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GEELY

吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 175)

DISCLOSEABLE TRANSACTION SUBSCRIPTION OF 34.02% EQUITY INTERESTS IN TARGET COMPANY

Financial Adviser to Geely Automobile Holdings Limited



INTRODUCTION

In reference to the Company's voluntary announcements dated 9 August 2021 and 21 January 2022, Geely Holding and Renault, on 21 January 2022 have signed the Framework Agreement to launch all-new vehicles lineup for the Korean market, which will initially focus on the development and sales of ICE and hybrid vehicles in the core fast growing markets like Korea. Given the potential synergy from the collaboration with Renault and the huge potential of the Korean market, the Group has been exploring different options to involve in such collaboration with Renault.

The Board is pleased to announce on 9 May 2022, CIL, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Target Company. Pursuant to the Subscription Agreement, CIL agreed to subscribe for, and Target Company agreed to allot and issue the Target Shares, representing 34.02% of the total issued shares of Target Company on a Fully-Diluted Basis, at the Consideration of approximately KRW264 billion (approximately RMB1,376 million) as at the date of the announcement.

As part of the transactions contemplated in the Subscription Agreement, CIL has also entered into the Joint Venture Agreement on the same date with Renault BV to set forth the respective rights and obligations in connection with Target Company.

Upon Completion, the Company will hold 34.02% of the issued share capital of Target Company on a Fully-Diluted Basis through CIL and will account for the financial results of Target Company by way of equity method.

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the total commitment of the Group to Target Company pursuant to the Subscription Agreement is more than 5% but less than 25%, the entering into of the Subscription Agreement constitutes a discloseable transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements under the Chapter 14 of the Listing Rules.

The exercise of the Put Option is at the discretion of CIL. According to Rule 14.75(1) of the Listing Rules, on the acceptance of the Put Option, only the premium (which is nil) will be taken into consideration for calculating the relevant percentage ratios. The Company will comply with the relevant requirements under the Listing Rules on the exercise of the Put Option as and when they arise.

Completion is subject to the satisfaction of the conditions precedent to the Subscription Agreement, and therefore, may or may not proceed to Completion. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 9 May 2022, CIL, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Target Company. Pursuant to the Subscription Agreement, CIL agreed to subscribe for, and Target Company agreed to issue and allot 45,375,000 Target Shares at the Consideration of approximately KRW264 billion (approximately RMB1,376 million), equivalent to the price of KRW5,818 per Target Share (approximately RMB30.3 per Target Share). Upon Completion, the Company will hold 34.02% of the issued share capital of Target Company on a Fully-Diluted Basis through CIL and will account for the financial results of Target Company by way of equity method.

As part of the transactions contemplated under the Subscription Agreement, CIL has also entered into the Joint Venture Agreement on the same date with Renault BV to set forth the respective rights and obligations in connection with Target Company.

SUBSCRIPTION AGREEMENT

Principal terms of the Subscription Agreement are set out below:

Date

9 May 2022

Parties

- (i) CIL (as the subscriber); and
- (ii) Target Company (as the issuer).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Target Company and its ultimate beneficial owners are Independent Third Parties of the Company and its connected persons.

Subject Matter

Pursuant to the Subscription Agreement, CIL agreed to subscribe for, and Target Company agreed to issue and allot 45,375,000 Target Shares at the price of KRW5,818 per Target Share (approximately RMB30.3 per Target Share) at the Consideration of approximately KRW264 billion (approximately RMB1,376 million). Upon Completion, CIL will hold 34.02% of the issued share capital of Target Company on a Fully-Diluted Basis.

JOINT VENTURE AGREEMENT

Pursuant to the Subscription Agreement, CIL and Renault BV have entered into the Joint Venture Agreement on 9 May 2022, with the major terms summarized below:

Board Composition: the board of directors of Target Company shall consist of seven (7) directors, among which two (2) directors shall be appointed by CIL. If CIL holds less than 10% equity interests in Target Company, one (1) director shall be nominated by CIL;

Dividend Policy: Renault BV and CIL shall procure Target Company to distribute dividends, provided that Target Company has distributable profits for such purposes for the previous fiscal year, taking into account, among other things, Target Company's cash position and cash forecast, reasonable capital requirements necessary for Target Company's operations and development, and the average level of dividend payout ratio among the dividend distributing companies of the same industry in Korea. Target Company shall ensure that CIL would receive cash dividends for the fiscal years of 2022 and 2023 corresponding to the respective shareholding in Target Company and dividends as set out in the business plan of the Framework Agreement;

Dividend Guarantee: provided that Completion occurs on or before 31 December 2022, if the total dividends paid to CIL for the two fiscal years ending 31 December 2022 and 2023 are less than KRW63 billion (approximately RMB328 million) (the aggregate of ordinary dividends and interim dividends), the difference shall be liable to CIL by Target Company;

provided that Completion does not occur on or before 31 December 2022, if the total dividends paid to CIL for the two fiscal years ending 31 December 2023 and 2024 are less than KRW63 billion (approximately RMB328 million) (the aggregate of ordinary dividends and interim dividends), the difference shall be liable to CIL by Target Company;

Pre-emptive Rights: all shareholders of Target Company, subject to the applicable Korean law, the Joint Venture Agreement and the articles of incorporation of Target Company, are granted with the pre-emptive rights with respect to any new issuance of Target Company's shares in proportion to each of their shareholding. Such pre-emptive rights are also transferrable by the shareholders to their respective affiliates for subscriptions provided that, if required by the other party, the concerned affiliate shall deliver a written undertaking that it shall comply with all provisions of the Joint Venture Agreement and any agreements related thereto;

Other Terms: for five (5) years upon Completion (the "**restriction period**"), each of CIL and Renault BV is prohibited from selling or transferring any of its shares in Target Company to a third party, except to its affiliate(s), without obtaining the written consent of the other party. Each of CIL and Renault BV may sell or transfer all or any portion of its shares in Target Company to any of its affiliates upon prior written notice to the other party provided that such affiliates comply with the requirement in respect of the transfer of pre-emptive rights set out in the paragraph headed "Pre-emptive Rights". If after the restriction period, either CIL or Renault BV intends to transfer all or any portion of its shares in Target Company to a third party, the other party shall have the right of first refusal to acquire such shares. In addition:

(a) if Samsung Card (or its successor) intends to transfer any share in Target Company after the date of Completion, Renault BV shall notify CIL as promptly as possible all material terms and conditions of such intended transfer if Renault BV is aware of or is made aware of, and upon written notice by CIL and acceptance of Renault BV, to exercise its right of first refusal to purchase such shares in Target Company to be transferred by Samsung Card and to transfer the same to CIL; and

(b) subject to the restriction period, if Renault BV intends to transfer 2% or more shares in Target Company to a third party (other than its affiliates), CIL shall have the right to participate in such transfer along with Renault BV on the pro-rata basis.

Termination and Acceptance
of Put Option:

CIL is entitled to terminate the Joint Venture Agreement upon the occurrence of any of the following events:

- (i) Renault BV breaches any provision of the Joint Venture Agreement which will result in material adverse impact, and has failed to remedy such breach;
- (ii) the termination of the IP License Agreement because Target Company does not pay the entry fee in accordance with the terms and conditions set out in the IP License Agreement; and
- (iii) the aggregated shareholding percentage of Renault BV and its affiliates in Target Company is less than 50% of the total issued and outstanding shares of Target Company.

In such event, CIL is entitled to require Renault BV to purchase, and Renault BV is obliged to purchase all shares of Target Company held by CIL at the price determined by the per-share price paid by CIL at the Completion, plus an interest calculated based on the prevailing market interest rate in Korea plus basis points.

CONSIDERATION FOR THE SUBSCRIPTION

Upon the receipt of Target Company's closing deliverables pursuant to the Subscription Agreement, the Consideration of KRW264 billion (approximately RMB1,376 million) shall be payable by CIL to Target Company in cash within ten (10) Business Days after the Pre-closing Date. The price of KRW5,818 per Target Share (approximately RMB30.3 per Target Share) is determined with reference to (i) the Appraised Value, which is based on the market approach according to the valuation report prepared by an independent valuer, with valuation assumptions as stated under the section headed "INFORMATION ON THE VALUATION REPORT"; (ii) the commercial potential and prospects of existing businesses and networks of Target Company; and (iii) the reasons for the difference between the Implied Value and the Appraised Value in the valuation report as stated under the section headed "INFORMATION ON THE VALUATION REPORT". In any event that the shareholders' equity of Target Company in the last monthly financial statements of Target Company available as of when the conditions precedent under the Subscription Agreement have been satisfied (the "**Reference Financial Statements**") is below KRW1,241 billion (approximately RMB6,467 million) and the gap is above 5%, the Consideration shall be adjusted according to the formula of shareholders' equity of Target Company in the Reference Financial Statements / (net asset value of Target Company for the year ended 31 December 2021 x 0.96) x Consideration. The Consideration for the Subscription will be funded by the Group's internal financial resources.

Conditions Precedent

Completion will be subject to and conditional upon the fulfillment or waiver served by written notice on any (as the case may be) of, among others, the following conditions:

- (i) the representations and warranties made by Target Company and CIL in the Subscription Agreement remaining true, accurate and complete in all material respects on the signing date of the Subscription Agreement and the date of Completion;
- (ii) both Target Company and CIL having performed fully with their respective obligations and complied with all commitments under the Subscription Agreement in all material respects on or before Completion;
- (iii) the obtaining of all actions, approvals and consents from the relevant regulatory and government authorities or third parties for the Subscription Agreement and the transaction contemplated thereunder;
- (iv) CIL having obtained its valid internal approval for the Subscription Agreement, relevant transactional documents and the transactions contemplated thereunder;

- (v) no Government Authority having enacted, issued, promulgated, enforced or entered any Government Order which prohibits or prevents the consummation of the transactions under the Subscription Agreement, and no Proceeding shall be pending or threatened against both CIL and Target Company that seek to prohibit or prevent the consummation of the transactions contemplated thereby; and
- (vi) no Material Adverse Effect has occurred.

The parties to the Subscription Agreement shall use their best endeavors to procure the fulfilment of the conditions precedent.

Completion

The Subscription shall be completed within ten (10) Business Days after each of CIL and Target Company has completed all of the undertakings in the Pre-closing Mechanism at a location in Korea as stated in the Subscription Agreement, or such other date and location mutually agreed by the parties in writing.

Upon Completion, the Company will hold 34.02% of the issued share capital of Target Company on a Fully-Diluted Basis through CIL.

INFORMATION ON THE PARTIES

CIL is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands and is principally engaged in investment holding.

Renault BV is the wholly-owned subsidiary of Renault (stock code of Euronext Paris: RNO.PA) and is principally engaged in investment holding. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Renault BV and its ultimate beneficial owners are Independent Third Parties of the Company and its connected persons.

INFORMATION OF TARGET COMPANY

Target Company is a limited company incorporated in Korea in 2000. It is principally engaged in the sale, production, design and research of automobiles. Target Company has an extensive sales network, which the sales of the automobiles are performed in its owned sales outlets and by automobile distributors.

As at the date of this announcement, Target Company is held by Renault BV, Samsung Card and the ESOP Pool as to 80.05%, 19.9% and 0.05% respectively. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Target Company and its ultimate beneficial owners are Independent Third Parties of the Company and its connected persons.

Based on the audited financial information of Target Company for the year ended 31 December 2021 prepared under K-GAAP (accounting standards for non-public entities in Korea) and conducted in accordance with KSAs, the audited consolidated net asset value of Target Company was KRW1,241 billion (approximately RMB6,467 million) for the year ended 31 December 2021.

Set out below is the audited financial information of Target Company for the years as indicated below prepared under K-GAAP:

	For the year ended 31 December 2020		For the year ended 31 December 2021	
	<i>KRW in billion</i>	<i>RMB in million</i>	<i>KRW in billion</i>	<i>RMB in million</i>
Revenue	3,401	17,724	3,860	20,116
Profit/(loss) before tax	(80)	(417)	23	120
Profit/(loss) after tax	(73)	(380)	16	83

There is no reported material difference in the profit/(loss) before tax, profit/(loss) after tax, and net asset value of Target Company under K-GAAP and IFRS based on confirmation from the auditor of Target Company. Set out below is the difference in revenue of Target Company under K-GAAP and IFRS:

	K-GAAP (A)		IFRS (B)		Difference (A - B)	
	<i>KRW in billion</i>	<i>RMB in million</i>	<i>KRW in billion</i>	<i>RMB in million</i>	<i>KRW in billion</i>	<i>RMB in million</i>
For the year ended 31 December 2020	3,401	17,724	3,566	18,584	(165)	(860)
For the year ended 31 December 2021	3,860	20,116	3,987	20,779	(127)	(662)

The reported difference in revenue of Target Company under K-GAAP and IFRS is mainly due to the recognition of sales discount. Sales discount is recognized as a deduction of revenue under K-GAAP, while it is recognized as selling expense under IFRS. Under both K-GAAP and IFRS, the recognition of sales discount has no impact on the profit/(loss) before tax and the profit/(loss) after tax of Target Company.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

Expedite Product Internationalization and Strengthen the Global Presence: The Company is constantly in search for business opportunities to expedite product internationalization. Leveraging on the free trade agreements signed between Korea and other international markets, as well as the maturity of the automobile industry, Korea has established herself as a strategic base for global market. Through the Subscription Agreement, the Group can establish its presence in the Korean market through collaborating with Renault using its existing automobile technology and research, and realize its long-term strategic target in product internationalization.

Synergies with Existing Businesses: The Subscription will allow the Group to further strengthen its capability in research in automobile architecture and vehicle model technology, while pursuing development along the industry value chain. Furthermore, the fees receivable under the IP License Agreement is also expected to bring in considerable additional revenue to the Group. The introduction of the Group's technology will further the opportunities in transforming the business model of Target Company, to improve its financial performance and marketing position in Korea.

In view of the above, the Directors (including the independent non-executive Directors) consider the Subscription Agreement, the Consideration and the Joint Venture Agreement are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

To the best of the knowledge and belief of the Directors, none of the Directors has any interest in the resolution(s) of the Board to consider and approve the transactions contemplated under the Subscription Agreement and the Joint Venture Agreement, or is otherwise required to abstain from voting on the relevant resolution(s) of the Board.

INFORMATION OF THE VALUATION REPORT

The Appraised Value was determined based on market approach with reference to a ratio of the value of price against net book value by taking a median of the ratios of seven (7) comparable companies. The principal businesses of the comparable companies are manufacturing and selling of automobiles in Japan and Korea, which share similar products, business models, and operation regions of Target Company. The principal assumptions of the valuation are:

1. Target Company is operating on a going concern basis;
2. Target Company had no significant contingent liabilities, unusual contractual obligations or substantial commitments as at 31 December 2021;
3. there was no significant pending or threatened litigation involving Target Company as at 31 December 2021;
4. there were no violations of any regulations or laws by Target Company as at 31 December 2021; and
5. there were no redundant assets as at 31 December 2021.

The Consideration represents an Implied Value of Target Company with a discount of approximately 3.8% compared to the Appraised Value. The principal reasons for the difference between the Implied Value and Appraised Value are based on commercial negotiations after considering (i) the Russia-Ukraine war causes more uncertainty to the macroeconomic environment, especially for the supply of raw materials for automobile industry; and (ii) the persistence of shortage of semiconductors continues to impact the automobile industry.

LISTING RULES IMPLICATION

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the total commitment of the Group to Target Company pursuant to the Subscription Agreement is more than 5% but less than 25%, the entering into of the Subscription Agreement constitutes a discloseable transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The exercise of the Put Option is at the discretion of CIL. According to Rule 14.75(1) of the Listing Rules, on the acceptance of the Put Option, only the premium (which is nil) will be taken into consideration for calculating the relevant percentage ratios. The Company will comply with the relevant requirements under the Listing Rules on the exercise of the Put Option as and when they arise.

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DEFINITIONS

“Appraised Value”	an appraised value of Target Company of KRW533 billion (approximately RMB2,778 million) as at 31 December 2021 with reference to the valuation report prepared by an independent valuer
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and public holidays) on which banks generally are opened in Korea and PRC, for the transaction of normal banking business
“CIL”	Centurion Industries Limited, a wholly-owned subsidiary of the Company
“Company”	Geely Automobile Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange
“Completion”	the completion of the Subscription
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

“Consideration”	the total consideration of KRW264 billion (approximately RMB1,376 million) payable by CIL to Target Company for the Subscription
“Controlling Shareholder”	has the meaning ascribed to it in the Listing Rules
“Directors”	the director(s) of the Company
“ESOP Pool”	the employee stock ownership plan of Target Company
“Framework Agreement”	the framework agreement dated 21 January 2022 entered into between Geely Holding and Renault, as detailed in the Company’s voluntary announcement dated 21 January 2022
“Fully-Diluted Basis”	assuming all the shares of ESOP Pool have been fully issued after Completion
“Geely Holding”	浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Company Limited*), a private limited liability company incorporated in Zhejiang Province, the PRC, and is beneficially wholly owned by Mr. Li and his associate
“Government Authority”	any domestic or foreign, multi-national, national, regional, territorial, state or local governmental authority, quasi-governmental authority, instrumentality, court, commission or tribunal or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing
“Government Order”	any Law, order, stay, decree, judgement or injunction entered by or with any Governmental Authority
“Group”	the Company and its subsidiaries
“ICE”	internal combustion engine
“IFRS”	International Financial Reporting Standards
“Implied Value”	an implied value of KRW512.3 billion (approximately RMB2,670 million) of 100% equity value of Target Company as of 31 December 2021, based on the Consideration of KRW264 billion (approximately RMB1,376 million)

“Independent Third Party(ies)”	any entity or person who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
“IP License Agreement”	the intellectual property license agreement entered into between the Group and Target Company on 9 May 2022
“Joint Venture Agreement”	the joint venture agreement dated 9 May 2022 and entered into between Renault BV and CIL, as further described in the section headed “JOINT VENTURE AGREEMENT” of this announcement
“K-GAAP”	Korean Generally Accepted Accounting Principles
“Korea”	Republic of Korea
“KRW”	South Korean won, the lawful currency of Korea
“KSAs”	Korean Standards on Auditing
“Law”	any law, statute, order, ordinance, regulation, public notice, guidance, judgment or other rule or decision with legal effect of any Government Authority having competent jurisdiction
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Material Adverse Effect”	any event, occurrence, fact, condition, change or development (collectively, “ Effects ”) that has had or would reasonably be expected to have, either alone or together with other Effects, a material adverse effect on the business, properties, assets, operations, results of operations, condition (financial or otherwise) or liabilities of Target Company
“Mr. Li”	Mr. Li Shu Fu, an executive Director and a Controlling Shareholder holding approximately 42.30% interests in the total issued share capital of the Company as at the date of this announcement
“percentage ratio(s)”	has the meaning ascribed to it under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China, for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

“Pre-closing Date”	the day on which the exchange of documents under the Pre-closing Mechanism is completed
“Pre-closing Mechanism”	the exchange of documents set out in the Subscription Agreement within fifteen (15) days upon the satisfaction of the conditions precedent specified in the Subscription Agreement
“Proceeding”	any action, appeal, petition, plea, charge, complaint, claim, suit, demand, litigation, arbitration, mediation, hearing, inquiry, investigation, legal or administrative proceeding or other similar event, occurrence or proceeding
“Put Option”	the put option granted by Renault BV under the Joint Venture Agreement, pursuant to which CIL is entitled to require Renault BV to purchase, and Renault BV is obliged to purchase all shares of Target Company held by CIL
“Renault”	Renault S.A., a company incorporated in Boulogne-Billancourt, France with limited liability and listed in Euronext Paris, and is principally engaged in automobile business
“Renault BV”	Renault Group BV, a private limited liability company incorporated in Amsterdam, the Netherlands
“RMB”	Renminbi, the lawful currency of the PRC
“Samsung Card”	Samsung Card Co., Ltd., a company incorporated in Korea with limited liability and listed in Korea Stock Exchange (stock code: 029780.KRX). It is principally engaged in credit card business
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Target Shares by CIL in Target Company pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 9 May 2022 entered into by CIL and Target Company in respect of the Subscription, as further described in the section headed “SUBSCRIPTION AGREEMENT” of this announcement

“Target Company”	Renault Korea Motors Co., Ltd., a limited company incorporated in Korea
“Target Shares”	an aggregate of 45,375,000 common shares of Target Company on a Fully-Diluted Basis
“%”	per cent.

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

Hong Kong, 10 May 2022

In this announcement, translation of KRW into RMB is based on the exchange rate of KRW1:RMB0.005211. No representation is made that any amounts in KRW and RMB can be or could have been converted at the above exchange rate or any other rates.

As at the date of this announcement, the executive Directors of the Company are Mr. Li Shu Fu (Chairman), Mr. Yang Jian (Vice Chairman), Mr. Li Dong Hui, Daniel (Vice Chairman), Mr. Gui Sheng Yue (Chief Executive Officer), Mr. An Cong Hui, Mr. Ang Siu Lun, Lawrence and Ms. Wei Mei, and the independent non-executive Directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng, Mr. Wang Yang, Ms. Lam Yin Shan, Jocelyn and Ms. Gao Jie.