16 November 2021

To the Independent Board Committee and
the Independent Shareholders

Dear Sir or Madam,

(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS; AND (II) REVISION OF ANNUAL CAPS IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions in relation to (i) the Services Agreement; (ii) the Automobile Components Procurement Agreement; (iii) the Volvo Financing Arrangements; and (iv) the Supplemental Master CKDs and Automobile Components Purchase Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company (the "**Circular**") to the Shareholders dated 16 November 2021, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 15 October 2021, in view of the expiry of (i) the 2018 Services Agreement and (ii) the 2018 Automobile Components Procurement Agreement, the Company and Geely Holding entered into (i) the Services Agreement, pursuant to which (a) the Group conditionally agreed to sell CKDs to the Geely Holding Group (the "**CKDs Transactions**"); and (b) the Group conditionally agreed to purchase CBUs from the Geely Holding Group (the "**CBUs Transactions**"), for a term of three years from 1 January 2022 to 31 December 2024; and (ii) the Automobile Components Procurement Agreement, pursuant to which the Group conditionally agreed to procure automobile components from the Geely Holding Group (the "**Procurement Transactions**"), for a term of three years from 1 January 2022 to 31 December 2024. Pursuant to the Services Agreement and the Automobile Components Procurement Agreement (as the case may be), the respective annual caps for the three years ending 31 December 2024 in respect of (i) the CKDs Transactions will be approximately RMB92,051.6 million, RMB104,297.6 million and RMB120,281.0 million, respectively; (ii) the CBUs Transactions will be approximately RMB95,467.2 million, RMB108,327.2

million and RMB124,704.7 million, respectively (collectively, the "**Service Caps**"); and (iii) the Procurement Transactions will be approximately RMB6,779.3 million, RMB7,930.1 million and RMB9,220.2 million, respectively (the "**Procurement Caps**").

Reference is made to the Company's announcement dated 24 January 2019 in relation to the Volvo Finance Cooperation Agreements, pursuant to which Genius AFC agreed to provide vehicle financing services to the Volvo Dealers and the Volvo Retail Customers in respect of the Volvo-branded vehicles in the PRC for 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 of the regulators of the Company and the Independent Shareholders. On 15 October 2021, the Company announced the maximum new financing amounts to be provided by Genius AFC to the Volvo Dealers will be approximately RMB5,561.6 million, RMB6,037.9 million and RMB6,883.4 million, and that to the Volvo Retail Customers will be approximately RMB7,785.2 million, RMB8,819.4 million and RMB10,473.0 million, for the three years ending 31 December 2024 respectively.

As set out in the Letter from the Board, in view of the higher-than-expected market demand for 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 contemplated under the Existing Master C7KDs and Automobile Components Purchase Agreement (the "**CKDs and Automobile Components Purchase Transactions**") for the three years ending 31 December 2023 from approximately RMB11,953.9 million, RMB26,346.8 million and RMB23,842.7 million to approximately RMB13,042.1 million, RMB44,855.6 million and RMB58,836.5 million, respectively.

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.

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) VCDC 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 VCDC, VCIC and Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules. The Volvo Dealers as defined in the Volvo Finance Cooperation Agreements include both the Connected Volvo Dealers and the 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 VCDC and VCIC, who are connected persons of the Company under the Listing Rules. 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.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders with respect to the transactions contemplated under (i) the Services Agreement, (ii) the Automobile Components Procurement Agreement, (iii) the Volvo Financing Arrangements; and (iv) the Supplemental Master CKDs and Automobile Components Purchase Agreement (collectively, the "**Continuing Connected Transactions**") (including their respective proposed annual caps or revised annual caps, as the case may be).

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, the counterparties of the Continuing Connected Transactions or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, save for (i) the appointment as the independent financial adviser in relation to the acquisition of CEVT and Haohan Energy, the subscription of the Ningbo Viridi and certain continuing connected transactions resulting from the aforesaid acquisitions and subscription, as defined and disclosed in the circular of the Company dated 5 August 2021; (ii) the appointment as the independent financial adviser in relation to the acquisition of equity interests in ZEEKR involving issue of consideration shares as defined and disclosed in the announcement of the Company dated 29 October 2021; and (iii) this appointment as the independent financial adviser in relation to the Continuing Connected Transactions, we did not have any other relationship with or interests in the Company, the counterparties of the Continuing Connected Transactions or their respective core connected persons or associates nor had we acted as an independent financial adviser to other transactions of the Company that could reasonably be regarded as hindrance to our independence as defined under the Listing Rules. Accordingly, we consider we are eligible to give independent advice on the terms of the Continuing Connected Transactions.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the counterparties of the Continuing Connected Transactions or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Information of the Group and the counterparties

1.1. Background of the Group, and the counterparties of the Continuing Connected Transactions

The Group

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

The Geely Holding Group

The Geely Holding Group is principally engaged in the sales of automobiles and related parts and components wholesale and retail business. As at the Latest Practicable Date, Geely Holding is 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.

Genius AFC

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

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

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.

1.2. Historical financial performance of the Group

Set out below is a summary of the financial results of the Group for the years ended 31 December 2019 and 2020 ("**FY2019**" and "**FY2020**") and the six months ended 30 June 2020 and 2021 ("**1H2020**" and "**1H2021**") as extracted from the respective financial reports.

	FY2019 *RMB million* (Audited)	**FY2020** *RMB million* (Audited)	**1H2020** *RMB million* (Unaudited)	**1H2021** *RMB million* (Unaudited)
Revenue				
– Sales of automobiles and related services	91,843	83,814	33,721	39,312
– Sales of automobile parts and components	5,130	6,989	2,675	4,636
– Research and development and related technological support services	–	745	–	447
– Licensing of intellectual properties	428	566	424	637
Total revenue	97,401	92,114	36,820	45,032
Gross profit	16,917	14,737	6,302	7,759
Profit attributable to equity holders	8,190	5,534	2,297	2,381

1H2021 versus 1H2020

As disclosed in the interim report of the Group for 1H2021, the Group sold a total of 630,237 units of vehicles in 1H2021, representing an increase of approximately 19% from 1H2020, and the export sales volume of the Group surged by approximately 173% to 53,422 units in 1H2021. Total revenue of the Group increased by approximately 22% to approximately RMB45.0 billion in 1H2021 as compared to 1H2020. Gross margin ratio in 1H2021 was relatively stable as the impact from higher raw materials costs was largely offset by improving product mix. The approximately 22% increase in administrative expenses (excluding share-based payments) during the period was primarily attributable to the increase in amortisation expenses as a result of substantial investment in research and development over the past years. Despite the inclusion of share-based payments amounted to approximately RMB641 million under staff costs during the period, profit attributable to the equity holders of the Company in 1H2021 was still up approximately 4% to approximately RMB2.38 billion as compared to 1H2020. Excluding share-based payments, the profit attributable to the equity holders of the Company was up approximately 31% to approximately RMB3.02 billion during the period.

FY2020 versus FY2019

As disclosed in the annual report of the Group for FY2020, the Group sold a total of 1,320,217 units of vehicles in 2020, down 3% from 2019 and the total revenue decreased by 5% to RMB92.1 billion in 2020. Despite a 19% year-on-year decline in its overall sales volume in the first half of 2020, the Group's sales volume rebounded strongly in the second half of 2020, up 11% from the same period of the previous year. On the other hand, the export sales volume of the Group increased significantly by 25% to 72,691 units in 2020. Gross margin, however, was affected by higher discounts and incentives offered to dealers during the national lockdown in the earlier part of the year. The selling and distribution expenses during the year were kept at relatively high levels to maintain the competitiveness of the Group's dealers in a highly competitive market. The 13% increase in administrative expenses during the year was primarily due to the increase in total expenses in relation to the research and development activities. As a result, the Group's profit attributable to equity holders decreased by 32% to RMB5.5 billion in 2020.

1.3. Financial position of the Group

Set out below is a summary of the financial position of the Group as at 30 June 2021 as extracted from its interim report for 1H2021.

	As at 30 June 2021 *RMB million* (Unaudited)
Non-current assets	59,055
Current assets	49,744
Non-current liabilities	4,828
Current liabilities	38,402
Net assets	**65,569**

As at 30 June 2021, total assets of the Group amounted to approximately RMB108.8 billion, which mainly comprised (i) trade and other receivables of approximately RMB26.5 billion, (ii) property, plant and equipment of approximately RMB26.3 billion, (iii) bank balances and cash of approximately RMB19.8 billion, and (iv) intangible assets of approximately RMB18.3 billion.

As at 30 June 2021, total liabilities of the Group amounted to approximately RMB43.2 billion, which mainly comprised (i) trade and other payables of approximately RMB38.5 billion, (ii) bank borrowings of approximately RMB1.9 billion, and (iii) bonds payable of approximately RMB1.9 billion.

As at 30 June 2021, the Group recorded net assets of approximately RMB65.6 billion.

2. The Services Agreement

2.1. Principal terms of the 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

Term

From 1 January 2022 to 31 December 2024

Condition precedent

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

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) CKDs Transactions

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 CKDs Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the 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).

Internal control measures

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.

We have obtained and reviewed the internal control reports for each of the year ended 31 December 2019 and 2020 prepared by the finance department of the Group and note that the Group reviews (i) the utilisation of the respective annual caps; and (ii) the implementation of the pricing policies for its continuing connected transactions (including the CKDs Transactions).

(2) CBUs Transactions

Subject matter

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

The CBUs Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the 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.

Internal control measures

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.

We have obtained and reviewed the internal control reports for each of the year ended 31 December 2019 and 2020 prepared by the finance department of the Group and note that the Group reviews (i) the utilisation of the respective annual caps; and (ii) the implementation of the pricing policies for its continuing connected transactions (including the CBUs Transactions).

2.2. *Reasons for and benefits of entering into the Services Agreement*

As set out in the Letter from the Board, 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, 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.

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.

Having considered the aforesaid regulatory requirement under the PRC laws regarding the Automobile Catalogue and the fact that the Group is not in possession of such Automobile Catalogue, we are of the view that the CKDs Transactions and the CBUs Transactions will continue to ensure smooth operation of the Group, and the entering into of the Services Agreement is conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

2.3. *Fairness and reasonableness of the Service Caps*

Historical transaction amounts and annual caps under the 2018 Services Agreement

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 ("**8M2021**"); and (ii) the annual caps for the CKDs Transactions and the CBUs Transactions pursuant to the 2018 Services Agreement for the three years ending 31 December 2021 ("**FY2019**", "**FY2020**" and "**FY2021**"):

	Historical transaction amounts for			Announced annual caps for		
	FY2019	**FY2020**	**8M2021**	**FY2019**	**FY2020**	**FY2021**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Audited)	(Audited)	(Unaudited)			
CKDs Transactions	83,133.0	73,787.0	44,860.1	191,208.9	250,203.1	293,775.4
Utilisation rate of annual caps of the CKDs Transactions				43.5%	29.5%	15.3% *(Note)*
CBUs Transactions	83,345.0	76,280.0	46,611.9	192,992.5	250,201.9	303,907.9
Utilisation rate of annual caps of the CBUs Transactions				43.2%	30.5%	15.3% *(Note)*

Note: Utilisation rate of the annual caps for FY2021 was calculated by dividing the historical transaction amount for 8M2021 by the announced annual cap for the full financial year ending 31 December 2021.

As set out in the Letter from the Board, the relatively low utilisation rates of the annual caps for the CKDs Transactions and the CBUs Transactions for FY2019, FY2020 and 8M2021 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 CKDs Transactions and the CBUs Transactions 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 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 expect 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 Service Caps

The table below sets out the proposed Service Caps for the CKDs Transactions and the CBUs Transactions for each of the three years ending 31 December 2024:

	Proposed annual caps for the year ending 31 December		
	2022	**2023**	**2024**
	RMB million	*RMB million*	*RMB million*
The CKDs Transactions	92,051.6	104,297.6	120,281.0
The CBUs Transactions	95,467.2	108,327.2	124,704.7

As set out in the Letter from the Board, the proposed Service Caps 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.

The increase in the proposed Service Caps for each of the CKDs Transactions and the CBUs Transactions 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.

In assessing the fairness and reasonableness of the Service Caps, we have reviewed and discussed with the Company with regards to the underlying calculations. We have obtained and reviewed the sales projection in respect of the CKDs Transactions and the CBUs Transactions for the three years ending 31 December 2024 prepared by the Group. We have also reviewed (i) the historical sale performance of the Group for FY2019, FY2020 and 8M2021; (ii) the overall sales plan of the Group from 2021 to 2024; (iii) the list of new vehicle models that are expected to be launched by the Group during the remaining period of 2021 and up to 2024; (iv) the estimated selling price to end customers for each of the vehicle models of the Group for the three years ending 31 December 2024; and (v) the applicable PRC tax rates, the new energy vehicle subsidies and the projected distribution costs and other necessary expenses for the three years ending 31 December 2024.

From our review of the aforesaid documents and discussion with the management of the Group, we have taken into consideration the following in assessing the fairness and reasonableness of the Service Caps:

- the recent business performance of the Group in particular the increase in total sales volume of vehicles for the six months ended 30 June 2021 by approximately 19% as compared to that in 2020, and the growth target of 16% for 2021 full year sales volume from previous year;
- the selling price per vehicle to end customers, projected distribution costs and other necessary and reasonable expenses (such as staff salary and other office expenses) are generally estimated to remain relatively steady for 2022 to 2024;
- the projected distribution costs incurred by the Group in calculating the annual caps under the CKDs Transactions and the CBUs Transactions for each of the three years ending 31 December 2024 are estimated at approximately 5.49% of the selling price of the relevant vehicle to end customers, which is in line with the historical percentage of distribution and selling expenses relative to the total sales of the Group for the year ended 31 December 2020; and
- the adoption of an estimated consumption tax rate for the transactions relating to the CKDs Transactions (subject to the engine size of the relevant vehicle models and the subsidy scheme for electric and new energy vehicles) was based on the existing consumption tax rates applicable for the sale of different vehicles in the PRC.

Our view

Based on the above, we concur with the Directors' view that it is fair and reasonable and in the interests of both the Company and the Shareholders as a whole to set the Service Caps at the proposed levels. However, as the proposed Service Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2024, we express no opinion as to how closely the CKDs Transactions and the CBUs Transactions shall correspond to the Service Caps.

3. The Automobile Components Procurement Agreement

3.1. Principal terms of the Automobile Components Procurement Agreement

Pursuant to each of the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement, the Group conditionally agreed to procure automobile parts and 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 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. 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

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 Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the 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 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.

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.

Internal control measures

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.

We have obtained and reviewed the internal control reports for each of the year ended 31 December 2019 and 2020 prepared by the finance department of the Group and note that the Group reviews (i) the utilisation of the respective annual caps; and (ii) the implementation of the pricing policies for its continuing connected transactions (including the Procurement Transactions).

3.2. Reasons for and benefits of entering into the Automobile Components Procurement Agreement

As set out in the Letter from the Board, 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 that the Procurement Transactions will enable the Group to continue to secure a stable source of raw materials and ensure smooth operation of the Group, we are of the view that the entering into of the Automobile Components Procurement Agreement is conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

3.3. *Fairness and reasonableness of the Procurement Caps*

Historical transaction amounts and annual caps under the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement

The table below sets out (i) the historical transaction amounts for FY2019, FY2020 and 8M2021; and (ii) the annual caps for the Procurement Transactions under each of the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement for FY2019, FY2020 and FY2021:

	Historical transaction amounts for			Announced annual caps for		
	FY2019	**FY2020**	**8M2021**	**FY2019**	**FY2020**	**FY2021**
	RMB million (Audited)	*RMB million* (Audited)	*RMB million* (Unaudited)	*RMB million*	*RMB million*	*RMB million*
Procurement Transactions 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 under the 2018 Services Agreement				5.8%	0.6%	0.9% *(Note)*
Procurement Transactions 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 under the 2018 Automobile Components Procurement Agreement				17.5%	7.6%	7.6% *(Note)*

Note: Utilisation rate of the annual caps for FY2021 was calculated by dividing the historical transaction amount for 8M2021 by the announced annual cap for the full financial year ending 31 December 2021.

As set out in the Letter from the Board, the relatively low utilisation rates of annual caps for the Procurement Transactions under the 2018 Services Agreement and the 2018 Automobile Components Procurement Agreement for FY2019, FY2020 and 8M2021 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 CKDs Transactions and the CBUs Transactions as discussed in the paragraph headed "*2.3. Fairness and reasonableness of the Service Caps – Historical transaction amounts and annual caps under the 2018 Services Agreement*". 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 Transactions under the 2018 Services Agreement. In light of the relatively low utilisation rate of the annual caps under the 2018

Services Agreement and the 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.

The Procurement Caps

The table below sets out the proposed Procurement Caps 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**
	RMB million	*RMB million*	*RMB million*
The Procurement Transactions	6,779.3	7,930.1	9,220.2

As set out in the Letter from the Board, the proposed Procurement Caps 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 Procurement 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.

In our assessment of the fairness and reasonableness of the Procurement Caps, we have reviewed the purchase projection in respect of the Procurement Transactions for the three years ending 31 December 2024 prepared by the Group. We have also reviewed (i) the projected unit sales of the Group's vehicles based on its sales budget for the three years ending 31 December 2024; and (ii) the projected selling price per unit of each type of the automobile components for the three years ending 31 December 2024.

From our review of the aforesaid documents and discussion with the management of the Group, we have taken into consideration the following in assessing the fairness and reasonableness of the Procurement Caps:

- the recent business performance of the Group in particular the increase in total sales volume of vehicles for the six months ended 30 June 2021 by approximately 19% as compared to that in 2020, and growth target of 16% for 2021 full year sales volume from previous year;

- the product portfolio is expected to expand to include additional new vehicle models (including ZEEKR-branded vehicles) during the term of the Automobile Components Procurement Agreement;

- the purchase price of each of the automobile components adopted in the purchase projection is mainly based on (i) the projected procurement costs incurred by the Geely Holding Group of such automobile components (for automobile parts and components that are procured by the Geely Holding Group from other suppliers for onward selling to the Group) with reference to the historical purchase cost of the automobile components; or (ii) the prevailing market price of similar products (for automobile parts and components that are manufactured by the Geely Holding Group), and is generally estimated to remain relatively steady for 2022 to 2024; and

- the expected quantity required for each of the automobile components to be used in each of the vehicles to be sold by the Group in 2022 to 2024 was determined based on the projected requirement for such automobile components for each of the vehicle models based on the vehicle specifications, taking into account the expected number of unit of each of the automobile components required to support the projected sales volume of the respective vehicle model.

Our view

Based on the above, we concur with the Directors' view that it is fair and reasonable and in the interests of both the Company and the Shareholders as a whole to set the Procurement Caps at the proposed levels. However, as the proposed Procurement Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2024, we express no opinion as to how closely the Procurement Transactions shall correspond to the Procurement Caps.

4. The Volvo Financing Arrangements

Pursuant to the Volvo Finance Cooperation Agreements, 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 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.

4.1. Principal terms of the Volvo Finance Cooperation Agreements

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)

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 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.

4.2. *Principal terms regarding the mode of cooperation under the Volvo Financing Arrangements*

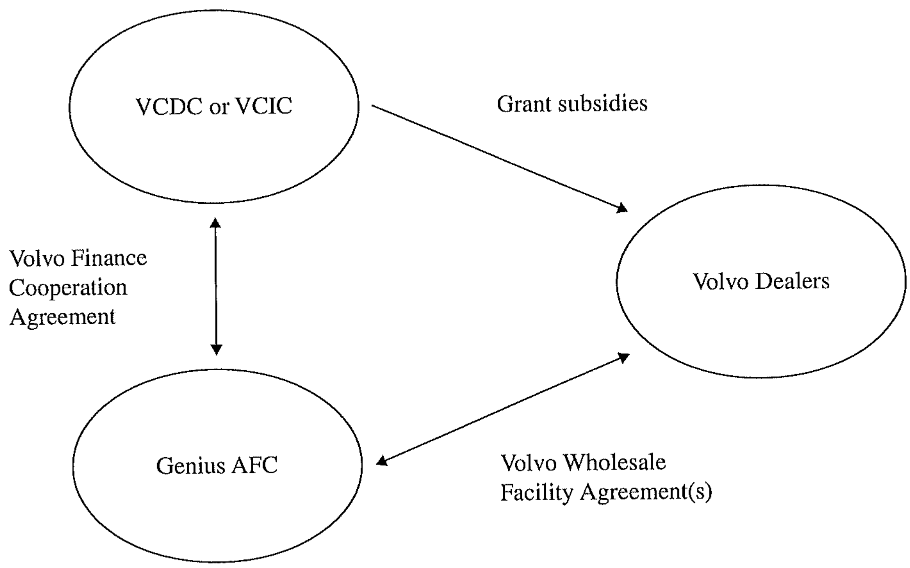
Cooperation

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.

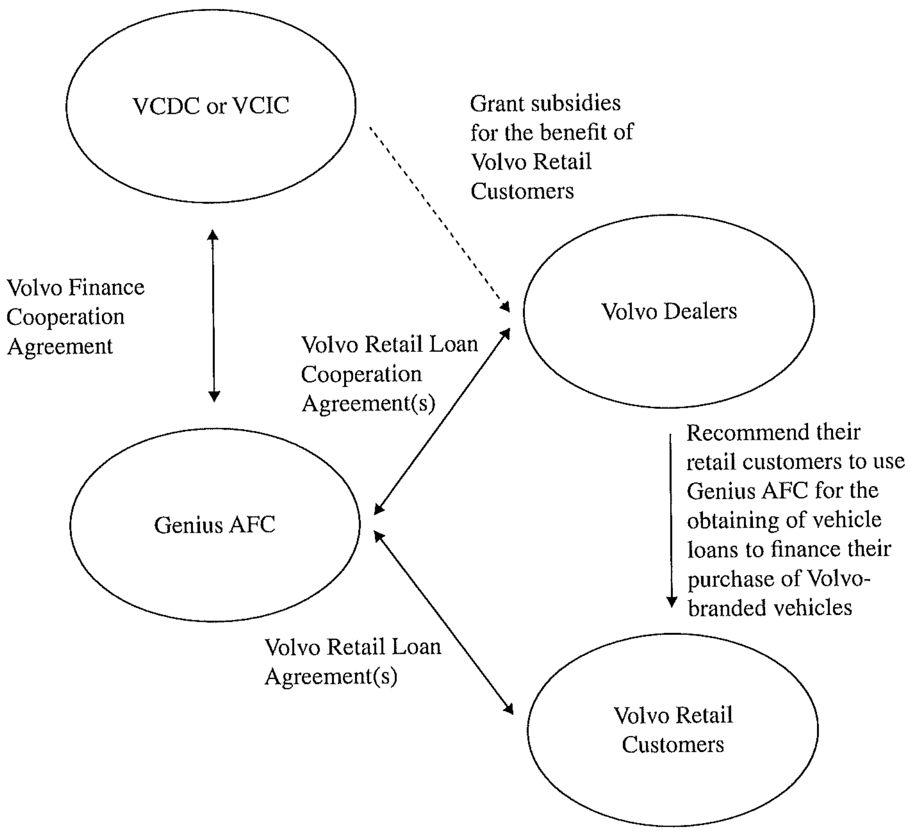
Genius AFC will not be the exclusive provider of vehicle loans and other services particularly described in the Volvo Finance Cooperation Agreements to the Volvo Dealers or the Volvo Retail Customers, and other providers are and will also be appointed by VCDC and VCIC to provide similar services. Notwithstanding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



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 the Letter from the Board 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 paragraph headed *"Lending risk"* below, as well as the lending rates offered by the competitors.

As confirmed by the management of Genius AFC, the lending interest rate of the Volvo Financing Arrangements was determined principally after taking into account (i) the PBOC base lending rate for similar type of loan under similar terms and conditions, (ii) the cost of funds, (iii) the lending rates offered by the competitors in the PRC automobile financing industry, and (iv) the borrower's credit profile as assessed by Genius AFC in accordance with the credit risk assessment procedures as set out in the paragraph headed *"Lending risk"* below. In light of the aforesaid and the fact that Genius AFC will not be the exclusive provider of financing services to the Volvo Dealers or the Volvo Retail Customers, we consider the pricing policy adopted by Genius AFC in determining the lending interest rates under the Volvo Financing Arrangements fair and reasonable.

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 (the

"**Auto Loan Management Measures**") 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.

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 capitalisation 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.

The management of Genius AFC confirmed that (i) the abovementioned credit risk assessment procedures for the Volvo Wholesale Financing Business and the Volvo Retail Financing Business were devised and established pursuant to the Auto Loan Management Measures; and (ii) since the incorporation of Genius AFC in August 2015 and up to the Latest Practicable Date, Genius AFC has been in compliance with the Auto Loan Management Measures and the relevant laws and regulations of the PRC in relation to risk management of auto finance companies.

As confirmed by the management of Genius AFC, since the commencement of the Volvo Financing Arrangements and up to 31 August 2021, (i) in respect of Volvo Wholesale Financing, there had been no default in payment from the Volvo Dealers; (ii) in respect of Volvo Retail Financing, out of the over 90,000 transactions, only less than 200 transactions were terminated due to the Volvo Retail Customer's default in payment. As at 31 August 2021, the non-performing loan (being the loan past due for more than 60 days) rate under the Volvo Wholesale Financing Business and the Volvo Retail Financing Business was nil and approximately 0.017%, respectively.

According to the 2020 China Automobile Financing Companies Industry Development Report《2020年度中國汽車金融公司行業發展報告》published by China Banking Association Professional Committee of Automobile Financing (中國銀行業協會汽車金融專業委員會), the average non-performing loan rate of the auto finance industry in the PRC was approximately 0.49% as at 31 December 2020. As advised by the management of Genius AFC, the overall non-performing loan (being the loan past due for more than 60 days) rate of Genius AFC, excluding those under the Volvo Financing Arrangements, was approximately 0.169% as at 31 August 2021.

Based on the fact that (i) no Volvo Dealers had defaulted on their loans under the Volvo Wholesale Financing Business since the commencement of the Volvo Financing Arrangements; (ii) no loans under the Volvo Wholesale Financing Business is non-performing since the commencement of the Volvo Financing Arrangements; and (iii) the non-performing loan rate of 0.017% as at 31 August 2021 under the Volvo Retail Financing Business is lower than that of the average non-performing loan rate of the auto finance industry in the PRC of approximately 0.49% as at 31 December 2020 and lower than the overall non-performing loan rate of Genius AFC, excluding those under the Volvo Financing Arrangements, of approximately 0.169% as at 31 August 2021, we are of the opinion that the entering into of the Volvo Financing Arrangements does not expose Genius AFC and the Group to higher credit risk given the Volvo Financing Arrangements were entered into on normal commercial terms and the historical default rate of the Volvo Financing Arrangements is lower than the historical average non-performing loan rates of both the auto finance industry in the PRC and Genius AFC, excluding those under the Volvo Financing Arrangements.

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.

We have reviewed that the Auto Loan Management Measures which stipulated that the term of automobile loans may not be longer than five years while the term of loans to wholesale dealers may not be longer than one year. In view of the fact that the loan term set out in the Volvo Finance Cooperation Agreements comply with the Auto Loan Management Measures, we consider such term to be fair and reasonable.

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 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.

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.

4.3. 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.

4.4. *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.

4.5. *Reasons for and benefits of the Volvo Financing Arrangements*

As set out in the Letter from the Board, 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 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, 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 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.

Having considered that (i) the Volvo Financing Arrangements are within the scope of the principal business of Genius AFC and the Group will share 80% of the economic returns of Genius AFC, the Group should support its organic business growth; (ii) Genius AFC does not act as the exclusive provider of financing services for the Volvo-branded vehicles and the terms to be entered into under the Volvo Financing Arrangements will be on normal commercial terms; and (iii) the credit profile of the loans under the Volvo Financing Arrangements did not expose Genius AFC to higher credit risks (as elaborated in the paragraph headed *"Lending risk"* above), we are of the view that the Volvo Financing Arrangements are conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

4.6. *Fairness and reasonableness of the Volvo Annual Caps*

Historical transaction amounts and annual caps for the Volvo Wholesale Financing Business and the Volvo Retail Financing Business

The table below sets out (i) the historical transaction amounts for FY2019, FY2020 and 8M2021; and (ii) the annual caps for the Volvo Wholesale Financing Business and the Volvo Retail Financing Business for FY2019, FY2020 and FY2021 and their respective utilisation rates.

	Historical transaction amounts for			Announced annual caps for		
	FY2019	FY2020	8M2021	FY2019	FY2020	FY2021
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Audited)	(Audited)	(Unaudited)			
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 under the Volvo Wholesale Financing Business				11.4%	22.8%	15.6% *(Note)*
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 under the Volvo Retail Financing Business				34.4%	43.3%	32.6% *(Note)*

Note: Utilisation rate of the annual caps for FY2021 was calculated by dividing the historical transaction amount for 8M2021 by the announced annual cap for the full financial year ending 31 December 2021.

As set out in the Letter from the Board, the low utilisation rates of the annual caps under the Volvo Wholesale Financing Business for FY2019, FY2020 and 8M2021 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 FY2019, FY2020 and 8M2021 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 automobile 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.

The relatively low utilisation rates of the annual caps under the Volvo Retail Financing Business for FY2019, FY2020 and 8M2021 were primarily due to (i) the lower-than-expected retail financing penetration of 10.6% of the Volvo Retail Financing Business in FY2019, 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 FY2019 to 18.5% in FY2020 and further to 24.5% for 8M2021. 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**
	RMB million	*RMB million*	*RMB million*
Volvo Annual Caps (Wholesale)	5,561.6	6,037.9	6,883.4
Volvo Annual Caps (Retail)	7,785.2	8,819.4	10,473.0

As stated in the Letter from the Board, 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 FY2020 and 8M2021 and the expected market recovery from that of 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 8M2021; 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 FY2020 and 8M2021 and the expected market recovery from that of 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 FY2018, FY2019, FY2020 and 8M2021; 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 8M2021; 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 FY2019 to 18.5% in FY2020 and further to 24.5% for 8M2021; (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.

In assessing the fairness and reasonableness of the proposed Volvo Annual Caps, we have obtained and reviewed the respective projections of the financing amounts in relation to the Volvo Wholesale Financing Business and the Volvo Retail Financing Business for the three years ending 31 December 2024 prepared by Genius AFC and also discussed with the management of Genius AFC about the underlying bases and assumptions relating thereto.

From our review of the aforesaid documents and discussion with the management of Genius AFC, we have taken into consideration the following in assessing the fairness and reasonableness of the Volvo Annual Caps:

- 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 is reasonable taking into account (i) the historical wholesale finance coverage ranged from 2% to 9% from 2016 to 2020 and 8M2021; 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;

- 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 is reasonable taking into account (i) the historical retail financing penetration of 24.5% for 8M2021; (ii) the current status and expected development of its business; (iii) the continuous growth in historical retail financing penetration from 10.6% in FY2019 to 18.5% in FY2020 and further to 24.5% for 8M2021; (iv) 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 (v) 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 projected average wholesale loan amount and retail loan amount are generally estimated to remain steady for the three years ending 31 December 2024; and

- 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 FY2020 and 8M2021 and the expected market recovery from that of COVID-19.

Our view

Based on the above, we concur with the Directors' view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to set the Volvo Annual Caps at the proposed levels. However, as the proposed Volvo Annual Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2024, we express no opinion as to how closely the Volvo Wholesale Financing Business and the Volvo Retail Financing Business shall correspond to the Volvo Annual Caps.

5. Revision of annual caps for the transactions under the Existing Master CKDs and Automobile Components Purchase Agreement

5.1. Principal terms of the Supplemental Master CKDs and the Automobile Components Purchase Agreement

In view of the higher-than-expected market demand for 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 CKDs and Automobile Components Purchase Transactions. Principal terms of the Supplemental Master CKDs and the Automobile Components Purchase Agreement are set out below:

Date

15 October 2021 (after trading hours)

Parties

Vendor: Geely Holding

Purchaser: The Company

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 CKDs and Automobile Components Purchase Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms no less favourable to the 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 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.

Internal control measures

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.

5.2. Supplemental Master CKDs and Automobile Components Purchase Agreement versus Existing Master CKDs and Automobile Components Purchase Agreement

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 and in the paragraph headed *"5.4. Fairness and reasonableness of the Proposed Revised Annual Caps"*, the major terms of the Existing Master CKDs and Automobile Components Purchase Agreement remain unchanged.

Update of the 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.

Update of condition precedent

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

5.3. *Reasons for and benefits of entering into the Supplemental Master CKDs and Automobile Components Purchase Agreement*

As set out in the Letter from the Board, 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 set 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 (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.

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.

Having considered the above and our analysis and view on the major terms of the Supplemental Master CKDs and Automobile Components Purchase Agreement, we are of the view that the entering into of the Supplemental Master CKDs and Automobile Components Purchase Agreement is conducted in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

5.4. *Fairness and reasonableness of the Proposed Revised Annual Caps*

Historical transaction amounts and annual caps under the Existing Master CKDs and Automobile Components Purchase Agreement and the Proposed Revised Annual Caps

The table below sets out (i) the historical transaction amount for 8M2021, (ii) the annual caps under the Existing Master CKDs and Automobile Components Purchase Agreement; and (iii) 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 8M2021	**Proposed Revised Annual Caps/the Original Annual Caps for the purchase of CKDs and automobile components for**		
		FY2021	**FY2022**	**FY2023**
	RMB million (Unaudited)	*RMB million*	*RMB million*	*RMB million*
CKDs and Automobile Components Purchase Transactions	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 (the "**Original Annual Caps**")		11,953.9	26,346.8	23,842.7
Utilisation rate of Original Annual Caps		23.0% *(Note)*		

Note: Utilisation rate of the annual caps for FY2021 was calculated by dividing the historical transaction amount for 8M2021 by the Original Annual Cap for the full financial year ending 31 December 2021.

The relatively low utilisation rate of the annual cap for 8M2021 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.

As set out in the Letter from the Board, 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 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;

(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 8M2021 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.

In assessing the fairness and reasonableness of the Proposed Revised Annual Caps, we have reviewed and discussed with the Company with regards to the underlying calculations. We have obtained and reviewed (i) the product mix and the estimated number of units of the relevant CKDs and automobile components to be purchased by the Group from the Geely Holding Group for each of the three years ending 31 December 2023; (ii) the projected sales volume of the vehicles to be equipped with the CKDs and automobile components to be procured from the Geely Holding Group for each of the three years ending 31 December 2023 and the corresponding demand for the relevant CKDs and automobile components; (iii) the cost components and the estimated manufacturing cost of the relevant CKDs and automobile components for each of the vehicle model for the three years ending 31 December 2023; and (iv) the Purchase Pricing Analysis Report.

From our review of the aforesaid documents and discussion with the management of the Group, we have taken into consideration the following in assessing the fairness and reasonableness of the Proposed Revised Annual Caps:

- the higher amount of the Proposed Revised Annual Caps as compared to the Original Annual Caps were mainly attributable to the estimated increase in demand of the CKDs and automobile components for the ZEEKR-branded vehicles to be sold by 2023 taking into consideration the strong market feedback during the pre-sale stage;

- the cost schedule of the relevant CKDs and automobile components comprises the cost components including but not limited to raw materials, direct labour, manufacturing overhead, administration expenses in determining the unit purchase prices of the relevant CKDs and automobile components;

- the projected sale volume of the vehicles to be equipped with the CKDs and automobile components to be procured from the Geely Holding Group for each of the three years ending 31 December 2023 in particular that for the ZEEKR-branded vehicles to be launched by 2023 was estimated after taken into account the maturity and development trend of the market segment of each vehicle model and the life cycle curve for such model in determining the projected sales volume during the product life cycle; and

- the margin rate adopted by the Group in calculating the unit purchase prices of the relevant CKDs and automobile components in the purchase budget in respect of the CKDs and Automobile Components Purchase Transactions for the three years ending 31 December 2023 (the "**Purchase Margin Rate**") was equivalent to the reference rate set out in the Purchase Pricing Analysis Report (as elaborated below).

Pursuant to the pricing term stipulated in the Supplemental Master CKDs and Automobile Components Purchase Agreement, when estimating the Proposed Revised Annual Caps under the Supplemental Master CKDs and Automobile Components Purchase Agreement for the three years ending 31 December 2023, the Purchase Margin Rate was adopted by the Group with reference to the median of the three-year weighted average cost-plus-margins of the comparable companies producing similar products set out in the Purchase Pricing Analysis Report. Based on our review on the Purchase Pricing Analysis Report furnished by a multinational accounting firm (the "**Independent CPA**"), we noted that the Independent CPA has identified nine companies for the CKDs and Automobile Components Purchase Transactions (the "**Purchase Relevant Companies**") that are principally engaged in contract manufacturing of automobile components and parts. As referred to in the Purchase Pricing Analysis Report, the weighted average cost-plus margins of the Purchase Relevant Companies were computed based on their respective public financial information for the three consecutive financial years preceding the effective date of the Purchase Pricing Analysis Report. The Purchase Margin Rate was equivalent to the median of the aforesaid weighted average cost-plus margins of the Purchase Relevant Companies.

Our view

Based on the above, we concur with the Directors' view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to increase the Original Annual Caps to the Proposed Revised Annual Caps at the proposed levels. However, as the Proposed Revised Annual Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2023, we express no opinion as to how closely the CKDs and Automobile Components Purchase Transactions shall correspond to the Proposed Revised Annual Caps.

6. Requirements by the Listing Rules regarding the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, each of the Continuing Connected Transactions are subject to the following annual review requirements:

(a) Each year the independent non-executive Directors must review each of the Continuing Connected Transactions and confirm in the annual report and accounts that they have been entered into:

- in the ordinary and usual course of business of the Group;

- on normal commercial terms or better; and

- according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(b) Each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that each of the Continuing Connected Transactions:

- has not been approved by the Board;

- were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

- were not entered into, in all material respects, in accordance with the terms of the respective agreements of each of the Continuing Connected Transactions; and

- have exceeded the respective annual caps.

(c) The Company must allow, and ensure that the relevant counter parties to each of the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of reporting on each of the Continuing Connected Transactions.

(d) The Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) above, respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of transaction value by way of the annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the respective agreements of each of the Continuing Connected Transactions and their respective annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of each of the Continuing Connected Transactions and safeguard the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that (i) the Services Agreement, (ii) the Automobile Components Procurement Agreement, (iii) the Volvo Financing Arrangements; and (iv) the Supplemental Master CKDs and Automobile Components Purchase Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms thereof as well as the respective annual caps are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the terms of and the annual caps in relation to (i) the Services Agreement, (ii) the Automobile Components Procurement Agreement, (iii) the Volvo Financing Arrangements; and (iv) the Supplemental Master CKDs and Automobile Components Purchase Agreement.

Yours faithfully,
For and on behalf of
Ballas Capital Limited

Alex Lau
Managing Director

Colin Lee
Assistant Director

Note: Mr. Alex Lau of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2003 and Mr. Colin Lee of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity from 2013 to 2018 and since 2020.