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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)

NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF XI'AN GEELY AND PROPOSED NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Financial Adviser to Geely Automobile Holdings Limited



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

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NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF XI'AN GEELY

On 12 December 2022 (after trading hours), Zhejiang Jirun, an indirect 99% owned subsidiary of the Company, entered into the Acquisition Agreement with Geely Manufacturing with regard to the acquisition of the entire equity interest of Xi'an Geely, for a cash consideration of RMB382.45 million.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS UPON COMPLETION OF THE ACQUISITION

Upon completion of the Acquisition, Xi'an Geely will continue to manufacture and sell CKDs and automobile components in relation to vehicle models including smart-branded vehicles to the Geely Holding Group. Such transactions will become continuing connected transactions for the Company.

On 12 December 2022, the Company entered into the CKDs and Automobile Components Sales Agreement with Geely Holding for a term from the completion date of the Acquisition to 31 December 2025 in order to regulate the foregoing continuing connected transactions. The proposed annual caps under the CKDs and Automobile Components Sales Agreement are approximately RMB25,090.2 million, RMB34,109.6 million and RMB30,861.0 million for the three years ending 31 December 2025, respectively.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Geely Manufacturing is indirectly owned as to 71.05% by Geely Holding, which is ultimately beneficially wholly owned by Mr. Li and his associate.

Mr. Li is an executive Director and a Substantial Shareholder holding approximately 42.15% of the total issued share capital of the Company as at the date of this announcement. As such, Geely Manufacturing is an associate of Mr. Li and a connected person of the Company under the Listing Rules. Accordingly, the Acquisition and the transactions contemplated under the CKDs and Automobile Components Sales Agreement constitute connected transaction and continuing connected transactions of the Company, respectively.

As one of the applicable percentage ratios in respect of the Acquisition exceed 5%, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Acquisition also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As the applicable percentage ratios in respect of the proposed annual caps for the CKDs and Automobile Components Sales Agreement are more than 5% on an annual basis, the entering into of the CKDs and Automobile Components Sales Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

Mr. Li, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui, each an executive Director, are considered to be interested in the Acquisition and the entering into of the CKDs and Automobile Components Sales Agreement by virtue of their interests and/or directorship in Geely Holding. As a result, each of Mr. Li, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui has abstained from voting on the Board resolutions for approving the Acquisition and the transactions contemplated under the CKDs and Automobile Components Sales Agreement (the “**Non-Exempt Connected Transaction and Continuing Connected Transactions**”).

The Independent Board Committee has been formed to advise the Independent Shareholders with respect to the Non-Exempt Connected Transaction and Continuing Connected Transactions. The Independent Financial Adviser has been appointed to advise the Independent Board Committee

and the Independent Shareholders on whether the terms of the Non-Exempt Connected Transaction and Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

A circular containing, among other things, (i) further information about the Non-Exempt Connected Transaction and Continuing Connected Transactions; (ii) the recommendation of the Independent Board Committee in respect of the Non-Exempt Connected Transaction and Continuing Connected Transactions; (iii) the advice of the Independent Financial Adviser on the Non-Exempt Connected Transaction and Continuing Connected Transactions; and (iv) other information as required under the Listing Rules together with the notice of the EGM, will be despatched to the Shareholders on or before 31 January 2023 (which is more than 15 business days after the publication of this announcement) after taking into account the time required for preparing and gathering the relevant information to be contained in the circular.

Completion of the Acquisition is subject to the satisfaction of the conditions precedent under the Acquisition 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.

NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF XI'AN GEELY

The Acquisition

On 12 December 2022 (after trading hours), Zhejiang Jirun, an indirect 99% owned subsidiary of the Company, entered into the Acquisition Agreement with Geely Manufacturing with regard to the acquisition of the entire equity interest of Xi'an Geely, for a cash consideration of RMB382.45 million.

The principal terms of the Acquisition Agreement are set out below:

Date

12 December 2022 (after trading hours)

Parties

Vendor: Geely Manufacturing

Purchaser: Zhejiang Jirun

Geely Manufacturing is a limited liability company incorporated in the PRC and is directly wholly owned by Zhejiang Geely, which is in turn 71.05% owned by Geely Holding. Geely Manufacturing is principally engaged in the manufacture and sale of automobile parts and components in the PRC.

Zhejiang Jirun is a limited liability company incorporated in the PRC and is an indirect 99% owned subsidiary of the Company. Zhejiang Jirun is principally engaged in the research, development, production, marketing and sales of vehicles and related automobile components in the PRC.

Subject matter

Pursuant to the Acquisition Agreement, Zhejiang Jirun conditionally agreed to acquire the entire equity interest of Xi'an Geely from Geely Manufacturing for a cash consideration of RMB382.45 million. Details of Xi'an Geely are set out in the paragraph headed "Information on Xi'an Geely – Principal business of Xi'an Geely" below.

Upon completion of the Acquisition, Xi'an Geely will become a subsidiary of the Company and the financial results of which will be consolidated into the consolidated financial statements of the Group.

Consideration

The total consideration for the Acquisition is RMB382.45 million, which will be payable in cash to Geely Manufacturing within three months from the completion date of the Acquisition.

The consideration was determined after arm's length negotiations between Zhejiang Jirun and Geely Manufacturing with reference to the appraised value of Xi'an Geely as at 30 September 2022 determined by an independent valuer using the asset-based approach.

It is expected that the consideration for the Acquisition will be funded by internal cash reserve of Zhejiang Jirun.

Indemnity and Undertaking given by Geely Manufacturing

The total assets of Xi'an Geely consist of the Properties, which is an industrial complex located in Xi'an City, Shaanxi Province, the PRC. The Properties comprised:

- (i) four parcels of land with a total site area of 1,506,974.57 sq.m.;
- (ii) 29 industrial and ancillary buildings with a total gross floor area of 694,164.88 sq.m.; and
- (iii) relevant office equipment.

As at the date of this announcement, Xi'an Geely holds one real estate title certificate for two buildings, two construction work planning permits and four construction work commencement permits for the Properties. According to the PRC legal adviser of the Company, (i) the above

certificate and permits for the Properties are true, legal and valid; and (ii) Xi'an Geely has legal ownership to the two buildings with real estate title certificate and can legally and beneficially own, use, occupy, transfer and lease out these buildings.

The PRC legal adviser noted that certain buildings of the Properties, namely the stamping workshop, welding workshop and office building of storage and transportation department (the "**Remaining Properties**") do not possess the real estate title certificates. As at the date of this announcement, Xi'an Geely was unable to apply for the real estate title certificates and complete the inspection procedures upon completion of the construction for the Remaining Properties due to a dispute with the contractor over the refund of certain amount of construction cost. Xi'an Geely is in negotiation with the contractor to resolve the aforesaid dispute and has not been involved in any litigation with the contractor up to the date of this announcement.

Notwithstanding the above, based on the due diligence review, confirmation of Xi'an Geely and Xi'an Geely's prior communication with local regulatory authority, the PRC legal adviser is of the view that (a) Xi'an Geely is entitled to apply for real estate title certificates in respect of the Remaining Properties as and when the relevant application materials are fully prepared. The PRC legal adviser does not foresee any material legal impediment for Xi'an Geely to obtain such real estate title certificates once all application materials are prepared and submitted; (b) Xi'an Geely is not subject to any penalties or fines ordered by the local regulatory authority up to the date of this announcement; and (c) the risk of Xi'an Geely being penalized and the Remaining Properties being formally repossessed as a result of the absence of real estate title certificates is low.

There are certain minor irregularities of Xi'an Geely (i.e. Xi'an Geely not being the registered entity to a number of procedures including the environmental protection procedures, occupational disease and safety procedures, improper handling of hazardous wastes originated from production activities). As advised by the PRC legal adviser, (i) the risk of rectification or penalties or fines is low as Xi'an Geely has discussed the current situation with the local regulatory authority which has not imposed any rectification or penalties or fines on Xi'an Geely up to the date of this announcement; and (ii) such irregularities will not affect Xi'an Geely to apply for the real estate title certificates of the Remaining Properties under the conditions that the relevant application materials are fully prepared and submitted.

Pursuant to the Acquisition Agreement, Geely Manufacturing agreed to indemnify Zhejiang Jirun and provide indemnity up to the amount of the consideration for the Acquisition against any loss, damage or liability suffered by Zhejiang Jirun concerning the Remaining Properties and other minor irregularities incurred before and 12 months after the completion date of the Acquisition.

In addition, in the event that Xi'an Geely is unable to obtain the real estate title certificates of the Remaining Properties on or before 31 December 2024, Geely Manufacturing shall (i) indemnify Zhejiang Jirun for its loss arising therefrom, which shall be calculated based on the then valuation of the Remaining Properties prepared by a third party valuer approved by the parties to the Acquisition Agreement; and (ii) shall pay to Zhejiang Jirun a penalty calculated based on an annual interest rate of 3.65% of the aforesaid valuation amount, which was determined after arm's length negotiations

between the parties to the Acquisition Agreement with reference to the prevailing annual interest rate of 3.65% on loan prime rate (within one year) offered by the People's Bank of China. Such indemnity and penalty will be fully paid in cash by Geely Manufacturing within 30 calendar days (or such later date as the parties may agree in writing) upon the issuance of the then valuation report on the Remaining Properties prepared by the third party valuer.

In view of the foregoing opinion from the PRC legal adviser and the indemnity and undertaking provided by Geely Manufacturing, the Group is of the view that the Remaining Properties' title certificates issue and the minor irregularities would not have material adverse effect on Xi'an Geely's operations and financial conditions.

Conditions precedent

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

- (i) Zhejiang Jirun being satisfied with the results of its due diligence review on Xi'an Geely, including but not limited to, the possession by Xi'an Geely of all approvals, consents and permits, and completion of all filings necessary to conduct the business operations of Xi'an Geely;
- (ii) the Company having made the announcement and obtained the Independent Shareholders' approval for the Acquisition Agreement and the transaction contemplated thereunder in accordance with the Listing Rules;
- (iii) Geely Manufacturing and Zhejiang Jirun having obtained their respective valid internal approval for the Acquisition Agreement and the transaction contemplated thereunder;
- (iv) the obtaining of all approvals, consents, filings and/or waivers from the relevant government authorities or third parties required for the Acquisition Agreement and the transaction contemplated thereunder, including but not limited to, the obtaining of the new business license of Xi'an Geely (if applicable) and the completion of registration procedures with the State Administration for Market Regulation in relation to the Acquisition;
- (v) the representations and warranties made by Geely Manufacturing in the Acquisition Agreement remaining true and accurate in all material respects and not misleading in any respect, and Geely Manufacturing having fully performed its obligations under the Acquisition Agreement on or before completion of the Acquisition; and
- (vi) (a) there being no material adverse change in the existence, business and financial positions of Xi'an Geely; and (b) no statute, regulation, proceeding or order pertaining to Xi'an Geely having been promulgated, put into effect, commenced, granted or issued that is subsisting or

pending as at the completion date of the Acquisition that would or could reasonably be expected to prohibit or restrict the consummation of the transactions contemplated under the Acquisition Agreement.

In the event that the conditions set out above are not fulfilled or waived (other than conditions (ii) and (iv) above) within 90 calendar days from the date of the Acquisition Agreement (or such later date as the parties may agree in writing), any party to the Acquisition Agreement is entitled to terminate the Acquisition Agreement by prior written notice to the other party. In the event of such termination, no party to the Acquisition Agreement may raise any claim against the other party or demand the other party to undertake any liability. All rights, obligations and liabilities under the Acquisition Agreement will become null and void upon such termination and the Acquisition Agreement will be of no further effect, save for any antecedent breach.

Completion of the Acquisition

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

Information on Xi'an Geely

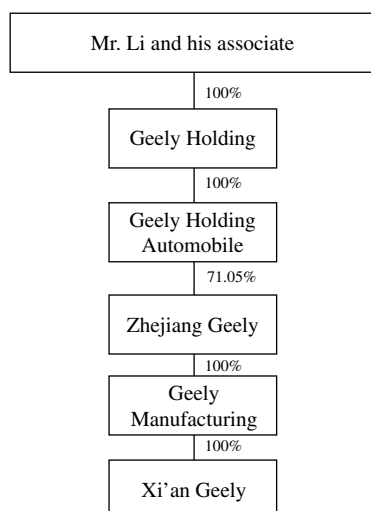
Principal business of Xi'an Geely

Xi'an Geely is a limited liability company incorporated in the PRC in 2017 and is a wholly owned subsidiary of Geely Manufacturing as at the date of this announcement. The principal activities of Xi'an Geely includes the manufacture and sale of CKDs, automobile parts and components in the PRC.

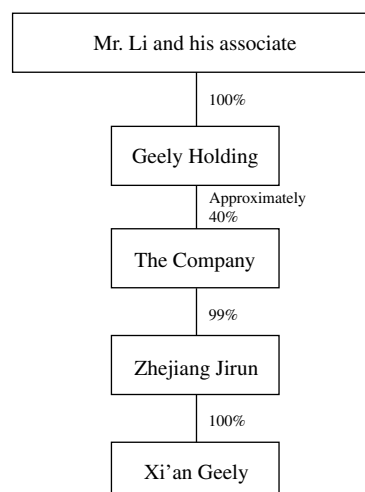
Shareholding structure of Xi'an Geely

The following diagrams set out the shareholding structure of Xi'an Geely before and upon completion of the Acquisition:

As at the date of this announcement



Upon completion of the Acquisition



Financial information of Xi'an Geely

Set out below is the financial information of Xi'an Geely for the years/period as indicated below prepared under the HKFRS:

	For the year ended 31 December		For the
	2020	2021	nine months
		<i>(Unaudited)</i>	ended
		<i>RMB'million</i>	30 September
			2022
(Loss)/Profit before taxation	(41.7)	(312.5)	165.7
(Loss)/Profit after taxation	(42.2)	(244.1)	128.0
			<i>(Unaudited)</i>
			<i>RMB million</i>
Net asset value as at 30 September 2022			139.7

As at 30 September 2022, the total assets of Xi'an Geely mainly comprised property, plant and equipment including the Properties for manufacturing purposes as well as trade and other receivables. Total liabilities of Xi'an Geely mainly comprised trade and other payables. There was no shareholder loan for Xi'an Geely as at 30 September 2022.

Upon completion of the Acquisition, Xi'an Geely will become a subsidiary of the Company and the financial results of which will be consolidated into the consolidated financial statements of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the section headed “Information on Xi’an Geely”, Xi’an Geely is principally engaged in the manufacture and sale of CKDs, automobile parts and components in the PRC. It is currently manufacturing the CKDs and automobile components of Geely-branded vehicles including a few SUV models under Geely Brand (the “**Geely-branded SUV Models**”) and smart-branded vehicles.

The Geely-branded SUV Models received high volume of orders from customers since their launch in 2021. Before the completion of the Acquisition, the Group has been procuring CKDs and automobile components from the Geely Holding Group for use in the Geely-branded SUV Models pursuant to the Existing Master CKDs and Automobile Components Purchase Agreement. The prices of such CKDs and automobile components are calculated at a cost-plus basis according to the actual manufacturing costs incurred by the Geely Holding Group plus an agreed margin rate. After the completion of Acquisition, the Group will manufacture the Geely-branded SUV Models on its own and thus reduce its reliance on the Geely Holding Group in this regard. It is also the Group’s intention to centralise the manufacturing function with its own manufacturing facilities in the long run. It is expected that the Group will benefit from saving the costs of paying the cost-plus-margin fee to the Geely Holding Group for manufacturing of the Geely-branded SUV Models.

As part of the business improvement plan, the Group will review the utilisation rates of the existing manufacturing facilities from time to time in order to optimise its resources allocation. The Group has been exploring options to increase the productivity of its manufacturing facilities in a cost-effective way. Since it will incur enormous cost for the Group to (i) retool the existing manufacturing facilities and/or (ii) build up a new manufacturing plant to produce the Geely-branded SUV Models, the Group believes that it will be more effective and economical to acquire Xi’an Geely and its existing manufacturing facilities to produce the Geely-branded SUV Models.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) consider that the Acquisition is on normal commercial terms, is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS UPON COMPLETION OF THE ACQUISITION

CKDs and Automobile Components Sales Agreement

Upon completion of the Acquisition, Xi’an Geely will continue to manufacture and sell CKDs and automobile components in relation to vehicle models including smart-branded vehicles to the Geely Holding Group. Such transactions will become continuing connected transactions for the Company.

On 12 December 2022, the Company entered into the CKDs and Automobile Components Sales Agreement with the Geely Holding for a term from the completion date of the Acquisition to 31 December 2025 in order to regulate the foregoing continuing connected transactions. The proposed

annual caps under the CKDs and Automobile Components Sales Agreement are approximately RMB25,090.2 million, RMB34,109.6 million and RMB30,861.0 million for the three years ending 31 December 2025, respectively.

The principal terms of the CKDs and Automobile Components Sales Agreement are summarised below:

Date

12 December 2022 (after trading hours)

Parties

Vendor: The Company

Purchaser: Geely Holding

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

Geely Holding is principally engaged in the sales of automobiles and related parts and components wholesale and retail business. As at the date of this announcement, Geely Holding is beneficially wholly owned by Mr. Li and his associate. Mr. Li is an executive Director and a Substantial Shareholder holding approximately 42.15% of the issued share capital of the Company. Accordingly, Geely Holding is an associate of Mr. Li and a connected person of the Company under the Listing Rules.

Subject matter

Pursuant to the CKDs and Automobile Components Sales Agreement, it was conditionally agreed that the Group will sell CKDs and automobile components in relation to vehicle models including smart-branded vehicles to the Geely Holding Group.

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

Term

The CKDs and Automobile Components Sales Agreement has a term from the completion date of the Acquisition to 31 December 2025.

Conditions precedent to the CKDs and Automobile Components Sales Agreement

The CKDs and Automobile Components Sales Agreement is subject to the Group having completed the Acquisition and complied with the relevant requirements of the Listing Rules with regard to the continuing connected transactions contemplated under the CKDs and Automobile Components Sales Agreement.

If the above conditions have not been fulfilled within 90 calendar days from the date of the CKDs and Automobile Components Sales Agreement (or such later date as the parties may agree in writing), the CKDs and Automobile Components Sales Agreement will lapse.

Termination

Either party may terminate the CKDs and Automobile Components Sales Agreement (i) by reaching a written agreement; 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 CKDs and Automobile Components Sales Agreement due to force majeure; or (b) Geely Holding ceases to be a connected person of the Company.

Pricing basis and proposed CKDs and Automobile Components Sales Annual Caps

(a) Pricing basis

Pursuant to the CKDs and Automobile Components Sales Agreement, the CKDs and automobile components to be sold by the Group to the Geely Holding Group in relation to vehicle models including smart-branded vehicles will be based on cost-plus basis according to:

- (i) the actual costs of manufacturing the CKDs and automobile components by the Group (including related taxes); plus
- (ii) the agreed margin rates

The margin rates will be determined by the Company and Geely Holding after arm's length negotiation with reference to the range between the lower quartile and the upper quartile of the 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 25 November 2022 (the "**Supply Pricing Analysis Report**"), the margin rates are applicable to the direct material costs and the overheads other than direct material costs respectively. Such margin rates are 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 the fixed rate for the transactions throughout the term of the CKDs and Automobile Components Sales Agreement. Having considered the pricing basis with reference to the Supply

Pricing Analysis Report, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) consider the pricing basis under the CKDs and Automobile Components Sales Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The table below sets out the proposed CKDs and Automobile Components Sales Annual Caps in relation to vehicle models including smart-branded vehicles. After the commencement of the CKDs and Automobile Components Sales Agreement, the Group will manufacture the CKDs and automobile components for the use in the smart-branded vehicles according to the instruction of the Geely Holding Group. The CKDs and automobile components in relation to the smart-branded vehicles to be procured by the Geely Holding Group will be further sold to the smart Group for the manufacture and sales of the smart-branded vehicles.

	Proposed annual caps for the year ending 31 December		
	2023	2024	2025
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sale of CKDs and automobile components by the Group to the Geely Holding Group	25,090.2	34,109.6	30,861.0

As advised by the auditor of the Group, since the Group does not obtain control over the CKDs and automobile components in relation to the smart-branded vehicles before such CKDs and automobile components are sold to the Geely Holding Group, the Group is acting as an agent in respect of the sale of the CKDs and automobile components to the Geely Holding Group pursuant to the CKDs and Automobile Components Sales Agreement. As such, the sales and purchases of CKDs and automobile components in relation to the smart-branded vehicles will be presented on a net basis in the consolidated income statement of the Group.

Given the net revenue generated from the transactions contemplated under the CKDs and Automobile Components Sales Agreement will not be significant to the Group in terms of revenue amount, the Group is of the view that the entering into the CKDs and Automobile Components Sales Agreement will not create material reliance on the Geely Holding Group.

(b) *Basis of determination of the proposed annual caps*

The proposed CKDs and Automobile Components Sales Annual Caps were determined by the Directors with reference to:

- (i) the estimated number of units of CKDs and automobile components in relation to the smart-branded vehicles to be sold by the Group to the Geely Holding Group, which in turn was determined based on the projected unit sales of the smart-branded vehicles (including existing smart-branded vehicles and the new model of smart-branded vehicles which is expected to be launched in 2023) for the three years ending 31 December 2025;
- (ii) the estimated actual cost of manufacturing CKDs and automobile components in relation to the existing and the upcoming vehicle model of smart-branded vehicles (including but not limited to the material costs, labour costs and overhead costs) and the related taxes for the three years ending 31 December 2025; and
- (iii) the margin rates over such estimated manufacturing costs of CKDs and automobile components respectively with reference to the Supply Pricing Analysis Report.

The increase in the CKDs and Automobile Components Sales Annual Caps for the year ending 31 December 2024 is primarily due to (i) the new vehicle model of smart-branded vehicle is expected to be launched during 2023; and (ii) the sales volume of that model is expected to increase in 2024 compared to the sales volume in 2023. The decrease in the CKDs and Automobile Components Sales Annual Caps for the year ending 31 December 2025 is primarily due to the expected decrease in the sales volume of the smart-branded vehicles after reaching the peak sales volume in 2024.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) are of the view that the CKDs and Automobile Components Sales Annual Caps for the three years ending 31 December 2025 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CKDS AND AUTOMOBILE COMPONENTS SALES AGREEMENT

Xi'an Geely is principally engaged in the manufacture and sale of CKDs and automobile parts and components in the PRC. Currently, Xi'an Geely is mainly engaged in the manufacturing of the CKDs and automobile components in relation to the Geely-branded vehicles including the Geely-branded SUV Models. The technologies used for assembling the CKDs and automobile components of Geely-branded SUV Models and smart-branded vehicles are substantially different from each other as the pure electric vehicles adopt a different assembly process compared to non-pure electric vehicles. Given the sufficient production capacity reserved by Xi'an Geely for the manufacturing of CKDs and automobile components of the Geely-branded SUV Models which adopt a different assembly process, the manufacture of the CKDs and automobile components of smart-branded vehicles is not expected to occupy the production capacity of the Geely-branded SUV Models. Therefore, it is expected that the manufacture and sale of CKDs and automobile components of smart-branded vehicles to the Geely Holding Group pursuant to the CKDs and Automobile Components Sales Agreement will not have material adverse impact on the manufacture and sale of the Geely-branded SUV Models.

The utilization rate of the manufacturing facilities of Xi'an Geely is expected to increase after more smart-branded vehicles start to deliver in 2023. Moreover, the Group will benefit from broadening the income stream by selling CKDs and automobile components of smart-branded vehicles to the Geely Holding Group. Since the revenue generated from the transactions contemplated under the CKDs and Automobile Components Sales Agreement will be presented on a net basis in the consolidated income statement of the Group, the Group is of the view that the entering into the CKDs and Automobile Components Sales Agreement will not create material reliance on the Geely Holding Group.

The Group currently holds three major brands, namely Geely, Geometry and ZEEKR. While the Geely-branded vehicles are mostly mid-end ICE passenger vehicles which targets the mass public, Geometry brand is the pure electric vehicle brand of the Group and the ZEEKR brand is a new premium smart pure electric vehicle brand of the Group. Although the smart brand is also positioned as a pure electric vehicle brand, there is no horizontal competition that casts material adverse impact on the Group among the smart, Geometry and ZEEKR due to the following major reasons:

Target market: smart targets different market compared to ZEEKR and Geometry. smart targets the mid-to-high-end BEV market while ZEEKR targets the premium BEV market with a considerably higher average price. On the contrary, Geometry targets the entry-level BEV segment with a lower price range.

Target customers: smart has a distinctive target customers group differentiated from that of ZEEKR and Geometry. smart targets the middle class customers who prefer smaller size vehicles which are more applicable for individual use. ZEEKR and Geometry both offer bigger size vehicles which can meet the need of family trips while ZEEKR targets the affluent adults located in the first-and-second-tier cities in China and Geometry targets the mass public.

Management team: The management teams of smart, ZEEKR and Geometry are independent from each other and there is no overlapping management personnel among smart, ZEEKR and Geometry.

In view of the rapid growth in the BEV market in the PRC, the Group considers there is huge potential in the development of smart, ZEEKR and Geometry. Given the potential business growth, the Group is actively exploring different options to collaborate with smart. The Group believes that such potential synergy with smart will be beneficial to the development BEV business of the Group in the long run.

Taking into consideration the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) are of the view that the entering into of the CKDs and Automobile Components Sales Agreement is beneficial to the Group as a whole.

INTERNAL CONTROL MEASURES IN RELATION TO PRICING FOR THE CKDS AND AUTOMOBILE COMPONENTS SALES AGREEMENT

In order to ensure that the aforesaid pricing basis for the CKDs and Automobile Components Sales Agreement is adhered to, the Group will monitor the relevant manufacturing costs and overhead costs to ensure that the selling price of such CKDs and automobile components are determined properly. The Company and Geely Holding will 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 the such transactions. The Company and Geely Holding will determine the margin rate with reference to a transfer pricing analysis report prepared by an independent certified public accountant or institution with the same qualification. The Company and Geely Holding will review the scope of the CKDs and automobile components to be sold by the Group to the Geely Holding Group on yearly basis (or more frequently if it is determined necessary) to determine whether updated transfer pricing analysis report shall be obtained for the determination of the margin rate. The margin rate will be determined with reference to the lower quartile and upper quartile of the three-year weighted average cost-plus-margins of the comparable companies as stated in such updated transfer pricing analysis report.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Geely Manufacturing is indirectly owned as to 71.05% by Geely Holding, which is ultimately beneficially wholly owned by Mr. Li and his associate.

Mr. Li is an executive Director and a Substantial Shareholder holding approximately 42.15% of the total issued share capital of the Company as at the date of this announcement. As such, Geely Manufacturing is an associate of Mr. Li and a connected person of the Company under the Listing Rules. Accordingly, the Acquisition and the transactions contemplated under the CKDs and Automobile Components Sales Agreement constitute connected transaction and continuing connected transactions of the Company, respectively.

As one of the applicable percentage ratios in respect of the Acquisition exceed 5%, the Acquisition is subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Acquisition also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As the applicable percentage ratios in respect of the proposed annual caps for the CKDs and Automobile Components Sales Agreement are more than 5% on an annual basis, the entering into of the CKDs and Automobile Components Sales Agreement is subject to the reporting, annual review, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

Mr. Li, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui, each an executive Director, are considered to be interested in the Acquisition and the entering into of the CKDs and Automobile Components Sales Agreement by virtue of their interests and/or directorship in Geely Holding. As a result, each of Mr. Li, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui has abstained from voting on the Board resolutions for approving the Acquisition and the transactions contemplated under the CKDs and Automobile Components Sales Agreement (the “**Non-Exempt Connected Transaction and Continuing Connected Transactions**”).

The Independent Board Committee has been formed to advise the Independent Shareholders with respect to the Non-Exempt Connected Transaction and Continuing Connected Transactions. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Non-Exempt Connected Transaction and Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

A circular containing, among other things, (i) further information about the Non-Exempt Connected Transaction and Continuing Connected Transactions; (ii) the recommendation of the Independent Board Committee in respect of the Non-Exempt Connected Transactions and Continuing Connected Transactions; (iii) the advice of the Independent Financial Adviser on the Non-Exempt Connected Transaction and Continuing Connected Transactions; and (iv) other information as required under the Listing Rules together with the notice of the EGM, will be despatched to the Shareholders on or before 31 January 2023 (which is more than 15 business days after the publication of this announcement) after taking into account the time required for preparing and gathering the relevant information to be contained in the circular.

Completion of the Acquisition is subject to the satisfaction of the conditions precedent under the Acquisition 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.

DEFINITIONS

Unless the context otherwise requires, the following terms in this announcement shall have the meanings set out below:–

“Acquisition” the acquisition of the entire equity interest of Xi’an Geely by Zhejiang Jirun from Geely Manufacturing pursuant to the Acquisition Agreement

“Acquisition Agreement” the equity transfer agreement entered into between Zhejiang Jirun and Geely Manufacturing on 12 December 2022

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“BEV”	battery electric vehicle
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays, Sundays and public holidays) on which banks are open for business in Hong Kong and the PRC
“CKD(s)”	complete knock down kit(s) (整車成套件), a complete kit needed to assemble a vehicle
“CKDs and Automobile Components Sales Agreement”	the master agreement entered into between the Company and Geely Holding on 12 December 2022, pursuant to which the Group conditionally agreed to sell CKDs and automobile components in relation to vehicle models including smart-branded vehicles to the Geely Holding Group
“CKDs and Automobile Components Sales Annual Caps”	the proposed annual caps in relation to the sale of CKDs and automobile components by the Group to the Geely Holding Group for the three years ending 31 December 2025
“Company”	Geely Automobile Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange (stock code: 175)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Non-exempt Connected Transaction and Continuing Connected Transactions
“Existing Master CKDs and Automobile Components Purchase Agreement”	the master agreement and the supplemental agreement entered into between the Company and Geely Holding on 4 November 2020 and 15 October 2021 respectively, pursuant to which the Group agreed to purchase CKDs and automobile components from the Geely Holding Group
“Geely Brand”	automobile brand of the Group

“Geely Holding”	浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Company Limited*), a limited liability company incorporated in the PRC, and is ultimately beneficially wholly owned by Mr. Li and his associate as at the date of this announcement
“Geely Holding Automobile”	吉利汽車集團有限公司 (Geely Automobile Group Company Limited*), a limited liability company incorporated in the PRC, and is wholly owned by Geely Holding as at the date of this announcement
“Geely Holding Group”	Geely Holding and its subsidiaries
“Geely Manufacturing”	浙江吉利汽車製造有限公司 (Zhejiang Geely Automobile Manufacturing Company Limited*), a limited liability company incorporated in the PRC, and indirectly owned as to 71.05% by Geely Holding as at the date of this announcement
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, which comprises all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders on the Non-Exempt Connected Transaction and Continuing Connected Transactions
“ICE”	internal combustion engine
“Independent Financial Adviser”	Ballas Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Connected Transaction and Continuing Connected Transactions
“Independent Shareholders”	Shareholder(s) other than Mr. Li, Mr. Li Dong Hui, Daniel and Mr. An Cong Hui and their respective associates
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is (or are) not a connected person of the Company, any of its subsidiaries or any of their respective associates

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Mr. Li Shu Fu, an executive Director and a Substantial Shareholder together with his associates holding approximately 42.15% 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, and for the purposes of this announcement excluding Hong Kong, the Macau Special Administrative Region, and Taiwan
“Properties”	an industrial complex located in Xi’an City, Shaanxi Province, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq.m.”	square meter(s)
“smart”	智馬達汽車有限公司, a limited liability company established in the PRC and owned as to 50% each by Geely Holding Automobile and a third party, respectively as at the date of this announcement
“smart-branded”	an automobile brand under the smart Group
“smart Group”	smart and its subsidiaries
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“SUV”	sport utility vehicle
“Xi’an Geely”	西安吉利汽車有限公司 (Xian Geely Automobile Company Limited*), a limited liability company incorporated in the PRC, and is wholly owned by Geely Manufacturing as at the date of this announcement

“Zhejiang Geely”	浙江吉利汽車有限公司 (Zhejiang Geely Automobile Company Limited*), a limited liability company incorporated in the PRC, and is 71.05% owned by Geely Holding as at the date of this announcement
“Zhejiang Jirun”	浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited*), a limited liability company established in the PRC and an indirect 99% owned subsidiary of the Company as at the date of this announcement
“%”	per cent

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

Hong Kong, 12 December 2022

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

* *For identification purposes only*