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**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)

**CONNECTED TRANSACTIONS**  
**AND**  
**CONTINUING CONNECTED TRANSACTIONS**

**Financial adviser to Geely Automobile Holdings Limited**



**CIMB Securities (HK) Limited**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



**Quam Capital Limited**

The Company entered into the following agreements:

(a) the Land Acquisition Agreement

on 20 August 2009, a sales and purchase agreement between the Company and Kailun Qufu pursuant to which the Company agrees to purchase and Kailun Qufu agrees to sell the land use right on the Land at a total consideration of RMB15,520,100 (representing approximately HK\$17,637,000);

(b) the Property Disposal Agreement

on 20 August 2009, a sales and purchase agreement between the Company and the College pursuant to which the Company agrees to sell and the College agrees to purchase the Property at a total consideration of RMB82,580,000 (representing approximately HK\$93,843,900);

(c) the Assets Purchase Agreement

on 20 August 2009, a sales and purchase agreement between the Company and Geely Holding pursuant to which the Company agrees to purchase and Geely Holding agrees to sell the Assets at a total consideration of RMB29,760,000 (representing approximately HK\$33,819,300);

(d) the TX4 Agreement

on 20 August 2009, a sales and purchase agreement between Shanghai Maple and Shanghai LTI, pursuant to which Shanghai Maple agrees to sell and Shanghai LTI agrees to purchase the TX4 prototype car and sample parts at a total consideration of RMB12,861,536 (representing approximately HK\$14,615,800);

(e) the R&D Agreement

on 20 August 2009, a master agreement between the Company and Geely Holding pursuant to which the Group and the Geely Holding Group engage each other to conduct research and development in accordance with the product and service specifications set out in the R&D Agreement for the three years ending 31 December 2011;

(f) the Services Agreement

on 20 August 2009, a master agreement between the Company and Geely Holding pursuant to which the Group and the Geely Holding Group engage each other for the sale and purchase of automobile parts and components, processed if applicable, in accordance with the product and service specifications set out in the Services Agreement for the three years ending 31 December 2011;

(g) the CBU Agreement

on 20 August 2009, a master agreement between the Company and Geely Holding pursuant to which the Group and the Geely Holding Group engage each other for the sale and purchase of the CBUs in accordance with the product and service specifications set out in the CBU Agreement for the three years ending 31 December 2011.

(h) the Supplemental Parts and Components Agreement

on 20 August 2009, a supplemental agreement to the Existing Services Agreement entered into between the Company and Geely Holding dated 17 September 2007, pursuant to which the Geely Holding Group agrees to increase the annual cap for the purchase of automobile parts and components for the year ending 31 December 2009 from RMB3,673,960,000 (equivalent to approximately HK\$4,175,088,000) to RMB7,737,614,000 (equivalent to approximately HK\$8,793,025,000).

Each of Geely Holding, Kailun Qufu, the College and Shanghai Maple is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that (i) Geely Holding is wholly-owned by Mr. Li and his associates; (ii) Kailun Qufu is a substantial shareholder of Kailun Automobile, a 50%-owned joint venture which is accounted for as an indirect non-wholly owned subsidiary of the Company; (iii) the College and Shanghai Maple are beneficially owned as to 100% by Mr. Li and his associates; and (iv) Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

Accordingly, the Land Acquisition Agreement, the Property Disposal Agreement, the Assets Purchase Agreement, the TX4 Agreement and the transactions contemplated thereunder (together, the Connected Transactions) constitute connected transactions of the Company pursuant to Rule 14A.13 of the Listing Rules. The R&D Agreement, the Services Agreement, the CBU Agreement and the Supplemental Parts and Components Agreement, and the transactions contemplated thereunder (together, the Non-exempted Continuing Connected Transactions) constitute continuing connected transactions of the Company pursuant to Rule 14A.14 of the Listing Rules.

As the applicable percentage ratios of each of the agreements under the Connected Transactions is more than 0.1% but less than 2.5%, the Connected Transactions are subject to the reporting and announcement requirements and exempt from the Independent Shareholders' approval requirement pursuant to Rules 14A.32 of the Listing Rules.

As the applicable percentage ratios for the Non-exempted Continuing Connected Transactions is expected to be higher than 2.5% on an annual basis, the Non-exempted Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements and the annual review requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the Non-exempted Continuing Connected Transactions and the relevant Caps are fair and reasonable and in the interest of the Company and Independent Shareholders. Quam Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms and conditions and the relevant caps of the Non-exempted Continuing Connected Transactions.

A circular containing, inter alia, (a) further information about the Non-exempted Continuing Connected Transactions (including the relevant Caps); (b) the letter of advice from Quam Capital 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 as soon as practicable.

## CONNECTED TRANSACTIONS

The following Connected Transactions are subject to the reporting and announcement requirements and exempt from the Independent Shareholders' approval requirement pursuant to Rules 14A.32 of the Listing Rules.

### (I) Land Acquisition Agreement

**Date:** 20 August 2009

**Parties:** The Company; and  
Kailun Qufu

Kailun Qufu is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that Kailun Qufu is a substantial shareholder in Kailun Automobile, which is accounted for as a non-wholly owned subsidiary of the Company. Kailun Automobile is a 50:50 joint venture held by a subsidiary of the Group and Kailun Qufu. As the Group controls the board of Kailun Automobile, Kailun Automobile is accounted for as a non-wholly owned subsidiary in the consolidated financial statements of the Company.

**Subject matter:** Purchase of land use right of the Land with a total site area of approximately 154,429 square meters by the Group from Kailun Qufu.

The Land is for industrial use and has a term of 50 years expiring on 2 November 2056.

The Land is currently leased to Kailun Automobile from Kailun Qufu for production use at zero cost. No profit was attributable to the land use right of the Land for the two financial years ended 31 December 2007 and 2008.

Based on the valuation report prepared by the Independent Valuer dated 31 July 2009 on its valuation of the Land, the appraised value of the Land amounts to RMB45,093,000 (equivalent to approximately HK\$51,243,700) as at 31 May 2009. The original purchase cost of the Land was RMB15,520,100 (equivalent to approximately HK\$17,637,000) in 2006.

**Consideration:** RMB15,520,100 (equivalent to approximately HK\$17,637,000)

The consideration has been arrived at after arm's length negotiations between the Company and Kailun Qufu with reference to the original purchase cost of RMB15,520,100 (equivalent to approximately HK\$17,637,000) of the Land, which will be satisfied in cash within one year from the date of completion of the Land Acquisition Agreement. The Company intends to finance the acquisition out of its internal resources.

As the consideration for the acquisition of the Land is lower than the appraised value of the Land, the Directors (including the independent non-executive Directors) consider that the terms of the Land Acquisition Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **(II) Property Disposal Agreement**

**Date:** 20 August 2009

**Parties:** The Company; and  
the College

The College is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that the College is beneficially owned as to 100% by Mr. Li and his associates; and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** Sale of the Property from the Company to the College.

The Property is currently leased to the College as the campus and facilities in the campus. The company holding the Property has become a subsidiary of the Group since July 2008 and as such, no profit was attributable to the Property for the year ended 31 December 2007. Profit attributable to the Property (representing the rental income) for the year ended 31 December 2008 amounted to approximately RMB9,882,800 (equivalent to approximately HK\$11,230,800).

The gain on disposal for the Property amounts to approximately RMB13,071,000 (equivalent to approximately HK\$14,853,900). Such gain was calculated based on the difference between the consideration paid and the net book value of the Property as at 30 June 2009 of RMB69,509,100 (equivalent to approximately HK\$78,990,100) as shown in the unaudited management accounts prepared in accordance with the PRC generally accepted accounting principles. Proceeds from the disposal of the Property will be applied towards the working capital of the Company.

**Consideration:** RMB82,580,000 (equivalent to approximately HK\$93,843,900)

The consideration has been arrived at after arm's length negotiations between the Company and the College with reference to the appraised value of the Property of RMB82,580,000 (equivalent to approximately HK\$93,843,900) conducted by the Independent Valuer as at 31 May 2009, which will be satisfied in cash within 60 days upon receipt of invoice by the College from the Company.

As the consideration for the disposal of the Property is based on the appraised value of the Property by the Independent Valuer, and that the consideration is higher than the net book value of the Property as at 30 June 2009 as shown in the unaudited management accounts prepared in accordance with the PRC generally accepted accounting principles, the Directors (including the independent non-executive Directors) consider that the terms of the Property Disposal Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **(III) Assets Purchase Agreement**

**Date:** 20 August 2009

**Parties:** The Company; and  
Geely Holding

Geely Holding is 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 associates, and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** Purchase of Assets by the Company from Geely Holding

No profit was attributable to the Assets for the two financial years ended 31 December 2007 and 2008.

The original purchase cost of the Assets was RMB41,499,360 (equivalent to approximately HK\$47,159,900)

**Consideration:** RMB29,760,000 (equivalent to approximately HK\$33,819,300)

The consideration has been arrived at after arm's length negotiations between the Company and Geely Holding with reference to the net book value of the Assets of RMB29,760,000 (equivalent to approximately HK\$33,819,300) as at 30 June 2009 and is to be satisfied by the Company in cash. The Company intends to finance the acquisition out of its internal resources.

As the consideration for the acquisition of the Assets is based on the net book value of the Assets as at 30 June 2009 which is lower than the original purchase cost, the Directors (including the independent non-executive Directors) consider that the terms of the Assets Purchase Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

#### **(IV) TX4 Agreement**

**Date:** 20 August 2009

**Parties:** Shanghai LTI; and  
Shanghai Maple

Shanghai LTI is owned as to 51.0% by an indirectly wholly owned subsidiary of the Company.

Shanghai Maple is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that Shanghai Maple is beneficially owned as to 100% by Mr. Li and his associates; and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** Purchase of TX4 prototype car and sample parts by Shanghai LTI from Shanghai Maple.

No profit was attributable to the TX4 prototype car and sample parts for the two financial years ended 31 December 2007 and 2008.

The original purchase cost of the TX4 prototype car and sample parts by Shanghai Maple was RMB12,861,536 (equivalent to approximately HK\$14,615,800)

**Consideration:** RMB12,861,536 (equivalent to approximately HK\$14,615,800)

The consideration is based on the purchase cost of the TX4 prototype car and sample parts of Shanghai Maple and is to be satisfied by Shanghai LTI by cash. Shanghai LTI intends to finance such purchase out of its internal resources.

As the consideration for the TX4 Agreement is based on the purchase cost of the TX4 prototype car and sample parts of Shanghai Maple from independent third parties, the Directors (including the independent non-executive Directors) consider that the terms of the TX4 Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The following Non-exempted Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements and the annual review requirements under Chapter 14A of the Listing Rules. The transactions contemplated under the R&D Agreement, the Services Agreement and the CBU Agreement are new continuing connected transactions, while the Supplemental Parts and Components Agreement is a supplemental agreement to the Existing Services Agreement.

### (I) R&D Agreement

**Date:** 20 August 2009

**Parties:** The Company; and  
Geely Holding

Geely Holding is 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 associates; and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** Engagement for research and development in accordance with the product and service specifications set out in the R&D Agreement by the Company to Geely Holding and vice versa

**Term:** From the effective date of R&D Agreement to 31 December 2011

It is a term of the R&D Agreement that the fees receivable from and payable to Geely Holding shall be based on the cost of research and development, including the cost of materials, experiment, development, examination, research, depreciation of relevant equipment, staff and overhead, administration, finance and tax.

### **Condition precedent:**

The R&D Agreement will be subject to approval by the Independent Shareholders at the EGM convened to approve, among others, the R&D Agreement.

If the above condition has not been fulfilled on or before 31 December 2009 (or such later date as the parties may agree in writing), the R&D Agreement will lapse and all the obligations and liabilities of the parties to the R&D Agreement will cease and terminate.

## (II) Services Agreement

**Date:** 20 August 2009

**Parties:** The Company; and  
Geely Holding

Geely Holding is 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 associates, and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** Sales of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions by the Group to the Geely Holding Group; and purchase of processed automobile parts and components by the Group from the Geely Holding Group. During the course of the Services Agreement, the Group may request additional services other than the aforesaid services from the Geely Holding Group and vice versa. The additional services, subject to the Group's or the Geely Holding Group's (as the case maybe) ability in providing the requested services based on normal commercial terms to be determined by the parties to the Services Agreement on an arm's length basis and compliance with the Listing Rules.

**Term:** From the effective date of Services Agreement to 31 December 2011

In respect of the sales of automobile parts and components by the Group, it is a term of the Services Agreement that:

- (i) the selling price of automobile parts and components (汽車零部件) shall be based on sourcing cost plus the relevant service cost(s), being the actual cost(s) incurred in the procurement process by the Group;
- (ii) the selling price of brakes (制動器) shall be based on market price which is no less favorable to the Group than to other independent third parties. If no such market price is available, the selling price shall be determined by arm's length negotiations between the Group and the Geely Holding Group based on normal commercial terms; and
- (iii) the selling price of pressing parts, engines and transmissions (沖壓件、發動機和變速器) shall be based on sourcing cost plus the relevant processing cost, transportation cost and taxes.

In respect of the purchase of processed automobile parts and components by the Group, it is a term of the Services Agreement that the purchase price of the processed automobile parts and components shall be based on market price which is no less favorable to the Group than to other independent third parties. If no such market price is available, the purchase price shall be determined by arm's length negotiations between the Group and the Geely Holding Group based on normal commercial terms.

**Condition precedent:**

The Services Agreement will be subject to approval by the Independent Shareholders at the EGM convened to approve, among others, the Services Agreement.

If the above condition has not been fulfilled on or before 31 December 2009 (or such later date as the parties may agree in writing), the Services Agreement will lapse and all the obligations and liabilities of the parties to the Services Agreement will cease and terminate.

**(III) CBU Agreement**

**Date:** 20 August 2009

**Parties:** The Company; and  
Geely Holding

Geely Holding is 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 associates, and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** Sales of CBUs by the Group to Geely Holding Group; and purchase of CBUs by the Group from Geely Holding Group

**Term:** From the effective date of CBU Agreement to 31 December 2011

In respect of the sales of CBUs to Geely Holding Group, it is a term of the CBU Agreement that:

- (i) the sales of CBU will be conducted on normal commercial terms and negotiated on arm's length basis; and
- (ii) the CBU shall be sold to Geely Holding Group based on market price which is no less favorable to Group than to other independent third parties.

In respect of the purchase of CBUs from Geely Holding Group, it is a term of the CBU Agreement that:

- (i) the purchase of CBU will be conducted on normal commercial terms and negotiated on arm's length basis; and
- (ii) the CBU shall be purchased by the Group at cost plus tax.

**Condition precedent:**

The CBU Agreement will be subject to approval by the Independent Shareholders at the EGM convened to approve, among others, the CBU Agreement.

If the above condition has not been fulfilled on or before 31 December 2009 (or such later date as the parties may agree in writing), the CBU Agreement will lapse and all the obligations and liabilities of the parties to the CBU Agreement will cease and terminate.

**(IV) Supplemental Parts and Components Agreement**

**Date:** 20 August 2009

**Parties:** The Company; and  
Geely Holding

Geely Holding is 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 associates, and Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

**Subject matter:** To increase the annual cap of the Existing Service Agreement for the purchase of automobile parts and components from the Geely Holding Group by the Group for the year ending 31 December 2009 from RMB3,673,960,000 (equivalent to approximately HK\$4,175,088,000) to RMB7,737,614,000 (equivalent to approximately HK\$8,793,025,000).

Save for the increase in the annual cap for the year ending 31 December 2009, and the update of the condition precedent (as detailed below), the other terms of the Supplemental Parts and Components Agreement are essentially identical to the Existing Services Agreement.

**Condition precedent:**

The Supplemental Parts and Components Agreement will be subject to approval by the Independent Shareholders at the EGM convened to approve, among others, the Supplemental Parts and Components Agreement.

If the above condition has not been fulfilled on or before 31 December 2009 (or such later date as the parties may agree in writing), the Supplemental Parts and Components Agreement will lapse and all the obligations and liabilities of the parties to the Supplemental Parts and Components Agreement will cease and terminate.

### **Historical Transaction Amounts**

The Company and Geely Holding entered into the Existing Service Agreement on 17 September 2007 pursuant to which the Company agreed to purchase automobile parts and components from the Geely Holding Group. The Existing Service Agreement has an original term commencing from the effective date of the Existing Service Agreement to 31 December 2009. The Existing Service Agreement was approved by the then Independent Shareholders at an extraordinary general meeting of the Company held on 22 November 2007.

The transactions contemplated under the Supplemental Parts and Components Agreement constitute connected transactions of the Company pursuant to the Listing Rules only since 1 July 2008. For the period since 1 July 2008 to 31 December 2008, purchases from the Geely Holding Group by the Group were approximately RMB2,581,269,000 (equivalent to approximately HK\$2,933,354,100). For the six months ended 30 June 2009, purchases from the Geely Holding Group by the Group were approximately RMB2,887,119,000 (equivalent to approximately HK\$3,280,922,000), representing approximately 88.0% of the annual cap of purchases for the year ending 31 December 2009. In view of the anticipated increase in procurement of automobile parts and components from the Geely Holding Group, it is expected that the annual cap for the year ending 31 December 2009 in respect of the Existing Services Agreement will be exceeded. In this connection, the parties agreed to increase the annual cap for the year ending 31 December 2009 from RMB3,673,960,000 (equivalent to approximately HK\$4,175,088,000) to RMB7,737,614,000 (equivalent to approximately HK\$8,793,025,000).

## DETERMINATION OF PROPOSED CAPS

The proposed Caps of the Non-exempted Continuing Connected Transactions for each of the three years ending 31 December 2009, 2010 and 2011 of the Group:

		<b>Proposed Caps for the financial year ending 31 December</b>		
		<b>2009</b> (‘000)	<b>2010</b> (‘000)	<b>2011</b> (‘000)
<b>(I) R&amp;D Agreement</b>	– from Geely Holding Group	RMB147,907 (equivalent to approximately HK\$168,082)	RMB64,589 (equivalent to approximately HK\$73,399)	RMB– (equivalent to approximately HK\$–)
	– to Geely Holding Group	RMB66,950 (equivalent to approximately HK\$76,082)	RMB266,955 (equivalent to approximately HK\$303,368)	RMB117,801 (equivalent to approximately HK\$133,869)
<b>Total</b>		RMB214,857 (equivalent to approximately HK\$244,164)	RMB331,544 (equivalent to approximately HK\$376,767)	RMB117,801 (equivalent to approximately HK\$133,869)
<b>(II) Services Agreement</b>	– Sales of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions	RMB192,587 (equivalent to approximately HK\$218,856)	RMB690,399 (equivalent to approximately HK\$784,569)	RMB1,035,599 (equivalent to approximately HK\$1,176,855)
	– Purchase of processed automobile parts and components	RMB30,768 (equivalent to approximately HK\$34,965)	RMB205,296 (equivalent to approximately HK\$233,298)	RMB359,153 (equivalent to approximately HK\$408,141)
<b>Total</b>		RMB223,355 (equivalent to approximately HK\$253,821)	RMB895,695 (equivalent to approximately HK\$1,017,867)	RMB1,394,752 (equivalent to approximately HK\$1,584,996)

	<b>Proposed Caps for the financial year ending 31 December</b>		
	<b>2009</b> ( '000)	<b>2010</b> ( '000)	<b>2011</b> ( '000)
<b>(III) CBU Agreement</b>			
– Sales of CBUs	RMB45,000 (equivalent to approximately HK\$51,138)	RMB180,000 (equivalent to approximately HK\$204,552)	RMB264,000 (equivalent to approximately HK\$300,010)
– Purchase of CBUs	RMB336,394 (equivalent to approximately HK\$382,278)	RMB1,205,816 (equivalent to approximately HK\$1,370,289)	RMB1,808,724 (equivalent to approximately HK\$2,055,434)
<b>Total</b>	RMB381,394 (equivalent to approximately HK\$433,416)	RMB1,385,816 (equivalent to approximately HK\$1,574,841)	RMB2,072,724 (equivalent to approximately HK\$2,355,444)
<b>(IV) Purchase of automobile parts and components under the Supplemental Parts and Components Agreement</b>	RMB7,737,614 (equivalent to approximately HK\$8,793,025)	N/A ( <i>Note 1</i> )	N/A ( <i>Note 1</i> )

*Note 1:* The proposed cap amounts for purchases of automobile parts and components under the Existing Services Agreement during the two financial years ending 31 December 2011 will be dealt with other continuing connected transactions as announced by the Company on 17 September 2007 in due course.

In determining the proposed Caps, the Board has considered the following factors:

(a) R&D Agreement

The Directors has considered the growth trend of the relevant businesses and taken into account the aggregate research and development projects under contemplation as set out in the project plans. According to the project plans, most of the research and development projects to be provided by the Geely Holding Group relates to improvements of existing car models and are expected to be completed and transferred to the Group by end of year 2010; while most of the research and development projects to be provided by the Group to the Geely Holding Group involve new car models which will commence in the remainder of year 2009, intensify in year 2010 and be expected to complete by end of year 2011;

(b) Services Agreement

For determining the proposed Caps for the sales of (i) automobile parts and components, (ii) brakes, and (iii) pressing parts, engines and transmissions (together, the “Relevant Components”), the Directors have taken into account the projected units of Relevant Components to be sold to the Geely Holding Group based on the sales budget of the Group for the five months ending 31 December 2009 and two financial years ending 31 December 2011. Given the relevant company of Geely Holding Group has ample production capacity for certain CBUs to be subsequently sold back to the Group after the processing and final assembly together with an estimated volume growth of such CBUs as directed by the Group will increase significantly in the two financial years ending 31 December 2011, the demand for the Relevant Components is expected to increase substantially and therefore the growth trend of the Relevant Components to be sold to the Geely Holding Group is expected to follow;

For determining the proposed Caps for the purchase of processed automobile parts and components, the Directors have taken into account the projected units of automobile parts and components to be sold based on the production budget of the Group for the five months ending 31 December 2009 and two financial years ending 31 December 2011. As it is expected that there will be a continual improvement in the Group’s product mix towards more high-end models, which will require the processed automobile parts and components to be sourced from the Geely Holding Group, together with the substantial demand for these high-end models, the need of processed automobile parts and components for the production of these high-end models are expected to increase substantially in the two financial years ending 31 December 2011;

(c) CBU Agreement

For determining the proposed Caps for the sales of CBUs, the Directors have taken into account the projected units of CBU to be sold based on the sales budget of the Group to the Geely Holding Group and the estimated average selling prices per CBU for the five months ending 31 December 2009 and two financial years ending 31 December 2011. As it is expected that there will be new car models to be launched in the financial year 2010 and 2011 respectively together with an estimated increase in average selling price per CBU across the two-year period, the projected sales of CBU to the Geely Holding Group for distribution are expected to increase significantly;

For determining the proposed Caps for the purchase of CBUs, the Directors have taken into account the projected units of CBU to be purchased based on the sales budget of the Group from the Geely Holding Group and the estimated average selling prices per CBU for the five months ending 31 December 2009 and two financial years ending 31 December 2011. Given the estimated demand of the model of CBU to be purchased from Geely Holding Group will increase significantly in the two financial years ending 31 December 2011, the relevant Cap amounts are expected to increase accordingly;

(d) Supplemental Parts and Components Agreement

The Directors have taken into account the historical transaction amounts for the two years ended 31 December 2008 and the six months ended 30 June 2009; and the estimated increase in percentage of total procurement on automobile parts and components by the Group sourcing from the Geely Holding Group until the year ending 31 December 2009.

**REASONS FOR AND BENEFITS OF THE CONNECTED TRANSACTIONS AND THE NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS**

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

**Land Acquisition Agreement**

Kailun Automobile is a sino-foreign joint venture enterprise incorporated in the PRC, owned 50% as to Kailun Qufu and 50% as to a subsidiary of the Company. It is principally engaged in the research, development, manufacturing and sales of automobile parts and components. Kailun Automobile has been leasing the Land from Kailun Qufu for production use at zero cost since its date of incorporation. Taking into account the appraised value of the Land as referred to in the valuation, the Directors consider that the acquisition contemplated under the Land Acquisition Agreement provides a good opportunity for Kailun Automobile to acquire the Land at a reasonable price and continue its use of the Land as its office and factory.

**Property Disposal Agreement**

The College is a private higher education institution established in the PRC. The Group has been leasing the Property to the College since July 2008 as campus and training center. Taking into account the appraised value of the Property as referred to in the valuation, the Directors consider that the disposal contemplated under the Property Disposal Agreement offers the Group a good opportunity and at a relatively attractive price to sell the Property.

**Assets Purchase Agreement**

Geely Holding and its subsidiaries are principally engaged in sales of CBUs and automobile parts and components wholesale and retail businesses. As the Group is not in the possession of certain automobile products catalogue issued by the National Development Reform Commission (the “NDRC”) in the PRC, which is required to facilitate payment of the PRC consumption tax, the Assets were originally purchased under certain subsidiaries of the Geely Holding Group. Given that the purchase price for the Assets under the Assets Purchase Agreement will be at their respective net asset value, the Directors are of the view that the acquisition of the Assets from Geely Holding under the Assets Purchase Agreement, which has been and will continue to be used for the production of cars by the Group, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **TX4 Agreement**

Shanghai Maple is principally engaged in manufacturing and sales of automobile and related components, and manufacturing of air conditioning related parts. Shanghai Maple is in the possession of certain automobile products catalogue issued by the NDRC in the PRC, and hence having higher flexibility in purchasing or importing relevant TX4 prototype car and sample parts. Shanghai LTI is principally engaged in manufacturing, processing and sales of automobile and related components. Given that the purchase price by Shanghai LTI from Shanghai Maple for the TX4 prototype car and sample parts under the TX4 Agreement will be at their respective purchase cost from the suppliers, the Directors are of the view that the terms of the TX4 Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **R&D Agreement**

For the purpose of building a centralized core of technical experts in research and progress towards viable technological improvements and enhancements, the Group and the Geely Holding Group entered into the R&D Agreement so that each party will benefit from the research capability of the other. Under the R&D Agreement, the Group will be able to enjoy the research results of the companies of the Geely Holding Group at cost. Further, the Group has planned to carry out those research and development projects which are to be provided to the Geely Holding Group under the R&D Agreement. Such R&D costs will be borne by the Geely Holding Group after the entering into of the R&D Agreement while the Group can still enjoy the research results for free. Given the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Quam Capital) are of the view that the terms of the R&D Agreement, including its annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **Services Agreement**

### *Purchase of processed automobile parts and components*

As the Geely Holding Group has a strong research team which is capable of modifying the processed automobile parts and components according to specifications of the Group, the Directors are of the view that the Group will benefit in the purchase of processed automobile parts and components from the Geely Holding Group by securing a reliable source of supply of processed automobile parts and components.

### *Sales of Relevant Components*

The Geely Holding Group acquires the Relevant Components to process and perform final assembly on behalf of the Group. After such processing and final assembly, the CBUs to be manufactured by the Geely Holding Group are to be sold back to the Group at cost plus tax (pursuant to the CBU Agreement), and the Group would then sell and distribute to independent dealers or end customers. No profit would be generated by the Geely Holding Group in such transactions and the profit arises from the sales and distribution to independent dealers or end customers would still be captured by the Group. Further, given the Group is not selling to independent third parties (i) the automobile parts

and components, and (ii) the pressing parts, engines and transmissions as referred to in the Services Agreement, and that no profit would be generated by the Geely Holding Group in such transactions, the Directors consider the basis of pricing is fair and reasonable and in the interests of the Company and the Shareholders as a whole. As the Group is selling to independent third parties the brakes as referred to in the Services Agreement, the Directors consider the basis of selling the brakes to the Geely Holding Group at market price which is no less favorable to the Group than to other independent third parties is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given the above, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Quam Capital) are of the view that the terms of the Services Agreement, including its annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **CBU Agreement**

### *Purchase of CBUs*

As mentioned in the above section headed “Services Agreement”, Geely Holding Group will process and final assemble the Relevant Components on behalf of the Group. The CBUs to be manufactured by the Geely Holding Group are to be sold back to the Group at cost plus tax. The Group will then sell and distribute the CBUs to independent dealers or end customers and the profit arises from such sales and distribution would be captured by the Group. The CBU Agreement is entered into to ensure smooth operation of the Group as the Geely Holding Group in the possession of certain automobile products catalogue issued by the NDRC in the PRC which is required for carrying out automobile manufacturing business, and facilitating the payment of the consumption tax for the sales of automobiles in the PRC.

### *Sales of CBUs*

Given that (i) the Geely Holding has better distribution channels in the PRC; and (ii) the price for the sales of CBUs to the Geely Holding Group under the CBU Agreement will not be less than the price offered to independent third party distributors, the Directors consider that it is in the interest of the Company to sell the CBUs to the Geely Holding Group as it would ensure a stable demand for the Company’s products.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Quam Capital) are of the view that the terms of the CBU Agreement, including its annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **Supplemental Parts and Components Agreement**

The Group has been purchasing necessary automobile parts and components from Geely Holding Group under the Existing Services Agreement. The original annual cap in relation to the purchase of automobile parts and components for the year ending 31 December 2009 was determined based on, amongst all, the estimated percentage of total procurement on automobile parts and components sourcing from Geely Holding Group. The Group intended to gradually transfer the sourcing of automobile parts and components from the Geely Holding Group to the Group by signing new contracts with the suppliers. As the migration took longer time than expected, the Group intends to increase the percentage of total procurement on automobile parts and components sourcing from the Geely Holding Group. The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Quam Capital) are of the view that the purchase of automobile parts and components contemplated under the Supplemental Parts and Components Agreement, including its annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Quam Capital) are of the view that the Non-exempted Continuing Connected Transactions (together with the Caps) are on normal commercial terms, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Each of Geely Holding, Kailun Qufu, the College and Shanghai Maple is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that (i) Geely Holding is wholly-owned by Mr. Li and his associates; (ii) Kailun Qufu is a substantial shareholder of Kailun Automobile, a 50%-owned joint venture which is accounted for as an indirect non-wholly owned subsidiary of the Company; (iii) the College and Shanghai Maple are beneficially owned as to 100% by Mr. Li and his associates; and (iv) Mr. Li is a Director holding approximately 51.54% interest in the issued share capital of the Company.

Accordingly, the Land Acquisition Agreement, the Property Disposal Agreement, the Assets Purchase Agreement, the TX4 Agreement and the transactions contemplated thereunder (together, the Connected Transactions) constitute connected transactions of the Company pursuant to Rule 14A.13 of the Listing Rules. The R&D Agreement, the Services Agreement, the CBU Agreement and the Supplemental Parts and Components Agreement, and the transactions contemplated thereunder (together, the Non-exempted Continuing Connected Transactions) constitute continuing connected transactions of the Company pursuant to Rule 14A.14 of the Listing Rules.

As the applicable percentage ratios of each of the agreements under the Connected Transactions is more than 0.1% but less than 2.5%, the Connected Transactions are subject to the reporting and announcement requirements and exempt from the Independent Shareholders' approval requirement pursuant to Rules 14A.32 of the Listing Rules.

As the applicable percentage ratios for each of the agreements under the Non-exempted Continuing Connected Transactions is expected to be higher than 2.5% on an annual basis, the Non-exempted

Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements and the annual review requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the Non-exempted Continuing Connected Transactions and the relevant Caps are fair and reasonable in the interest of the Company and Independent Shareholders. Quam Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding terms and conditions and the relevant caps of the Non-exempted Continuing Connected Transactions.

## **GENERAL**

A circular containing, inter alia, (a) further information about the Non-exempted Continuing Connected Transactions (including the relevant Caps); (b) the letter of advice from Quam Capital 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 dispatched to the Shareholders as soon as practicable.

## **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
“Assets”	assets (mainly comprising spot welding machines, hydraulic punching machines and cranes) as specified in appendix I of the Assets Purchase Agreement for the use of production of cars
“Assets Purchase Agreement”	the sales and purchase agreement dated 20 August 2009 entered into between the Company and Geely Holding pursuant to which the Company agrees to purchase and Geely Holding agrees to sell the Assets at a total consideration of RMB29,760,000 (representing approximately HK\$33,819,300)
“Board”	the board of Directors
“Caps”	for the purpose of Chapter 14A of the Listing Rules, means the proposed annual caps of the Non-exempted Continuing Connected Transactions for each of the three financial years ending 31 December 2011 as set out under the section headed “Determination of Proposed Caps”

“CBU”	Complete Buildup Unit (整車), a complete vehicle after the final assembly
“CBU Agreement”	the master agreement dated 20 August 2009 entered into between the Company and Geely Holding as referred to under the subsection headed “(III) CBU Agreement” of the section headed “Non-exempted Continuing Connected Transactions” of this announcement
“College”	Zhejiang Automotive Vocational and Technical College (浙江汽車職業技術學院) (previously known as 浙江經濟管理專修學院), a private higher education institution established in the PRC, located at Cheng Dong Geely Education Centre, Linhai City, Zhejiang Province, the PRC (中國浙江省臨海市城東吉利教育中心) and beneficially owned as to 100% by Mr. Li and his associates
“Company”	Geely Automobile Holdings Limited, a public company incorporated in the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange
“Connected Transactions”	collectively, the Land Acquisition Agreement, the Property Disposal Agreement, the Assets Purchase Agreement, the TX4 Agreement and the transactions contemplated thereunder
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the Non-exempted Agreements and the Caps in relation to the Non-exempted Continuing Connected Transactions
“Existing Services Agreement”	the master agreement dated 17 September 2007 entered into between the Company and Geely Holding for, amongst all, the purchase of automobile parts and components by the Group from Geely Holding Group, details of which are contained in the announcement dated 17 September 2007 and the circular dated 31 October 2007
“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
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 established for the purpose of advising the Independent Shareholders on the Non-exempted Continuing Connected Transactions (including the relevant Caps)
“Independent Shareholders”	Shareholder(s) other than Geely Holding, Kailun Qufu, the College and any of their respective associates
“Independent Valuer”	Jones Lang LaSalle Sallmanns Ltd., an independent valuer
“Kailun Qufu”	Kailun (QuFu) Property Investment Limited, a company incorporated in the PRC
“Kailun Automobile”	Qufu Kailun Automobile Parts and Components Manufacturing Company Limited, a sino-foreign equity joint venture enterprise established in the PRC owned as to 50% by Kailun Qufu and 50% by a subsidiary of the Company
“Land”	a parcel of land located at No.1 Yangchun Road, the West Area of Economic Development Zone, Qufu City, Shangdong Province, the PRC with a total area of approximately 154,429 square meters
“Land Acquisition Agreement”	the sales and purchase agreement dated 20 August 2009 entered into between the Company and Kailun Qufu pursuant to which the Company agrees to purchase and Kailun Qufu agrees to sell the land use right to the Land at a total consideration of RMB15,520,100 (representing approximately HK\$17,637,000)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Li”	Mr. Li Shu Fu, a Director holding 51.54% interest in the issued share capital of the Company as at the date of this announcement
“Non-exempted Agreements”	collectively, the R&D Agreement, the Services Agreement, the CBU Agreement and the Supplemental Parts and Components Agreement
“Non-exempted Continuing Connected Transactions”	the Non-exempted Agreements and the transactions contemplated thereunder
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan)
“Property”	collectively, (i) the buildings and structures on the campus of the College, mainly comprising the educational buildings, laboratory and library; (ii) the parcel of land occupied by the college, locating at Economic Development District (Wu Jia Dian), Cheng Guan Town, Linhai City, Zhejiang Province, the PRC (中國浙江省臨海市城關鎮經濟開發區(五加殿)) with a total area of approximately 87,000 square meter
“Property Disposal Agreement”	the sales and purchase agreement dated 20 August 2009 entered into between the Company and the College pursuant to which the Company agrees to sell and the College agrees to purchase the Property at a total consideration of RMB82,580,000 (representing approximately HK\$93,843,900)
“Quam Capital”	Quam Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Non-exempted Continuing Connected Transactions (including the relevant Caps)
“R&D”	research and development
“R&D Agreement”	the master agreement dated 20 August 2009 entered into between the Company and Geely Holding as referred to under the subsection headed “(I) R&D Agreement” of the section headed “Non-exempted Continuing Connected Transactions” of this announcement

“RMB”	Renminbi, the lawful currency of the PRC
“Services Agreement”	the master agreement dated 20 August 2009 entered into between the Company and Geely Holding as referred to under the sub-section headed “(II) Services Agreement” of the section headed “Non-exempted Continuing Connected Transactions” of this announcement
“Shareholders”	holders of shares of the Company
“Shanghai LTI”	上海英倫帝華汽車部件有限公司 (Shanghai LTI Automobile Components Company Limited), a sino-foreign joint venture enterprise incorporated in the PRC with limited liability, owned as to 51.0% by Luck Empire, 48.0% by Manganese Bronze, and 1.0% by Shanghai Maple, respectively
“Shanghai Maple”	上海華普汽車有限公司 (Shanghai Maple Automobile Company Limited), a limited liability company incorporated in the PRC and is owned as to 90.00% by Geely Holding and as to 10.00% by 浙江華普資產管理有限公司 (Zhejiang Maple Assets Management Company Limited) respectively, which is in turn owned by the senior management of Geely Holding. It is principally engaged in manufacturing and sales of automobile and related components, and manufacturing of air conditioning related parts
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Parts and Components Agreement”	the master agreement dated 20 August 2009 entered into between the Company and Geely Holding as referred to under the sub-section headed “(IV) Supplemental Parts and Components Agreement” of the section headed “Non-exempted Continuing Connected Transactions” of this announcement

“TX4 Agreement” the sales and purchase agreement dated 20 August 2009 entered into between the Shanghai LTI and Shanghai Maple pursuant to which the Shanghai LTI agrees to purchase and Shanghai Maple agrees to sell the TX4 prototype car and sample parts at a total consideration of RMB12,861,536 (representing approximately HK\$14,615,800)

“%” per cent.

*Unless otherwise specified in this announcement, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK\$ as follows:*

$$RMB1 = HK\$1.1364$$

*No representation is made that any amount in HK\$ could have been or could be converted at the above rate or at any other rates or at all.*

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

Hong Kong, 20 August 2009

*As at the date of this announcement, the executive Directors of the Company are Mr. Li Shu Fu, Mr. Yang Jian, Mr. Gui Sheng Yue, Mr. Ang Siu Lun, Lawrence, Mr. Yin Da Qing, Richard, Mr. Liu Jin Liang, Mr. Zhao Jie and Dr. Zhao Fuquan and the non-executive Director is Mr. Xu Gang and the independent non-executive Directors are Mr. Song Lin, Mr. Lee Cheuk Yin, Dannis, and Mr. Yeung Sau Hung, Alex.*