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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)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE DISPOSAL OF EQUITY INTERESTS IN THE  
KANDI JV AND THE ZHIDOU JV; AND  
(2) EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

**Financial Adviser to Geely Automobile Holdings Limited**



**上銀國際有限公司**  
BOSC International Company Limited

**BOSC International Company Limited**

**Independent Financial Adviser to Geely Automobile Holdings Limited**



信溢投資策劃有限公司

CHALLENGE CAPITAL MANAGEMENT LIMITED

**Challenge Capital Management Limited**

**(1) THE MASTER DISPOSAL AGREEMENT**

Reference is made to the Company's announcements dated 1 February 2013 and 8 January 2015 in relation to the formation of the Kandi JV and the Zhidou JV, respectively. Reference is also made to the Company's announcement dated 22 June 2016 in relation to the intended disposal of the Zhidou JV to an independent third party, which did not materialise as the relevant parties could not reach agreement on the definitive terms for the intended disposal.

As at the date of this announcement, the Kandi JV is held as to 50% by Shanghai Maple Guorun, a 99% owned subsidiary of the Company, and the Zhidou JV is held as to 45% by the Zhidou Geely Parties, which comprise Shanghai Maple Guorun and Jirun Automobile, each a 99% owned subsidiary of the Company. To the best of the knowledge, information

and belief of the Directors, the other shareholders of the Kandi JV and the Zhidou JV are independent of and not connected to the Company and its connected persons. The Kandi JV and the Zhidou JV are both principally engaged in the research and development, production, marketing and sales of relatively low-end electric vehicles (which are commonly characterised by their lower speed, charging range and technology, and hence lower selling price) in the PRC.

As part of the Group's on-going strategy to enhance value for the Shareholders, the Group plans to consolidate and enhance its product portfolio and thus brand image by focusing on relatively higher-end automobiles going forward. In addition, recent policies issued in the PRC in relation to the eligibility for subsidies and tax exemptions have also been unfavourable to the product portfolios of the Kandi JV and the Zhidou JV and have a negative effect on their financial performance in 2016.

On 25 July 2016 (after trading hours), the Company entered into the Master Disposal Agreement with Geely Holding to dispose of the Group's 50% and 45% interests in the Kandi JV and the Zhidou JV to Geely Holding at an aggregate consideration of RMB1,346,486,590 (out of which RMB725,412,590 and RMB621,074,000 are for the Kandi Disposal and the Zhidou Disposal, respectively).

Completions of the Kandi Disposal and the Zhidou Disposal are inter-conditional.

## **(2) EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

The Group has been supplying automobile parts and components to the Kandi JV for it to assemble CKDs. After completion of the Disposals, in addition to continuing the supply of automobile parts and components to the Kandi JV, the Group will also assemble some of the automobile parts and components into CKDs and supply these assembled CKDs to the Geely Holding Group for Kandi JV and Zhidou JV's production of electric vehicles.

On 25 July 2016 (after trading hours), (i) the Company and the Kandi JV entered into the Kandi Automobile Parts Supply Agreement for a term from 25 July 2016 or the completion date of the Disposals, whichever is the later to 31 December 2018 to govern the sale of automobile parts and components from the Group to the Kandi JV, and (ii) the Company and Geely Holding entered into the EV CKD Supply Agreement for a term from 25 July 2016 or the completion date of the Disposals, whichever is the later to 31 December 2018 to govern the sale of CKDs from the Group to the Geely Holding Group.

## **IMPLICATIONS UNDER THE LISTING RULES**

Geely Holding is beneficially wholly-owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.98% of the total issued share capital of the Company as at the date of this announcement. As such, Geely Holding is an

associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules. Upon completion of the Disposals, as the Kandi JV will be held as to 50% by Geely Holding and will become an associate of Geely Holding, the Kandi JV will also become a connected person of the Company. Accordingly, the Disposals and the Exempted Continuing Connected Transactions constitute connected transactions and exempted continuing connected transactions, respectively, for the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable aggregated percentage ratios in respect of the Disposals are more than 5%, the Disposals are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as the applicable aggregated percentage ratios in respect of the Disposals are more than 5% but less than 25%, the Disposals also constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules.

With regard to the Exempted Continuing Connected Transactions, as the applicable percentage ratios of the aggregated proposed annual caps for the three years ending 31 December 2018 for the transactions contemplated under the Kandi Automobile Parts Supply Agreement and the EV CKD Supply Agreement are less than 5% on an annual basis, the Exempted Continuing Connected Transactions are subject to the reporting, annual review, announcement requirements, but are exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

## **EGM**

The EGM will be convened to consider and approve the Disposals. Mr. Li and his associates together holding 3,783,099,000 Shares (representing approximately 42.98% of the total issued share capital of the Company), Mr. Yang Jian and his associates together holding 14,475,000 Shares (representing approximately 0.16% of the total issued share capital of the Company) and Mr. An Cong Hui and his associates together holding 15,380,000 Shares (representing approximately 0.17% of the total issued share capital of the Company) as at the date of this announcement, will all abstain from voting on the resolutions to be proposed at the EGM to approve the Disposals. Mr. Li Dong Hui, Daniel was not interested in any Shares as at the date of this announcement.

## **GENERAL**

An Independent Board Committee has been formed to advise the Independent Shareholders with respect to the Disposals, and Challenge Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Disposals in this regard.

A circular containing, among other things, (i) further information about the Disposals; (ii) the recommendation of the Independent Board Committee in respect of the Master Disposal Agreement; (iii) the advice of Challenge Capital regarding the terms of the Master Disposal Agreement; 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 16 August 2016.

**Completion of the Disposals is subject to the satisfaction of the conditions precedent under the Master Disposal Agreement, and therefore, may or may not proceed to completion. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

### **(1) THE MASTER DISPOSAL AGREEMENT**

Terms of the Master Disposal Agreement are summarised below:

#### **Date**

25 July 2016 (after trading hours)

#### **Parties**

Vendor: The Company (interests in the Kandi JV are held via Shanghai Maple Guorun, and interests in the Zhidou JV are held via the Zhidou Geely Parties)

Purchaser: Geely Holding

Shanghai Maple Guorun is principally engaged in the research and development, production, marketing and sale of sedans and related automobile components in the PRC.

Jirun Automobile is principally engaged in the research, development, production, marketing and sales of sedans and related automobile components in the PRC.

Geely Holding and its subsidiaries are principally engaged in the sales of automobiles and related parts and components wholesale and retail businesses.

## **Subject matter**

Pursuant to the Master Disposal Agreement, Geely Holding has conditionally agreed to acquire, and Shanghai Maple Guorun (for the Kandi Disposal) and the Zhidou Geely Parties (for the Zhidou Disposal) have conditionally agreed to sell, (i) the Kandi Sale Shares, being 50% of the registered capital of the Kandi JV; and (ii) the Zhidou Sale Shares, being 45% of the registered capital of the Zhidou JV. Details of the Kandi JV and the Zhidou JV are set out in the section headed “INFORMATION ON THE KANDI JV AND THE ZHIDOU JV” below. Completions of the Kandi Disposal and the Zhidou Disposal are inter-conditional.

Pursuant to the entrusted loan agreements dated 17 December 2015 and 17 June 2016, Shanghai Maple Guorun provided an entrusted shareholder’s loan of RMB150,000,000 to the Kandi JV. Pursuant to a novation agreement entered into between Shanghai Maple Guorun, Geely Holding and the Kandi JV on 25 July 2016, all rights of Shanghai Maple Guorun as a lender of the shareholder’s loan will be novated to Geely Holding upon completion of the Kandi Disposal, and Geely Holding will fully repay such entrusted shareholder’s loan of RMB150,000,000 to Shanghai Maple Guorun upon completion of the Kandi Disposal.

In addition, Shanghai Maple Guorun has provided a guarantee in favour of the Kandi JV with an amount of RMB300,000,000. Geely Holding will procure that such guarantee be released before completion of the Kandi Disposal.

Upon completion of the Disposals, the Company’s interests in each of the Kandi JV and the Zhidou JV will be transferred to Geely Holding, and the financial statements of the Kandi JV and the Zhidou JV will no longer be equity-accounted for in the consolidated financial statements of the Group.

## **Consideration**

The aggregate consideration for the Disposals is RMB1,346,486,590, out of which RMB725,412,590 is for the Kandi Disposal and RMB621,074,000 is for the Zhidou Disposal.

The consideration for the Disposals was determined after arm’s length negotiations between the Company and Geely Holding with reference to (i) the historical financial performances of the Kandi JV and the Zhidou JV and (ii) the future prospects of their respective electric vehicle product portfolios.

30% of the consideration for the Disposals, equivalent to RMB403,945,977, will be payable in cash within 7 calendar days from the date of the Master Disposal Agreement, 40% balance of the consideration for the Disposals, equivalent to RMB538,594,636, will be payable in cash upon the SAIC issuing new business licenses for the Kandi JV and the Zhidou JV showing their new shareholding structures, and the remaining 30% balance of the consideration, equivalent to RMB403,945,977, will be payable in cash within 180 calendar days from the date of the Master Disposal Agreement.

## **Conditions precedent**

Completion of the Disposals will be subject to and conditional upon the fulfillment or waiver of the following conditions:

- (a) Geely Holding being satisfied with the results of its due diligence work performed on the Kandi JV and the Zhidou JV;
- (b) the Company having complied with the applicable requirements of the Listing Rules relating to the Disposals, including where necessary, the obtaining of Independent Shareholders' approval on the transactions contemplated under the Master Disposal Agreement;
- (c) the receipt of all consents, waivers or approvals from the relevant government authority or third parties required for or in connection with the execution, delivery and performance of the Master Disposal Agreement; and
- (d) the representations and warranties made by the Company in the Master Disposal Agreement remaining true and correct in all material respects, and the Company having fully carried out its obligations under the Master Disposal Agreement.

Geely Holding will have the right to waive conditions (a) and (d) above in part or in full.

In the event the conditions set out above are not fulfilled or waived on or before the Long Stop Date, any party to the Master Disposal Agreement will have the right to terminate the Master Disposal Agreement by prior written notice to the other party. In the event of such termination, no party to the Master Disposal 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 Master Disposal Agreement will become null and void upon such termination and the Master Disposal Agreement will be of no further effect, save with respect to any antecedent breaches.

## **Completion**

Completion of the Disposals will take place on the date which all the conditions to the Master Disposal Agreement have been fulfilled or waived or such other later date as the parties may agree in writing.

## **INFORMATION ON THE KANDI JV AND THE ZHIDOU JV**

### **Principal businesses of the Kandi JV and the Zhidou JV**

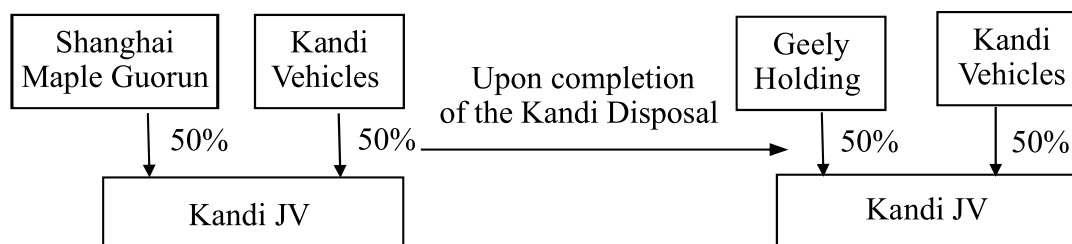
Kandi JV is a limited liability company incorporated in the PRC on 1 February 2013. It is principally engaged in the investment, research and development, production, marketing and sales of electric vehicles in the PRC.

Zhidou JV is a limited liability company incorporated in the PRC on 6 January 2015. It is principally engaged in the research and production of automobile parts, components and engines, electric vehicles and the provision of related after-sale services in the PRC.

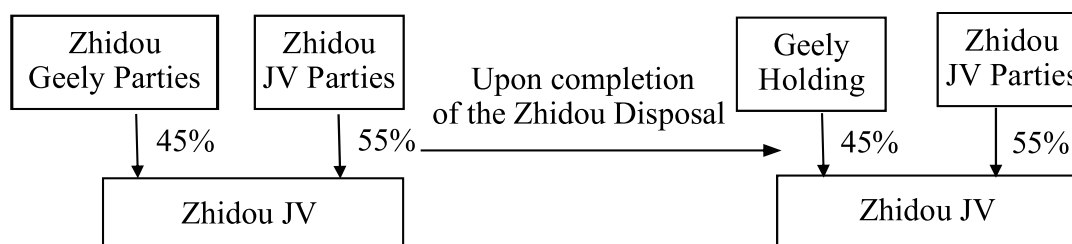
### Shareholding structures of the Kandi JV and the Zhidou JV

The following diagrams set out the shareholding structures of the Kandi JV and the Zhidou JV before and upon completions of the Kandi Disposal and the Zhidou Disposal, respectively:

#### *Kandi JV*



#### *Zhidou JV*



### Financial information on the Kandi JV and the Zhidou JV

Set out below is the audited financial information of the Kandi JV for the two financial years ended 31 December 2015 and the audited financial information of Zhidou JV for the financial year ended 31 December 2015 (as the Zhidou JV was established on 6 January 2015) prepared under the HKFRS, and the unaudited financial information of the Kandi JV and the Zhidou JV for the three months ended 31 March 2016 prepared under the PRC GAAP:

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2015</b>	<b>For the three months ended 31 March 2016</b>
<b>Kandi JV</b>	(Audited)	(Audited)	(Unaudited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Revenue	1,325,167,989	1,818,376,070	-45,269,755
Net income before taxation	61,044,092	213,090,021	-48,705,242
Net income after taxation	46,272,437	166,735,976	-48,705,242

The unaudited net asset value of the Kandi JV as at 31 March 2016 amounted to approximately RMB1,150,682,787.

<b>Zhidou JV</b>	<b>From date of incorporation up to 31 December 2015 (Audited) RMB</b>	<b>For the three months ended 31 March 2016 (Unaudited) RMB</b>
Revenue	3,397,587,712	27,565,147
Net income before taxation	114,085,878	-88,868,871
Net income after taxation	103,039,900	-88,873,724

The unaudited net asset value of the Zhidou JV as at 31 March 2016 amounted to approximately RMB1,322,261,608.

Subject to final audit, it is expected that the Group will realise a gain on disposal of approximately RMB176 million which is calculated by reference to the carrying value of the Kandi JV and the Zhidou JV as at 31 March 2016. The Directors currently intend to apply the proceeds from the Disposals for general working capital of the Company.

## **REASONS FOR AND BENEFITS OF THE DISPOSALS**

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

As part of the Group's on-going strategy to enhance value for Shareholders, the Group plans to consolidate and enhance its product portfolio and thus brand image by focusing on relatively higher-end automobiles going forward. In addition, recent policies issued in the PRC in relation to the eligibility for subsidies and tax exemptions have also been unfavourable to the product portfolios of the Kandi JV and the Zhidou JV and have a negative effect on their financial performance in 2016. As a result, both the Kandi JV and the Zhidou JV have incurred net losses during the first quarter of year 2016. The Kandi JV and the Zhidou JV, being a 50% and 45% held joint ventures of the Group, are also considered as relatively passive investments of the Group as the Group does not have majority control and influence in the day-to-day management of the two companies pursuant to the respective shareholders agreements. Therefore, given such operational and management structure and constraints, it is difficult for the Group to exercise significant influence on the companies in case of, among others, unfavourable policies in the PRC and deteriorating business environment, which are the factors which the Kandi JV and the Zhidou JV have recently been experiencing. Taking into account the above, the Directors consider that the future prospects of the Kandi JV and the Zhidou JV are uncertain, and the Disposals will allow the Group to allocate more time and resources to the development of mid to higher-end automobiles.



The Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after having taken into consideration the advice of the Independent Financial Adviser) consider that the Disposals as a whole are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **(2) EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

The Group has been supplying automobile parts and components to the Kandi JV for it to assemble CKDs. After completion of the Disposals, in addition to continuing the supply of automobile parts and components to the Kandi JV, in order to enhance operational efficiency, the Group will also assemble some of the automobile parts and components into CKDs and supply them to Geely Holding Group for Kandi JV's production of electric vehicles. Similarly for the Zhidou JV, after completion of the Disposals, the Group will also supply assembled CKDs to the Geely Holding Group for Zhidou JV's production of electric vehicles.

Upon completion of the Disposals, the Kandi JV will be held as to 50% by Geely Holding and will become an associate of Mr. Li and a connected person of the Company. The Group's sale of automobile parts and components to the Kandi JV under the Kandi Automobile Parts Supply Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. The Group's sale of CKDs to the Geely Holding Group under the CKD Supply Agreement will also constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

### **The Kandi Automobile Parts Supply Agreement**

On 25 July 2016 (after trading hours), the Company and the Kandi JV entered into the Kandi Automobile Parts Supply Agreement to govern the sale of automobile parts and components from the Group to the Kandi JV. The information below sets out the key terms of the Kandi Automobile Parts Supply Agreement:

#### **Date**

25 July 2016 (after trading hours)

#### **Parties**

The Company; and

Kandi JV

## **Terms**

From 25 July 2016 or the completion date of the Disposals, whichever is the later to 31 December 2018

## **Subject matter and pricing basis**

Pursuant to the Kandi Automobile Parts Supply Agreement, the Group agreed to sell to the Kandi JV automobile parts and components in accordance with the product specifications set out in the Kandi Automobile Parts Supply Agreement. The automobile parts and components to be supplied by the Group to the Kandi JV will be based on the original manufacturing cost, being the actual cost(s) incurred in the manufacturing process by the Group plus a margin of 8%. Such pricing basis is determined with reference to the historical pricing basis for the sale of automobile parts and components by the Group to the Kandi JV, which is 50% owned by an independent third party.

The above activities will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to independent third parties.

## **Conditions precedent**

The Kandi Automobile Parts Supply Agreement will be conditional upon (i) the completion of the Disposals; and ii) the Company having complied with the requirements of the Listing Rules with regard to the continuing connected transactions. If the above conditions have not been fulfilled on or before 30 September 2016 (or such later date as the parties may otherwise agree in writing), the Kandi Automobile Parts Supply Agreement will lapse and all the obligations and liabilities of the parties to the Kandi Automobile Parts Supply Agreement will cease and terminate.

## Proposed annual caps

The table below sets out the historical transaction amounts for the year ended 31 December 2015 and six months ended 30 June 2016, and the proposed annual caps for the sale of automobile parts and components from the Group to the Kandi JV pursuant to the Kandi Automobile Parts Supply Agreement for each of the three years ending 31 December 2016, 2017 and 2018:

	<b>Historical transaction amounts for the year ended 31 December 2015 (Audited) RMB'000</b>	<b>Historical transaction amounts for the six months ended 30 June 2016 (Unaudited) RMB'000</b>	<b>Proposed annual caps for the year ending 31 December</b>		
			<b>2016 RMB'000</b>	<b>2017 RMB'000</b>	<b>2018 RMB'000</b>
Sale of automobile parts and components from the Group to the Kandi JV	71,802	42,525	252,137	317,991	317,991

## Basis of determination of the proposed annual caps

The above proposed annual caps have been determined by the Directors by reference to (i) the historical sale amounts of automobile parts and components from the Group to the Kandi JV; (ii) the estimated sale amounts of automobile parts and components to the Kandi JV as a result of the anticipated growth in the number of units of electric vehicles to be sold based on the sales budget of the Kandi JV; and (iii) the estimated manufacturing cost to be incurred by the Group for the three years ending 31 December 2016, 2017 and 2018. The significant increase in the annual cap amount from year 2015 to year 2016 was attributable to the fact that the Kandi JV only launched another new model of electric vehicle and sold small units of such model in the second half of 2015 and it has taken some time for the Kandi JV to gradually enter into a full-scale operation in year 2016. The increase in the proposed annual cap amount from year 2016 to year 2017 is relatively stable whilst the proposed annual cap amount in year 2017 will keep constant till the year 2018.

The Directors (including the independent non-executive Directors) are of the view that the Kandi Automobile Parts Supply Agreement is entered into in the ordinary and usual course of business of the Company, under normal commercial terms and the terms and the relevant annual

caps of the Kandi Automobile Parts Supply Agreement for the three years ending 31 December 2016, 2017 and 2018 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **The EV CKD Supply Agreement**

On 25 July 2016 (after trading hours), the Company and Geely Holding entered into the EV CKD Supply Agreement to govern the sale of CKDs from the Group to the Geely Holding Group. The information below sets out the key terms of the EV CKD Supply Agreement:

#### **Date**

25 July 2016 (after trading hours)

#### **Parties**

The Company; and

Geely Holding

#### **Terms**

From 25 July 2016 or the completion date of the Disposals, whichever is the later to 31 December 2018

#### **Subject matter and pricing basis**

Pursuant to the EV CKD Supply Agreement, the Group agreed to sell to the Geely Holding Group CKDs in accordance with the product specifications set out in the EV CKD Supply Agreement. The CKDs to be supplied by the Group to Geely Holding will be based on the original manufacturing cost, being the actual cost(s) incurred in the manufacturing process by the Group plus a margin of 8%. The pricing basis for the Group's supply of CKDs is the same as the pricing basis for the Group's supply of automobile parts and components as the manufacturing work involved are similar.

The above activities will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to independent third parties.

#### **Conditions precedent**

The EV CKD Supply Agreement will be conditional upon (i) the completion of the Disposals; and (ii) the Company having complied with the requirements of the Listing Rules with regard to the continuing connected transactions. If the above conditions have not been fulfilled on or

before 30 September 2016 (or such later date as the parties may agree in writing), the EV CKD Supply Agreement will lapse and all the obligations and liabilities of the parties to the EV CKD Supply Agreement will cease and terminate.

### **Proposed annual caps**

For the avoidance of doubt, the CKDs to be supplied by the Group to the Geely Holding Group under the EV CKD Supply Agreement are different from the CKDs currently being supplied by the Group to the Geely Holding Group under the services agreement dated 27 November 2009 as the CKDs to be supplied under the EV CKD Supply Agreement are specifically for the Kandi JV and the Zhidou JV's production of electric vehicles and thus have a different pricing basis.

There are no historical sales of this type of CKDs from the Group to the Geely Holding Group. The table below sets out the proposed annual caps for the sale of CKDs from the Group to the Geely Holding Group pursuant to the EV CKD Supply Agreement for each of the three years ending 31 December 2016, 2017 and 2018:

	<b>Proposed annual caps for the year ending</b>		
	<b>31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of CKDs from the Group to the Geely Holding Group under the EV CKD Supply Agreement	1,185,914	1,092,827	1,107,124

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

The above proposed annual caps have been determined by the Directors by reference to (i) the estimated sale amounts of CKDs to the Geely Holding Group as a result of the estimated projected number of units of electric vehicles to be sold based on the sales budget of the Kandi JV and the Zhidou JV; and (ii) the estimated manufacturing cost to be incurred by the Group for the three years ending 31 December 2016, 2017 and 2018.

The Directors (including the independent non-executive Directors) are of the view that the EV CKD Supply Agreement is entered into in the ordinary and usual course of business of the Company, under normal commercial terms and the terms and the relevant annual caps of the EV CKD Supply Agreement for the three years ending 31 December 2016, 2017 and 2018 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

As disclosed above, historically, the Group has been supplying automobile parts and components to the Kandi JV for it to assemble these automobile parts and components into CKDs. After completion of the Disposals, in addition to continuing the supply of automobile parts and components to the Kandi JV, in order to enhance operational efficiency of the Kandi JV and the Zhidou JV, the Group will also assemble some of the automobile parts and components into CKDs, and will then supply these assembled CKDs to the Geely Holding Group for Kandi JV and Zhidou JV's production of electric vehicles.

Upon completion of the Disposals, as the Kandi JV will be held as to 50% by Geely Holding, and hence will become an associate of Mr. Li and a connected person of the Company. The Group's sale of automobile parts and components to the Kandi JV under the Kandi Automobile Parts Supply Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. The Group's sale of CKDs to the Geely Holding Group under the CKD Supply Agreement will also constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. As the Exempted Continuing Connected Transactions will continue to generate additional income to the Group, the Group intends to supply automobile parts and components to the Kandi JV and CKDs to the Geely Holding Group after completion of the Disposals.

## **INTERNAL CONTROL MEASURES IN RELATION TO PRICING OF THE EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

In order to ensure that the aforesaid pricing bases for the Kandi Automobile Parts Supply Agreement and the EV CKD Supply Agreement are adhered to, the Company will adopt the following internal control measures:

For the sale of automobile parts and components and CKDs by the Group, the Group will regularly monitor the relevant manufacturing cost items, and costs of other necessary and reasonable expenses to ensure that the selling price of automobile parts and components and CKDs are determined correctly. The Group, the Kandi JV and the Geely Holding Group will regularly negotiate 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.

Also, the internal audit department of the Group will regularly conduct assessment on the internal control measures for all continuing connected transactions to ensure such internal control measures have been adhered to and are effective. The independent non-executive Directors will also conduct review on all continuing connected transactions every year and confirm that the transactions have been entered into in the ordinary and usual course of business of the Group; on normal commercial terms or better; and according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. The Company also engages its independent auditors to report on all continuing connected transactions every year. The independent auditors

review and confirm whether all continuing connected transactions have been approved by the Board; were in accordance with the pricing policies of the relevant agreement governing the transactions; and have not exceeded the relevant annual caps.

The Board considers the results from the above reviews and takes action to further strengthen the internal control measures on all continuing connected transactions of the Group if necessary.

## **IMPLICATIONS UNDER THE LISTING RULES**

Geely Holding is beneficially wholly-owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.98% of the total issued share capital of the Company as at the date of this announcement. As such, Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules. Upon completion of the Disposals, as the Kandi JV will be held as to 50% by Geely Holding and will become an associate of Geely Holding, the Kandi JV will also become a connected person of the Company. Accordingly, the Disposals and the Exempted Continuing Connected Transactions constitute connected transactions and continuing connected transactions, respectively, for the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable aggregated percentage ratios in respect of the Disposals are more than 5%, the Disposals are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as the applicable aggregated percentage ratios in respect of the Disposals are more than 5% but less than 25%, the Disposals also constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules.

With regard to the Exempted Continuing Connected Transactions, as the applicable percentage ratios of the aggregated proposed annual caps for the three years ending 31 December 2018 for the transactions contemplated under the Kandi Automobile Parts Supply Agreement and the EV CKD Supply Agreement are less than 5% on an annual basis, the Exempted Continuing Connected Transactions are subject to the reporting, annual review, announcement requirements, but are exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

## **EGM**

The EGM will be convened to consider and approve the Disposals. Mr. Li and his associates together holding 3,783,099,000 Shares (representing approximately 42.98% of the total issued share capital of the Company), Mr. Yang Jian and his associates together holding 14,475,000 Shares (representing approximately 0.16% of the total issued share capital of the Company) and Mr. An Cong Hui and his

associates together holding 15,380,000 Shares (representing approximately 0.17% of the total issued share capital of the Company) as at the date of this announcement, will all abstain from voting on the resolutions to be proposed at the EGM to approve the Disposals. Mr. Li Dong Hui, Daniel was not interested in any Shares as at the date of this announcement.

## GENERAL

An Independent Board Committee has been formed to advise the Independent Shareholders with respect to the Disposals, and Challenge Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Disposals in this regard.

A circular containing, among other things, (i) further information about the Disposals; (ii) the recommendation of the Independent Board Committee in respect of the Master Disposal Agreement; (iii) the advice of Challenge Capital regarding the terms of the Master Disposal Agreement; 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 16 August 2016.

**Completion of the Disposals is subject to the satisfaction of the conditions precedent under the Master Disposal Agreement, and therefore, may or may not proceed to completion. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Challenge Capital” or “Independent Financial Adviser”	Challenge Capital Management Limited, a corporation licensed to carry out, among other activities, Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Disposals
“CKD(s)”	Complete Knock Down Kit(s) (整車成套件), a complete kit needed to assemble a vehicle
“Company”	Geely Automobile Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange (stock code: 175)



“connected person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposals”	the Kandi Disposal and the Zhidou Disposal
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Disposals
“EV CKD Supply Agreement”	a master agreement between the Company and Geely Holding pursuant to which the Group agreed to sell CKDs to the Geely Holding Group for a term from 25 July 2016 or the completion date of the Disposals, whichever is the later to 31 December 2018 for Kandi JV and Zhidou JV’s production of electric vehicles
“Exempted Continuing Connected Transactions”	the sale of automobile parts and components from the Group to the Kandi JV as contemplated under the Kandi Automobile Parts Supply Agreement, and the sale of CKDs from the Group to the Geely Holding Group as contemplated under the EV CKD Supply Agreement
“GAAP”	generally accepted accounting principles
“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 owned as to 90% by Mr. Li and as to 10% by Mr. Li Xing Xing, the son of Mr. Li, respectively, as at the date of this announcement
“Geely Holding Group”	Geely Holding and its subsidiaries
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Disposals

“Independent Shareholders”	Shareholder(s) other than Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel, Mr. An Cong Hui, and their respective associates
“Jirun Automobile”	浙江吉潤汽車有限公司 (Zhejiang Jirun Automobile Company Limited), a limited liability company incorporated in the Zhejiang Province, the PRC, and a 99% owned subsidiary of the Company as at the date of this announcement
“Kandi Automobile Parts Supply Agreement”	a master agreement between the Company and Kandi JV pursuant to which the Group agreed to sell automobile parts and components to the Kandi JV for a term from 25 July 2016 or the completion date of the Disposals, whichever is the later to 31 December 2018 for Kandi JV’s production of electric vehicles
“Kandi Disposal”	the disposal of 50% of the registered capital of the Kandi JV by the Company to Geely Holding pursuant to the Master Disposal Agreement
“Kandi JV”	康迪電動汽車集團有限公司(Kandi Electric Vehicles Group Co., Ltd.), a limited liability company incorporated in the PRC and is owned as to 50% by Shanghai Maple Guorun, and 50% owned by Kandi Vehicles
“Kandi Sale Shares”	50% of the registered capital of the Kandi JV as at the date of this announcement
“Kandi Technologies”	Kandi Technologies Group, Inc. a limited liability company incorporated in Delaware, the United States of America, the shares of which are listed on the NASDAQ
“Kandi Vehicles”	浙江康迪車業有限公司 (Zhejiang Kandi Vehicles Co., Ltd.), a limited liability company incorporated in the PRC and is indirectly wholly owned by Kandi Technologies
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	90 calendar days from the date of the Master Disposal Agreement
“Master Disposal Agreement”	the disposal agreement entered into between the Company and Geely Holding on 25 July 2016 in relation to the Kandi Disposal and the Zhidou Disposal

“Mr. Li”	Mr. Li Shu Fu, an executive Director and a substantial Shareholder holding 42.98% interest 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
“RMB”	Renminbi, the lawful currency of the PRC
“SAIC”	State Administration for Industry and Commerce and its local bureaus
“Shanghai Maple Guorun”	上海華普國潤汽車有限公司 (Shanghai Maple Guorun Automobile Company Limited), a limited liability company incorporated in the PRC and is indirectly owned as to 99% by the Company as at the date of this announcement
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhidou Disposal”	the disposal of 45% of the registered capital of the Zhidou JV by the Company to Geely Holding pursuant to the Master Disposal Agreement
“Zhidou Geely Parties”	comprise Shanghai Maple Guorun and Jirun Automobile
“Zhidou JV”	寧海知豆電動汽車有限公司(Ninghai Zhidou Electric Vehicles Company Limited), a limited liability company incorporated in the PRC and is owned as to 45% by the Zhidou Geely Parties and as to 55% by Zhidou JV Parties

“Zhidou JV Parties”	新大洋機電集團有限公司 (Xin Dayang Mechanical and Electrical Group Company Limited*), 鮑文光 (Bao Wenguang*), 金沙江聯合創業投資合夥企業 (Jinshajiang United Venture Investment Partnership Enterprise*), 寧波雙林汽車部件股份有限公司 (Ningbo Shuanglin Automobile Parts and Components Company Limited*), 江西文信實業有限公司 (Jiangxi Wenxin Industrial Company Limited*), 原動力(北京)投資有限公司 (Yuan Dongli (Beijing) Investment Company Limited*), and 寧海銀石投資基金合夥企業(有限合夥)(Ninghai Jinshi Investment Fund Partnership Enterprise (Limited Partnership)*)
“Zhidou Sale Shares”	45% of the registered capital of the Zhidou JV 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, 25 July 2016

*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, the non-executive director of the Company is Mr. Carl Peter Edmund Moriz Forster and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang.*

\* *For identification purpose only*