
LETTER FROM THE BOARD

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

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Mr. Lee Cheuk Yin, Dannis
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Mr. An Qing Heng
Mr. Wang Yang
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Principal Place of Business in

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16 November 2021

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 15 October 2021 in relation to the Continuing Connected Transactions.

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

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CONTINUING CONNECTED TRANSACTIONS

(A) Services Agreement

Reference is made to the Company's announcement dated 5 October 2018 in relation to the 2018 Services Agreement. Pursuant to the 2018 Services Agreement, (i) the Group conditionally agreed to sell CKDs to the Geely Holding Group; and (ii) the Group conditionally agreed to purchase CBUs, automobile parts and components from the Geely Holding Group.

In light of the upcoming expiry of the 2018 Services Agreement, on 15 October 2021 (after trading hours), 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; and (ii) the Group conditionally agreed to purchase CBUs from the Geely Holding Group.

Principal terms of the Services Agreement are set out below:

Date

15 October 2021 (after trading hours)

Parties

The Company and Geely Holding

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

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

Term

From 1 January 2022 to 31 December 2024

Condition precedent to the Services Agreement

The Services Agreement is conditional upon approval by the Independent Shareholders at the EGM.

If the above condition is not fulfilled on or before 31 December 2021 (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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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 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 Group than terms available to or from (as applicable) other independent third parties.

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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Historical transaction amounts and proposed annual caps

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2020 and the eight months ended 31 August 2021; and (ii) the annual caps for the sale of CKDs by the Group to the Geely Holding Group pursuant to the 2018 Services Agreement for the three years ending 31 December 2021.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August 2021	Announced annual caps for the year ended/ending 31 December		
	2019	2020	2021	2019	2020	2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)	(Unaudited)			
Sale of CKDs by the Group to the Geely Holding Group	83,133.0	73,787.0	44,860.1	191,208.9	250,203.1	293,775.4
Utilisation rate of annual caps				43.5%	29.5%	15.3% (Note)

Note: Utilisation rate of the annual cap for the year ending 31 December 2021 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2021 by the announced annual cap for the full financial year ending 31 December 2021.

Please refer to the paragraph headed “Continuing Connected Transactions - (A) Services Agreement - (2) Purchase of CBUs by the Group from the Geely Holding Group - Historical transaction amounts and proposed annual caps” in this circular for the analysis of the utilisation rate of the annual caps for the sale of CKDs by the Group to the Geely Holding Group pursuant to the 2018 Services Agreement.

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 2024.

	Proposed annual caps for the year ending 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sale of CKDs by the Group to the Geely Holding Group	92,051.6	104,297.6	120,281.0

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Basis of determination of the proposed annual caps

The proposed annual caps for the sale of CKDs by the Group to the Geely Holding Group were determined by the Directors with reference to (i) the projected unit sales of the Group for the three years ending 31 December 2024 which were determined with reference to the annual sales volume target of the Group for the three years ending 31 December 2024; (ii) the projected average selling price of CBUs to end customers for the three years ending 31 December 2024; and (iii) 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 2024. The Group has revised downward the annual caps of the Services Agreement for each of the three years ending 31 December 2024 as compared with the annual caps of the 2018 Services Agreement after taking into consideration the low utilisation rates of the annual caps under the 2018 Services Agreement.

For analysis of the increase in the annual caps of the sale of CKDs by the Group to the Geely Holding Group for the years ending 31 December 2023 and 2024, please refer to paragraph headed “Continuing Connected Transactions - (A) Services Agreement - (2) Purchase of CBUs by the Group from the Geely Holding Group - Historical transaction amounts and proposed annual caps” in this circular.

(2) *Purchase of CBUs by the Group from the Geely Holding Group*

Subject matter

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

The purchase of CBUs 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 Group than terms available to or from (as applicable) other independent third parties to the Group.

Pricing basis

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

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Historical transaction amounts and proposed annual caps

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2020 and the eight months ended 31 August 2021; and (ii) the annual caps for the purchase of CBUs by the Group from the Geely Holding Group pursuant to the 2018 Services Agreement for the three years ending 31 December 2021.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August 2021	Announced annual caps for the year ended/ending 31 December		
	2019	2020	2021	2019	2020	2021
	RMB million (Audited)	RMB million (Audited)	RMB million (Unaudited)	RMB million	RMB million	RMB million
Purchase of CBUs by the Group from the Geely Holding Group	83,345.0	76,280.0	46,611.9	192,992.5	250,201.9	303,907.9
Utilisation rate of annual caps				43.2%	30.5%	15.3% (Note)

Note: Utilisation rate of the annual cap for the year ending 31 December 2021 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2021 by the announced annual cap for the full financial year ending 31 December 2021.

The relatively low utilisation rates of the annual caps for the sale of CKDs by the Group to the Geely Holding Group and the purchase of CBUs by the Group from the Geely Holding Group for the two years ended 31 December 2020 and the eight months ended 31 August 2021 were mainly due to (i) relatively large annual caps for the three years ending 31 December 2021 as a result of optimistic expectations on the Group's sales volume based on the good sales performance in 2017 and 2018, the Group achieved an increase in sales volume of 62.8% in 2017 and 20.3% in 2018, and a sales revenue growth of 74.3% in 2017 and 32.2% in 2018; and (ii) weak passenger vehicle market in the PRC since 2019 as a result of economic uncertainties and the implementation of new emission standards which affected the demand for conventional passenger vehicles, along with the outbreak of the COVID-19 and the global chip shortage since 2020, which led to the decrease in overall sales volume of passenger vehicles in the PRC by 10% and 6% in 2019 and 2020, respectively. As the demand for passenger vehicles in the PRC has dropped in 2019 and 2020, sales volume of the Group dropped by 9.3% in 2019 and 3.0% in 2020, the volume of transactions in relation to the sale of CKDs by the Group to the Geely Holding Group and the purchase of CBUs by the Group from the Geely Holding Group have also declined accordingly. Despite the strong rebound of passenger vehicle demand in the PRC market in the first half of 2021, the utilisation rates of the annual caps were still relatively low as (i) most of the Group's new model launches in 2021 would

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cluster towards the second half of the year; and (ii) the lack of new models and phase out of some older models which slowed down the sales growth of Geely-branded vehicles during the same period. The Directors expects that the sales performance of the Group will catch up faster in the second half of 2021 due to the launch of new models and seasonality factor.

The table below sets out the proposed annual caps for the purchase of CBUs by the Group from the Geely Holding Group pursuant to the Services Agreement for each of the three years ending 31 December 2024.

	Proposed annual caps for the year ending 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Purchase of CBUs by the Group from the Geely Holding Group	95,467.2	108,327.2	124,704.7

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 projected unit sales of the Group for the three years ending 31 December 2024 which were determined with reference to the annual sales volume target of the Group for the three years ending 31 December 2024; (ii) the projected average selling price of CBUs to end customers for the three years ending 31 December 2024; and (iii) the projected distribution costs for the three years ending 31 December 2024. The Group has revised downward the annual caps of the Services Agreement for each of the three years ending 31 December 2024 as compared with the annual caps of the 2018 Services Agreement after taking into consideration the low utilisation rates of the annual caps under the 2018 Services Agreement.

The increase in the proposed annual caps for the sale of CKDs by the Group to the Geely Holding Group and the purchase of CBUs by the Group from the Geely Holding Group for the years ending 31 December 2023 and 2024 are mainly attributable to the expected increase in production and sale of the new Geely-branded vehicle models that will be introduced to the market in 2023 and 2024.

The Directors are of the view that the proposed annual caps of the Services Agreement for the three years ending 31 December 2024 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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REASONS FOR AND BENEFITS OF ENTERING INTO THE SERVICES AGREEMENT

Pursuant to the Services Agreement, the Group will sell CKDs to the Geely Holding Group, and purchase CBUs from the Geely Holding Group for a term of three years from 1 January 2022 to 31 December 2024. 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.

As at the Latest Practicable Date, the Group is not in possession of the automobile catalogue issued by the National Development Reform Commission in the PRC (“**Automobile Catalogue**”), which is required to effect payment of the PRC consumption tax, due to the restriction imposed on foreign automobile manufacturers to possess the Automobile Catalogue. As such, the Directors are of the view that the arrangement under the Services Agreement will ensure smooth operation of the Group as the services to be provided by the Geely Holding Group, which possesses the Automobile Catalogue, will facilitate the payment of the PRC consumption tax. As advised by the PRC legal adviser to the Group, the arrangement under the Services Agreement does not violate the relevant laws and regulations in the PRC.

The Group is uncertain when such restriction on foreign automobile manufacturers would be lifted, therefore it is uncertain when the Group will possess the said Automobile Catalogue. As advised by the Directors, as soon as it is permissible under the relevant PRC laws, the Group will proactively obtain necessary approval for the Automobile Catalogue from relevant authorities to reduce reliance on the Geely Holding Group in this regard.

As advised by the PRC legal adviser to the Group, once the restriction imposed on foreign automobile manufacturers is removed and upon satisfaction of the relevant requirements including licensing and other requirements, there are no material legal impediments for the Group to obtain the Automobile Catalogue.

In respect of the manufacturing of CBUs for new energy vehicles, the Group is currently not in possession of the Automobile Catalogue for new energy vehicles as it is impracticable for the Group to separate its own production facilities for fuel-consumption vehicles and new energy vehicles in order to obtain Automobile Catalogue in particular for the new energy vehicles. This is because the production facilities, research and development functions, and other supportive systems for fuel-consumption vehicles and new energy vehicles held by the Group are impartible. If the Group segregates its own production facilities solely for new energy vehicles, it will incur higher production costs which would have a negative financial impact to the Group.

Pursuant to the arrangement under the Services Agreement, the sale of CKDs from the Group to the Geely Holding Group are solely for final assembly into CBUs by the Geely Holding Group and the CBUs will be purchased back by the Group for subsequent distribution to end customers. Therefore, 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 net financial effect of the 2018 Services Agreement to total purchase was not material for the year ended 31 December 2020, the Group has not heavily relied on the Geely Holding Group or other companies controlled by Mr. Li for the Group’s procurement activities.

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Based on the analysis above, (i) the arrangement under the Services Agreement is simply designed to facilitate smooth operation of the Group under the current laws and regulations of the PRC and the Group will proactively reduce the reliance on the Geely Holding Group when the relevant laws and regulations permit such; and (ii) the Group's procurement activities have not heavily relied on the Geely Holding Group or other companies controlled by Mr. Li.

INTERNAL CONTROL MEASURES IN RELATION TO PRICING FOR THE 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 national 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 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) Purchase of CBUs by the Group from the Geely Holding 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.

(B) Automobile Components Procurement Agreement

Reference is made to (i) the 2018 Services Agreement in relation to the purchase of automobile parts and components by the Group from the Geely Holding Group; and (ii) the Company's announcement dated 5 October 2018 in relation to the 2018 Automobile Components Procurement Agreement pursuant to which the Group conditionally agreed to procure automobile components from the Geely Holding Group.

Taking into consideration (i) the upcoming expiry of the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement; and (ii) the similar nature of the procurement transactions of automobile components pursuant to the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement, on 15 October 2021 (after trading hours), the Company and Geely Holding entered into the Automobile Components Procurement Agreement to streamline the continuing connected transactions in relation to the procurement of automobile components by the Group from the Geely Holding Group.

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For the avoidance of doubt, the automobile components that will be procured by the Group from the Geely Holding Group pursuant to the Automobile Components Procurement Agreement are different from the CKDs and automobile components procured by the Group from the Geely Holding Group pursuant to the Existing Master CKDs and Automobile Components Purchase Agreement. Under the Automobile Components Procurement Agreement, the automobile components to be procured by the Group are those that are either (i) procured by the Geely Holding Group from other suppliers for onward selling to the Group based on the original purchase costs plus the actual costs incurred by the Geely Holding Group in the procurement process of such automobile components or (ii) manufactured by the Geely Holding Group which will be sold to the Group based on the prevailing market price of similar products. Under the Existing Master CKDs and Automobile Components Purchase Agreement, the CKDs and automobile components to be purchased by the Group are those that are tailor made for the Group and to be sold at prices calculated on a cost-plus basis.

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

Date

15 October 2021 (after trading hours)

Parties

Vendor: Geely Holding

Purchaser: The Company

Please refer to the paragraph headed “Continuing Connected Transactions – (A) Services Agreement – Parties” in this circular for further details regarding the Company and 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, components for charging stations, etc.).

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 Group than those offered by the Geely Holding Group to other independent third parties or those offered to the Group by other independent third parties.

Pricing basis

The selling price of the automobile components will be determined on an arm’s length basis and on normal commercial terms. For automobile parts and components that are procured by the Geely Holding Group from other suppliers for onward selling to the Group, the selling price will be based on the original purchase cost plus the actual costs incurred by the Geely Holding Group in the

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procurement process of such automobile parts and components. For automobile parts and components that are manufactured by the Geely Holding Group, the selling price will be based on the prevailing market price of similar products. The selling price of the automobile components will be on terms no less favourable than those offered by the Geely Holding Group to other independent third parties and/or those offered to the Group by other independent third parties.

The actual costs incurred by the Geely Holding Group in the procurement process of automobile parts and components include labor costs (such as wages and social insurance), travel expenses, office expenses and other management expenses.

Term

From 1 January 2022 to 31 December 2024

Condition precedent

The Automobile Components Procurement Agreement is conditional upon approval by the Independent Shareholders at the EGM.

If the above condition has not been fulfilled on or before 31 December 2021 (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 cease to be connected persons of the Company.

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Historical transaction amounts and proposed annual caps

The table below sets out (i) the historical transaction amounts for the two years ended 31 December 2020 and the eight months ended 31 August 2021; and (ii) the annual caps for procurement of automobile components by the Group from the Geely Holding Group under each of the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement for the three years ended 31 December 2021.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August 2021	Announced annual caps for the year ended/ending 31 December		
	2019	2020	2021	2019	2020	2021
	RMB million (Audited)	RMB million (Audited)	RMB million (Unaudited)	RMB million	RMB million	RMB million
Procurement of automobile parts and components by the Group from the Geely Holding Group under the 2018 Services Agreement	2,219.0	295.0	518.0	38,094.0	50,052.7	59,076.3
Utilisation rate of annual caps				5.8%	0.6%	0.9% (Note)
Procurement of automobile components by the Group from the Geely Holding Group under the 2018 Automobile Components Procurement Agreement	2,402.0	1,973.0	2,562.1	13,746.8	25,845.4	33,591.6
Utilisation rate of annual caps				17.5%	7.6%	7.6% (Note)

Note: Utilisation rate of the annual cap for the year ending 31 December 2021 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2021 by the announced annual cap for the full financial year ending 31 December 2021.

The relatively low utilisation rates of annual caps for the procurement of automobile parts and components by the Group from the Geely Holding Group under the 2018 Services Agreement and 2018 Automobile Components Procurement Agreement for the years ended 31 December 2019 and 2020 and the eight months ended 31 August 2021 were mainly the result of the relatively low demand for the sale of CKDs by the Group to the Geely Holding Group and the purchase of CBUs by the Group from the Geely Holding Group during the same periods, which led to a relatively low utilisation rate of the annual caps for the sale of CKDs by the Group to the Geely Holding Group and

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the purchase of CBUs by the Group from the Geely Holding Group as discussed in the paragraph headed “Continuing Connected Transactions - (A) Services Agreement - (2) Purchase of CBUs by the Group from the Geely Holding Group - Historical transaction amounts and proposed annual caps” in this circular. Moreover, the purchase of certain automobile parts and components from independent third party suppliers also contributed to the relatively low utilisation rates of annual caps for the procurement of automobile parts and components by the Group from the Geely Holding Group under the 2018 Services Agreement. In light of the relatively low utilisation rate of the annual caps under the 2018 Services Agreement and 2018 Automobile Components Procurement Agreement, the Group proposes to revise downward the annual caps for the transactions under the Automobile Components Procurement Agreement as further detailed below.

Proposed annual caps

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 2024.

	Proposed annual caps for the year		
	ending 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Purchase of automobile components by the Group from the Geely Holding Group	6,779.3	7,930.1	9,220.2

Basis of determination of the proposed annual caps

The proposed annual caps for the purchase 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 were determined with reference to the projected unit sales of the Group’s vehicles for the three years ending 31 December 2024; and (ii) the projected unit selling price for each type of automobile components for the three years ending 31 December 2024.

The increase in the proposed annual caps for the years ending 31 December 2023 and 2024 are primarily due to the increase in purchases of automobile components in light of the expected increase in sales volume of Geely-branded and ZEEKR-branded vehicles driven by the introduction of new electric vehicle models in 2023 and 2024.

The 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 2024 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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REASONS FOR AND BENEFITS OF ENTERING INTO THE AUTOMOBILE COMPONENTS PROCUREMENT AGREEMENT

The automobile components to be sold to the Group by the Geely Holding Group pursuant to the Automobile Components Procurement Agreement (including batteries, motors, electronic control system products, headlights, car seats, components for charging stations, etc.) will be either manufactured by the Geely Holding Group or those that are procured by the Geely Holding Group from other suppliers for onward selling to the Group. The Directors are of the view that the procurement services to be provided by the Geely Holding Group will enable the Group to secure a stable source of raw materials leveraging on the long-term relationships established between the Geely Holding Group and the suppliers of those automobile parts and components. Moreover, the automobile components to be supplied by the Geely Holding Group will be on terms no less favourable than those offered by the Geely Holding Group to other independent third parties and/or those offered to the Group by other independent third parties, and the Automobile Components Procurement Agreement will enable the Group to 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.

Having considered the foregoing, the Directors are of the view that the Automobile Components Procurement Agreement is 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 Automobile Components Procurement Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES IN RELATION TO PRICING FOR THE AUTOMOBILE COMPONENTS PROCUREMENT AGREEMENT

For the automobile parts and components to be procured by the Group which are manufactured by the Geely Holding Group which will be sold to the Group based on the prevailing market price of similar products, the Group will compare the prices offered by the Geely Holding Group to the prices offered by various independent third party suppliers and/or the prices offered by the Geely Holding Group to independent third parties for similar products by obtaining respective quotations or information on actual prices to ensure the fairness of the selling price of the automobile components offered by the Geely Holding Group. For the automobile parts and components to be procured by the Group which are procured by the Geely Holding Group from other suppliers for onward selling to the Group based on the original purchase costs plus the actual costs incurred by the Geely Holding Group, the Group and the Geely Holding Group will negotiate on a 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. Moreover, the transactions contemplated under the Automobile Components Procurement Agreement will be supervised and monitored by the Group 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 Shareholders as a whole.

(C) Volvo Financing Arrangements

Reference is made to the Company's announcement dated 24 January 2019 with respect to the Volvo Finance Cooperation Agreements pursuant to which Genius AFC agreed to provide vehicle financing services to the Volvo Dealers and Volvo Retail Customers in the PRC until 31 December 2021. The Volvo

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Finance Cooperation Agreements have an initial term of three years, and will then continue unless and until terminated by either party by giving at least six months written notice, subject to the approvals from the regulators of the Company and the Independent Shareholders.

Details of the Volvo Finance Cooperation Agreements are set out below:

Date

11 December 2015

Parties

- (i) Genius AFC and VCDC for the Volvo Finance Cooperation Agreement (Imported Vehicles); and
- (ii) Genius AFC and VCIC for the Volvo Finance Cooperation Agreement (Domestic Vehicles)

Genius AFC is a vehicle financing company incorporated in the PRC with limited liability, and is owned as to 80% by the Company and as to 20% by BNPP PF as at the Latest Practicable Date. Genius AFC is principally engaged in the provision of vehicles financing services in the PRC.

VCDC is a limited liability company incorporated in the PRC, and is wholly owned by Volvo, an indirect 97.8% owned subsidiary of Geely Holding as at the Latest Practicable Date. VCDC is principally engaged in the distribution of imported Volvo-branded vehicles in the PRC.

VCIC is a limited liability company incorporated in the PRC, and is owned as to (i) 50% by Volvo, an indirect 97.8% owned subsidiary of Geely Holding; and as to (ii) 50% by Geely Holding as at the Latest Practicable Date. VCIC is principally engaged in the distribution of Volvo-branded vehicles manufactured domestically in the PRC.

Geely Holding is principally engaged in the sale of automobiles and related parts and components wholesale and retail business. As at the Latest Practicable Date, Geely Holding is wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 41% of the total issued share capital of the Company as at the Latest Practicable Date, and is a connected person of the Company. Accordingly, each of VCDC and VCIC is an associate of Mr. Li and a connected person of the Company under the Listing Rules.

Subject matter

The Volvo Finance Cooperation Agreement (Imported Vehicles) sets out the terms under which Genius AFC will provide vehicle financing services to the Volvo Dealers and the Volvo Retail Customers for imported Volvo-branded vehicles. The Volvo Finance Cooperation Agreement (Domestic Vehicles) sets out the terms under which Genius AFC will provide vehicle financing services to the Volvo Dealers and the Volvo Retail Customers for Volvo-branded vehicles manufactured domestically. Such terms include (i) the provision of wholesale financing to the Volvo

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Dealers to assist them to buy Volvo-branded vehicles and eventually selling such vehicles to the Volvo Retail Customers; and (ii) the provision of retail financing to the Volvo Retail Customers to assist them to buy Volvo-branded vehicles from the Volvo Dealers.

Term

The Volvo Finance Cooperation Agreements have an initial term of three years, and will then continue unless and until terminated by either party by giving at least six months written notice. Such continuation/renewal will be subject to the approval of (i) the regulators of the Company (that is, the Stock Exchange and/or the Securities and Futures Commission of Hong Kong, where applicable); and (ii) the Independent Shareholders.

Termination

VCDC may terminate the Volvo Finance Cooperation Agreement (Imported Vehicles) and VCIC may terminate the Volvo Finance Cooperation Agreement (Domestic Vehicles) with immediate effect if (i) Genius AFC becomes insolvent; (ii) there is a change in control of Genius AFC; (iii) Genius AFC materially breaches, or materially fails to comply with, the Volvo Finance Cooperation Agreements and such failure is not capable of remedy or is capable of remedy but is not remedied within 30 days of VCDC and/or VCIC giving Genius AFC written notice of such breach subject to the remediation clause under the Volvo Finance Cooperation Agreements; or (iv) the relevant trademark agreement terminates due to material breach by Genius AFC.

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

Principal terms regarding the mode of cooperation between (i) Genius AFC; and (ii) VCDC and VCIC

(i) Cooperation

VCDC and VCIC will (a) encourage actively and diligently the Volvo Dealers to use Genius AFC for the Volvo Wholesale Financing Business and the Volvo Retail Financing Business; (b) according to the agreed regional coverage, for a Volvo Dealer who is covered by the Volvo Wholesale Financing Business, use its best effort to grant subsidies to the benefit of such Volvo Dealer in order to promote the Volvo Wholesale Financing Business to such Volvo Dealer; and (c) for a Volvo Dealer who is covered by the Volvo Retail Financing Business, promote the Volvo Retail Financing Business to the Volvo Retail Customers.

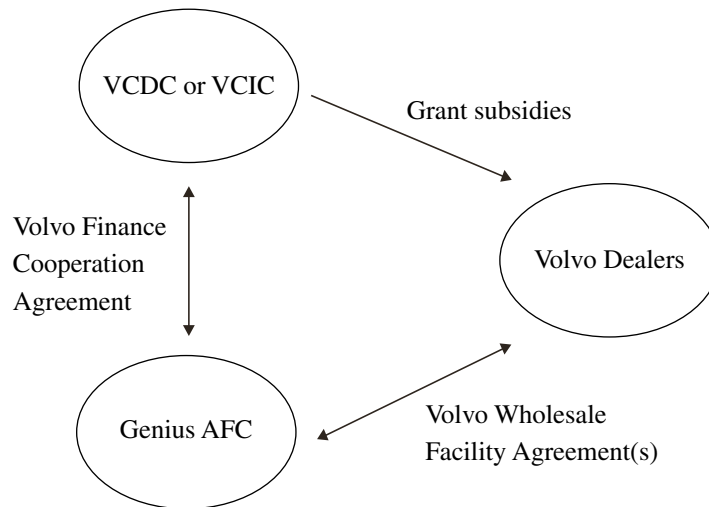
Genius AFC will not be the exclusive provider of vehicle loans and other services particularly described in the Volvo Finance Cooperation Agreements to the Volvo Dealers or the Volvo Retail Customers, and other providers are and will also be appointed by VCDC and VCIC to provide similar

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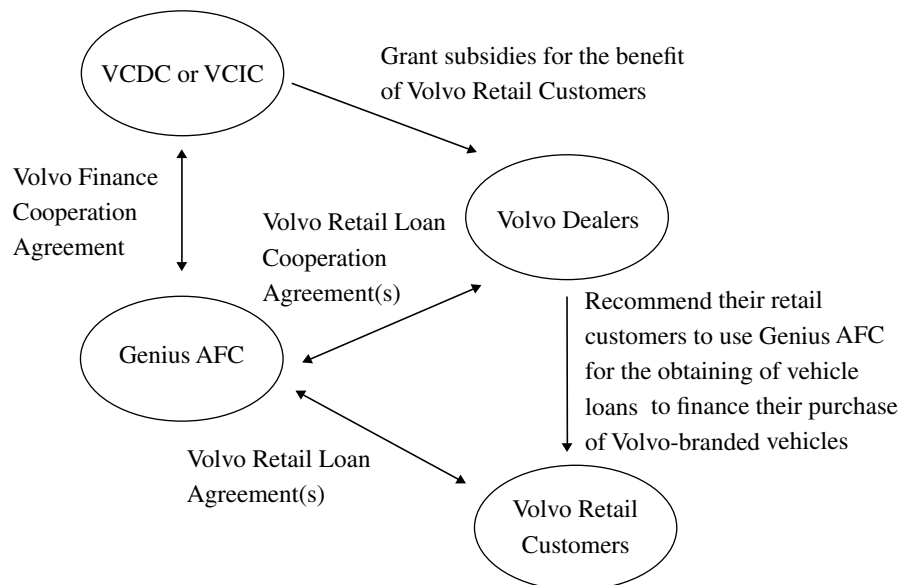
services. Notwithstanding the foregoing, should another independent vehicle financing company offer vehicle financing services under the same conditions, Genius AFC will be the preferred partner of VCDC and VCIC for the provision of vehicle financing services.

The modes of cooperation between (a) Genius AFC; and (b) VCDC and VCIC for the Volvo Wholesale Financing Business and Volvo Retail Financing Business are summarised as below:

(1) Volvo Wholesale Financing Business



(2) Volvo Retail Financing Business



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(ii) Pricing policy

Genius AFC would enter into the Volvo Wholesale Facility Agreements with the Volvo Dealers for the provision of the Volvo Wholesale Financing Business and the Volvo Retail Loan Agreements with the Volvo Retail Customers for the provision of the Volvo Retail Financing Business. Genius AFC's sales and marketing department will communicate with the Volvo Dealers on an ongoing basis (including obtaining feedbacks from Volvo Dealers on the range of lending rates and other major terms offered by other vehicle financing companies) to ensure that the terms of the Volvo Wholesale Facility Agreements and the Volvo Retail Loan Agreements are competitive at all times during the term of the Volvo Finance Cooperation Agreements, and such terms will be in line with general auto finance market practice. Notwithstanding the foregoing, the Volvo Finance Cooperation Agreements provide guidance with respect to the interest rates charged by Genius AFC for the provision of the Volvo Wholesale Financing Business to the Volvo Dealers and the Volvo Retail Financing Business to the Volvo Retail Customers. The interest rates, at the time of each setting, for the loans provided by Genius AFC will be higher than the base lending rates published by the PBOC for similar types of loans under similar terms and conditions, provided that all relevant laws and regulations are complied with. Genius AFC shall have the sole discretion in determining the final pricing of the services to be applied to the Volvo Dealers and the Volvo Retail Customers. Please refer to the paragraph headed "Continuing Connected Transactions - (C) Volvo Financing Arrangements - Relevant internal control measures – Internal control within Genius AFC" in this circular for the internal control procedures for determining the pricing of the services provided by Genius AFC. The final pricing of the services will be determined by Genius AFC after taking into consideration various factors, including its cost of funds, the borrower's risk profile, which will be assessed by Genius AFC in accordance with the section headed "(iii) Lending risk" below, as well as the lending rates offered by the competitors.

(iii) Lending risk

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

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

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

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

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

(iv) Loan term

The maximum loan term for each Volvo Dealer will be 360 days. The maximum loan term for each Volvo Retail Customer will be 60 months.

(v) Subsidies

Genius AFC will provide financing to all the Volvo Dealers according to the sales objectives and regional coverage agreed with VCDC and VCIC. VCDC and VCIC may from time to time offer Volvo Dealers support with their vehicle financing and may choose to pay the interests accruing under the relevant Volvo Wholesale Facility Agreements on the Volvo Dealers' behalf for an agreed period of time. In practice, VCDC and VCIC would provide subsidies to (i) the Volvo Dealers who

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enter into the Volvo Wholesale Facility Agreements with Genius AFC for the Volvo Wholesale Financing Business; and (ii) the Volvo Dealers who enter into the Volvo Retail Loan Cooperation Agreements with Genius AFC for the benefits of the Volvo Retail Customers under the Volvo Retail Financing Business, subject to the final assessment of the market situation, such as sales performance of the Volvo-branded vehicles, by VCDC and VCIC. The terms and period of such subsidies will be determined by VCDC and VCIC in their respective quarterly sales incentive policies.

(vi) Security

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

Principal terms applied to the Volvo Wholesale Facility Agreements and the Volvo Retail Loan Agreements

(i) Volvo Wholesale Facility Agreements

During the term of the Volvo Finance Cooperation Agreements, Genius AFC will enter into the Volvo Wholesale Facility Agreements with the Volvo Dealers, pursuant to which Genius AFC will provide wholesale financing to such Volvo Dealers to facilitate their purchase of Volvo-branded vehicles. The terms of the Volvo Wholesale Facility Agreements (including, among other things, pricing, loan term, credit limits, subsidies, etc.) are expected to be consistent with the terms of the Volvo Finance Cooperation Agreements as disclosed above.

(ii) Volvo Retail Loan Agreements

During the term of the Volvo Finance Cooperation Agreements, Genius AFC will enter into the Volvo Retail Loan Cooperation Agreements with the Volvo Dealers, pursuant to which the Volvo Dealers will recommend their retail customers (that is, the Volvo Retail Customers) to use Genius AFC for obtaining vehicle loans to finance their purchase of Volvo-branded vehicles.

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

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Volvo Annual Caps

Volvo Annual Caps (Wholesale)

The table below sets out (i) the historical transaction amounts for each of the two years ended 31 December 2020 and the eight months ended 31 August 2021; and (ii) the annual caps for the Volvo Wholesale Financing Business for each of the three years ending 31 December 2021 and their respective utilisation rates.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August	Announced annual caps for the year ended/ending 31 December		
	2019	2020	2021	2019	2020	2021
	RMB million (Audited)	RMB million (Audited)	RMB million (Unaudited)	RMB million	RMB million	RMB million
New financing amounts provided by Genius AFC to the Volvo Dealers under the Volvo Wholesale Financing Business	1,275.0	3,112.0	2,360.0	11,138.0	13,622.0	15,107.0
Utilisation rate of annual caps				11.4%	22.8%	15.6% (Note)

Note: Utilisation rate of the annual cap for the year ending 31 December 2021 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2021 by the announced annual cap for the full financial year ending 31 December 2021.

The low utilisation rates of the annual caps for the two years ended 31 December 2020 and the eight months ended 31 August 2021 were primarily due to (i) the lower-than-expected wholesale finance coverage of the Volvo Wholesale Financing Business, which was 2.1%, 4.7% and 4.8% for 2019, 2020 and the eight months ended 31 August 2021 respectively, primarily due to (a) the delay in the commencement of the vehicle financing business, which only started in March 2019, and particularly affected the wholesale finance coverage in that year; and (b) intense competition from other financial institutions for auto wholesale financing services; and (ii) the negative impact on sales of Volvo-branded vehicles caused by COVID-19 especially in the early part of 2020. In this regard, Genius AFC has revised downward the estimated wholesale finance coverage of the Volvo Wholesale Financing Business when determining the Volvo Annual Caps (Wholesale) for the three years ending 31 December 2024 (please refer to the paragraph headed “Continuing Connected Transactions - (C) Volvo Financing Arrangements - Volvo Annual Caps – Basis of determination of the Volvo Annual Caps” in this circular for further details).

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The table below sets out the proposed Volvo Annual Caps (Wholesale) for each of the three years ending 31 December 2024.

	Proposed annual caps for the year ending 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Maximum new financing amounts to be provided by Genius AFC to the Volvo Dealers under the Volvo Wholesale Financing Business	<u>5,561.6</u>	<u>6,037.9</u>	<u>6,883.4</u>

Volvo Annual Caps (Retail)

The table below sets out (i) the historical transaction amounts for each of the two years ended 31 December 2020 and the eight months ended 31 August 2021; and (ii) the annual caps for the Volvo Retail Financing Business for each of the three years ending 31 December 2021 and their respective utilisation rates.

	Historical transaction amounts for the year ended 31 December		Historical transaction amount for the eight months ended 31 August 2021	Announced annual caps for the year ended/ending 31 December		
	2019	2020	2021	2019	2020	2021
	<i>RMB million</i> (Audited)	<i>RMB million</i> (Audited)	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
New financing amounts provided by Genius AFC to the Volvo Retail Customers under the Volvo Retail Financing Business	2,658.0	4,092.0	3,921.5	7,722.0	9,444.0	12,045.0
Utilisation rate of annual caps				34.4%	43.3%	32.6% (Note)

Note: Utilisation rate of the annual cap for the year ending 31 December 2021 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2021 by the announced annual cap for the full financial year ending 31 December 2021.

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The relatively low utilisation rates of the annual caps for the two years ended 31 December 2020 and the eight months ended 31 August 2021 were primarily due to (i) the lower-than-expected retail financing penetration of 10.6% of the Volvo Retail Financing Business in 2019, primarily due to the delay in the commencement of the vehicle financing business, which only started in March 2019, and particularly affected the retail financing penetration in that year; (ii) intense competition from other financial institutions for auto retail financing services; and (iii) the negative impact on sales of Volvo-branded vehicles caused by the COVID-19 especially in the early part of 2020. Notwithstanding the foregoing, with the accumulation of experience, business network and retail customers base, Genius AFC achieved considerable growth in retail financing penetration from 10.6% in 2019 to 18.5% in 2020 and further to 24.5% for the eight months ended 31 August 2021. It is expected that the retail financing penetration of the Volvo Retail Financing Business will further improve alongside the enhanced competitiveness of Genius AFC and its products in the PRC auto financing industry and gradual recovery from the COVID-19.

Proposed annual caps for the year ending 31 December

	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Maximum new financing amounts to be provided by Genius AFC to the Volvo Retail Customers under the Volvo Retail Financing Business	<u>7,785.2</u>	<u>8,819.4</u>	<u>10,473.0</u>

Basis of determination of the Volvo Annual Caps

When determining the proposed Volvo Annual Caps (Wholesale), Genius AFC has taken into account (i) the projected sales volume of Volvo-branded vehicles for the three years ending 31 December 2024 which are determined after taking into account the historical sales volume in 2020 and for the eight months ended 31 August 2021 and the expected recovery from the COVID-19; (ii) the expected average wholesale loan amount for each vehicle financing transaction which was determined with reference to the historical average wholesale loan amount for each vehicle financing transaction during the eight months ended 31 August 2021; and (iii) the estimated wholesale finance coverage of the Volvo Wholesale Financing Business of 6.0% for each of the three years ending 31 December 2024 respectively. The above wholesale finance coverage represents the estimated percentage of the Volvo Dealers' purchases which will be financed by loans provided by Genius AFC. When estimating the said wholesale finance coverage of the Volvo Wholesale Financing Business, Genius AFC has taken into account (i) the historical wholesale finance coverage ranged from 2% to 9% from 2016 to 2020; and (ii) the current status and expected development of its business and subsidies provided by VCDC and VCIC to encourage the Volvo Dealers to choose Genius AFC for the provision of vehicle financing services.

When determining the proposed Volvo Annual Caps (Retail), Genius AFC has taken into account (i) the projected sales volume of Volvo-branded vehicles for the three years ending 31 December 2024 which are determined after taking into account the historical sales volume in 2020 and for the eight months ended 31 August 2021 and the expected market recovery from that of

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COVID-19; (ii) the expected average retail loan amount for each vehicle financing transaction which was determined with reference to the historical average retail loan amount for each vehicle financing transaction during the three years ended 31 December 2020 and the eight months ended 31 August 2021; and (iii) the estimated retail financing penetration of the Volvo Retail Financing Business of 23%, 24% and 25% for the three years ending 31 December 2024 respectively. The above retail financing penetration represents the estimated percentage of the Volvo Retail Customers' purchases which will be financed by loans provided by Genius AFC. When determining the said retail financing penetration of the Volvo Retail Financing Business, Genius AFC has taken into account (i) the historical retail financing penetration of 24.5% for the eight months ended 31 August 2021; and (ii) the current status and expected development of its business. The annual increment of 1% in the estimated retail financing penetration of the Volvo Retail Financing Business for 2023 and 2024 was determined after taking into account (i) the continuous growth in historical retail financing penetration from 10.6% in 2019 to 18.5% in 2020 and further to 24.5% for the eight months ended 31 August 2021; (ii) the expected introduction of electric vehicles by the Volvo Group which may have a higher demand for retail financing due to the higher retail selling price of such vehicles; and (iii) the provision of subsidies by VCDC and VCIC which would be converted into purchase price discount of the Volvo-branded vehicles would encourage Volvo Retail Customers to choose Genius AFC for the provision of vehicles financing services.

The Directors are of the view that the Volvo Annual Caps for the three years ending 31 December 2024 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RELEVANT INTERNAL CONTROL MEASURES

Internal control within Genius AFC

Based on customer requirements, all loan and product pricing proposals (including any subsequent modifications) are prepared by Genius AFC's sales and marketing department. In order to ensure that the aforesaid pricing basis for the Volvo Finance Cooperation Agreements are adhered to, the finance department of Genius AFC will monitor the fluctuations of the interest rates in the market at least on a monthly basis (or more frequently if it is determined necessary), which include, among others, the PBOC lending base rates, so as to ensure that the interest rates offered for the loan proposals will be higher than the PBOC lending base rates for similar types of loans under similar terms and conditions. In addition, Genius AFC's sales and marketing department communicates with the respective dealers covered by the Volvo Finance Cooperation Agreements on an ongoing basis to ensure the terms of the respective wholesales facility agreement and the retail loan agreement covered by the Volvo Finance Cooperation Agreements are in line with the general auto finance market practice. The finance department of Genius AFC will prepare reports on market interest rates and review these reports at least monthly (or more frequently if it is determined necessary). These reports are distributed to the sales and marketing department, the finance department, the operation department, the risk control department, the legal and compliance department and the information and technology department of Genius AFC for review whenever necessary. All loan and product pricing proposals prepared by Genius AFC's sales and marketing department must be validated by Genius AFC's finance department (which is responsible for keeping abreast of market interest rates, including but not limited to the PBOC lending base rates, Shanghai interbank offered rates, and interest rates of bank note, assets backed securities, financial bond and other financial instruments and ensuring product

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pricing proposals are in line with the overall financial planning and budget), operation department (which is responsible for ensuring the operational feasibility by assessing whether the existing manpower, software system, standard and procedures and other internal resources are comprehensive and sufficient enough for the product pricing proposals and considering whether training is required for staff of Genius AFC to understand any new product pricing proposals), risk control department (which is responsible for assessing whether the product pricing proposals are acceptable from risk perspective), legal and compliance department (which is responsible for ensuring whether the loan and product pricing proposals comply with applicable law and regulations) and information technology department (which is responsible for making any necessary changes or enhancement to the existing software systems in respect of respective wholesales financing business and the retail financing business covered by the Volvo Finance Cooperation Agreements to support any new product pricing proposals if the existing software system is insufficient to satisfy the operational requirements for the new product pricing proposal). The loan and product pricing proposals will then be submitted to the sales and marketing committee for final approval.

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

Further, to ensure the transactions with Connected Volvo Dealers are entered into on normal commercial terms and on terms no less favourable to the Genius AFC than terms available to and from (as applicable) the independent third parties, the legal department of Genius AFC will ensure that the Volvo Wholesale Facility Agreements and Volvo Retail Loan Cooperation Agreements to be entered with the Connected Volvo Dealers and the Independent Volvo Dealers are the same. Genius AFC will monitor the retail financing business in relation to Volvo-branded vehicles to ensure that the transactions with the Volvo Dealers are on normal commercial terms and on terms no less favourable to the Genius AFC than terms available to and from (as applicable) the independent third parties.

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

REASONS FOR AND BENEFITS OF THE VOLVO FINANCING ARRANGEMENTS

The Group is principally engaged in the manufacturing and trading of automobiles and automobile parts and related automobile components.

Genius AFC is a professional auto financing company owned as to 80% by the Company and as to 20% by BNPP PF as at the Latest Practicable Date and is principally engaged in the provision of auto wholesale financing solutions to auto dealers and retail financing solutions to end customers.

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In line with the practice of major global automobile companies, most PRC automobile companies have established auto financing subsidiaries or associated companies to provide auto financing services to their customers. As a result, Genius AFC was set up to provide financing services for automobile dealers and retail customers for the purchase of vehicles and to better support the development of the automobile industry. Since its establishment, Genius AFC focuses on providing auto financing services and continues to explore new business through product innovation and refined services in order to further improve the financing penetration and coverage.

In recent years, Genius AFC has successfully captured the rapid development of the auto financing industry in the PRC and its scale of assets and profitability have expanded exponentially. Its outstanding loan assets increased from approximately RMB19.4 billion at the end of year 2018 to approximately RMB46.3 billion at the end of year 2020. Its net profit increased from approximately RMB217 million in 2018 to approximately RMB732 million in 2020, representing a compound annual growth rate (i.e. CAGR) of about 83.8%. Since Genius AFC is owned as to 80% by the Company, the Company can enjoy the majority of its profit share, which provides significant contribution to the net profit of the Group. In 2020, Genius AFC contributed a share of profit of approximately RMB585 million to the Group, accounting for around 10.5% net profit of the Group and becoming a performance driver of the Group.

Genius AFC had successfully diversified its external funds channels including bilateral bank facilities, syndicated loans, interbank transaction and cross-border financing as the main financing channels. By the end of December 2020, Genius AFC had successfully launched nine asset-backed securities (“ABSs”), with a cumulative amount of RMB33.5 billion. With the steady growth of its capital bases, Genius AFC strives to continuously develop its business and grow its wholesale and retail financing services by expanding its customer base and service scope under the condition of giving priority to the auto financing services for the purchase of vehicles of the Group. At the same time, Genius AFC continues to maximise its profitability through cooperation with other vehicle manufacturers.

For the year 2020, Volvo-branded vehicles has achieved year-on-year growth of 7.6% in the PRC market despite the negative impact from the COVID-19. The increase in demand for Volvo-branded vehicles had led to an increase in corresponding demand for auto financing services. In view of the large number of participants in the PRC auto financing market, including the auto financing companies and commercial banks, the Volvo Group does not rely solely on Genius AFC to provide auto financing services and Genius AFC does not act as the exclusive provider of financing services for the Volvo-branded vehicles to be sold in the PRC. On the contrary, by capturing the increase in demand for auto financing services of Volvo-branded vehicles in the PRC, Genius AFC could further expand its retail and wholesale auto financing business and enlarge its market share and profitability. The increase in profitability of Genius AFC had in turn contributed to the increased profits shared by the Group. Besides, the Volvo brand has long been shaping as a high-end brand image throughout the world. Through cooperation with the Volvo Group, Genius AFC would be able to improve its brand image and market reputation and benefit from the rapidly developing auto financing business in the PRC.

Furthermore, as disclosed in the annual report of the Company for the year ended 31 December 2020, there are significant differences between the Geely-branded vehicles and Volvo-branded vehicles in terms of product positioning, selling price and the target customer groups. As a result, the provision of auto financing service from Genius AFC to the Volvo Group will not affect the competitiveness of the Geely-branded vehicles. Similar with the auto financing services provided to Geely-branded and LYNK & CO-branded

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vehicles, the auto financing services provided by Genius AFC for the Volvo-branded vehicles include wholesale financing service and retail financing service. Genius AFC would ensure that the terms of the auto financing services provided in relation to the purchase of Volvo-branded vehicles would not be better than the terms provided to those purchasing Geely-branded and LYNK & CO-branded vehicles. To ensure proper allocation of its resources such that the Group's interest will be safeguarded, Genius AFC has undertaken to the Company that, in the event of fund shortage, priority will be given to loan applications for the purchase of vehicles of the Group. Therefore, the Directors consider that the provision of the Volvo Wholesale Financing Business and the Volvo Retail Financing Business by Genius AFC would not result in a deprivation of funds available for loan applications in relation to the purchase of vehicles of the Group.

The Directors are of the view that the terms of the Volvo Financing Arrangements (including the Volvo Annual Caps) were negotiated on an arm's length basis and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(D) Revision of annual caps for the transactions under the Existing Master CKDs and Automobile Components Purchase Agreement

Reference is made to the Company's announcement dated 4 November 2020 in relation to the Existing Master CKDs and Automobile Components Purchase Agreement.

In view of the higher-than-expected market demand of the new models under the ZEEKR and Geely brands since their introduction in 2021, it is expected that the annual caps for the transactions under the Existing Master CKDs and Automobile Components Purchase Agreement will not be sufficient. As such, on 15 October 2021 (after trading hours), the Company entered into the Supplemental Master CKDs and Automobile Components Purchase Agreement with Geely Holding to increase the annual caps for the purchase of CKDs and automobile components by the Group from the Geely Holding Group for the remaining term of the Existing Master CKDs and Automobile Components Purchase Agreement.

Supplemental Master CKDs and Automobile Components Purchase Agreement

The information below sets out the key terms of the Existing Master CKDs and Automobile Components Purchase Agreement and the Supplemental Master CKDs and Automobile Components Purchase Agreement:

Date

15 October 2021 (after trading hours)

Parties

Vendor: Geely Holding

Purchaser: The Company

Please refer to the paragraph headed "Continuing Connected Transactions - (A) Services Agreement – Parties" in this circular for further details regarding the Company and Geely Holding.

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Subject matter

Pursuant to the Supplemental Master CKDs and Automobile Components Purchase Agreement, it was conditionally agreed that the Group will purchase CKDs and automobile components from the Geely Holding Group.

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

Term

The Supplemental Master CKDs and Automobile Components Purchase Agreement has a term from its effective date to 31 December 2023.

Termination

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

Pricing basis

Pursuant to the Existing Master CKDs and Automobile Components Purchase Agreement and the Supplemental Master CKDs and Automobile Components Purchase Agreement, the CKDs and automobile components will be purchased by the Group from the Geely Holding Group at prices calculated on a cost-plus basis according to:

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

The margin rate will be determined by the Company and Geely Holding after arm's length negotiation with reference to the median three-year weighted average cost-plus-margins of comparable companies producing similar products as stated in a transfer pricing analysis report prepared by an independent certified public accountant or institution with the same qualification. According to the transfer pricing analysis report issued on 22 September 2020 by an independent certified public accountant (the "**Purchase Pricing Analysis Report**"), the margin rate of CKDs and other automobile components is the median three-year weighted average cost-plus-margins of comparable companies focusing on contract manufacturing of automobile parts and components. The

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aforementioned margin rate is only for the purpose of calculating the proposed annual caps below and may be changed from time to time and shall not be deemed to be fixed throughout the term of the Supplemental Master CKDs and Automobile Components Purchase Agreement. Having considered the pricing basis with reference to the Purchase Pricing Analysis Report and the fact that the pricing basis remains unchanged as compared to the Existing Master CKDs and Automobile Components Purchase Agreement, the Directors consider the pricing basis under the Supplemental Master CKDs and Automobile Components Purchase Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Save for the update of the subject matter, the update of the condition precedent and the increase in the annual caps for the three years ending 31 December 2023 as detailed below, the major terms of the Existing Master CKDs and Automobile Components Purchase Agreement remain unchanged.

Subject matter

Pursuant to the Existing Master CKDs and Automobile Components Purchase Agreement, it was conditionally agreed that the Group will purchase Geely-branded CKDs and automobile components from the Geely Holding Group.

Pursuant to the Supplemental Master CKDs and Automobile Components Purchase Agreement, it was conditionally agreed that the Group will purchase CKDs and automobile components from the Geely Holding Group.

Condition precedent to the Supplemental Master CKDs and Automobile Components Purchase Agreement

The Supplemental Master CKDs and Automobile Components Purchase Agreement is conditional upon approval the passing of an ordinary resolution by the Independent Shareholders at the EGM.

If the above condition has not been fulfilled on or before 31 December 2021 (or such later date as the parties may agree in writing), the Supplemental Master CKDs and Automobile Components Purchase Agreement will lapse and all the obligations and liabilities of the parties under the Supplemental Master CKDs and Automobile Components Purchase Agreement will cease and terminate.

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Historical transaction amounts and Proposed Revised Annual Caps for the purchase of CKDs and automobile components

The table below sets out the historical transaction amount for the eight months ended 31 August 2021, and the Proposed Revised Annual Caps for the purchase of CKDs and automobile components pursuant to the Supplemental Master CKDs and Automobile Components Purchase Agreement for the three years ending 31 December 2023.

	Historical transaction amount for the eight months ended 31 August 2021 (Unaudited) RMB million	Proposed Revised Annual Caps for the purchase of CKDs and automobile components for the year ending 31 December		
		2021	2022	2023
		RMB million	RMB million	RMB million
Purchase of CKDs and automobile components from the Geely Holding Group by the Group	2,748.0	13,042.1	44,855.6	58,836.5
Original annual cap amounts for the three financial years ending 31 December 2023		11,953.9	26,346.8	23,842.7
Utilisation rate of original annual cap		23.0% (Note)		

Note: Utilisation rate of the original annual cap for the year ending 31 December 2021 was calculated by dividing the historical transaction amount for the eight months ended 31 August 2021 by the original annual cap for the full financial year ending 31 December 2021.

The relatively low utilisation rate of the annual cap for the eight months ended 31 August 2021 was primarily due to (i) the lower demand for CKDs as a result of the lack of new vehicle models in the first half of 2021 as one of the new models under Geely brand was only launched in the second half of 2021; and (ii) the decrease in demand of CKDs and automobile components in relation to one of the Geely-branded vehicle models in the first half of 2021 due to downward market demand.

Basis of determination of the Proposed Revised Annual caps for the purchase of CKDs and automobile components

The Proposed Revised Annual Caps for the purchase of CKDs and automobile components have been determined by the Directors with reference to:

- (i) the estimated number of units of CKDs and the automobile components in relation to the existing and new vehicle models under the ZEEKR and Geely brands, which were in turn determined mainly based on the projected unit sales of these vehicle models for the three years ending 31 December 2023 after taking into consideration the strong market feedback during the pre-sale stage and the expected introduction of new vehicle models in 2022 and 2023 respectively;

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- (ii) the estimated costs of manufacturing CKDs and automobile components in relation to the existing and new vehicle models under the ZEEKR and Geely brands (including but not limited to the material costs, labour costs and overhead costs) and related taxes for the three years ending 31 December 2023; and
- (iii) the margin rate over such estimated manufacturing costs of CKDs and automobile components respectively with reference to the Purchase Pricing Analysis Report.

The Proposed Revised Annual Caps for the year ending 31 December 2021 is significantly higher than the historical transaction amount for the eight months ended 31 August 2021 due to the expected increase in purchase of CKDs and automobile components of the new ZEEKR-branded and Geely-branded vehicle models in light of the market orders received in the second half of 2021. The significant increase in the Proposed Revised Annual Caps for the purchase of CKDs and automobile components for the years ending 31 December 2022 and 2023 are primarily due to the increase in projected sales volume of ZEEKR-branded vehicles in light of the expected introduction of new ZEEKR-branded vehicle models in 2022 and 2023 respectively.

The Directors are of the view that the Proposed Revised Annual Caps for the purchase of CKDs and automobile components for the three years ending 31 December 2023 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL MASTER CKDs AND AUTOMOBILE COMPONENTS PURCHASE AGREEMENT

Pursuant to the Existing Master CKDs and Automobile Components Purchase Agreement, the Group will procure CKDs and automobile components for the use in the Geely-branded vehicles from the Geely Holding Group. Since ZEEKR adopts an asset-light operation model, it is also the plan of the Group to procure CKDs and automobile components for use in the ZEEKR-branded vehicles as it will incur higher production costs if the Group sets up its own production facilities solely for ZEEKR-branded vehicles, which would have negative financial impact to the Group. The arrangement under the Existing Master CKDs and Automobile Components Purchase Agreement will (i) allow the Group to benefit from cost efficiencies of sharing the same production facilities and saving significant cost in capital investment, (ii) enable the Group to 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; and (iii) avoid leakage of the core technology of the ZEEKR Group to independent third parties.

If the Group does not procure CKDs and automobile components for ZEEKR-branded vehicles from the Geely Holding Group, those CKDs and automobile components would have to be produced by the Group itself. Assuming that the Group was able to achieve the same production efficiency, the main difference in financial effect between the production by the Group itself and procurement of CKDs and automobile components from Geely Holding Group is the service cost of final assembly on the CKDs charged by the Geely Holding Group. Such difference is expected to be insignificant to the Group for the three years ending 31 December 2023.

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The Group received significant volume of purchase orders for new models under the ZEEKR and Geely brands since their introduction in 2021. Due to the better-than-expected market demand for the new models of the Group, it is expected that the annual caps for the transactions under the Existing Master CKDs and Automobile Components Purchase Agreement will not be sufficient. As such, the entering into of the Supplemental Master CKDs and Automobile Components Purchase Agreement will enable the Group to meet the increased demand for CKDs and automobile components and thus facilitate the sale of Geely-branded and ZEEKR-branded vehicles.

The Directors are of the view that the Proposed Revised Annual Caps for the purchase of CKDs and automobile components under the Supplemental Master CKDs and Automobile Components Purchase Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL MEASURES IN RELATION TO PRICING FOR THE SUPPLEMENTAL MASTER CKDs AND AUTOMOBILE COMPONENTS PURCHASE AGREEMENT

The internal control measures in relation to pricing remain unchanged under the Supplemental Master CKDs and Automobile Components Purchase Agreement. The Group will monitor the relevant costs and expenses to ensure the fairness of the purchase price of such CKDs and automobile components according to the aforesaid pricing basis for the Supplemental Master CKDs and Automobile Components Purchase Agreement. In particular, the finance department of the Group will be responsible for supervising and reviewing the reasonableness of costs arising from the purchase of CKDs and automobile components from the Geely Holding Group by the Group. The finance department of the Group will obtain the actual costs from the Geely Holding Group, and review whether the calculation and allocation of the costs are reasonable. The Company and Geely Holding will also negotiate the terms of such transactions to ensure that prices are fair and reasonable, and properly reflect the level of costs incurred by both parties in such transactions. The Company and Geely Holding will review the scope of the CKDs and automobile components to be sold by the Geely Holding Group to the Group on a yearly basis (or more frequently if it is determined necessary) to determine whether updated transfer pricing analysis report should be obtained for the determination of the margin rate. The margin rate will be determined with reference to the median three-year weighted average cost-plus-margins of the comparable companies as stated in such updated transfer pricing analysis report.

In relation to the aforesaid internal control measures for the Continuing Connected Transactions, 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 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. The Company also engages its independent auditor to report on Continuing Connected Transactions every year. The independent auditor reviews and confirms whether Continuing Connected Transactions have been approved by the Board; have been conducted in accordance with the pricing policies of the relevant agreement governing the Continuing Connected Transactions; and have not exceeded the relevant annual caps.

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IMPLICATIONS UNDER THE LISTING RULES

Services Agreement, Automobile Components Procurement Agreement and Supplemental Master CKDs and Automobile Components Purchase Agreement

As at the Latest Practicable Date, Geely Holding is beneficially wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 41% of the total issued share capital of the Company as at the Latest Practicable Date, and is a connected person of the Company. Accordingly, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules, and the transactions contemplated under the Services Agreement, Automobile Components Procurement Agreement and Supplemental Master CKDs and Automobile Components Purchase Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

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

Volvo Financing Arrangements

As at the Latest Practicable Date, Genius AFC is owned as to 80% by the Company and as to 20% by BNPP PF.

As at the Latest Practicable Date, (i) VDCD is wholly owned by Volvo, an indirect 97.8% owned subsidiary of Geely Holding; and (ii) VCIC is owned as to 50% by Volvo and as to 50% by Geely Holding, which in turn is wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 41% of the total issued share capital of the Company as at the Latest Practicable Date, and is a connected person of the Company. Accordingly, each of VDCD, VCIC and Geely Holding is an associate of Mr. Li and a connected person of the Company under the Listing Rules.

The Volvo Dealers as defined in the Volvo Finance Cooperation Agreements include both the Connected Volvo Dealers and Independent Volvo Dealers, which will be covered by the Volvo Financing Arrangements. Since the Connected Volvo Dealers are connected persons of the Company, the transactions between Genius AFC and the Connected Volvo Dealers contemplated under the Volvo Financing Arrangements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. For the Independent Volvo Dealers and the Volvo Retail Customers, who are independent third parties to the Company and its connected persons, their transactions with Genius AFC are deemed to be connected transactions of the Company under Rule 14A.23 of the Listing Rules for the reason that the Independent Volvo Dealers and the Volvo Retail Customers will use the loans provided by Genius AFC to purchase Volvo-branded vehicles from VDCD and VCIC, who are connected persons of the Company under the Listing Rules.

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As the applicable percentage ratios for the proposed Volvo Annual Caps on an aggregated basis exceed 5% annually, the Volvo Finance Cooperation Agreements together with the Volvo Annual Caps are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Mr. Li and his associates together holding 4,042,618,000 Shares (representing approximately 41.2% of the total issued share capital of the Company), Mr. Yang Jian and his associates together holding 6,000,000 Shares (representing approximately 0.06% of the total issued share capital of the Company), Mr. Li Dong Hui, Daniel and his associates together holding 4,504,000 Shares (representing approximately 0.05% of the total issued share capital of the Company), and Mr. An Cong Hui and his associates together holding 7,526,000 Shares (representing approximately 0.08% of the total issued share capital of the Company) as at the Latest Practicable Date, will all abstain from voting on the resolutions to be proposed at the EGM to approve the Continuing Connected Transactions.

EGM

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

The EGM will be held at Boardroom 6, M/F, Renaissance Hong Kong Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong on Monday, 6 December 2021 at 4:00 p.m.. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time scheduled for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be).

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders whether the terms of the Continuing Connected Transactions 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.

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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 47 to 87 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 45 to 46 of this circular.

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

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 45 to 46 and pages 47 to 87 of this circular. Additional information is also set out in the appendix I to this circular.

Yours faithfully,

By order of the Board

Geely Automobile Holdings Limited

David C.Y. Cheung

Company Secretary

