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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)

REVISION OF ANNUAL CAPS AND NON-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

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REVISION OF ANNUAL CAPS AND NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Company's announcement dated 13 November 2015 and the Company's circular dated 14 December 2015 in relation to the Existing EV Agreement.

In view of the increasing demand for the Group's electric and new energy vehicle products, on 5 October 2016, the Company entered into the Supplemental EV Agreement with Geely Holding for the three years ending 31 December 2016, 2017 and 2018 pursuant to which the parties agreed to increase the annual caps for the sales of CBUs (Electric Vehicles) by the Group to the Geely Holding Group.

LISTING RULES IMPLICATIONS

Geely Holding is beneficially wholly-owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.79% 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. Accordingly, the Supplemental EV Agreement constitutes continuing connected transactions for the Company and is subject to re-compliance with the requirements of the Listing Rules.

As the applicable percentage ratios of the proposed annual caps for the three years ending 31 December 2016, 2017 and 2018 for the transactions contemplated under the Supplemental EV Agreement (the “**Non-exempted Continuing Connected Transactions**”) are expected to be higher than 5% on an annual basis, the Non-exempted Continuing Connected Transactions are subject to the reporting, annual review, announcement and 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 Non-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 transactions contemplated under the Supplemental EV Agreement and the adoption of the proposed annual caps.

Mr. Li and his associates together holding 3,783,099,000 Shares (representing approximately 42.79% 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), Mr. Li Dong Hui, Daniel and his associates together holding 2,000,000 Shares (representing approximately 0.02% 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 Non-exempted Continuing Connected Transactions (including the proposed annual caps).

An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the Non-exempted Continuing Connected Transactions (and the proposed annual caps) are fair and reasonable and in the interests of the Company and the Independent Shareholders. Quam Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Non-exempted Continuing Connected Transactions (and the proposed annual caps).

A circular containing, *inter alia*, (a) further information about the Non-exempted Continuing Connected Transactions; (b) the letter of advice from Quam Capital Limited to the Independent Board Committee and the Independent Shareholders; (c) the recommendation from the Independent Board Committee; and (d) a notice of the EGM will be despatched to the Shareholders on or about 21 October 2016.

REVISION OF ANNUAL CAPS AND NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The Supplemental EV Agreement is a supplemental agreement to the Existing EV Agreement.

Supplemental EV Agreement

Reference is made to the Company's announcement dated 13 November 2015 and the Company's circular dated 14 December 2015 in relation to the Existing EV Agreement. In view of the increasing demand for the Group's electric and new energy vehicle products, the Directors expect that the maximum transaction amounts under the Existing EV Agreement for the three years ending 31 December 2016, 2017 and 2018 will exceed their original annual caps, on 5 October 2016, the Company and Geely Holding entered into the Supplemental EV Agreement to revise upwards the original annual caps under the Existing EV Agreement for the three years ending 31 December 2016, 2017 and 2018. The information below sets out the key terms of the Existing EV Agreement and the Supplemental EV Agreement:

Date: 5 October 2016

Parties: The Company; and
Geely Holding

Geely Holding is an associate of Mr. Li and a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that Geely Holding is wholly-owned by Mr. Li and his associate, and Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.79% interest in the issued share capital of the Company as at the date of this announcement.

Subject matter: Pursuant to the Existing EV Agreement and the Supplemental EV Agreement, the Group agreed to sell CBUs (Electric Vehicles) to the Geely Holding Group.

The above activity 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 or from (as appropriate) independent third parties to the Company.

Pricing basis:

Pursuant to the Existing EV Agreement and the Supplemental EV Agreement, in respect of the sales of CBUs (Electric Vehicles) to the Geely Holding Group from the Group, the selling price of CBUs (Electric Vehicles) will be determined in accordance with the principle of (i) the sales of CBUs (Electric Vehicles) will be conducted on an arm's length basis and on normal commercial terms; and (ii) CBUs (Electric Vehicles) will be sold with reference to the prevailing market price of substantially similar products of the same period and at prices which are not lower than the prices at which the Group offers to other independent third party distributors.

The prevailing market price of CBUs (Electric Vehicles) will be determined based on the following:

- (a) the price of the same or similar CBUs (Electric Vehicles) available to other independent third party distributors in the same or near region agreed on normal commercial terms and in the ordinary course of business; or
- (b) if (a) is not applicable, the price of the same or similar CBUs (Electric Vehicles) available to other independent third party distributors in the PRC agreed on normal commercial terms and in the ordinary course of business.

Terms:

From the effective date of the Supplemental EV Agreement (i.e. satisfaction of condition precedent as detailed below) to 31 December 2018

Save for the increase in the annual caps for the three years ending 31 December 2016, 2017 and 2018, and the update of the condition precedent (as detailed below), the major terms of the Existing EV Agreement remain unchanged.

Condition precedent for the Supplemental EV Agreement

Completion of the Supplemental EV Agreement is conditional upon the Company having complied with the requirements of the Listing Rules with regard to continuing connected transactions (including the approval of the Independent Shareholders at the EGM). If the above condition has not been

fulfilled on or before 31 December 2016 (or such later date as the parties may agree in writing), the Supplemental EV Agreement will lapse and all the obligations and liabilities of the parties to the Supplemental EV Agreement will cease and terminate.

Proposed annual caps

The table below sets out the historical transaction amounts for the nine months ended 30 September 2016 under the Existing EV Agreement, the original annual caps announced on 13 November 2015 under the Existing EV Agreement, and the proposed annual caps for the sale of CBUs (Electric Vehicles) pursuant to the Supplemental EV Agreement for each of the three years ending 31 December 2016, 2017 and 2018:

	Historical transaction amount for the nine months ended 30 September 2016 (Unaudited) <i>RMB'000</i>	Proposed annual caps for the year ending 31 December		
		2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>
Sale of CBUs (Electric Vehicles) from the Group to the Geely Holding Group	978,587	2,254,000	5,463,020	9,487,180
Original annual cap amounts for the three financial years ending 31 December 2018 announced on 13 November 2015		1,000,000	2,000,000	4,000,000

As at the date of this announcement, the Group has suspended its sale of CBUs (Electric Vehicles) to the Geely Holding Group to avoid exceeding the original annual cap of RMB1 billion for the year ending 31 December 2016, and will resume such sale after obtaining Independent Shareholders' approval on the Supplemental EV Agreement at the EGM.

Basis of determination of the proposed annual caps

The revised annual caps have been determined by the Directors by reference to (i) the anticipated growth in sales of the existing model; (ii) the launch of new models in the coming years, which was not factored in when the original annual caps under the Existing EV Agreement was determined; and (iii) the projected selling price per electric and new energy vehicle to end customers, which are expected to remain stable for the three years ending 31 December 2016, 2017 and 2018.

The proposed annual cap for the year ending 31 December 2016 amounts to approximately RMB2.3 billion, which represents an increase of approximately 125.4% from the original annual caps of RMB1 billion. Such significant increase was due to the electric version of the “EC7” model achieving much better than expected sales performance during 2016. Up until 30 September 2016, its actual sales volume has already exceeded the original budgeted sales volume for the entire year 2016 when the original annual caps were determined (its actual selling price was not as high as originally budgeted though as the PRC government policies regarding subsidies for new energy vehicles in 2016 were not yet confirmed when the original annual caps under the Existing EV Agreement were determined). The electric version of the “EC7” model is expected to continue to achieve positive sales performance for the rest of the year 2016.

In addition to the continued positive sales performance contributed by the electric version of the “EC7” model for the two years ending 31 December 2017 and 2018, which is one of the key reasons behind the proposed annual caps representing over 100% increase from the original annual caps, the Group is also expecting to launch 3 new models in 2017 and another 3 new models in 2018. The Company did not plan on the launch of these new models when the original annual caps under the Existing EV Agreement were determined, and these new models are expected to contribute materially to the proposed annual caps for the two years ending 31 December 2017 and 2018.

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 proposed annual caps of the Supplemental EV Agreement for the three years ending 31 December 2016, 2017 and 2018 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES IN RELATION TO PRICING

In order to ensure that the aforesaid pricing basis for the Existing EV Agreement and the Supplemental EV Agreement is adhered to, the Company will continue to adopt the following internal control measures:

The Existing EV Agreement and the Supplemental EV Agreement

The Group will regularly monitor the expected selling price of electric and new energy vehicles and relevant cost items, which include mainly distribution costs, to ensure the fairness of the selling price of CBUs (Electric Vehicles). Moreover, the transactions contemplated under the Existing EV Agreement and the Supplemental EV Agreement will be supervised and monitored by the Group’s general managers in charge to ensure both agreements are conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Independent Shareholders as a whole.

In relation to the aforesaid internal control measures for the Existing EV Agreement and the Supplemental EV Agreement, 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 agreements 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.

INFORMATION ON THE PARTIES

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

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTIONS

The Existing EV Agreement and the Supplemental EV Agreement

With the increasing public awareness of environmental protection relating to saving fuel and reducing vehicle emission, major vehicles manufacturers are actively developing and promoting electric vehicles and hybrid vehicles. The Board has long recognised the development potential in the medium to high-end new energy vehicles market in the PRC, and hence, the Group started to commence production of electric version of the “EC7” model in 2015. With the electric version of the “EC7” model being launched to the market in 2016 in the PRC and the positive sales results this model has achieved within a short period of time in the market, the Group has decided to develop and launch other new energy vehicle models in the coming years. As such, it is expected that the annual caps under the Existing EV Agreement will not be sufficient to cater for such anticipated growth in sales in the coming years. The Group sells these vehicles through the Geely Holding Group as only certain subsidiaries of the Geely Holding Group are eligible to obtain the PRC government subsidies for the sale of electric and new energy vehicles. Hence, the sale of CBUs (Electric Vehicles) from the Group to the Geely Holding Group under the Existing EV Agreement and the Supplemental EV Agreement will facilitate the Group’s sale of electric and new energy vehicles in the PRC. 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 above continuing connected transactions contemplated under the Existing EV Agreement and the Supplemental EV Agreement are beneficial to the Group as it would ensure a stable demand for the Company’s products.

LISTING RULES IMPLICATIONS

Geely Holding is beneficially wholly-owned by Mr. Li and his associate. Mr. Li is an executive Director and a substantial Shareholder holding approximately 42.79% 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. Accordingly, the Supplemental EV Agreement constitutes continuing connected transactions for the Company and is subject to re-compliance with the requirements of the Listing Rules.

As the applicable percentage ratios of the proposed annual caps for the three years ending 31 December 2016, 2017 and 2018 for the transactions contemplated under the Non-exempted Continuing Connected Transactions are expected to be higher than 5% on an annual basis, the Non-exempted Continuing Connected Transactions are subject to the reporting, annual review, announcement and 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 Non-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 transactions contemplated under the Supplemental EV Agreement and the adoption of the proposed annual caps.

Mr. Li and his associates together holding 3,783,099,000 Shares (representing approximately 42.79% 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), Mr. Li Dong Hui, Daniel and his associates together holding 2,000,000 Shares (representing approximately 0.02% 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 Non-exempted Continuing Connected Transactions (including the proposed annual caps).

An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the Non-exempted Continuing Connected Transactions (and the proposed annual caps) are fair and reasonable and in the interests of the Company and the Independent Shareholders. Quam Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Non-exempted Continuing Connected Transactions (and the proposed annual caps).

GENERAL

A circular containing, *inter alia*, (a) further information about the Non-exempted Continuing Connected Transactions; (b) the letter of advice from Quam Capital Limited to the Independent Board Committee and the Independent Shareholders; (c) the recommendation from the Independent Board Committee; and (d) a notice of the EGM will be despatched to the Shareholders on or about 21 October 2016.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CBU (Electric Vehicle)”	Complete Buildup Unit for electric vehicle (電動整車), a complete electric vehicle after the final assembly
“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
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the Non-exempted Continuing Connected Transactions (including the proposed annual caps)
“Existing EV Agreement”	the master agreement dated 13 November 2015 entered into between the Company and Geely Holding pursuant to which the Group agreed to sell CBUs (Electric Vehicle) to the Geely Holding Group, details of which are disclosed in the Company’s announcement dated 13 November 2015
“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
“Geely Holding Group”	Geely Holding and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising only the independent non-executive Directors, namely Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang, established for the purpose of advising the Independent Shareholders on the Non-exempted Continuing Connected Transactions (including the proposed annual caps)
“Independent Shareholders”	Shareholder(s) other than Mr. Li, Mr. Yang Jian, Mr. Li Dong Hui, Daniel, Mr. An Cong Hui and 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 holding 42.79% interest in the issued share capital of the Company as at the date of this announcement
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan)
“Quam Capital Limited” or “Independent Financial Adviser”	Quam Capital Limited, a licensed corporation to carry out Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance in Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of shares of the Company
“Supplemental EV Agreement”	the supplemental master agreement dated 5 October 2016 entered into between the Company and Geely Holding as referred to under the subsection headed “Supplemental EV Agreement” of the section headed “Revision of Annual Caps and Non-Exempted Continuing Connected Transactions” of this announcement
“%”	Per cent.

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

Hong Kong, 5 October 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.