Government Grant and the estimated manufacturing and selling costs incurred by the Group.

As confirmed by the Company, as at the Latest Practicable Date, the electric and new energy vehicle business of the Group was mainly conducted through the Geely Holding Group, and the Group also entered into sales transactions regarding EV CBUs with independent third party distributors. We also noted that relevant internal control measures have been put in place

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to facilitate the Group to ensure that the profit margin to be derived from the abovementioned sales transactions with the Geely Holding Group would always be not lower than the profit margin to be derived from the sales of the EV CBUs to the independent third party distributors. As our independent workdone, we have obtained and reviewed the sample sales invoices of sale of the EV CBUs to (i) the Geely Holding Group; and (ii) to the independent third party distributors, and noted that the prices offered by the Group to the Geely Holding Group was not lower than the prices offered to other independent third party distributors.

In assessing the reasonableness and fairness in adopting the abovementioned pricing basis for the EV Transaction, based on the information available on the website of the Stock Exchange as at the Latest Practicable Date, we have, on the best effort basis, identified and made reference to, as far as we are aware, a comparable transaction regarding sale of automobiles announced by another automobile company namely Brilliance China Automotive Holdings Limited (“**Brilliance China**”) whose shares are listed on the Stock Exchange (Stock code: 1114) (the “**Comparable Transaction**”), details of which are set out in its circular dated 5 December 2017. Brilliance China is principally engaged in the manufacture and sale of automobiles and automotive components, and the provision of auto financing service in the PRC through its subsidiaries and major joint venture. We noted that (i) the pricing term of the Comparable Transaction stipulated that the unit selling prices of automobiles shall be determined with reference to the prevailing market price, which is by reference to (a) the price that Brilliance China offers to independent customers for the same or comparable model of automobile in response to the invitations to tender made by customers; or (b) if there is no tendering process, the price agreed between Brilliance China and independent customers after arm’s length negotiations and on normal commercial terms for the sale of the same or comparable model of automobile; and (ii) the terms of each sale to Brilliance China’s connected person shall be no more favourable than the terms offered to independent customers for sale of comparable automobiles. Given the fact that (i) the principal business of Brilliance China is similar to the Group; (ii) the Comparable Transaction is an exhaustive sample of transaction involving sales of automobiles to connected person which constituted a continuing connected transaction of a company listed on the Stock Exchange pursuant to the Listing Rules and took place since 2016 and until the Latest Practicable Date; and (iii) likewise, in determining the unit selling prices of automobiles under the Comparable Transaction, prices offered to independent third parties are to be considered by Brilliance China as the underlying reference of the prevailing market prices of the same or comparable models of automobile, we consider that the Comparable Transaction would serve as a fair and representative sample for the purpose of drawing a meaningful comparison with the pricing basis stipulated in the Electric Vehicle Agreement. We also consider the period of selecting the Comparable Transaction (i.e. since 2016 and until the Latest Practicable Date), a period that covered market transactions of companies listed on the Stock Exchange that took place around two to three years preceding the Latest Practicable Date, to be a more recent and reasonable period to select the Comparable Transaction in order to draw a meaningful comparison with the pricing basis stipulated under the Electric Vehicle Agreement.

Having considered the above, we concur with the view of the Directors that the pricing basis for the EV Transaction is fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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### *Payment term*

Payment for the EV Transaction will be satisfied within 90 days from product delivery.

### *Condition precedent*

The Electric Vehicle Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Electric Vehicle Agreement.

If the above condition is not fulfilled on or before 31 December 2018 (or such later date as the parties may agree in writing), the Electric Vehicle Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

### *Termination*

In addition to the non-fulfillment of the condition precedent above, the Electric Vehicle Agreement may be terminated if:

- (i) a three-month prior written notice to terminate the Electric Vehicle Agreement is served by either party;
- (ii) either party ceases business, is subject to attachment or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of the laws or regulations, declares bankruptcy, or is unable to perform its obligations under the Electric Vehicle Agreement due to force majeure; or
- (iii) Geely Holding, GGL and their respective associates (as defined in the Listing Rules) cease to be connected persons of the Company.

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### 3. The EV Caps

Set out below are the details of (i) the historical transaction amounts of the EV Transaction for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the comparison of the transaction amounts with the respective approved annual caps for the three years ending 31 December 2018 (the “**EV Transaction Utilisation Rate(s)**”); and (iii) the EV Caps:

	Historical Transaction Amounts			The EV Caps		
	For the year ended		For the seven	For the year ending 31 December		
	31 December		months ended			
	2016	2017	31 July	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
EV Transaction	2,229,908	2,757,205	2,156,527	14,281,494	22,060,747	17,693,967
Approved annual caps for the three years ending 31 December 2018	2,254,000	5,463,020	9,487,180	N/A	N/A	N/A
EV Transaction Utilisation Rate	98.9%	50.5%	22.7%	N/A	N/A	N/A
			(Note)			

*Note:* Utilisation rate of the annual cap for the year ending 31 December 2018 was calculated by dividing the historical transaction amount for the seven months ended 31 July 2018 by the approved annual cap for the full financial year ending 31 December 2018.

#### 3.1 The historical transaction amount of the EV Transaction

It is noted that the EV Transaction Utilisation Rate was almost 100% for the year ended 31 December 2016, however it reduced to approximately 50.5% for the year ended 31 December 2017. The historical transaction amounts of the EV Transaction for the seven months ended 31 July 2018 only accounted for approximately 22.7% of the corresponding approved full-year annual cap as at 31 July 2018; on the other hand, it represents approximately 96.7% and 78.2% of the actual full-year transaction amounts for the two years ended 31 December 2016 and 2017 respectively.

As discussed with the management of the Group, the reason of the low EV Transaction Utilisation Rate for the year ended 31 December 2017 and the seven months ended 31 July 2018 was mainly due to the lower-than-expected demands for the Group’s electric and new energy vehicles resulting from (i) the relative high selling price of the electric vehicles models compared to the non-electric vehicles models; and (ii) the relatively low distance per charge of the vehicle’s battery. Nevertheless, the Group has officially launched its first PHEV in 2017 which are equipped with more advanced powertrain, including high-performance turbo-charged engines and more efficient and cost-effective transmissions, which has increased the distance

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per charge of PHEV as compared to that of electric vehicles models. Among the New EV Models, there are several PHEV models which expected to be launched from late 2018 to 2021.

Based on our review of the historical transaction amounts of the EV Transaction for the two years ended 31 December 2016, 2017 and the seven months ended 31 July 2018, we noted that there has been an overall upward trend. This was generally in line with the growth of sales volume of the Group's vehicle during the first seven months of 2018 mainly contributed by the launch of the first PHEV in 2017 as discussed above. As advised by the Company, the growth was mainly attributable to the strong sales performance in the domestic market and the enhancement in the Group's overall competitiveness resulting from its sales and marketing functions by providing better sales and after-sale services to its customers. As mentioned above in the paragraph headed "Continuing Connected Transactions – Principal business activities and recent performance of the Group", for the six months ended 30 June 2018, the Group's sales of new energy vehicle models amounted to 14,362 units, up by approximately 71% from the same period in 2017. The Directors expected that the demand of electric vehicles will increase and therefore the EV Caps is expected to capture the increasing demand for electric and new energy vehicles in the PRC.

### ***3.2 The bases of determination of the EV Caps***

The proposed annual caps of the EV Transaction for the three years ending 31 December 2021 are RMB14,281,494,000, RMB22,060,747,000 and RMB17,693,967,000, respectively. It is noted that an upward trend is generally expected by the Directors in the EV Caps for the period from 1 January 2019 to 31 December 2021.

As stated in the Letter from the Board, the EV Caps were determined by the Directors by reference to (i) the historical transaction amounts for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the projected units of electric vehicles to be sold to the Geely Holding Group based on the sales budget of the Group for the three years ending 31 December 2021; (iii) the projected units of electric vehicles to be sold to the GGL Group based on the estimated demand from the GGL Group for the three years ending 31 December 2021; and (iv) the projected average selling price of electric vehicles to end customers for the three years ending 31 December 2021.

In our assessment of the fairness and reasonableness of the EV Caps, we have reviewed the sales projection in respect of the EV Transaction for the three years ending 31 December 2021 prepared by the Group. We have also reviewed (i) the overall sale performance of the Group for the two years ended 31 December 2017 and the seven months ended 31 July 2018; (ii) the Group's overall manufacturing capacity schedule from 2019 to 2021; (iii) the list of New EV Models; (iv) the estimated demand from the GGL Group for the three years ending 31 December 2021; and (v) the general sale pattern and market performance of the PRC automobile industry reported by CAAM. Based on our independent workdone and our discussion with the management of the Company on the underlying bases and assumptions relating the aforesaid sales projection, we noted that the Directors have principally taken into account (i) the historical transaction amounts of the EV Transaction for the seven months



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ended 31 July 2018; (ii) the actual total sales volume of the Group's electric and new energy vehicles for the seven months ended 31 July 2018; (iii) the expansion of the Group's overall manufacturing capacity; (iv) the continued positive sales performance of the existing electric and new energy vehicles models; (v) the average unit selling price and the distribution cost incurred by the distributors of the electric and new energy vehicles models remains relatively stable for the three years ending 31 December 2021; (vi) the expected expansion of product portfolio resulting from the launch of the New EV Models; (vii) the estimated demand from the GGL Group for the three years ending 31 December 2021; and (viii) the Group's dedication to becoming one of the industry leaders in new energy vehicle technologies.

We concur with the Directors' view that it is fair and reasonable and in the interests of the Company and Shareholders to set the EV Caps at the proposed levels, after taking into consideration the following:

- that the EV Caps were determined in accordance with the pricing basis under the Electric Vehicle Agreement which is considered to be fair and reasonable, details of which are set out under the subsection headed "Principal terms of the Electric Vehicle Agreement" above;
- the overall sale performance of the Group for the six months ended 30 June 2018 as detailed above, in particular, the actual total sales volume of the Group's electric and new energy vehicles for the six months ended 30 June 2018 is 14,362 units, representing an increase of approximately 71% from the same period last year;
- the expected expansion of the Group's overall manufacturing capacity for the three years ending 31 December 2021 resulting from, inter alia, the Previous Acquisitions, in which the three production plants of the Previous Acquisitions, thereby increasing production capacity with additional outputs of approximately 690,000 units of CKDs in 2019 to accommodate the production of six new vehicle models of the Group to be launched by 2021;
- that the expected demand for electric and new energy vehicles from the GGL Group covering more than 25 cities in PRC had been taken into account during the preparation of the sales projection for the EV Transactions for each of the three years ended 31 December 2021;
- that the growth potential in the demand for electric and new energy vehicles in the PRC driven by the continuous support of the PRC government to promote the production and use of electric and new energy vehicles as detailed in the subsection headed "Overview of the PRC automobile industry – Supportive national policies and measures relating to the PRC new energy vehicle market";
- that the number of electric and new energy vehicles sold in PRC in 2017 of approximately 777,000 units according to CAAM, with the increase of approximately 53.3% compared to those in 2016;

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- the expected expansion of product portfolio resulting from the launch of New EV Models with their selling prices being adopted in the sales projection in respect of the EV Transaction that are comparable to the prevailing market prices of similar models currently available in the PRC automobile industry; and
- that the selling prices and the distribution cost incurred by the distributors per electric and new energy vehicles are generally estimated to remain relatively steady for the three years ending 31 December 2021.

### 3.3 Conclusion

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

## A3. THE AUTOMOBILE COMPONENTS PROCUREMENT AGREEMENT

### 1. Background of and reasons for the Automobile Components Procurement Agreement

According to the Letter from the Board, unlike those specified under the Services Agreement as detailed in the paragraph headed “The Services Agreement – The Procurement Service Transaction” above, all the automobile components to be procured from the Geely Holding Group pursuant to the Automobile Components Procurement Agreement are those that are manufactured by the Geely Holding Group (the “**Procurement Components**”). As confirmed by the management of the Group, the Procurement Components mainly consist of batteries, motors, electronic control system products, headlights and car seats as manufactured by the Geely Holding Group, all of which are essential components for vehicle manufacturing.

We noted that the Group has been procuring the Procurement Components from independent third party suppliers to support its business activities, and currently has no intention to cease such procurement arrangement. Notwithstanding this, after taking into account the nature of the Procurement Components, the Group’s business development and products expansion over the years and the expected business growth in the PRC automobile industry, we concur with the view of the Directors that it is crucial for the Group to broaden the source of supply for the Procurement Components, enabling the Group to meet its production schedule and sales targets so as to keep up with the growth momentum under the prevailing market conditions and continue to achieve positive sales performance in the foreseeable future. Given the long-standing cooperation and relationship between the Group and the Geely Holding Group, it is reasonable for the Company to expect that the entering into of the Automobile Components Procurement Agreement would secure a stable and reliable supply of the Procurement Components to the Group in an efficient and responsive manner, which in turn would facilitate the Group to achieve the said objectives. Accordingly, the entering into of the Automobile Components Procurement Agreement is considered to be beneficial to the Group and its business as a whole in this respect, in particular, as stated in the Letter from the Board, the Procurement Components to be supplied by the Geely Holding Group will be on terms no less favourable than those offered to the Group by other independent third parties.

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Given the nature of the Procurement Transaction, it is reasonable to expect that the Procurement Transaction will continue to take place on a regular and frequent basis and in the ordinary and usual course of business of the Group in future. As such, we are of the view that the Procurement Transaction is essential for the Group in ensuring the continued smooth operation of its business of manufacturing and trading of automobiles, automobile parts and related automobile components for the three years ending 31 December 2021.

Based on the foregoing, we are of the view that the entering into of the Automobile Components Procurement Agreement is conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

### **2. Principal terms of the Automobile Components Procurement Agreement**

Details of the principal terms of the Automobile Components Procurement Agreement are as follows:

#### ***Date***

5 October 2018 (after trading hours)

#### ***Parties***

Vendor: Geely Holding

Purchasers: The Company

#### ***Term***

From 1 January 2019 to 31 December 2021

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

Pursuant to the Automobile Components Procurement Agreement, the Group conditionally agreed to procure, and the Geely Holding Group conditionally agreed to supply, automobile components (including batteries, motors, electronic control system products, headlights, car seats etc.) from the Geely Holding Group.

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

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### *Pricing basis*

The selling price of the Procurement Components will be determined on an arm's length basis and on normal commercial terms with reference to the prevailing market price for similar products, and will be on terms no less favourable than those offered by the Geely Holding Group to other independent third parties or those offered to the Group by other independent third parties.

It is noted that different pricing bases have been adopted in the Automobile Components Procurement Agreement and the Services Agreement, despite the similarity between the Procurement Transaction and the Procurement Service Transaction. Based on our discussion with the management of the Group regarding the foregoing, we are given to understand that the source of the relevant automobile components or parts to be supplied by the Geely Holding Group to the Group had been considered by the Company and the Geely Holding Group when determining the respective pricing basis for the Procurement Transaction and the Procurement Service Transaction. As stated in the Letter from the Board, the said difference in pricing bases is attributable to the fact that the Procurement Components are to be manufactured by the Geely Holding Group, whereas the Procurement Service Transaction is regarded as provision of procurement services in essence with the underlying automobile parts and components to be supplied by the Geely Holding Group being sourced from independent third party suppliers without having the Geely Holding Group performed the manufacturing process relating thereto.

Based on the information available on the website of the Stock Exchange as at the Latest Practicable Date, we have, on a best effort basis, identified and made reference to, as far as we are aware, a comparable transaction regarding purchase of automotive components (i.e. certain spare parts) announced by Brilliance China (the “**Procurement Comparable Transaction**”), details of which are set out in its circular dated 5 December 2017. We have reviewed the pricing basis for the Procurement Comparable Transaction, and noted that (i) the purchase price of automotive components was determined with reference to the prevailing market price of comparable type of products obtained from independent third parties; and (ii) the major terms offered by the connected parties are no less favourable than the terms which can be obtained from independent suppliers, and the pricing basis stipulated in the Automobile Components Procurement Agreement is in line with that of the Procurement Comparable Transaction. Given the fact that (i) the principal business of Brilliance China is similar to the Group; and (ii) the Procurement Comparable Transaction is an exhaustive sample of transaction involving purchase of automotive components from holding company which constituted a continuing connected transaction of a company listed on the Stock Exchange pursuant to the Listing Rules which took place since 2016 and until the Latest Practicable Date, we consider that the Procurement Comparable Transaction would serve as a fair and representative sample for the purpose of drawing a meaningful comparison with the pricing basis stipulated in the Automobile Components Procurement Agreement. We also consider the period of selecting the Procurement Comparable Transaction (i.e. since 2016 and until the Latest Practicable Date), a period that covered market transactions of companies listed on the Stock Exchange that took place around two to three years preceding the Latest Practicable Date, to be a more recent and reasonable period to select the Procurement Comparable Transaction in order to draw a meaningful comparison with the pricing basis stipulated in the

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Automobile Components Procurement Agreement. Having considered the above, we concur with the view of the Directors that it is reasonable for the Group to adopt the prevailing market price approach for determining the pricing for the Procurement Transaction.

Also, the Company confirmed that the internal control measures will be put in place to ensure the Procurement Components to be supplied by the Geely Holding Group will be on terms no less favourable than those offered to the Group by other independent third parties. As our independent workdone, we have (i) discussed with the Company's management and noted that the Group will obtain quotations from at least three independent third party suppliers for similar products and will then compare the prices offered by those independent third party suppliers to that offered by the Geely Holding Group to the Group to ensure the fairness of the selling price of the automobile components offered by the Geely Holding Group; and (ii) obtained and reviewed the selection basis for supplier of automobile components and noted that certain departments of Company, including but not limited to, finance department, research institute, quality department and procurement department will discuss and perform evaluation assessments on selecting the suppliers based on factors such as price and quality of the automobile components.

### ***Condition precedent***

The Automobile Components Procurement Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Automobile Components Procurement Agreement.

If the above condition has not been fulfilled on or before 31 December 2018 (or such later date as the parties may agree in writing), the Automobile Components Procurement Agreement will lapse and all the obligations and liabilities of the parties thereto will cease and terminate.

### ***Termination***

In addition to the non-fulfillment of the condition precedent above, the Automobile Components Procurement Agreement may be terminated if:

- (i) a three-month prior written notice to terminate the Automobile Components Procurement Agreement is served by either party;
- (ii) either party ceases business, is subject to attachment or is ordered to close down by the court or the relevant authorities in the relevant jurisdictions as a result of material violation of the laws or regulations, declares bankruptcy, is unable to perform its obligations under the Automobile Components Procurement Agreement due to force majeure; or
- (iii) Geely Holding and its associates (as defined in the Listing Rules) cease to be connected persons of the Company.

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

- the purchase price of the Procurement Components under the Automobile Components Procurement Agreement will be determined with reference to the prevailing market price of similar products of the same period and at prices which are not higher than the prices at which the Group obtain quotation from other independent third party suppliers; and
- the Group has put in place internal control measures to monitor the expected purchase price of the automobile components, ensuring that the Procurement Transaction will be conducted on an arm's length basis and on normal commercial terms;

we are of the view that the Procurement Transaction is fair and reasonable, on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

### 3. The Procurement Caps

Set out below are the details of the Procurement Caps for the three years ending 31 December 2021:

	<b>The Procurement Caps</b>		
	<b>For the year ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Procurement Transaction	13,746,783	25,845,381	33,591,637

#### 3.1 The bases of determination of the Procurement Caps

There are no historical figures for the Procurement Transaction as the Group has not procured automobile components manufactured by the Geely Holding Group previously.

The proposed annual caps of the Procurement Transaction for the three years ending 31 December 2021 are RMB13,746,783,000, RMB25,845,381,000 and RMB33,591,637,000, respectively.

As stated in the Letter from the Board, the Procurement Caps were determined by the Directors by reference to (i) the projected units of each type of the Procurement Components to be procured by the Group from the Geely Holding Group, which in turn was determined with reference to the projected unit sales of the Group's vehicles based on its sales budget for the three years ending 31 December 2021; and (ii) the projected unit selling price for each type of the Procurement Components for the three years ending 31 December 2021.

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In our assessment of the fairness and reasonableness of the Procurement Caps, we have reviewed the purchase projection in respect of the Procurement Transaction for the three years ending 31 December 2021 prepared by the Group. We have also reviewed (i) the projected unit sales of the Group's vehicles based on its sales budget for the three years ending 31 December 2021; (ii) the projected selling price per unit of each type of the Procurement Components for the three years ending 31 December 2021; (iii) the production capacity of Geely Holding Group for the Procurement Components; (iv) the list of automobile components, which is previously procured by the Group from independent third party suppliers and comparable to the Procurement Components; and (v) the general sale pattern and market performance of the PRC automobile industry reported by CAAM. Based on our independent workdone and our discussion with the management of the Group on the underlying bases and assumptions relating the aforesaid purchase projection, we noted that the Directors have principally taken into account (i) the actual total sales volume of the Group's vehicles for the seven months ended 31 July 2018 and the projected sales volume of the Group's vehicles for the three years ending 31 December 2021; (ii) the production capacity of the Geely Holding Group for the Procurement Components; (iii) the continued positive sales performance of the existing models; (iv) the expected expansion of product portfolio resulting from the launch of the new vehicle models that are expected to be launched by the Group by the end of 2021; (v) the projected sales volume of the respective vehicle models of the Group that will be equipped with the Procurement Components; and (vii) the unit purchase price of each type of the Procurement Components remains relatively stable for the three years ending 31 December 2021.

We concur with the Directors' view that it is fair and reasonable and in the interests of the Company and the Shareholders to set the Procurement Caps at the proposed levels, after taking into consideration the following:

- that the Procurement Caps were determined in accordance with the pricing basis under the Automobile Components Procurement Agreement which is considered to be fair and reasonable, details of which are set out under the subsection headed "Principal terms of the Automobile Components Procurement Agreement" above;
- that the production capacity of Geely Holding Group for the Procurement Components have been taken into account during the preparation of the purchase budgets for the Procurement Transaction for each of the three years ending 31 December 2021;
- that the actual total sales volume of the Group's vehicles for the nine months ended 30 September 2018 is 1,136,858 units, representing an increase of approximately 37.4% from the same period last year, and achieving around 72.0% of the Group's full year sales volume target of 1,580,000 units in 2018;
- that the growth of the Group's sales volume of approximately 42.7% for the seven months ended 31 July 2018 as compared to the same period in 2017 was significantly higher than the growth of the sales volume of passenger vehicles in the PRC of approximately 3.4% reported by CAAM for the relevant period; and

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- that the purchase prices of the Procurement Components adopted in the purchase projection are comparable to the prevailing market prices of similar models previously procured from independent third party suppliers, and are generally estimated to remain relatively steady during the three years ending 31 December 2021.

### 3.2 Conclusion

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

## B. DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITIONS

### 1. Background of and reasons for the Acquisitions

#### (i) Information on the Target Companies

##### *Principal businesses of the Target Companies*

The TZ Target and the GZ Target are private limited liability companies incorporated in the PRC on 10 August 2018 and 14 August 2018, respectively. Both TZ Target and the GZ Target are principally engaged in the technology research and development, technology consultancy services, manufacture and sale of automobile engines, and the provision of after-sales services in the PRC.

##### *Properties of the Target Companies*

#### (a) TZ Target

The TZ Properties is an industrial complex located in Economic Development District, Taizhou City, Zhejiang Province, the PRC. According to the Valuation Report, as at 31 August 2018, the TZ Properties comprised (i) a parcel of land with a total site area of approximately 144,281 sq.m.; and (ii) TZ Construction-In-Progress with a total gross floor area of approximately 111,945.36 sq.m..

As stated in the Letter from the Board, it is expected that the construction of the TZ Properties will be completed in the fourth quarter of 2018 and commercial production will commence in the first quarter of 2019 with a planned production capacity of 360,000 units of engines per annum.



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(b) GZ Target

The GZ Properties is an industrial complex located in Baiyun District, Guiyang City, Guizhou Province, the PRC. According to the Valuation Report, as at 31 August 2018, the GZ Properties comprised (i) a parcel of land with a total site area of approximately 134,523 sq.m.; and (ii) GZ Construction-In-Progress with a total gross floor area of approximately 133,661.56 sq.m..

As stated in the Letter from the Board, it is expected that the construction of the GZ Properties will be completed and commercial production will commence in the first quarter of 2019 with a planned production capacity of 360,000 units of engines per annum.

Please refer to the sub-section headed “Basis of consideration – Valuation” below for details in relation to the valuation of the TZ Properties and the GZ Properties.

*Financial information on the Target Companies*

As extracted from the Letter from the Board, set out below are the unaudited financial information of (i) the TZ Target for the financial period from 10 August 2018 to 31 August 2018; and (ii) the GZ Target for the financial period from 14 August 2018 to 31 August 2018, prepared under the HKFRS:

(a) TZ Target

**From 10 August 2018  
to 31 August 2018**

(Unaudited)  
RMB'000

Revenue	–
Loss before and after taxation	(119)

*Note: The TZ Target was incorporated in the PRC on 10 August 2018.*

As stated in the Letter from the Board, as at 31 August 2018, the unaudited net asset value of the TZ Target amounted to approximately RMB778.9 million, which consisted of total assets of approximately RMB1,802.8 million and total liabilities of approximately RMB1,023.9 million. Total assets mainly comprised the TZ Properties and machinery and equipment for manufacturing purposes of approximately RMB1,086.2 million. Total liabilities mainly comprised trade and other payables of approximately RMB1,023.9 million, which primarily represented the TZ Shareholder's Loan for the construction of the TZ Properties and the purchase of machinery and equipment. As at 31 August 2018 and the Latest Practicable Date, the outstanding TZ Shareholder's Loan amounted to approximately RMB1,023.9 million and RMB1,031.3 million, respectively.

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(b) GZ Target

**From 14 August 2018  
to 31 August 2018**  
(Unaudited)  
RMB'000

Revenue	—
Loss before and after taxation	(84)

*Note: The GZ Target was incorporated in the PRC on 14 August 2018.*

As stated in the Letter from the Board, as at 31 August 2018, the unaudited net asset value of the GZ Target amounted to approximately RMB483.8 million, which consisted of total assets of approximately RMB1,159.1 million and total liabilities of approximately RMB675.4 million. Total assets mainly comprised the GZ Properties and machinery and equipment for manufacturing purposes of approximately RMB907.0 million. Total liabilities mainly comprised trade and other payables of approximately RMB675.4 million, which represented the GZ Shareholder's Loan for the construction of the GZ Properties and the purchase of machinery and equipment. As at 31 August 2018 and the Latest Practicable Date, the outstanding GZ Shareholder's Loan amounted to approximately RMB675.4 million and RMB699.2 million, respectively.

**(ii) Reasons for and benefits of the Acquisitions**

Zhejiang Dongli, together with its subsidiaries, is principally engaged in the research, development, production, marketing and sale of engines and related components in the PRC with principal products including, among others, three-cylinder turbocharged vehicle engines and transmissions being sold to the Geely Holding Group and the LYNK & CO Group for use in the Volvo-branded vehicles and the LYNK & CO-branded vehicles respectively, as well as for production of the Group's existing vehicle models.

Since early 2018, the Group, through Zhejiang Dongli and its subsidiaries, has been manufacturing and selling vehicle engines and transmissions to the Geely Holding Group and the LYNK & CO Group, shortly after its acquisitions of the entire equity interest of (i) 寶雞吉利發動機有限公司 (Baoji Geely Engine Company Limited\*) ("**Baoji Geely**"); (ii) 浙江義利汽車零部件有限公司 (Zhejiang Yili Automobile Components Company Limited\*) ("**Zhejiang Yili**"); and (iii) 寧波上中下自動變速器有限公司 (Ningbo Shangzhongxia Automatic Transmission Company Limited\*) ("**Ningbo Shangzhongxia**") in November 2017 (the "**2017 Acquisitions**"). According to the relevant circular of the Company dated 8 December 2017, the 2017 Acquisitions would enable Zhejiang Dongli to have an enhanced production capacity with additional outputs of approximately 360,000 units and 400,000 units of vehicle engines and related after-sales parts per annum and approximately 600,000 units of transmission and related after-sales parts per annum. Notwithstanding such expansion in production capacity, as confirmed by the Company, all the existing production plants of Zhejiang Dongli are currently in operation; moreover, each of such production plants is

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equipped with production facilities that are specifically designed for the production of vehicle engines, transmission and related after-sales parts according to the powertrain specifications set for certain existing Volvo-branded vehicle models and LYNK & CO-branded vehicle models as well as those of the Group, and is subject to its own production schedule. Based on the aforesaid, the Directors are of the view that under the current market conditions, it is imperative for Zhejiang Dongli to further expand its production capacity enabling its production volume of vehicle engines to keep up with the growth momentum in the PRC automobile industry, and therefore continue to achieve positive sales performance in the foreseeable future.

As stated in the Letter from the Board, upon completion of the Acquisitions, the vehicles engines to be manufactured by the Target Companies will mainly be sold to the Geely Holding Group for use in the Volvo-branded vehicles and to the LYNK & CO Group for use in the LYNK & CO-branded vehicles, and will also be used in the Group's future top-end vehicle models at a later stage. It is noted that in addition to the characteristic of low carbon emission, the vehicles engines to be manufactured by the Target Companies will possess superior performance in terms of power output and fuel consumption, that are targeted to meet the needs of the Group, the LYNK & CO Group and the Geely Holding Group for high performance and multi-functional vehicles (including PHEV model of LYNK & CO-branded vehicles that are expected to be incorporated with four-cylinder turbo-charged engine as one of the major products of the Target Companies).

As advised by the management of the Group, same as the existing vehicle models, each of the forthcoming line-up of LYNK & CO-branded vehicles will continue to be, designed and developed based on the engineering and technology developed under the research innovation center jointly established and operated by the Geely Holding Group and Volvo Car Corporation, which is also expected to underpin certain new Volvo-branded vehicle range and the upcoming models. Given that the Group is conversant with the overall product design (including the performance requirements) of LYNK & CO-branded vehicles and certain Volvo-branded vehicles, the Directors consider that the Acquisitions represent good opportunities for the Group to further capitalise on its knowledge specifically related to the powertrain systems of LYNK & CO-branded vehicles and certain Volvo-branded vehicles, thereby driving the segment revenue growth, and hence potentially the overall profitability for the Group.

Further, the Company has pointed out to us that the long-term goal of investing in high performance turbocharger technology is not only to facilitate the production of the powertrain systems of LYNK & CO-branded and/or Volvo-branded vehicles, but rather, to enhance the Group's production capabilities so as to mitigate reliance on third party suppliers for advanced vehicle engines in anticipation of future customer demand and probable future trend of the market, which in turn will enhance the Group's competitiveness in terms of cost control and pricing, and further strengthen its market position in the domestic and foreign automobile industries.

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### 1.1 Principal terms of the Acquisition Agreements

#### (i) *TZ Acquisition*

The principal terms of the TZ Acquisition Agreement are as follows:

##### *Date*

5 October 2018 (after trading hours)

##### *Parties*

Vendor: Taizhou Engines

Purchaser: Zhejiang Dongli

##### *Subject matter*

Pursuant to the TZ Acquisition Agreement, Zhejiang Dongli has conditionally agreed to acquire, and Taizhou Engines has conditionally agreed to sell, the entire registered capital of the TZ Target.

##### *Consideration*

The consideration for the TZ Acquisition is RMB781,274,109, which will be payable in cash within 30 calendar days from the date of completion of the TZ Acquisition.

As set out in the Letter from the Board, the consideration for the TZ Acquisition was determined after arm's length negotiations between Zhejiang Dongli and Taizhou Engines with reference to (i) the net asset value of the TZ Target prepared under the HKFRS as at 31 August 2018 of approximately RMB778.9 million; and (ii) the valuation premium of the TZ Properties of approximately RMB2.4 million (the "**TZ Valuation Premium**"), being the difference between (a) the TZ Property Value of approximately RMB346.8 million and (b) the carrying value of the TZ Properties of approximately RMB344.4 million as at 31 August 2018. It is expected that the consideration for the TZ Acquisition will be funded by internal resources of the Group.

Having considered that the unaudited net asset value of the TZ Target as at 31 August 2018 did not take into account the TZ Valuation Premium which represents the excess in value that the Independent Valuer estimated for the TZ Properties compared to its carrying value as at 31 August 2018, we concurred with the Directors' view that it is fair and reasonable for the Company to make reference to, among others, the TZ Valuation Premium when determining the consideration for the TZ Acquisition. Please

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refer to the subsection headed “Basis of consideration – Valuation” below and the Valuation Report as set out in Appendix I to the Circular for details of the valuation of the TZ Properties.

### ***TZ Shareholder’s Loan***

Pursuant to the TZ Acquisition Agreement, the outstanding TZ Shareholder’s Loan in the amount of up to a maximum of RMB1,534.7 million on the completion date of the TZ Acquisition will be repaid by the Group to the Geely Holding Group within three months from the completion of the TZ Acquisition. As stated in the Letter from the Board, the TZ Shareholder’s Loan is fully exempted from the continuing connected transaction requirements under the Listing Rules as it is interest free, conducted on normal commercial terms and is not secured by the assets of the Group.

### ***Undertaking in respect of the TZ Properties***

As set out in the Letter from the Board, Taizhou Engines holds one real estate rights certificate, one construction land planning permit, two construction work planning permits and two construction work commencement permits for the TZ Properties.

According to the legal opinions from the PRC legal adviser to the Company in respect of the TZ Properties (the “**TZ PRC Legal Opinion**”), (i) the certificates and permits for the TZ Properties are true, legal and valid; and (ii) the TZ Properties are free from guarantee, pledge and encumbrances, and are not subject to seizure by the court.

The Company confirmed that as at the Latest Practicable Date, the TZ Construction-In-Progress is still under construction which is expected to be completed in the fourth quarter of 2018. Upon completion of construction, the TZ Construction-In-Progress is subject to the construction completion inspection and acceptance procedures as described below.

In light of the time it takes to transfer the relevant certificates and permits for the TZ Properties from Taizhou Engines to the TZ Target, which is unlikely to be completed before the completion of the TZ Acquisition, Taizhou Engines has undertaken to Zhejiang Dongli in the TZ Acquisition Agreement that the legal titles of the TZ Properties will be transferred to the TZ Target in accordance with the applicable laws in the PRC on or before 31 December 2020 (the “**TZ Grace Period**”), subject to completion of the TZ Acquisition.

Notwithstanding the above, according to the TZ PRC Legal Opinion, (i) the TZ Construction-In-Progress is in compliance with the requirements of the relevant laws; (ii) according to the “Explanatory Note Regarding the Status of the Undertaking of the Application Procedures for Real Estate Rights Certificates by Taizhou Engines” (關於台州吉利羅佑發動機有限公司辦理不動產權證相關事宜的情況說明) approved by Taizhou Land and Resources Bureau Economic Development District Branch (台州市國土資源局開發區分局) on 21 September 2018, upon completing the general

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procedures for obtaining real estate rights certificates, including the acceptance for fire safety, acceptance for greening, land acceptance, archive, quality inspection filing, property survey procedures, etc. with the relevant authorities, there are no legal impediments to the obtaining of the title certificates for the TZ Construction-In-Progress; and (iii) the use of the TZ Properties by the TZ Target for production will not be affected even before the completion of the transfer of the legal titles of the TZ Properties.

Pursuant to the TZ Acquisition Agreement, subject to completion of the TZ Acquisition, in the event that the obtaining and transfer of the legal titles of the TZ Properties cannot be completed during the TZ Grace Period, Taizhou Engines will (i) indemnify Zhejiang Dongli and the Company for the loss arising therefrom (the “**TZ Indemnity Provision**”), which will be equal to the then valuation of the TZ Properties prepared by a third party valuer approved by the parties to the TZ Acquisition Agreement (the “**TZ Indemnification Amount**”); and (ii) pay to Zhejiang Dongli a penalty calculated based on an annual interest rate of 4.35% of the TZ Indemnification Amount (the “**TZ Penalty**”, together with the TZ Indemnity Provision, hereinafter collectively referred to as the “**TZ Compensation Arrangement**”). As confirmed by the Directors, notwithstanding that the amount of the potential loss arising from not being able to complete the obtaining and transfer of the legal titles of the TZ Properties within the TZ Grace Period which is currently uncertain has not been taken into account in determining the consideration of the TZ Acquisition, the TZ Compensation Arrangement provides financial security to the Company and Zhejiang Dongli should such a situation arise. Nevertheless, it is noted from the Letter from the Board that (i) reference was made by the Directors to the consideration of the TZ Acquisition when considering the basis for determining the TZ Indemnification Amount; and (ii) the basis for determining the TZ Indemnification Amount is considered by the Directors to be fair and reasonable and in the interest of the Company and the Shareholders as a whole given that both the TZ Indemnification Amount and the portion of the consideration attributable to the TZ Properties payable by Zhejiang Dongli to Taizhou Engines under the TZ Acquisition are based on the then valuation of the TZ Properties prepared by an independent valuer. Further, the Directors also confirmed that the aforesaid annual interest rate of 4.35% under the TZ Penalty was determined after arm’s length negotiations between the parties to the TZ Acquisition Agreement with reference to the prevailing interest rate of 4.35% on a short term loan (within one year), offered by the People’s Bank of China, and the penalty payable by Taizhou Engines to Zhejiang Dongli under the TZ Penalty is having retrospective effect from the completion date of the TZ Acquisition. In this regard, we have reviewed the respective short term loans offered by the People’s Bank of China and several other independent domestic major state-owned commercial banks in the PRC, and noted that their prevailing interest rates are all 4.35%. Having considered that (i) the penalty period to be taken into account when determining the actual amount of the penalty under the TZ Penalty is currently uncertain and could be equal to or shorter than the TZ Grace Period; and (ii) the 4.35% annual interest rate adopted under the TZ Penalty is no less favourable than those prevailing annual interest rates of each of the abovementioned reference loans and is higher than the Group’s weighted average effective interest rates of bank borrowings

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(with repayment term within one year or more than one year but less than two years) of 2.62% for the year ended 31 December 2017 and 3.15% for the six months ended 30 June 2018, we concur with the view of the Directors that the rate for calculating the penalty under the TZ Penalty of 4.35% per annum is fair and reasonable.

As stated in the Letter from the Board, in the event that the obtaining and transfer of the legal titles of the TZ Properties cannot be completed during the TZ Grace Period, it is the intention of the parties to the TZ Acquisition Agreement to appoint an independent valuer as soon as practicable to determine the then valuation of the TZ Properties, and the TZ Indemnification Amount together with the penalty under the TZ Penalty, which will be calculated with retrospective effect since the date of completion of the TZ Acquisition, will be indemnified and paid in full by Taizhou Engines in cash as soon as practicable but in any event not later than 30 calendar days upon the issuance of the then valuation of the TZ Properties prepared by the relevant independent valuer. The Company confirmed that as at the Latest Practicable Date, no independent professional valuer had been identified and/or appointed by any parties to the TZ Acquisition Agreement for the purpose of performing the said valuation.

Further, it is also disclosed in the Letter from the Board that Taizhou Engines, being the existing holder of the real estate rights certificates and the relevant permits for the TZ Properties, has undertaken to Zhejiang Dongli and the TZ Target that, subject to completion of the TZ Acquisition, the TZ Target can continue to occupy and use the TZ Properties free of charge regardless of whether the obtaining and/or transfer of the legal titles of the TZ Properties can be completed during the TZ Grace Period or at all. The Directors confirmed that after taking into account the opinions of the PRC legal adviser of the Company and the undertaking given by Taizhou Engines as abovementioned, the operation of the TZ Target is not expected to be impacted even if the obtaining and/or transfer of the legal titles of the TZ Properties cannot be completed during the TZ Grace Period.

We noted that the TZ Indemnity Provision and the TZ Penalty serve to safeguard the Company and/or Zhejiang Dongli against, and also compensate for, any loss associated with the failure to obtain the legal titles of the TZ Properties during the TZ Grace Period. Given this and after taking into account other factors as discussed above including (i) the basis for determining each of the TZ Indemnification Amount and the penalty under the TZ Penalty that is considered to be fair and reasonable; and (ii) the TZ Indemnification Amount together with the penalty under the TZ Penalty will be paid in the form of cash in full, we consider the TZ Compensation Arrangement to be fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Having considered the forgoing, in particular (i) the TZ PRC Legal Opinion as detailed above; (ii) the TZ Compensation Arrangement which is considered to be fair and reasonable based on the factors discussed above has been put in place against the potential risk of failing to complete the obtaining and transfer of the legal titles of the TZ Properties within the TZ Grace Period (subject to completion of the TZ Acquisition); and (iii) the undertaking given by Taizhou Engines to assure continuous

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occupation and use of the TZ Properties by the TZ Target on a no-charge basis regardless of whether the obtaining and/or transfer of the legal titles of the TZ Properties can be completed during the TZ Grace Period or at all (subject to completion of the TZ Acquisition), we consider that the current lack of the legal titles of the TZ Properties with its inherent risks of loss borne by the Company and Zhejiang Dongli would not affect the fairness and reasonableness of the TZ Acquisition and the consideration relating thereto.

(ii) ***GZ Acquisition***

The principal terms of the GZ Acquisition Agreement are as follows:

***Date***

5 October 2018 (after trading hours)

***Parties***

Vendor: Guiyang Engines

Purchaser: Zhejiang Dongli

***Subject matter***

Pursuant to the GZ Acquisition Agreement, Zhejiang Dongli has conditionally agreed to acquire, and Guiyang Engines has conditionally agreed to sell, the entire registered capital of the GZ Target.

***Consideration***

The consideration for the GZ Acquisition is RMB484,003,363, which will be payable in cash within 30 calendar days from the date of completion of the GZ Acquisition.

As set out in the Letter from the Board, the consideration for the GZ Acquisition was determined after arm's length negotiations between Zhejiang Dongli and Guiyang Engines with reference to (i) the net asset value of the GZ Target prepared under the HKFRS as at 31 August 2018 of approximately RMB483.8 million; and (ii) the valuation premium of the GZ Properties of approximately RMB250,744 (the "**GZ Valuation Premium**"), being the difference between (a) the GZ Property Value of approximately RMB258.2 million and (b) the carrying value of the GZ Properties of approximately RMB257.9 million as at 31 August 2018. It is expected that the consideration for the GZ Acquisition will be funded by internal resources of the Group.



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Having considered that the unaudited net asset value of the GZ Target as at 31 August 2018 did not take into account the GZ Valuation Premium which represents the excess in value that the Independent Valuer estimated for the GZ Properties compared to its carrying value as at 31 August 2018, we concurred with the Directors' view that it is fair and reasonable for the Company to make reference to, among others, the GZ Valuation Premium when determining the consideration for the GZ Acquisition. Please refer to the subsection headed "Basis of consideration – Valuation" below and the Valuation Report as set out in Appendix I to the Circular for details of the valuation of the GZ Properties.

### ***GZ Shareholder's Loan***

Pursuant to the GZ Acquisition Agreement, the outstanding GZ Shareholder's Loan in the amount of up to a maximum of RMB1,157.2 million on the completion date of the GZ Acquisition will be repaid by the Group to the Geely Holding Group within three months from the completion of the GZ Acquisition. As stated in the Letter from the Board, the GZ Shareholder's Loan is fully exempted from the continuing connected transaction requirements under the Listing Rules as it is interest free, conducted on normal commercial terms and is not secured by the assets of the Group.

### ***Undertaking in respect of the GZ Properties***

As set out in the Letter from the Board, as at the Latest Practicable Date, Guiyang Engines held one real estate rights certificate, one construction land planning permit, one construction work planning permit and one construction work commencement permit for the GZ Properties.

According to the legal opinions from the PRC legal adviser to the Company in respect of the GZ Properties (the "**GZ PRC Legal Opinion**"), (i) the certificates and permits for the GZ Properties are true, legal and valid; and (ii) the GZ Properties are free from guarantee, pledge and encumbrances, and are not subject to seizure by the court.

As confirmed by the Company, as at the Latest Practicable Date, the GZ Construction-In-Progress is still under construction which is expected to be completed in the first quarter of 2019. Upon completion of construction, the GZ Construction-In-Progress is subject to the construction completion inspection and acceptance procedures as described below.

In light of the time it takes to transfer the relevant certificates and permits for the GZ Properties from Guiyang Engines to the GZ Target, which is unlikely to be completed before the completion of the GZ Acquisition, Guiyang Engines has undertaken to Zhejiang Dongli in the GZ Acquisition Agreement that the legal titles of the GZ Properties will be transferred to the GZ Target in accordance with the applicable laws in the PRC on or before 31 December 2020 (the "**GZ Grace Period**"), subject to completion of the GZ Acquisition.

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Notwithstanding the above, according to the GZ PRC Legal Opinion, (i) the GZ Construction-In-Progress is in compliance with the requirements of the relevant laws; (ii) upon completing the general procedures for obtaining real estate rights certificates, including the acceptance for fire safety, acceptance for greening, land acceptance, archive, quality inspection filing, property survey procedures, etc. with the relevant authorities there are no legal impediments to the obtaining of the title certificates for the GZ Construction-In-Progress; and (iii) the use of the GZ Properties by the GZ Target for production will not be affected even before the completion of transfer of the legal titles of the GZ Properties.

Pursuant to the GZ Acquisition Agreement, subject to completion of the GZ Acquisition, in the event that the obtaining and transfer of the legal titles of the GZ Properties cannot be completed during the GZ Grace Period, Guiyang Engines will (i) indemnify Zhejiang Dongli and the Company for the loss arising therefrom (the “**GZ Indemnity Provision**”), which will equal to the then valuation of the GZ Properties prepared by a third party valuer approved by the parties to the GZ Acquisition Agreement (the “**GZ Indemnification Amount**”); and (ii) pay to Zhejiang Dongli a penalty calculated based on an annual interest rate of 4.35% of the GZ Indemnification Amount (the “**GZ Penalty**”, together with the GZ Indemnity Provision, hereinafter collectively referred to as the “**GZ Compensation Arrangement**”). As confirmed by the Directors, notwithstanding that the amount of the potential loss arising from not being able to complete the obtaining and transfer of the legal titles of the GZ Properties within the GZ Grace Period which is currently uncertain has not been taken into account in determining the consideration of the GZ Acquisition, the GZ Compensation Arrangement provides financial security to the Company and Zhejiang Dongli should such a situation arise. Nevertheless, it is noted from the Letter from the Board that (i) reference was made by the Directors to the consideration of the GZ Acquisition when considering the basis for determining the GZ Indemnification Amount; and (ii) the basis for determining the GZ Indemnification Amount is considered by the Directors to be fair and reasonable and in the interest of the Company and the Shareholders as a whole given that both the GZ Indemnification Amount and the portion of the consideration attributable to the GZ Properties payable by Zhejiang Dongli to Guiyang Engines under the GZ Acquisition are based on the then valuation of the GZ Properties prepared by an independent valuer. Further, the Directors also confirmed that the aforesaid annual interest rate of 4.35% under the GZ Penalty was determined after arm’s length negotiations between the parties to the GZ Acquisition Agreement with reference to the prevailing interest rate of 4.35% on a short term loan (within one year), offered by the People’s Bank of China, and the penalty payable by Guiyang Engines to Zhejiang Dongli under the GZ Penalty is having retrospective effect from the completion date of the GY Acquisition. In this regard, we have reviewed the respective short term loans offered by the People’s Bank of China and several other independent domestic major state-owned commercial banks in the PRC, and noted that their prevailing interest rates are all 4.35%. Having considered that (i) the penalty period to be taken into account when determining the actual amount of the penalty under the GZ Penalty is currently uncertain and could be equal to or shorter than the GZ Grace Period; and (ii) the 4.35% annual interest rate adopted under the GZ Penalty is no less favourable than those

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prevailing annual interest rates of each of the abovementioned reference loans and is higher than the Group's weighted average effective interest rates of bank borrowings (with repayment term within one year or more than one year but less than two years) of 2.62% for the year ended 31 December 2017 and 3.15% for the six months ended 30 June 2018, we concur with the view of the Directors that the rate for calculating the penalty under the GZ Penalty of 4.35% per annum is fair and reasonable.

As stated in the Letter from the Board, in the event that the obtaining and transfer of the legal titles of the GZ Properties cannot be completed during the GZ Grace Period, it is the intention of the parties to the GZ Acquisition Agreement to appoint an independent valuer as soon as practicable to determine the then valuation of the GZ Properties, and the GZ Indemnification Amount together with the penalty under the GZ Penalty, which will be calculated with retrospective effect since the date of completion of the GZ Acquisition, will be indemnified and paid in full by Guiyang Engines in cash as soon as practicable but in any event not later than 30 calendar days upon the issuance of the then valuation of the GZ Properties prepared by the relevant independent valuer. The Company confirmed that as at the Latest Practicable Date, no independent professional valuer had been identified and/or appointed by any parties to the GZ Acquisition Agreement for the purpose of performing the said valuation.

Further, it is also disclosed in the Letter from the Board that Guiyang Engines, being the existing holder of the real estate rights certificates and the relevant permits for the GZ Properties, has undertaken to Zhejiang Dongli and the GZ Target that, subject to completion of the GZ Acquisition, the GZ Target can continue to occupy and use the GZ Properties free of charge regardless of whether the obtaining and/or transfer of the legal titles of the GZ Properties can be completed during the GZ Grace Period or at all. The Directors confirmed that after taking into account the opinions of the PRC legal adviser of the Company and the undertaking given by Guiyang Engines as abovementioned, the operation of the GZ Target is not expected to be impacted even if the obtaining and/or transfer of the legal titles of the GZ Properties cannot be completed during the GZ Grace Period.

We noted that the GZ Indemnity Provision and the GZ Penalty serve to safeguard the Company and/or Zhejiang Dongli against, and also compensate for, any loss associated with the failure to obtain the legal titles of the GZ Properties during the GZ Grace Period. Given this and after taking into account other factors as discussed above including (i) the basis for determining each of the GZ Indemnification Amount and the penalty under the GZ Penalty that is considered to be fair and reasonable; and (ii) the GZ Indemnification Amount together with the penalty under the GZ Penalty will be paid in the form of cash in full, we consider the GZ Compensation Arrangement to be fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Having considered the forgoing, in particular (i) the GZ PRC Legal Opinion as detailed above; (ii) the GZ Compensation Arrangement which is considered to be fair and reasonable based on the factors discussed above has been put in place against the

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potential risk of failing to complete the obtaining and transfer of the legal titles of the GZ Properties within the GZ Grace Period (subject to completion of the GZ Acquisition); and (iii) the undertaking given by Guiyang Engines to assure continuous occupation and use of the GZ Properties by the GZ Target on a no-charge basis regardless of whether the obtaining and/or transfer of the legal titles of the GZ Properties can be completed during the GZ Grace Period or at all (subject to completion of the GZ Acquisition), we consider that the current lack of the legal titles of the GZ Properties with its inherent risks of loss borne by the Company and Zhejiang Dongli would not affect the fairness and reasonableness of the GZ Acquisition and the consideration relating thereto.

**(iii) *Basis of consideration***

*Valuation*

The Company has appointed a qualified appraisal company in Hong Kong to perform valuation of the TZ Properties and the GZ Properties as at 31 August 2018 and issue the Valuation Report. To ascertain the Independent Valuer is suitably qualified possessing related experiences and competence to undertake the Valuation, we have reviewed and enquired into (i) the terms of engagement stipulated in the mandate letter entered into between the Independent Valuer and the Company in relation to the Valuation that comply with the Listing Rules and the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; (ii) the Independent Valuer's qualifications and experiences that are relevant to the Valuation; and (iii) the due diligence measures taken by the Independent Valuer in respect of the Valuation mainly including (a) site inspection (including the exterior and, where possible, the interior of the properties); (b) making relevant enquiries on copies of the title documents relating to the property interests which were shown to the Independent Valuer; (c) examination of original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment; and (d) reference made to the TZ PRC Legal Opinion and the GZ PRC Legal Opinion. The Independent Valuer has also confirmed that it is independent from any member of the Group or the Geely Holding Group. Based on the aforesaid due diligence review and enquiry and given the fact that (i) the Independent Valuer is an independent professional valuer which has completed various assignments for companies listed on the Stock Exchange; (ii) the person in charge of the Valuation (including preparation of the Valuation Report) (a) has 25 years' experience in the valuation of various types of properties in more than 10 provinces, including Shandong Province, Guizhou Province, Zhejiang Province and Shaanxi Province, in the PRC; and (b) is a member of the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors, we are satisfied with the scope of work of the Independent Valuer as well as the Independent Valuer's qualifications and experiences that are sufficient and relevant to the Valuation, and therefore consider that the Independent Valuer is experienced and competent in performing the Valuation and preparing the Valuation Report.

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According to the Valuation Report and as confirmed by the Independent Valuer, the TZ Property Value and the GZ Property Value was approximately RMB346,820,000 and RMB258,200,000 as at 31 August 2018.

We have reviewed the Valuation Report and discussed with the Independent Valuer regarding the methodology adopted and the basis and assumptions used in the Valuation Report. As to the methodology adopted, in the course of our discussion with the Independent Valuer, and based on the Valuation Report, there are no readily available relevant market comparable sales due to the nature of the buildings and structures of the properties and the particular location in which they are situated, thus the TZ Properties and the GZ Properties cannot be valued on the basis of direct comparison. Therefore, in valuing the TZ Construction-In-Progress and the GZ Construction-In-Progress, the Independent Valuer has applied the cost approach by taking into account the construction cost and professional fees relevant to the stage of construction as at the valuation date and the remaining cost and fees to be expended to complete the development for construction in progress portion. In arriving at the value of the land portions of the TZ Properties and the GZ Properties, the Independent Valuer advised that the market approach was considered as appropriate after considering the availability of the market information. The Independent Valuer further advised that it has applied the market approach by taking reference to the sales evidence as available in the locality (the “**Comparable Sales Transactions**”) which were identified and selected based on the criteria including (i) location; and (ii) usage of lands. We noted that six Comparable Sales Transactions (consisting of three Comparable Sales Transactions for the TZ Properties and three Comparable Sales Transactions for the GZ Properties) which met the aforesaid selection criteria have been selected by the Independent Valuer for the purpose of the Valuation and the underlying properties of such six Comparable Sales Transactions were (i) located in the same districts of the TZ Properties and the GZ Properties respectively; (ii) industrial-used land which were considered to be relevant in nature to the TZ Properties and the GZ Properties; and (iii) related to a site area ranging from approximately 35,180 sq.m. to 123,228 sq.m.. We also noted that the average unit price per square meter of the Comparable Sales Transactions was computed based on their respective site area and transaction amount, and has been further adjusted by the Independent Valuer after taking into account the date of transaction, plot ratio and land use term of the Comparable Sales Transactions. Such adjusted average unit price per square meter of the Comparable Sales Transactions has been used as the basis to determine the Valuation by multiplying the site areas of the TZ Properties and the GZ Properties. It is also noted that the Independent Valuer has relied upon China Real Estate Index System (“**CREIS**”) (中國房地產指數系統) as the source of sales evidence information on the Comparable Sales Transactions. CREIS is a system developed and published by the China Index Academy (中國指數研究院), which is one of the largest real estate professional research organisations in the PRC. As further confirmed by the Independent Valuer, (i) the cost approach for valuing the TZ Construction-In-Progress and the GZ Construction-In-Progress; and (ii) the market approach for valuing the land portions of the TZ Properties and the GZ Properties, are commonly adopted for valuation of properties in the PRC and is also consistent with normal market practice.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted that the Valuation Report was prepared based on the key assumptions that (i) the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement; (ii) no allowance has been made in the Valuation Report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation; (iii) the properties are free from encumbrances, restrictions and outgoings of an onerous nature; and (iv) the ground conditions and services for any development thereon are satisfactory and that no unexpected cost and delay will be incurred during construction.

Further details of the basis and assumptions of the Valuation Report are included in the Valuation Report as contained in Appendix I to the Circular. Apart from having our discussion with the Independent Valuer during which we have not identified any major factors which cause us to doubt the fairness and reasonableness of the aforesaid valuation methodology, the principal basis and assumptions adopted for or the information used in the Valuation Report and performed our independent reviews as detailed above, we, on a best effort basis, had also conducted independent research on the valuation reports (including those prepared and issued by the Independent Valuer) that (i) contained in various circulars or the prospectus of other listed companies in Hong Kong issued in 2017 and 2018 pursuant to the Listing Rules; and (ii) related to valuation of properties (comprising construction in progress and lands) located in the PRC. To the best of our knowledge and endeavour, we have identified eighteen valuation reports (the “**Selected Valuation Reports**”) which met the abovementioned selection criteria and they are exhaustive as far as we are aware of. Given that (i) the methodology (i.e. the cost approach in assessing the construction in progress and the market approach in assessing the land portion of the properties) as well as the principal basis and assumptions adopted in the Valuation Report have been commonly adopted in the Selected Valuation Reports; and (ii) the reference period of our independent research covering about two preceding years prior to the date of the Acquisition Agreements is considered to be a recent and reasonable period, we consider that the Selected Valuation Reports would serve as a fair and representative sample for the purpose of drawing a meaningful comparison with the methodology, principal basis and assumptions adopted in the Valuation Report. In light of the above, we are of the view that the methodology, the basis and assumptions adopted in the Valuation Report are fair and reasonable, and in line with the market practice. Nevertheless, Shareholders should note that valuation of assets or properties usually involves assumptions and therefore the Valuation Report may or may not reflect the true value of the TZ Properties and the GZ Properties accurately.

### *Trading multiples analysis*

Commonly adopted price multiples analyses include the price to book ratio (“**PBR(s)**”) and the price to earnings ratio (“**PER**”). Given that the Target Companies have not generated any profit since incorporation, we consider the PER analysis to be impractical. For the purpose of assessing the fairness and reasonableness of the considerations for the Acquisitions, we have also performed the PBR analysis. We have

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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searched for companies listed on the Stock Exchange which are engaged in similar line of business as the Target Companies as detailed in the subsection headed “Principal businesses of the Target Companies” above, being the manufacturing and sales of powertrain components and derived a majority (i.e. more than 50%) of their total turnover from such business according to their respective latest published financial information (for details, please refer to the below table) (the “**Selection Criteria**”). To the best of our knowledge and endeavour, we found six listed companies (the “**Market Comparables**”) which met the Selection Criteria and they are exhaustive as far as we are aware of. We have not subjectively excluded any of the Market Comparables which met the Selection Criteria. Given that setting additional selection criteria (such as place of operation, history of operation and size of the Market Comparables) will narrow down the number of the Market Comparables, we have not considered and included the aforesaid additional selection criteria for our analysis. Shareholders should note that the respective businesses, operations and prospects of the Target Companies are not the same as the Market Comparables.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are the PBRs of the Market Comparables based on their closing prices as at 5 October 2018, being the date of the Acquisition Agreements, and their latest published financial information:

Company name (Stock code)	Principal business	Year-end date	PBR	Percentage of
			(times)	revenue generated
			(Note 1)	from the
				manufacturing and
				sales of automobile
				related components
				(Note 2)
Johnson Electric Holdings Limited 德昌電機控股有限公司 (179)	Supply of precision motors, motion subsystems and related electro- mechanical components	31 March 2018	0.99	77%
Minh Group Limited 敏實集團有限公司 (425)	Design, manufacture and sales of the auto parts	31 December 2017	2.37	100%
Zhejiang Shibao Company Limited 浙江世寶股份有限公司 (1057)	Research, development, manufacture and sale of automotive steering products and key spare parts	31 December 2017	0.13	100%
Xinchen China Power Holdings Limited 新晨中國動力控股有限公司 (1148)	Development, manufacture and sales of automotive engines for passenger vehicles and light duty commercial vehicles	31 December 2017	0.22	100%
Nexteer Automotive Group Limited 耐世特汽車系統集團有限公司 (1316)	Development, manufacturing, and provision of steering and driveline systems	31 December 2017	2.61	100%
BeijingWest Industries International Limited 京西重工國際有限公司 (2339)	Manufacture and sale of automotive parts and components	31 December 2017	0.57	95%
		<b>Maximum</b>	<b>2.61</b>	
		<b>Minimum</b>	<b>0.13</b>	
		<b>Average</b>	<b>1.15</b>	
Consideration for the TZ Acquisition			1.0 (Note 3)	
Consideration for the GZ Acquisition			1.0 (Note 4)	



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. The price to book value ratio refers to a comparison of the market value as at 5 October 2018 (using the respective share prices in the case of the Market Comparables) with the attributable net asset to the equity holders based on the latest published full year financial statements.
2. Revenue of the Market Comparables was based on their respective latest published annual results.
3. The implied PBR were calculated based on (i) the consideration for the TZ Acquisition; and (ii) the unaudited net asset value of the TZ Target as at 31 August 2018.
4. The implied PBR were calculated based on (i) the consideration for the GZ Acquisition; and (ii) the unaudited net asset value of the GZ Target as at 31 August 2018.

The above table illustrates that the PBRs of the Market Comparables ranged from approximately 0.13 times to 2.61 times, with an average of approximately 1.15 times. The implied PBRs of the Acquisitions are within the said PBR range of the Market Comparables and below the average PBR of the Market Comparables.

Having considered the above, we are of the view that the terms of the Acquisition Agreements are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

### **1.2 Possible financial effects of the Acquisitions**

*Earnings*

Following completion of the Acquisitions, the Target Companies will become 99.1% owned subsidiaries of the Company and their financial results will be fully consolidated into the financial statements of the Company. The management of the Company advised that no significant effect on the Group's consolidated statement of profit or loss is expected to be resulted from the Acquisitions immediately upon completion of the Acquisitions.

*Net asset value*

Based on the annual report of the Company for the year ended 31 December 2017 and the 2018 Interim Report, the consolidated net asset value of the Group was approximately RMB34.8 billion (audited) and RMB39.4 billion (unaudited) as at 31 December 2017 and 30 June 2018, respectively. As confirmed by the Directors, the Acquisitions would have no material impact on the net asset value of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Cash flow*

Since the total consideration of the Acquisitions will be satisfied by cash of approximately RMB1,265.3 million by the Company, the cash level of the Group will decrease immediately upon completion of the Acquisitions. In addition, the Group have to repay the TZ Shareholder's Loan and the GZ Shareholder's Loan, which will not exceed RMB1,534.7 million and RMB1,157.2 million respectively, within three months after the completion of the Acquisitions. Given the bank balances and cash of approximately RMB13,415 million (audited) and RMB16,171 million (unaudited) as at 31 December 2017 and 30 June 2018 respectively, and based on the assumption that there is no material adverse change in such position since 30 June 2018 and up to the end of the three-month period after completion of the Acquisitions, the management of the Company expected that there would not be material adverse effect on the cash flow of the Group as a result of the Acquisitions.

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

## MONITORING AND REPORTING

### 1. Internal control measures within the Group

We noted that the Group has established internal control measures for the purpose of monitoring the execution and implementation of the Services Transaction, the EV Transaction and the Procurement Transaction, including specific monitoring and reporting measures and procedures to ensure compliance with the respective pricing terms thereunder.

Set out below are the details of the underlying monitoring and reporting procedures of the relevant internal control measures adopted by the Group, as extracted from the Letter from the Board:

#### *(a) Services Agreement*

##### *(i) CKDs Transactions*

For the sales of CKDs by the Group, the operation department of the Group will review the relevant cost and benefit items, which include mainly distribution costs, the applicable PRC taxes, the new energy vehicle subsidies and other necessary expenses, and will coordinate with the sales department of the Group to ensure that the selling price of CKDs are determined properly. The finance department of the Group will review the aforesaid works carried out by the operation department as well as the cost and expenses reports generated by the accounting systems on a quarterly basis to ensure the continuing connected transactions being implemented in accordance with the pricing policies. The Group and the Geely Holding Group will negotiate on a half-yearly basis (or more frequently if it is determined necessary) the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by the Group in such transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *CBUs Transactions*

For the purchases of CBUs by the Group, the sales department of the Group will keep track of the expected selling price of vehicles and relevant cost items, which mainly include distribution costs, and will review such information on a monthly basis and determine the selling price of vehicles on a quarterly basis when the market is stable (or more frequently if it is determined necessary) to ensure the fairness of the selling price of the CBUs. The finance department of the Group will review the aforesaid works carried out by the sales department on a quarterly basis to ensure that the continuing connected transactions are being implemented in accordance with the pricing policies. For the purchase of automobile parts and components by the Group, the Group and the Geely Holding Group will negotiate on a half-yearly basis (or more frequently if it is determined necessary) the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by both parties in such transactions.

(b) *Electric Vehicle Agreement*

The Group will monitor the expected selling price of electric vehicles and relevant cost items, which mainly include distribution costs, to ensure the fairness of the selling price of EV CBUs. The Group maintains a database, which is updated monthly, to store all the aforesaid pricing and cost information. Such database allows the sales department of the Group to keep up-to-date records of the unit prices of products sold by the Group so that its sales teams can timely obtain the relevant pricing information as the basis to determine the price range for the EV CBUs to be sold to Geely Holding Group. The Group also has a designated market research team to keep track of selling prices of similar electric vehicles in the market for competing brands through public available information on a quarterly basis to ensure EV CBUs are being sold at prices that are comparable to the market, and will share their findings with the sales teams and finance department accordingly. The sales and finance departments will check the information provided by the market research team to ensure reasonableness with regard to the comparables selected by the market research team. If the selling price of electric vehicles is required to be revised, the sales and finance departments will hold a meeting to revise and confirm the selling price with reference to the market. The finance department of the Group will also ensure the relevant continuing connected transactions are conducted on normal commercial terms, in the ordinary course of business and will not be prejudicial to the interest of the Company and the Shareholders as a whole. Moreover, the transactions contemplated under the Electric Vehicle Agreement will be supervised and monitored by the Group's general managers in charge to ensure both agreements are conducted on normal commercial terms, in the ordinary course of business and will not be prejudicial to the interests of the Company and its Independent Shareholders as a whole.

(c) *Automobile Components Procurement Agreement*

The Group's procurement department will obtain quotations for similar products from independent third party suppliers. Based on the technical and quality requirements, at least three suppliers will be shortlisted by the Group's procurement department, quality department and research institute. The procurement committee formed by the procurement department, quality department, research institute and the finance department will then compare the prices offered by those

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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independent third party suppliers to that offered by the Geely Holding Group to the Group to ensure the fairness of the selling price of the automobile components offered by the Geely Holding Group. Moreover, the transactions contemplated under the Automobile Components Procurement Agreement will be supervised and monitored by the Group's procurement committee to ensure the Automobile Components Procurement Agreement is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Independent Shareholders as a whole.

As advised to the Company, in relation to the aforesaid internal control measures, the internal audit department of the Group will conduct assessment on the internal control measures for all the Continuing Connected Transactions to ensure such internal control measures have been adhered to and are effective. The independent non-executive Directors will also conduct review on all continuing connected transactions every year and confirm that the transactions have been entered into in the ordinary and usual course of business of the Group; on normal commercial terms or better; and according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Company also engages its independent auditor to report on all the Continuing Connected Transactions every year. The independent auditor reviews and confirms whether all the Continuing Connected Transactions have been approved by the Board; have been conducted in accordance with the pricing policies of the relevant agreement governing the transactions contemplated thereunder; and have not exceeded the relevant annual caps. Please refer to the next subsection for details of the relevant Listing Rules regarding the foregoing.

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

For each financial year of the Company during the terms of the Services Agreement, the Electric Vehicle Agreement and the Automobile Components Procurement Agreement, the subject transactions will be subject to review by the independent non-executive Directors and the Company's independent auditor as required by Rules 14A.55 and 14A.56 of the Listing Rules. The independent non-executive Directors must confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:

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

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

- have not been approved by the Board;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- were not, in all material respects, in accordance with the pricing basis for the Services Agreement, the Electric Vehicle Agreement or the Automobile Components Procurement Agreement (as the case may be);
- were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- have exceeded the Service Caps, the EV Caps or the Procurement Caps (as the case may be).

For reference purpose, in light of the abovementioned monitoring and reporting measures and procedures as stipulated in the Listing Rules, we have reviewed the confirmation statements made by the independent non-executive Directors in the annual reports of the Company for each of the two financial years ended 31 December 2017 in relation to the Company's continuing connected transactions including those Services Transactions and EV Transactions effected pursuant to the respective terms of the 2009 Services Agreement and the 2015 Electric Vehicle Agreement during the relevant years (the "**Relevant Historical Transactions**"). As stated in the said annual reports, the independent non-executive Directors confirmed that, among others, the Relevant Historical Transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Further, we were aware that for each of the two financial years ended 31 December 2017, the Company was compliant with Rule 14A.56 of the Listing Rules which requires the Company to engage an independent auditor to report on its continuing connection transactions (including the Relevant Historical Transactions) for each financial year of the Company. Based on our review on the written confirmations issued by the relevant independent auditor to the Company in respect of, inter alia, the Services Transactions and the EV Transactions for each of the two financial years ended 31 December 2017, it is ascertained that nothing had come to such independent auditor's attention that caused them to believe that, among others, (i) the Relevant Historical Transactions were not entered into, in all materials respects, in accordance with the pricing policies of the Group; (ii) the Relevant Historical Transactions were not entered into, in all materials respects, in accordance with the relevant agreements governing such transactions; and (iii) the aggregate amount of each of the Relevant Historical Transactions had exceeded the relevant annual cap as set by the Company.

### OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons discussed above, we consider that (i) the entering into of the Services Agreement, the Electric Vehicle Agreement and the Automobile Components Procurement Agreement are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Service Caps, the EV Caps and the Procurement Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (iii) although the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Acquisition Agreements are not entered into in the ordinary and usual course of business of the Group, they are conducted on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms thereof are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Services Agreement, the Electric Vehicle Agreement, the Automobile Components Procurement Agreement, the Acquisition Agreements, the Service Caps, the EV Caps and the Procurement Caps.

Yours faithfully,  
for and on behalf of  
**DAKIN CAPITAL LIMITED**  
**Kinson Li**                      **Annie Kwong**  
*Managing Director*                      *Director*

*Note:* Mr. Kinson Li is a licensed person and a responsible officer of Dakin Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in corporate finance industry. Ms. Annie Kwong is a licensed person and a responsible officer of Dakin Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO. She has over 15 years of experience in corporate finance industry.

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

*The following is the text of a letter and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 31 August 2018 of the property interests to be acquired by the Company.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No.: C-030171

20 November 2018

The Board of Directors  
**Geely Automobile Holdings Limited**  
Room 2301, 23<sup>rd</sup> Floor  
Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") is instructed by Geely Automobile Holdings Limited (the "**Company**") to provide valuation service on the properties in which Guiyang Geely Engines Company Limited ("**Guiyang Engines**") and Taizhou Geely Luoyou Engines Company Limited ("**Taizhou Engines**") (herein together refer to the "**Target Companies**") have interests for disclosure purpose. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 31 August 2018 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the properties which is under construction as at the valuation date, we have assumed that they will be developed and completed in accordance with the latest development proposals provided to us by Target Companies. In arriving at our opinion of value, we have taken into account the land value, construction cost and professional fees relevant to the stage of construction as at the valuation date. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Target Companies and have accepted advices given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, and all other relevant matters.

We have been shown copies of title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates, Construction Work Planning Permits, Construction Work Commencement Permits and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment.

We have relied considerably on the advice given by the Company's PRC legal adviser – Zhejiang Xingtiao Law Firm concerning the validity of the property interests in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and Target Companies. We have also sought confirmation from the Company and Target Companies that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.



The site inspection was carried out in the period from 23 August 2018 to 24 August 2018 by Mr. Larry Li, William Chen and Miss. Ran Wang. Mr. Larry Li has 10 years' experience in property valuation in the PRC and Mr. William Chen has 17 years' experiences in property valuation in the PRC. Miss. Ran Wang graduates with property development courses and has 2 years' experience in the property valuation in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of

**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

**Gilbert C.H. Chan**  
*MRICS MHKIS RPS (GP)*  
*Director*

*Note:*

Gilbert C.H. Chan is a Chartered Surveyor who has 25 years' experience in the valuation of various types of properties in more than 10 provinces in the PRC, such as Shandong, Guizhou, Zhejiang and Shaanxi, etc.

**SUMMARY OF VALUES**

**Property interests held under development by the Target Companies in the PRC.**

<b>No.</b>	<b>Property</b>	<b>Market value</b>
		<b>in existing state as at 31 August 2018 RMB</b>
1.	An industrial complex under construction located at No. 123 East Yunhuan Road Baiyun District Guiyang City Guizhou Province the PRC	258,200,000
2	An industrial complex under construction located at western side of Haihong Road and northern side of Bin Ba Road, Economic Development District Taizhou City Zhejiang Province The PRC	346,820,000
<b>Sub-total:</b>		<b><u>605,020,000</u></b>

## VALUATION CERTIFICATE

Property interests held under development by the Target Companies in the PRC.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2018 RMB
1.	An industrial complex under construction located at No. 123 East Yunhuan Road, Baiyun District Guiyang City Guizhou Province the PRC	<p>The property comprises a parcel of land with a total site area of approximately 134,523 sq.m., and an industrial complex under construction (the “CIP”) erected thereon.</p> <p>The CIP will be developed into 5 industrial and ancillary buildings with a total planed gross floor area of approximately 133,661.56 sq.m. It is scheduled to be completed in January 2019.</p> <p>As advised by Guiyang Engines, the total construction cost of the CIP is estimated to be approximately RMB238,812,000, of which RMB131,137,000 had been paid up to the valuation date.</p> <p>The land use rights of the property have been granted for terms expiring on 26 June 2067 for industrial use.</p>	<p>The property is currently under construction. Main structure of the industrial has been completed, while the interior decoration work, equipment’s installation work and landscaping work are in process. Main structure of the ancillary buildings are in process.</p>	258,200,000

*Notes:*

- Pursuant to a State-owned Land Use Rights Grand Contract dated 14 February 2017, the land use rights of a parcel of land with a total site area of approximately 134,523 sq.m. were contracted to be granted to Guiyang Engines for a term of 50 years for industrial use. The land premium was RMB46,670,000. As advised by Guiyang Engines, the land premium has been fully paid
- Pursuant to a Real Estate Title Certificate – Qian (2017) Bai Yun Qu Bu Dong Chan Quan Di No.0007862, the land use rights of the land parcel with a total site area of approximately 134,523 sq.m. have been granted to Guiyang Engines for terms expiring on 26 June 2067.

3. Pursuant to a Construction Work Planning Permit – Jian Zi Di No.520000201701448 in favour of Guiyang Engines, 5 buildings with a total gross floor area of approximately 133,661.56 sq.m. have been approved for construction.
4. Pursuant to a Construction Work Commencement Permit – 52011317120404121-sx-003 in favour of Guiyang Engines, permission by the relevant local authority was given to commence the construction work of the property with a total gross floor area of approximately 133,661.56 sq.m.
5. The market value of the property when completed is estimated to be RMB294,000,000.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:
  - a. The Real Estate Title Certificate stated in note 2 is real, legal and valid, the land premium and relevant tax have been fully paid;
  - b. the Construction Working Planning Permit and Construction Work Commencement Permit stated in note 3 and note 4 are real, legal and valid;
  - c. there is no legal impediment for Guiyang Engines to obtain relevant title certificates for CIP when completed after passing the completion and inspection acceptance;
  - d. the property can be legally used by Guizhou Geely Engine Company Limited ("GZ Target") for manufacturing purpose during the period that The Real Estate Title Certificate is transferred from Guiyang Engines to GZ Target; and
  - e. the property is not subject to mortgage, warrant or any other encumbrances.
7. The property will contribute a significant portion of revenue to Target Companies; we are of the view that the property is the material property.

Details of the material property:

- |     |  |   |  |
|-----|--|---|--|
| (a) | General description of location of the property  | : | The property is located at No. 123 East Yunhuan Road, Baiyun District, the northern side of Guiyang City. It is adjacent to Bai Jin Avenue, and about 200 meters far from the entrance of Guiyang Beltway. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property                  | : | The property is not subject to any mortgage or pledges.  |
| (c) | Environmental Issue  | : | Nil  |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil  |

- (e) Future plans for construction, renovation, improvement or development of the property :
- As advised by Guiyang Engines, the CIP is expected to be completed in January 2019 and the capital expenditure required for the development of the plants in the next 12 months from the date of this document would be RMB107,675,000.

## VALUATION CERTIFICATE

Property interests held under development by the Target Companies in the PRC.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2018 RMB
2.	An industrial complex under construction located at west side of Haihong Road and north side of Bin Ba Road, Economic Development District Taizhou City Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 144,281 sq.m. and an industrial complex under construction (the “CIP”) erected thereon.</p> <p>The CIP will be developed into 14 industrial and ancillary buildings with a total planned gross floor area of approximately 111,945.36 sq.m. It is scheduled to be completed in November 2018.</p> <p>As advised by Taizhou Engines, the total construction cost of the CIP is estimated to be approximately RMB401,673,000, of which RMB203,070,000 had been paid up to the valuation date.</p> <p>The land use rights of the property have been granted for a term expiring on 24 November 2066 for industrial use.</p>	<p>The property is currently under construction. Main structure of the industrial and ancillary buildings have been completed, while the interior decoration work, curtain wall installation work and landscaping work are in process.</p>	346,820,000

## Notes:

- Pursuant to a State-owned Land Use Rights Grand Contract dated 25 November 2016, the land use rights of a parcel of land with a total site area of approximately 144,281 sq.m. were contracted to be granted to Taizhou Engines for a term of 50 years for industrial use. The land premium was RMB29,090,000. As advised by Taizhou Engines, the land premium was fully paid.
- Pursuant to a Real Estate Title Certificate - Zhe (2017) Tai Zhou Shi Bu Dong Chan Quan Di No.0004464, the land use rights of the land parcel with a site area of approximately 144,281 sq.m. have been granted to Taizhou Engines for a term expiring on 24 November 2066.

3. Pursuant to 2 Construction Work Planning Permits – Jian Zi Di No. 331001201710026 and Jian Zi Di No.331001201810002, in favour of Taizhou Engines, 14 buildings of the industrial complex with a total gross floor area of approximately 111,945.36 sq.m. have been approved for construction.
4. Pursuant to 2 Construction Work Commencement Permits - No.331002201712040101 and No.331002201803150101, in favour of Taizhou Engines, permissions by the relevant local authority were given to commence the construction work of 14 buildings of the project stated in note 2 with a total gross floor area of approximately 111,945.36 sq.m.
5. The market value of the property when completed is estimated to be RMB484,000,000.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:
  - a. The Real Estate Title Certificate stated in note 2 is real, legal and valid, the land premium and relevant tax have been fully paid;
  - b. the Construction Working Planning Permits and Construction Work Commencement Permits stated in note 3 and note 4 are real, legal and valid;
  - c. there is no legal impediment for Taizhou Engines to obtain relevant title certificates for the CIP when completed after passing the completion and inspection acceptance;
  - d. the property can be legally used by Taizhou Binhai Geely Engine Company Limited ("TZ Target") for manufacturing purpose during the period that The Real Estate Title Certificate is transferred from Taizhou Engines to TZ Target; and
  - e. the property is not subject to mortgage, warrant or any other encumbrances;
7. The property will contribute a significant portion of revenue to the Target Companies; we are of the view that the property is the material property.

Details of the material property:

- |     |  |   |  |
|-----|--|---|--|
| (a) | General description of location of the property  | : | The property is located at west side of Haihong Road and north side of Bin Ba Road, Economic Development District, Taizhou City. It is adjacent to Yanhai Highway and No.104 National Road. The property is about 10 kilometers far from downtown of Taizhou City. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property                  | : | The property is not subject to any mortgage or pledges.  |
| (e) | Environmental Issue  | : | Nil  |
| (c) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil  |

- (d) Future plans for construction, renovation, improvement or development of the property : As advised by Taizhou Engines, the CIP is expected to be completed in November 2018, and the capital expenditure required for the development of the plants in the next 12 months from the date of this document would be RMB198,603,000.



**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS****(a) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations**

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

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

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding
		Long position	Short position	(%)
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporations	3,964,448,000	–	44.15
Mr. Li Shu Fu	Personal	23,140,000	–	0.26
Mr. Yang Jian	Personal	14,475,000	–	0.16
Mr. Li Dong Hui, Daniel	Personal	4,200,000	–	0.05
Mr. Gui Sheng Yue	Personal	14,300,000	–	0.16
Mr. An Cong Hui	Personal	16,280,000	–	0.18
Mr. Ang Siu Lun, Lawrence	Personal	4,270,000	–	0.05
Ms. Wei Mei	Personal	4,170,000	–	0.05
Mr. Lee Cheuk Yin, Dannis	Personal	550,000	–	0.006
Mr. Yeung Sau Hung, Alex	Personal	350,000	–	0.004

*Note:*

1. Proper Glory Holding Inc. (“**Proper Glory**”) and its concert parties in aggregate hold interests of 3,964,448,000 shares, representing approximately 44.15% of the total issued share capital of the Company as at the Latest Practicable Date. Proper Glory is a private company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited.

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

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding
		Long position	Short position	(%)
Share Options				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporations	85,220,000	–	0.95
Mr. Yang Jian	Personal	9,000,000 (Note 2)	–	0.10
Mr. Li Dong Hui, Daniel	Personal	3,500,000 (Note 3)	–	0.04
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	4,700,000 (Note 2)	–	0.05
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	900,000 (Note 2)	–	0.01
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	100,000 (Note 2)	–	0.001
Mr. Lee Cheuk Yin, Dannis	Personal	250,000 (Note 4)	–	0.003
Mr. Yeung Sau Hung, Alex	Personal	100,000 (Note 2)	–	0.001
Mr. Yeung Sau Hung, Alex	Personal	250,000 (Note 4)	–	0.003
Mr. An Qing Heng	Personal	630,000 (Note 4)	–	0.007
Mr. Wang Yang	Personal	1,000,000 (Note 4)	–	0.01

*Notes:*

1. Mr. Li Shu Fu and his concert parties in aggregate hold derivatives' interest of 85,220,000 shares, representing approximately 0.95% of the total issued share capital of the Company as at the Latest Practicable Date.
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 total issued share capital of the Company when the options are exercised is the same as that as 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 total issued share capital of the Company when the options are exercised is the same as that as 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 total issued share capital of the Company when the options are exercised is the same as that as the Latest Practicable Date.

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

Name of director	Name of the associated corporations	Number of shares in the associated corporations		Approximate percentage of shareholding (%)
		Long position	Short position	
Mr. Li Shu Fu	Proper Glory Holding Inc.	(Note 1)	–	(Note 1)
Mr. Li Shu Fu	Geely Group Limited	50,000	–	60
Mr. Li Shu Fu	Zhejiang Geely Holding Group Company Limited	(Note 2)	–	(Note 2)
Mr. Li Shu Fu	Zhejiang Geely Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Shanghai Maple Automobile Company Limited	(Note 4)	–	(Note 4)
Mr. Li Shu Fu	Zhejiang Haoqing Automobile Manufacturing Company Limited	(Note 5)	–	(Note 5)
Mr. Li Shu Fu	Zhejiang Jirun Automobile Company Limited	(Note 6)	–	(Note 6)
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	(Note 7)	–	(Note 7)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 8)	–	(Note 8)
Mr. Li Shu Fu	Hunan Geely Automobile Components Company Limited	(Note 9)	–	(Note 9)
Mr. Li Shu Fu	Chengdu Gaoyuan Automobile Industries Company Limited	(Note 10)	–	(Note 10)
Mr. Li Shu Fu	Jinan Geely Automobile Company Limited	(Note 11)	–	(Note 11)
Mr. Li Shu Fu	Baoji Geely Automobile Components Company Limited	(Note 12)	–	(Note 12)
Mr. Li Shu Fu	Shanxi Geely Automobile Components Company Limited	(Note 13)	–	(Note 13)
Mr. Li Shu Fu	Zhejiang Jirun Chunxiao Automobile Components Company Limited	(Note 14)	–	(Note 14)

*Notes:*

1. Proper Glory Holding Inc. is a private company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is owned as to 60% by Mr. Li Shu Fu, as to 35.85% by Mr. Li Xu Bing, an elder brother of Mr. Li Shu Fu, and as to 4.15% by Mr. An Cong Hui, an executive director of the Company.
2. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

3. Zhejiang Geely is a private company incorporated in the PRC and is owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li's interested entities.
4. Shanghai Maple Automobile Company Limited ("**Shanghai Maple Automobile**") is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
5. Zhejiang Haoqing Automobile Manufacturing Company Limited ("**Zhejiang Haoqing**") is a private company incorporated in the PRC and is owned as to 98.5% by Geely Holding and as to 1.5% by other Mr. Li's interested entities.
6. Zhejiang Jirun Automobile Company Limited ("**Zhejiang Jirun**") is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely.
7. Shanghai Maple Guorun Automobile Company Limited ("**Shanghai Maple**") is a private company incorporated in the PRC and is 1%-owned by Shanghai Maple Automobile.
8. Zhejiang Ruhoo Automobile Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing.
9. Hunan Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Haoqing.
10. 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.
11. 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.
12. Baoji Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely.
13. Shanxi Geely Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely.
14. Zhejiang Jirun Chunxiao Automobile Components Company Limited is a private company incorporated in the PRC and is 1%-owned by Zhejiang Geely.

**(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 Holding Inc. (Note 1)	Beneficial owner	2,636,705,000	-	-	29.36
Geely Holding (Note 1)	Interest in controlled corporation	3,964,361,000	-	-	44.15
Geely Group Limited (Note 1)	Beneficial owner	87,000	-	-	0.001
	Interest in controlled corporation	2,636,705,000	-	-	29.36
Zhejiang Geely (Note 2)	Beneficial owner	796,562,000	-	-	8.87

*Notes:*

1. Proper Glory is a private company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited. Geely Group Limited is a private company incorporated in the British Virgin Islands and is owned as to 60% by Mr. Li Shu Fu, as to 35.85% by Mr. Li Xu Bing, an elder brother of Mr. Li Shu Fu, and as to 4.15% by Mr. An Cong Hui, an executive director of the Company. Geely Holding is a private company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
2. Zhejiang Geely is a private company incorporated in the PRC and is owned as to 88.32% by Geely Holding and as to 11.68% by other Mr. Li's interested entities.

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

#### (a) Directors' service agreements

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

#### (b) Competing interests

The Group is principally engaged in the research, production, marketing and sales of sedans and related automobile components in the PRC. Geely Holding, which is ultimately owned by Mr. Li and his associate, has signed agreements or been in negotiations with local governments in the PRC and other entities to set up production plants for the manufacturing and distribution of Geely sedans. The potential production and distribution of Geely sedans by Geely Holding will constitute competing businesses (the “**Competing Businesses**”) to those currently engaged by the Group. Mr. Li has undertaken to the Company (the “**Undertaking**”) on 20 November 2008 that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive Directors, he will, and will procure his associates (other than the Group) to, sell to the Group all of the Competing Businesses and related assets, subject to compliance with applicable requirements of the Listing Rules and other applicable laws and regulations upon terms to be mutually agreed as fair and reasonable. In addition, it is required that Mr. Li informs the Group of all potential Competing Businesses carried out by him or his associates.

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



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

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

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

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

Save for disclosed below, 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 2017, 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.

***Acquisition agreement between Zhejiang Jirun and 杭州吉利汽車部件有限公司 (Hangzhou Geely Automobile Components Company Limited\*) (“Hangzhou Components”)***

Pursuant to the acquisition agreement dated 18 July 2018, Zhejiang Jirun conditionally agreed to acquire and Hangzhou Components conditionally agreed to sell the entire registered capital of 杭州吉利汽車有限公司 (Hangzhou Geely Automobile Company Limited\*) for a cash consideration of RMB930,620,464.36.

***Acquisition agreement between Zhejiang Jirun and 貴州吉利新能源汽車有限公司 (Guizhou Geely New Energy Automobile Company Limited\*) (“Guizhou New Energy”)***

Pursuant to the acquisition agreement dated 18 July 2018, Zhejiang Jirun conditionally agreed to acquire and Guizhou New Energy conditionally agreed to sell the entire registered capital of 貴州吉利汽車部件有限公司 (Guizhou Geely Automobile Components Company Limited\*) for a cash consideration of RMB1,074,308,970.43.

***Acquisition agreement between Zhejiang Jirun and Zhejiang Geely***

Pursuant to the acquisition agreement dated 18 July 2018, Zhejiang Jirun conditionally agreed to acquire and Zhejiang Geely conditionally agreed to sell the entire registered capital of 寧波吉潤汽車部件有限公司 (Ningbo Jirun Automobile Components Company Limited\*) for a cash consideration of RMB1,169,398,629.60.

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

Pursuant to the licensing agreement dated 24 September 2018, the Group agreed to license the intellectual properties and the foreground intellectual properties to Geely Holding for the design, development, manufacture, sale, marketing and distribution of the licensed models within the licensed regions during the licensed period. Pursuant to the licensing agreement, Geely Holding is permitted to sub-license the intellectual properties and the foreground intellectual properties to the Proton Group for their design, development, manufacture, sale, marketing and distribution of the licensed models within the licensed regions during the licensed period. The total license fee for the intellectual properties is RMB1,344,000,000.

***Assets acquisition agreement between the Company and Geely Holding***

Pursuant to the assets acquisition agreement dated 5 October 2018, the Company agreed to purchase and Geely Holding agreed to sell the target assets for a maximum consideration of RMB679,871,373.

***Acquisition agreement between Zhejiang Dongli and 台州吉利羅佑發動機有限公司 (Taizhou Geely Luoyou Engines Company Limited\*) (“Taizhou Engines”)***

Pursuant to the acquisition agreement dated 5 October 2018, Zhejiang Dongli conditionally agreed to acquire and Taizhou Engines conditionally agreed to sell the entire registered capital of 台州濱海吉利發動機有限公司 (Taizhou Binhai Geely Engine Company Limited\*) for a cash consideration of RMB781,274,109.

***Acquisition agreement between Zhejiang Dongli and 貴陽吉利發動機有限公司 (Guiyang Geely Engines Company Limited\*) (“Guiyang Engines”)***

Pursuant to the acquisition agreement dated 5 October 2018, Zhejiang Dongli conditionally agreed to acquire and Guiyang Engines conditionally agreed to sell the entire registered capital of 貴州吉利發動機有限公司 (Guizhou Geely Engine Company Limited\*) for a cash consideration of RMB484,003,363.

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 and vehicle tool kits from the Group to the Geely Holding Group*

Pursuant to the services agreement dated 27 November 2009 and the Company’s announcements dated 27 November 2009, 13 November 2015, 18 October 2016 and 7 November 2017, the Group agreed to supply to the Geely Holding Group the CKDs and vehicle tool kits in accordance with the product specifications set out in the services agreement with an aggregate largest annual cap of RMB121,443,520,000 for the three years ending 31 December 2018.

- *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 announcements dated 27 November 2009, 13 November 2015, 18 October 2016 and 7 November 2017, 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 RMB153,395,431,000 for the three years ending 31 December 2018.

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.

***Powertrain sales agreement among the Company, 領克投資有限公司 (LYNK & CO Investment Company Limited\*) (“LYNK & CO”) and Geely Holding (the powertrain sales agreement has an effective term until 31 December 2020)***

Pursuant to the powertrain sales agreement dated 7 November 2017, the Group agreed to sell vehicle engines, transmissions and related after-sales parts manufactured by it to LYNK & CO and its subsidiaries and the Geely Holding Group with the largest annual cap being RMB15,661,070,000 for the three years ending 31 December 2020.

As the applicable percentage ratios of the continuing connected transactions contemplated under the powertrain sales agreement are higher than 5% on an annual basis, the powertrain sales 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 powertrain sales agreement was held on 27 December 2017 and the powertrain sales agreement was duly approved by the then Independent Shareholders.

***LYNK & CO finance cooperation agreement among 吉致汽車金融有限公司 (Genius Auto Finance Co., Ltd\*) (“Genius AFC”) and 領克汽車銷售有限公司 (LYNK & CO Auto Sales Company Limited\*) (the LYNK & CO finance cooperation agreement has an effective term until 31 December 2020)***

- *Wholesale facility agreements between Genius AFC and the LYNK & CO Dealers (as defined in the circular of the Company dated 8 December 2017) (the wholesale facility agreements have an effective term until 31 December 2020)*

Pursuant to the LYNK & CO finance cooperation agreement dated 3 November 2017, Genius AFC agreed to enter into wholesale facility agreements with the LYNK & CO Dealers to provide vehicle financing to the LYNK & CO Dealers to facilitate their purchase of LYNK & CO-branded vehicles with the largest annual cap being RMB24,450 million for the three years ending 31 December 2020.

- *Retail loan cooperation agreements between Genius AFC and the LYNK & CO Dealers (as defined in the circular of the Company dated 28 January 2016) (the retail loan cooperation agreements have an effective term until 31 December 2020)*

Pursuant to the LYNK & CO finance cooperation agreement dated 3 November 2017, Genius AFC agreed to enter into retail loan cooperation agreements with the LYNK & CO Dealers pursuant to which the LYNK & CO Dealers shall recommend the retail consumers to use Genius AFC for the obtaining of vehicle loans to finance their purchase of LYNK & CO-branded vehicles with the largest annual cap being RMB23,295 million for the three years ending 31 December 2020.

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

The Shareholders' meeting in respect of the aforesaid LYNK & CO finance cooperation agreement was held on 27 December 2017 and the LYNK & CO finance cooperation 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, 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 for the three years ending 31 December 2018.

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 and the supplemental electric vehicle agreement between the Company and Geely Holding (the electric vehicle agreement and the supplemental electric vehicle agreement have an effective term until 31 December 2018)***

Pursuant to the electric vehicle agreement dated 13 November 2015 and the supplemental electric vehicle agreement dated 5 October 2016, 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 RMB9,487,180,000 for the three years ending 31 December 2018.

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

The Shareholders' meetings in respect of the aforesaid electric vehicle agreement and the supplemental electric vehicle agreement were held on 30 December 2015 and 28 November 2016, respectively, and the electric vehicle agreement and the supplemental electric vehicle agreement were duly approved by the then Independent Shareholders.

***Information technology services agreement between the Company and Geely Holding (the information technology services agreement has an effective term until 31 December 2018)***

Pursuant to the information technology services agreement dated 13 November 2015, the Geely Holding Group agreed to provide certain information technology services to the Group with the largest annual cap being RMB70,827,000 for the three years ending 31 December 2018.

As the applicable percentage ratios of the continuing connected transactions contemplated under the information technology services agreement are less than 5% on an annual basis, the information technology 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 dated 13 November 2015 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 “**2015 Business Travel Services Agreement**”), the Geely Holding Group agreed to provide business travel and related services to the Group with the largest annual cap being RMB126,732,000 for the three years ending 31 December 2018.

As the applicable percentage ratios of the continuing connected transactions contemplated under the 2015 Business Travel Services Agreement are less than 5% on an annual basis, the 2015 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.

*Volvo finance cooperation agreement among Genius AFC, Volvo Car Distribution (Shanghai) Co., Ltd. and 中嘉汽車製造(上海)有限公司 (Zhongjia Automobile Manufacturing (Shanghai) Company Limited\*) (currently renamed as 沃爾沃汽車(亞太)投資控股有限公司 (Volvo Car (Asia Pacific) Investment Holding Co., Ltd.)) (the Volvo finance cooperation agreements have an effective term until 31 December 2018)*

- *Wholesale facility agreements between Genius AFC and the Volvo Dealers (as defined in the circular of the Company dated 28 January 2016) (the wholesale facility agreements have an effective term until 31 December 2018)*

Pursuant to the Volvo finance cooperation agreement dated 11 December 2015, Genius AFC agreed to enter into wholesale facility agreements with the Volvo Dealers to provide vehicle financing to the Volvo Dealers to facilitate their purchase of Volvo-branded vehicles with the largest annual cap being RMB49,000 million for the three years ending 31 December 2018.

- *Retail loan cooperation agreements between Genius AFC and the Volvo Dealers (as defined in the circular of the Company dated 28 January 2016) (the retail loan cooperation agreements have an effective term until 31 December 2018)*

Pursuant to the Volvo finance cooperation agreement dated 11 December 2015, Genius AFC agreed to enter into retail loan cooperation agreements with the Volvo Dealers pursuant to which the Volvo Dealers shall recommend the retail consumers to use Genius AFC for obtaining vehicle loans to finance their purchase of Volvo-branded vehicles with the largest annual cap being RMB11,000 million for the three years ending 31 December 2018.

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

The Shareholders' meeting in respect of the aforesaid Volvo finance cooperation agreement was held on 18 February 2016 and the Volvo finance cooperation agreement was duly approved by the then Independent Shareholders. The renewal of Volvo finance cooperation agreement with a term from 1 January 2019 to 31 December 2021 will be subject to the approval by the Independent Shareholders at Shareholders' meeting to be held on 7 December 2018.

***Kandi automobile parts supply agreement dated 25 July 2016 between the Company and 康迪電動汽車集團有限公司 (Kandi Electric Vehicles Group Co., Ltd.\*) (the “Kandi JV”) (the Kandi automobile parts supply agreement dated 25 July 2016 has an effective term until 31 December 2018)***

Pursuant to the Kandi automobile parts supply agreement dated 25 July 2016 (the “**2016 Kandi Automobile Parts Supply Agreement**”), the Group agreed to sell automobile parts and components to the Kandi JV with the largest annual cap being RMB317,991,000 for the three years ending 31 December 2018.

As the applicable percentage ratios of the continuing connected transactions contemplated under the 2016 Kandi Automobile Parts Supply Agreement are over 0.1% but less than 5% on an annual basis, the 2016 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.

***Electric vehicle CKD supply agreement dated 25 July 2016 between the Company and Geely Holding (the electric vehicle CKD supply agreement has an effective term until 31 December 2018)***

Pursuant to the electric vehicle CKD supply agreement dated 25 July 2016 (the “**2016 EV CKD Supply Agreement**”), the Group agreed to sell to the Geely Holding Group electric vehicle CKDs in accordance with the product specifications set out in the electric vehicle CKD supply agreement with the largest annual cap being RMB1,185,914,000 for the three years ending 31 December 2018.

As the applicable percentage ratios of the continuing connected transactions contemplated under the 2016 EV CKD Supply Agreement are over 0.1% but less than 5% on an annual basis, the 2016 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.

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

Pursuant to the proton sales agreement dated 24 September 2018 (the “**Proton Sales Agreement**”), the Group agreed to sell to the Geely Holding Group CBUs, CKDs and related after-sales parts of the Licensed Models (as defined in the announcement of the Company dated 24 September 2018) with the largest annual cap being RMB4,147,700,048 for the three years ending 31 December 2020.

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



***Automobile parts supply agreement among the Company, Geely Holding and 領克投資有限公司 (LYNK & CO Investment Company Limited\*) (“LYNK & CO”) (the automobile parts supply agreement has an effective term from 1 January 2019 to 31 December 2021)***

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

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

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

Pursuant to the business travel services agreement dated 5 October 2018 (the “**2018 Business Travel Services Agreement**”), the Geely Holding Group agreed to provide business travel and related services to the Group with the largest annual cap being RMB661,550,000 for the three years ending 31 December 2018.

As the applicable percentage ratios of the continuing connected transactions contemplated under the 2018 Business Travel Services Agreement are over 0.1% but less than 5% on an annual basis, the 2018 Business Travel Services Agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

As the applicable percentage ratios of the continuing connected transactions contemplated under the 2018 Zhidou EV CKD Supply Agreement are over 0.1% but less than 5% on an annual basis, the 2018 Zhidou EV CKD Supply Agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Kandi automobile parts supply agreement dated 5 October 2018 between the Company and 康迪電動汽車集團有限公司 (Kandi Electric Vehicles Group Co., Ltd.\*) (the “Kandi JV”) (the Kandi automobile parts supply agreement dated 5 October 2018 has an effective term from 1 January 2019 to 31 December 2021)***

Pursuant to the Kandi automobile parts supply agreement dated 5 October 2018 (the “**2018 Kandi Automobile Parts Supply Agreement**”), the Group agreed to sell automobile parts and components to the Kandi JV with the largest annual cap being RMB384,621,000 for the three years ending 31 December 2021.

As the applicable percentage ratios of the continuing connected transactions contemplated under the 2018 Kandi Automobile Parts Supply Agreement are over 0.1% but less than 5% on an annual basis, 2018 Kandi Automobile Parts Supply Agreement is subject to the reporting, annual review, announcement requirements, but is exempt from Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

***Warehouse services agreement between the Company and 領克投資有限公司 (LYNK & CO Investment Company Limited\*) (“LYNK & CO”, together with its subsidiaries, the “LYNK & CO Group”) (the warehouse services agreement has an effective term from 1 January 2019 to 31 December 2021)***

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

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

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

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

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

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

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

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

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

#### **(d) DIRECTOR'S SERVICE CONTRACTS**

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

#### **4. LITIGATION**

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

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, the date to which the latest published audited accounts of the Company have been made up.

**6. QUALIFICATION OF EXPERTS**

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

<b>Name</b>	<b>Qualification</b>
Dakin Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	an independent professional property valuer

As at the Latest Practicable Date, each of Dakin Capital Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2017, the date to which the latest audited financial statements of the Group was made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

**7. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group during the two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the disposal agreement dated 26 October 2017 entered into between Zhejiang Jirun and LYNK & CO pursuant to which Zhejiang Jirun agreed to dispose of the entire equity interests in 領克汽車銷售有限公司 (LYNK & CO Auto Sales Company Limited\*), to LYNK & CO for a cash consideration of RMB100,000,000;
- (ii) the acquisition agreement dated 7 November 2017 entered into between Zhejiang Dongli and Zhejiang Geely pursuant to which Zhejiang Dongli agreed to acquire and Zhejiang Geely agreed to sell the entire registered capital of 寶雞吉利發動機有限公司 (Baoji Geely Engine Company Limited\*) for a cash consideration of RMB345,100,000;

- (iii) the acquisition agreement dated 7 November 2017 entered into amongst Zhejiang Dongli, Zhejiang Geely and Shanghai Maple pursuant to which Zhejiang Dongli agreed to acquire, and Zhejiang Geely and Shanghai Maple agreed to sell the entire registered capital of 浙江義利汽車零部件有限公司 (Zhejiang Yili Automobile Components Company Limited\*) for a cash consideration of RMB495,000,000;
- (iv) the acquisition agreement dated 7 November 2017 entered into between Zhejiang Dongli and Geely Holding pursuant to which Zhejiang Dongli agreed to acquire and Geely Holding agreed to sell the entire registered capital of 寧波上中下自動變速器有限公司 (Ningbo Shangzhongxia Automatic Transmission Company Limited\*) for a cash consideration of RMB 993,100,000;
- (v) the joint venture agreement dated 24 April 2018 entered into between Zhejiang Dongli and AISIN AW Co., Ltd. (愛信AW株式會社\* or “**AISIN AW**”) pursuant to which they agreed to form a joint venture to principally engage in the manufacture and sales of front-wheel drive 6-speed automatic transmissions and related parts and components. Pursuant to such joint venture agreement, the registered capital of the joint venture is US\$117,000,000 (equivalent to RMB733,590,000), and is contributed as to 40% (US\$46,800,000 or equivalent to RMB293,436,000) in cash by Zhejiang Dongli and as to 60% (US\$70,200,000 or equivalent to RMB440,154,000) in cash by AISIN AW;
- (vi) the acquisition agreement dated 18 July 2018 entered into between Zhejiang Jirun and 杭州吉利汽車部件有限公司 (Hangzhou Geely Automobile Components Company Limited\* or “**Hangzhou Components**”) pursuant to which Zhejiang Jirun conditionally agreed to acquire and Hangzhou Components conditionally agreed to sell the entire registered capital of 杭州吉利汽車有限公司 (Hangzhou Geely Automobile Company Limited\*) for a cash consideration of RMB930,620,464.36;
- (vii) the acquisition agreement dated 18 July 2018 entered into between Zhejiang Jirun and 貴州吉利新能源汽車有限公司 (Guizhou Geely New Energy Automobile Company Limited\* or “**Guizhou New Energy**”) pursuant to which Zhejiang Jirun conditionally agreed to acquire and Guizhou New Energy conditionally agreed to sell the entire registered capital of 貴州吉利汽車部件有限公司 (Guizhou Geely Automobile Components Company Limited\*) for a cash consideration of RMB1,074,308,970.43;
- (viii) the acquisition agreement dated 18 July 2018 entered into between Zhejiang Jirun and Zhejiang Geely pursuant to which Zhejiang Jirun conditionally agreed to acquire and Zhejiang Geely conditionally agreed to sell the entire registered capital of 寧波吉潤汽車部件有限公司 (Ningbo Jirun Automobile Components Company Limited\*) for a cash consideration of RMB1,169,398,629.60;
- (ix) the licensing agreement dated 24 September 2018 entered into between the Company and Geely Holding pursuant to which the Group agreed to license the intellectual properties and the foreground intellectual properties to Geely Holding for the design, development, manufacture, sale, marketing and distribution of the licensed models within the licensed regions during the licensed period. Pursuant to the licensing agreement, Geely Holding is permitted to sub-license

the intellectual properties and the foreground intellectual properties to the Proton Group for their design, development, manufacture, sale, marketing and distribution of the licensed models within the licensed regions during the licensed period. The total license fee for the intellectual properties is RMB1,344,000,000;

- (x) the acquisition agreement dated 5 October 2018 entered into between Zhejiang Dongli and 台州吉利羅佑發動機有限公司 (Taizhou Luoyou Engines Company Limited\* or “**Taizhou Engines**”) pursuant to which Zhejiang Dongli conditionally agreed to acquire and Taizhou Engines conditionally agreed to sell the entire registered capital of 台州濱海吉利發動機有限公司 (Taizhou Binhai Geely Engine Company Limited\*) for a cash consideration of RMB781,274,109; and
- (xi) the acquisition agreement dated 5 October 2018 entered into between Zhejiang Dongli and 貴陽吉利發動機有限公司 (Guiyang Geely Engines Company Limited\* or “**Guiyang Engines**”) pursuant to which Zhejiang Dongli conditionally agreed to acquire and Guiyang Engines conditionally agreed to sell the entire registered capital of 貴州吉利發動機有限公司 (Guizhou Geely Engine Company Limited\*) for a cash consideration of RMB484,003,363.

## 8. GENERAL

- (a) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is situated at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.
- (b) The company secretary of the Company is Mr. Cheung Chung Yan, David, a fellow member of the Association of Chartered Certified Accountants.
- (c) The share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company’s principal place of business in Hong Kong at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM on Friday, 7 December 2018:

- (a) The copies of the Services Agreement, the Electric Vehicle Agreement, the Automobile Components Procurement Agreement and the Acquisition Agreements;
- (b) the memorandum and articles of association of the Company;

- (c) the audited consolidated financial statements of the Group for the financial years ended 31 December 2016 and 31 December 2017;
- (d) the condensed consolidated financial statements of the Group for the six months ended 30 June 2018;
- (e) the contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (f) the letter from the Independent Board Committee;
- (g) the letter from Independent Financial Adviser;
- (h) the valuation report on the TZ Properties and the GZ Properties issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited as set out in Appendix I of this circular;
- (i) the written consents from Dakin Capital Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited referred to in the paragraph headed “Qualification of experts” in this appendix; and
- (j) this circular.

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## NOTICE OF EGM

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# GEELY

吉利汽車控股有限公司

**GEELY AUTOMOBILE HOLDINGS LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

(Stock code: 175)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Geely Automobile Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Friday, 7 December 2018 at 4:30 p.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

To consider and, if thought fit, pass with or without amendment, the following resolutions as ordinary resolutions of the Company:

1. “**THAT:**

- a) the conditional agreement dated 5 October 2018 (the “**Services Agreement**”) entered into between the Company and 浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Company Limited) (“**Geely Holding**”, together with its subsidiaries, the “**Geely Holding Group**”), a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purpose, pursuant to which, (i) the Group agreed to sell complete knock down kits to the Geely Holding Group; and (ii) the Group agreed to purchase complete buildup units, automobile parts and components from the Geely Holding Group, be and is hereby approved, ratified and confirmed;
- b) the annual cap amounts in respect of (i) the sales of complete knock down kits; and (ii) the purchase of complete buildup units, automobile parts and components for each of the three financial years ending 31 December 2021 be and hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Services Agreement.”

2. “**THAT:**

- a) the conditional agreement dated 5 October 2018 (the “**Electric Vehicle Agreement**”) entered into among the Company, Geely Holding and 吉利集團有限公司 (Geely Group Company Limited) (“**GGL**”, together with its subsidiaries, the “**GGL Group**”), a copy



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## NOTICE OF EGM

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of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Group agreed to sell complete buildup units of electric vehicles to the Geely Holding Group and GGL Group, be and is hereby approved, ratified and confirmed;

- b) the annual cap amounts in respect of the sales of complete buildup units of electric vehicles for each of the three financial years ending 31 December 2021 be and hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Electric Vehicle Agreement.”

3. **“THAT:**

- a) the conditional agreement dated 5 October 2018 (the “**Automobile Components Procurement Agreement**”) entered into between the Company and Geely Holding, a copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Group agreed to purchase automobile components (including batteries, motors, electronic control system products, headlights, car seats etc.) from the Geely Holding Group, be and is hereby approved, ratified and confirmed;
- b) the annual cap amounts in respect of the purchase of automobile components for each of the three financial years ending 31 December 2021 be and hereby approved; and
- c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Automobile Components Procurement Agreement.”

4. **“THAT:**

the conditional sale and purchase agreement dated 5 October 2018 (the “**TZ Acquisition Agreement**”) entered into between, 浙江吉利動力總成有限公司 (Zhejiang Geely Dongli Zongcheng Company Limited), an indirect 99.1% owned subsidiary of the Company, as purchaser and 台州吉利羅佑發動機有限公司 (Taizhou Geely Luoyou Engines Company Limited), as vendor in relation to the acquisition of the entire registered capital of 台州濱海吉利發動機有限公司 (Taizhou Binhai Geely Engine Company Limited), a copy of which is tabled at the meeting and marked “D” and initialed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby

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## NOTICE OF EGM

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approved, ratified and confirmed and any one, or any two directors of the Company if the affixation of the common seal is necessary, 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 thereunder (with any amendments to the terms of such agreement which are not inconsistent with the purpose thereof as may be approved by the directors of the Company).”

5. **“THAT:**

the conditional sale and purchase agreement dated 5 October 2018 (the **“GZ Acquisition Agreement”**) entered into between, 浙江吉利動力總成有限公司 (Zhejiang Geely Dongli Zongcheng Company Limited), an indirect 99.1% owned subsidiary of the Company, as purchaser and 貴陽吉利發動機有限公司 (Guiyang Geely Engines Company Limited), as vendor in relation to the acquisition of the entire registered capital of 貴州吉利發動機有限公司 (Guizhou Geely Engine Company Limited), a copy of which is tabled at the meeting and marked **“E”** and initialed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed and any one, or any two directors of the Company if the affixation of the common seal is necessary, 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 thereunder (with any amendments to the terms of such agreement which are not inconsistent with the purpose thereof as may be approved by the directors of the Company).”

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

Hong Kong, 20 November 2018

*Notes:*

- (1) Any shareholder of the Company (the **“Shareholder”**) entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a Shareholder.
- (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 EGM 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.

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## NOTICE OF EGM

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*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.*