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If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Geely Automobile Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**DISCLOSEABLE TRANSACTION 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**



A letter from the Board is set out on pages 5 to 24 of this circular and a letter from the Independent Board Committee is set out on page 25 of this circular. A letter from Quam Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Shareholders in respect of the fairness and reasonableness of the terms of the Non-exempted Continuing Connected Transactions is set out on pages 26 to 61 of this circular.

A notice convening the EGM of Geely Automobile Holdings Limited to be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on 31 December 2009 at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment thereof should you so wish.

14 December 2009

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from Independent Board Committee	25
Letter from Quam Capital	26
Appendix – General Information	62
Notice of the EGM	EGM-1

DEFINITIONS

In this circular, the following expressions shall have the following meanings, unless the context otherwise requires:

“associates”	has the meaning ascribed to it in the Listing Rule
“Board”	the board of Directors
“CBU”	Complete Buildup Unit (整車), a complete vehicle after the final assembly
“CKD(s)”	Complete Knock Down Kit(s) or CKD(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
“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 relevant caps)
“Existing August 09 Services Agreement”	the master agreement dated 20 August 2009 entered into between the Company and Geely Holding for, amongst others, 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, details of which are contained in the Company’s announcement dated 20 August 2009 and the Company’s circular dated 8 September 2009
“Existing Loan Guarantee Agreement”	the agreement dated 17 September 2007 entered into between the Company and Geely Holding pursuant to which the Group agreed to provide guarantees on loans obtained or to be obtained by the Geely Holding Group, details of which are contained in the Company’s announcement dated 17 September 2007 and the Company’s circular dated 31 October 2007

DEFINITIONS

“Existing Services Agreement”	the master agreement dated 17 September 2007 entered into between the Company and Geely Holding for, amongst others, (i) the Group agreed to sell the CKDs and Sedan Tool Kits to the Geely Holding Group and (ii) Geely Holding Group agreed to sell the CBUs, automobile parts and components; and provide process manufacturing services to the Group, details of which are contained in the Company’s announcement dated 17 September 2007 and the Company’s 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
“Guarantees”	guarantees to be provided by the Group on loans obtained or to be obtained by the Geely Holding Group pursuant to the Loan Guarantee Agreement
“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, namely Mr. Song Lin, Mr. Lee Cheuk Yin, Dannis, and Mr. Yeung Sau Hung, Alex, established for the purpose of advising the Independent Shareholders on the Non-exempted Continuing Connected Transactions (including the relevant annual caps)
“Independent Shareholders”	Shareholder(s) other than Mr. Li and his associates
“Latest Practicable Date”	9 December 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Loan Guarantee Agreement”	the agreement dated 27 November 2009 entered into between the Company and Geely Holding as referred to under the subsection headed “(II) Loan Guarantee Agreement ” of the section headed “Non-exempted Continuing Connected Transactions” of this circular
“Mr. Li”	Mr. Li Shu Fu, an executive Director and a substantial shareholder holding 51.44% interest in the issued share capital of the Company as at the Latest Practicable Date
“Non-exempted Agreements”	collectively, the Services Agreement, the Loan Guarantee Agreement, the Supplemental Services Agreement and the Shanghai LTI Supply and Purchase Agreement
“Non-exempted Continuing Connected Transactions”	collectively, the Non-exempted Agreements and the transactions contemplated thereunder
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Sedan Tool Kit(s)”	a tool kit(s) for subsequent basic repairs and maintenance of the sedan (隨車工具包)
“Services Agreement”	the master agreement dated 27 November 2009 entered into between the Company and Geely Holding as referred to under the subsection headed “(I) Services Agreement ” of the section headed “Non-exempted Continuing Connected Transactions” of this circular
“SFO”	the Securities and Futures Ordinance
“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 limited liability company incorporated in the PRC and indirectly owned as to 51% by the Company

DEFINITIONS

“Shanghai LTI Supply and Purchase Agreement”	the agreement dated 27 November 2009 entered into between Shanghai LTI and Shanghai Maple as referred to under the subsection headed “(III) Shanghai LTI Supply and Purchase Agreement ” of the section headed “Non-exempted Continuing Connected Transactions” of this circular
“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 the manufacturing and sales of automobiles and related components, and manufacturing of air-conditioning related parts
“SKD Components”	Semi Knock Down Kit(s) or SKD(s) (半散裝套件)
“Supplemental Services Agreement”	the supplemental master agreement dated 27 November 2009 entered into between the Company and Geely Holding as referred to under the subsection headed “(IV) Supplemental Services Agreement” of the section headed “Renewal of Annual Caps” of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

Note: For the purpose of this circular, the exchange rate of RMB1 = HK\$1.1364 has been used for currency translation where applicable. Such exchange rate is for illustration purposes and does not constitute representation that any amount in HK\$ could have been or could be converted at the above rate or at all.

LETTER FROM THE BOARD



吉利汽車控股有限公司 GEEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 175)

Executive Directors:

Mr. Li Shu Fu
Mr. Yang Jian
Mr. Gui Sheng Yue
Mr. Ang Siu Lun, Lawrence
Mr. Liu Jin Liang
Mr. Yin Da Qing, Richard
Mr. Zhao Jie
Dr. Zhao Fuquan

Non-executive Director:

Mr. Xu Gang

Independent Non-executive Directors:

Mr. Lee Cheuk Yin, Dannis
Mr. Song Lin
Mr. Yeung Sau Hung, Alex

Registered Office:

P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal Place of Business in

Hong Kong:

Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

14 December 2009

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 27 November 2009 in which the Company announced that, *inter alia*, the Group entered into the Non-exempted Agreements with the Geely Holding Group which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios for the Services Agreement, the Loan Guarantee Agreement, the Supplemental Services Agreement and the Shanghai LTI Supply and Purchase Agreement (together, the Non-exempted Continuing Connected Transactions) are 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. As one of the applicable percentage ratios for the Loan Guarantee Agreement exceeds 5% but less than 25% on an annual

LETTER FROM THE BOARD

basis, the transactions under the Loan Guarantee Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The transactions contemplated under the Services Agreement and the Loan Guarantee Agreement are renewals of existing continuing connected transactions. The Shanghai LTI Supply and Purchase Agreement is a new continuing connected transaction and the Supplemental Services Agreement is a supplemental agreement to the Existing August 09 Services Agreement.

The purposes of this circular are (i) to provide the Shareholders with information on the Non-exempted Continuing Connected Transactions; (ii) to set out the view of the Independent Board Committee in respect of the fairness and reasonableness of the terms and conditions of the Non-exempted Continuing Connected Transactions; and (iii) to set out the letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in respect of the fairness and reasonableness of the terms and conditions of the Non-exempted Continuing Connected Transactions.

NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

(I) Services Agreement

Date: 27 November 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 an executive Director and a substantial shareholder holding approximately 51.44% interest in the issued share capital of the Company.

Term: From 1 January 2010 or the date of obtaining the Independent Shareholders' approval at the EGM (whichever the later) to 31 December 2020. The Directors (including the independent non-executive Directors) consider that the Services Agreement is essential to the core operation of the Group, it is to the benefit of the Company to have the term of the Services Agreement for more than 3 years.

The Company will, in compliance with the Listing Rules, make further announcement and obtain approvals from Independent Shareholders (if necessary) in relation to the annual caps after their expiry on 31 December 2012 as and when necessary.

LETTER FROM THE BOARD

Condition precedent for the Services Agreement

Completion of the Services Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve 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.

(i) *Sales of CKDs and Sedan Tool Kits from the Group to the Geely Holding Group*

Subject matter: Pursuant to the Services Agreement, the Group agrees to supply to the Geely Holding Group, CKDs and Sedan Tool Kits in accordance with the product specifications set out in the Services Agreement. During the course of the Services Agreement, the Geely Holding Group may request additional services other than the aforesaid services from the Group. The additional services, subject to the Group's ability in providing the requested services to be based on normal commercial terms to be determined by the parties to the Services Agreement on an arm's length basis and in compliance with the Listing Rules, shall be related to services that might occur in the process of manufacturing of CKDs and Sedan Tool Kits for new models in the future.

Pricing basis: Pursuant to the Services Agreement, the CKDs, depending on the specifications and models, shall be sold to the Geely Holding Group based on the selling price of the sedans to end customers less distribution costs, costs of Sedan Tool Kits, the PRC taxes, mainly the consumption tax, and costs of other necessary and reasonable expenses. The Sedan Tool Kits to be supplied by the Group to the Geely Holding Group shall be based on the cost of the Sedan Tool Kits to the Group. Such pricing basis pursuant to the Services Agreement was determined by the parties on normal commercial terms as the Sedan Tool Kits will be sold back to the Group for distribution to the end customers.

Historical transaction amounts and annual caps

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

LETTER FROM THE BOARD

The table below sets out the historical transactions and the proposed annual caps for the sales of CKDs and Sedan Tool Kits pursuant to the Services Agreement for each of the three years ending 31 December 2010, 2011 and 2012:

	Historical amount for the year ended 31 December 2008 (Audited) '000	Historical amount for the nine months ended 30 September 2009 (Unaudited) '000	2010 '000	Estimated annual caps for the year ending 31 December	
				2011 '000	2012 '000
Sales of CKDs	RMB3,200,865 (equivalent to approximately HK\$3,637,463)	RMB7,773,105 (equivalent to approximately HK\$8,833,357)	RMB22,595,838 (equivalent to approximately HK\$25,677,910)	RMB34,097,304 (equivalent to approximately HK\$38,748,176)	RMB46,942,998 (equivalent to approximately HK\$53,346,203)
Approved annual cap amount for the two financial years ending 31 December 2009 ('000)	RMB10,275,245 (equivalent to approximately HK\$11,676,788)	RMB12,707,335 (equivalent to approximately HK\$14,440,615)	N/A N/A	N/A N/A	N/A N/A
Sales of Sedan Tool Kits	RMB7,691 (equivalent to approximately HK\$8,740)	RMB2,247 (equivalent to approximately HK\$2,553)	RMB25,825 (equivalent to approximately HK\$29,348)	RMB35,370 (equivalent to approximately HK\$40,194)	RMB47,475 (equivalent to approximately HK\$53,951)
Approved annual cap amount for the two financial years ending 31 December 2009 ('000)	RMB13,125 (equivalent to approximately HK\$14,915)	RMB16,500 (equivalent to approximately HK\$18,751)	N/A N/A	N/A N/A	N/A N/A
Total:	RMB3,208,556 (equivalent to approximately <u>HK\$3,646,203</u>)	RMB7,775,352 (equivalent to approximately <u>HK\$8,835,910</u>)	RMB22,621,663 (equivalent to approximately <u>HK\$25,707,258</u>)	RMB34,132,674 (equivalent to approximately <u>HK\$38,788,371</u>)	RMB46,990,473 (equivalent to approximately <u>HK\$53,399,974</u>)

LETTER FROM THE BOARD

As the Group only completed a restructuring to acquire additional interests in its PRC subsidiaries on 1 July 2008 (details of which are set out in the Company's circular dated 31 October 2007 and the Company's announcement dated 4 July 2008), the aforementioned transactions have only constituted continuing connected transactions of the Company for the purpose of the Listing Rules since 1 July 2008. It is noted in the above table that the historical amounts for the year ended 31 December 2008 and for the nine months ended 30 September 2009 were within their annual caps as approved by the then Independent Shareholders at an extraordinary general meeting of the Company held on 22 November 2007.

The above proposed annual caps for the purchases of CKDs by the Geely Holding Group from the Group have been determined by the Directors with reference to the historical transaction amounts; the projected units of sedan to be sold based on the sales budget of the Group, the number of new models to be introduced in the market and the estimated selling price per sedan less the distribution costs, estimated unit cost of Sedan Tool Kits, the PRC taxes, mainly the consumption tax per sedan, and the estimated costs of other necessary and reasonable expenses.

The above proposed annual caps for the purchases of Sedan Tool Kits by the Geely Holding Group from the Group have been determined by the Directors with reference to the historical transaction amounts; the projected units of sedan to be sold based on the sales budget of the Group; and the estimated unit cost of Sedan Tool Kits to the Group.

(ii) *Sales of CBUs, automobile parts and components; and provision of process manufacturing services from the Geely Holding Group to the Group*

Subject matter: Pursuant to the Services Agreement, the Geely Holding Group agrees to sell to the Group the CBUs, automobile parts and components; and provide process manufacturing services to the Group in accordance with the product and service specifications set out in the Services Agreement.

Pricing basis: Pursuant to the Services Agreement, the CBUs, depending on the models, shall be sold to the Group based on the selling price of the sedans to end customers less distribution costs. The automobile parts and components to be supplied by the Geely Holding Group shall be based on the original purchase cost plus the relevant procurement cost(s), being the actual cost(s) incurred in the procurement process by the Geely Holding Group. With regard to the process manufacturing services, the fee to be charged by the Geely Holding Group shall be based on the annual linear depreciation of the value of the imported molding equipment plus the actual cost incurred by Geely Holding Group for the process manufacturing services. Such pricing basis pursuant to the Services Agreement was determined by the parties on an arm's length basis.

LETTER FROM THE BOARD

Historical transaction amounts and annual caps

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

The table below sets out the historical amounts and the proposed annual caps for the purchases of CBUs, automobile parts and components and the process manufacturing services fees pursuant to the Services Agreement for each of the three years ending 31 December 2010, 2011 and 2012:

	Historical amount for the year ended 31 December 2008 (Audited) '000	Historical amount for the nine months ended 30 September 2009 (Unaudited) '000	2010 '000	Estimated annual caps for the year ending 31 December	
				2011 '000	2012 '000
Purchases of CBUs	RMB3,906,663 (equivalent to approximately HK\$4,439,532)	RMB8,619,530 (equivalent to approximately HK\$9,795,234)	RMB24,301,748 (equivalent to approximately HK\$27,616,506)	RMB36,905,446 (equivalent to approximately HK\$41,939,349)	RMB50,473,652 (equivalent to approximately HK\$57,358,258)
Approved annual cap amount for the two financial years ending 31 December 2009 ('000)	RMB10,703,380 (equivalent to approximately HK\$12,163,321)	RMB13,236,807 (equivalent to approximately HK\$15,042,307)	N/A N/A	N/A N/A	N/A N/A
Purchases of automobile parts and components	RMB2,581,268 (equivalent to approximately HK\$2,933,353)	RMB4,390,871 (equivalent to approximately HK\$4,989,786)	RMB11,257,414 (equivalent to approximately HK\$12,792,925)	RMB11,746,054 (equivalent to approximately HK\$13,348,216)	RMB8,904,623 (equivalent to approximately HK\$10,119,214)
Approved annual cap amount for the two financial years ending 31 December 2009 ('000)	RMB2,985,619 approximately approximately HK\$3,392,857)	RMB7,737,614 (equivalent to approximately HK\$8,793,025)	N/A N/A	N/A N/A	N/A N/A

LETTER FROM THE BOARD

	Historical amount for the year ended 31 December 2008 (Audited) '000	Historical amount for the nine months ended 30 September 2009 (Unaudited) '000	2010 '000	Estimated annual caps for the year ending 31 December	
				2011 '000	2012 '000
Process manufacturing services fees	RMB17,453 (equivalent to approximately HK\$19,834)	RMB28,895 (equivalent to approximately HK\$32,836)	RMB133,256 (equivalent to approximately HK\$151,432)	RMB130,202 (equivalent to approximately HK\$147,962)	RMB113,455 (equivalent to approximately HK\$128,930)
Approved annual cap amount for the two financial years ending 31 December 2009 ('000)	RMB121,580 (equivalent to approximately HK\$138,164)	RMB194,546 (equivalent to approximately HK\$221,082)	N/A N/A	N/A N/A	N/A N/A
Total:	RMB6,505,384 (equivalent to approximately HK\$7,392,719)	RMB13,039,296 (equivalent to approximately HK\$14,817,856)	RMB35,692,418 (equivalent to approximately HK\$40,560,863)	RMB48,781,702 (equivalent to approximately HK\$55,435,527)	RMB59,491,730 (equivalent to approximately HK\$67,606,402)

As the Group only completed a restructuring to acquire additional interests in its PRC subsidiaries on 1 July 2008 (details of which are set out in the Company's circular dated 31 October 2007 and the Company's announcement dated 4 July 2008), the aforementioned transactions have only constituted continuing connected transactions of the Company for the purpose of the Listing Rules since 1 July 2008. It is noted in the above table that the historical amounts for the year ended 31 December 2008 and for the nine months ended 30 September 2009 were within their annual caps as approved by the then Independent Shareholders at an extraordinary general meetings of the Company held on 22 November 2007 and 23 September 2009.

LETTER FROM THE BOARD

The above proposed annual caps for the purchases of CBUs by the Group from the Geely Holding Group have been determined by the Directors with reference to the historical transaction amounts; the projected units of sedan to be sold based on the sales budget of the Group; the number of new models to be introduced in the market and the estimated selling price per sedan less distribution costs per sedan.

The proposed annual caps for the purchases of automobile parts and components by the Group from the Geely Holding Group have been determined by the Directors with reference to the historical transaction amounts, the estimated increase in percentage volume of total procurement on automobile parts and components by the Group sourcing from the Geely Holding Group, taking into consideration the Group will gradually shift the procurement of automobile parts and components currently undertaken by Geely Holding Group back to itself.

The proposed annual caps for the process manufacturing services fees charged by the Geely Holding Group have been determined by the Directors with reference to the estimated cost of imported molding equipment required for process manufacturing services, the estimated cost incurred for the process manufacturing services, including the associated lease payments incurred by the Geely Holding Group given that the process manufacturing services are requested by the Group, and the annual depreciation rate for the molding equipment which is consistent with the accounting policy of the Group.

The Group is principally engaged in the manufacturing and trading of automobiles, automobile parts and related automobile components in the PRC. As noted in the Company's annual report for 2008, the Directors believe that there will be substantial growth in car demand in China in the coming decade, due to China's consistent economy growth, its rising household incomes and its low car ownership with only 1% of the population owning a sedan at present. Also, according to the figures released by the China Association of Automobile Manufacturers, total sales volume of passenger cars in China increased by 37% to 3.8 million units in 2008, surpassing most market expectations. Although fierce competition in China's sedan market remains, the Directors expect growth of China's sedan sales volume to be maintained at around 20% in the coming few years. In the first ten months of 2009, the Group has sold 246,500 units of vehicle, achieving 99% of its full year sales volume target of 250,000 units, thanks to the promising domestic sales performance after the implementation of "Stimulus Package for Automobile Industry" in early 2009 and the introduction of fuel tax in January 2009 by the Chinese government, which have been more than offset the significant slow down in the Group's export business as a result of the global financial crisis started in late 2008. In order to tap into the increasing demand for Geely's sedans in the inland regions in mainland China, the Group has recently signed agreements with the Geely Holding Group to acquire three new manufacturing facilities in Chengdu of Sichuan Province, Jinan of Shandong Province and Lanzhou of Gansu Province. These new manufacturing plants, upon their gradual commencement of production, the upgrading and expansion of the existing production facilities in Ningbo, Shanghai, Linhai, Luqiao and Hunan, the introduction of other new higher-priced models in the market, the implementation of "Multi-brand Strategy" in the area of product marketing and "Platform Strategy" in the area of new products development and the gradual revival of the

LETTER FROM THE BOARD

export markets, would enable the Group entering into a rapid growth period in the coming years. Accordingly, the Directors estimate the proposed annual caps amounts involved in the sales of CKDs and Sedan Tool Kits, the purchase of CBUs and process manufacturing services set out in the Services Agreement will increase significantly. As the Group will gradually shift the procurement of automobile parts and components currently undertaken by Geely Holding Group back to itself, it is expected that the proposed annual cap amounts involved in the purchases of automobile parts and components will decrease gradually.

Rule 14A.35(1) of the Listing Rules provides, in relation to non-exempt continuing connected transactions, that, *inter alia*, under special circumstances where the nature of the transaction requires the agreement to be of a duration longer than three (3) years, the independent financial adviser to the Company will be required to explain why a longer period for the agreement is required and to confirm that it is normal business practice for agreements of such type to be of such duration. Such opinion is included in the letter from Quam Capital, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors) are of the view that terms of the Services Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(II) Loan Guarantee Agreement

Date: 27 November 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 an executive Director and a substantial shareholder holding approximately 51.44% interest in the issued share capital of the Company.

Subject matter: Pursuant to the Loan Guarantee Agreement, the Group agrees to provide guarantees (including the pledge of certain lands, buildings and facilities of the Group) on loans obtained or to be obtained by the Geely Holding Group in relation to the manufacture and research and development of sedans of the Group.

The Geely Holding Group (i) guarantees that the loans will only be utilized for sedan manufacturing and research and development activity relating to the Group; (ii) would obtain consent from the Group prior to drawdown of the loans; and (iii) agrees to provide counter indemnities on the Guarantees.

LETTER FROM THE BOARD

Term: From 1 January 2010 or the date of obtaining the Independent Shareholders' approval at the EGM (whichever the later) to 31 December 2012.

Condition precedent for the Loan Guarantee Agreement

Completion of the Loan Guarantee Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Loan Guarantee Agreement and the Guarantees.

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 Loan Guarantee Agreement will lapse and all the obligations and liabilities of the parties to the Loan Guarantee Agreement will cease and terminate.

Historical transaction amounts and annual caps

The Company and Geely Holding entered into the Existing Loan Guarantee Agreement on 17 September 2007 pursuant to which the Company agreed to provide guarantees on loans obtained or to be obtained by the Geely Holding Group. The Existing Loan Guarantee Agreement has an original term commencing from the effective date of the Existing Loan Guarantee Agreement to 31 December 2009. The Existing Loan Guarantee Agreement was approved by the then Independent Shareholders at an extraordinary general meeting of the Company held on 22 November 2007.

LETTER FROM THE BOARD

The table below sets out the historical transaction amounts and the proposed annual caps for the aggregate guarantee amount to be provided by the Group pursuant to the Loan Guarantee Agreement for each of the three years ending 31 December 2010, 2011 and 2012:

	Highest historical amount for the year ended 31 December 2008 (Audited) '000	Highest historical amount for the nine months ended 30 September 2009 (Unaudited) '000	2010 '000	Estimated annual caps for the year ending 31 December	
				2011 '000	2012 '000
Aggregate guarantee amount	RMB770,000 (equivalent to approximately HK\$875,028)	RMB770,000 (equivalent to approximately HK\$875,028)	RMB1,000,000 (equivalent to approximately HK\$1,136,400)	RMB900,000 (equivalent to approximately HK\$1,022,760)	RMB800,000 (equivalent to approximately HK\$909,120)
Approved annual cap amount for the two financial years ending 31 December 2009 ('000)	RMB850,000 (equivalent to approximately HK\$965,940)	RMB850,000 (equivalent to approximately HK\$965,940)	N/A N/A	N/A N/A	N/A N/A

As the Group only completed a restructuring to acquire additional interests in its PRC subsidiaries on 1 July 2008 (details of which are set out in the Company's circular dated 31 October 2007 and the Company's announcement dated 4 July 2008), the aforementioned transactions have only constituted continuing connected transactions of the Company for the purpose of the Listing Rules since 1 July 2008. It is noted in the above table that the highest historical amounts for the year ended 31 December 2008 and for the nine months ended 30 September 2009 were within their annual caps as approved by the then Independent Shareholders at an extraordinary general meetings of the Company held on 22 November 2007.

The Directors estimate that in order to tap into the increasing demand for the Company's sedans in the future, funding resources have to be devoted to the research and development activities, which include the new car model design, development of new engine, gearbox, electronic and electric auto-related components, etc, of the Group. The Geely Holding Group currently provides a good gateway for the Company to obtain loans at cheaper finance costs for sedan manufacturing and research and development activity through its long-term relationship with certain PRC banks. Guarantees including the pledge of certain lands, buildings and facilities of the Group are required by these banks. The proposed annual caps for the Group's guarantees are referenced to the aggregate guarantee amount on the loans obtained of approximately RMB420 million (equivalent to approximately HK\$477 million) at 31 October 2009 and on the loans

LETTER FROM THE BOARD

to be obtained by the Geely Holding Group of approximately RMB600 million (equivalent to approximately HK\$682 million) starting from the effective date of the Loan Guarantee Agreement in relation to the sedan manufacturing and research and development activity relating to the Group. Given that (i) the Guarantees will be counter indemnified by the Geely Holding Group; (ii) the Geely Holding Group would obtain consent from the Group prior to drawdown of the loans and (iii) the Group is the ultimate borrower of the loans for the manufacture and research and development of sedans, the Directors (including the independent non-executive Directors) are of the view that terms of the Guarantees and the Loan Guarantee Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(III) Shanghai LTI Supply and Purchase Agreement

Date: 27 November 2009

Parties: Shanghai LTI (as supplier); and
Shanghai Maple (as buyer)

Shanghai LTI is an indirect non-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 an executive Director and a substantial shareholder holding approximately 51.44% interest in the issued share capital of the Company.

Subject matter: Pursuant to the Shanghai LTI Supply and Purchase Agreement, Shanghai LTI agrees to supply to Shanghai Maple and Shanghai Maple agrees to purchase from the Shanghai LTI (i) automobile parts and components; (ii) SKD Components; and (iii) CKDs (without the imported engine, transmission and automobile parts).

Pricing basis: The parts and components shall be sold to Shanghai Maple at a price of cost plus 3%.

The SKD Components to be sold to Shanghai Maple at a price of cost plus 3%.

LETTER FROM THE BOARD

The CKDs (without the imported engine, transmission and automobile parts) to be sold to Shanghai Maple based on the selling price of the sedans to end customers less distribution costs, costs of the Sedan Tool Kits, the PRC taxes, mainly the consumption tax, the cost of other necessary and reasonable expenses and the original purchase cost of engine, transmission and automobile parts by Shanghai Maple.

Every three years, the board of the Shanghai LTI will formally evaluate whether it would be necessary or appropriate to initiate discussions with the Shanghai Maple in relation to the aforementioned pricing basis to ensure fairness to the Shanghai LTI by making reference to the prevailing fair market price at the time of the evaluation. The first of these evaluations shall commence on the third anniversary of the effective date of the Shanghai LTI Supply and Purchase Agreement. The Company will, in compliance with the Listing Rules, make further announcement and obtain approvals from Independent Shareholders (if necessary) in relation to any changes to the aforementioned pricing basis after such periodic evaluation is conducted.

Term:

From 1 January 2010 or the date of obtaining the Independent Shareholders' approval at the EGM (whichever the later) to 6 March 2057, which is equal to the expiry date of the Shanghai LTI. The Directors (including the independent non-executive Directors) consider that the Shanghai LTI Supply and Purchase Agreement is essential to the core operation of the Group, it is to the benefit of the Company to have the term of the Shanghai LTI Supply and Purchase Agreement for more than 3 years.

The Company will, in compliance with the Listing Rules, make further announcement and obtain approvals from Independent Shareholders (if necessary) in relation to the annual caps after their expiry on 31 December 2012 as and when necessary.

Condition precedent for the Shanghai LTI Supply and Purchase Agreement

Completion of the Shanghai LTI Supply and Purchase Agreement is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Shanghai LTI Supply and Purchase 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 Shanghai LTI Supply and Purchase Agreement will lapse and all the obligations and liabilities of the parties to the Shanghai LTI Supply and Purchase Agreement will cease and terminate.

LETTER FROM THE BOARD

Determination of proposed caps

The table below sets out the proposed annual caps of the Shanghai LTI Supply and Purchase Agreement for each of the three years ending 31 December 2010, 2011 and 2012:

	Proposed annual caps for the year ending 31 December		
	2010	2011	2012
	'000	'000	'000
Shanghai LTI Supply and Purchase Agreement			
– Sales of automobile parts and components from Shanghai LTI to Shanghai Maple	RMB60,000 (equivalent to approximately HK\$68,184)	RMB70,000 (equivalent to approximately HK\$79,548)	RMB80,000 (equivalent to approximately HK\$90,912)
– Sales of SKD Components from Shanghai LTI to Shanghai Maple	RMB72,000 (equivalent to approximately HK\$81,821)	RMB160,000 (equivalent to approximately HK\$181,824)	RMB240,000 (equivalent to approximately HK\$272,736)
– Sales of CKDs (without the imported engine, transmission and automobile parts) from Shanghai LTI to Shanghai Maple	RMB918,708 (equivalent to approximately HK\$1,044,020)	RMB1,721,172 (equivalent to approximately HK\$1,955,940)	RMB2,226,959 (equivalent to approximately HK\$2,530,716)
Total:	RMB1,050,708 (equivalent to approximately HK\$1,194,025)	RMB1,951,172 (equivalent to approximately HK\$2,217,312)	RMB2,546,959 (equivalent to approximately HK\$2,894,364)

The above proposed annual caps for the Shanghai LTI Supply and Purchase Agreement have been determined by the Directors with reference to projected units of sedan to be sold and the estimated selling price per sedan, based on the sales budget for the Shanghai LTI. The Directors have also considered the scale of operation of the Shanghai LTI in determining the annual caps. The Directors (including the independent non-executive Directors) are of the view that terms of the Shanghai LTI Supply and Purchase Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

RENEWAL OF ANNUAL CAPS

Reference is made to the announcement of the Company on 20 August 2009 in relation to the Existing August 09 Services Agreement. In order to increase the annual caps for the purchase of processed automobile parts and components by the Group from the Geely Holding Group, the Company and Geely Holding entered into a Supplemental Services Agreement with details as follows:

(IV) Supplemental Services Agreement

Date: 27 November 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 an executive Director and a substantial shareholder holding approximately 51.44% interest in the issued share capital of the Company.

Subject matter: To increase the annual caps of the Existing August 09 Services Agreement for the purchase of processed automobile parts and components from the Geely Holding Group by the Group for the year ending 31 December 2010 and 31 December 2011 from RMB205,296,000 (equivalent to approximately HK\$ 233,298,374) to RMB1,101,004,000 (equivalent to approximately HK\$1,251,180,946) and from RMB359,153,000 (equivalent to approximately HK\$408,141,469) to RMB2,554,814,000 (equivalent to approximately HK\$2,903,290,630), respectively.

Condition precedent:

The Supplemental Services Agreement will be subject to the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve, among others, the Supplemental 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 Supplemental Services Agreement will lapse and all the obligations and liabilities of the parties to the Supplemental Services Agreement will cease and terminate.

LETTER FROM THE BOARD

Historical Transaction Amounts:

The Company and Geely Holding entered into the Existing August 09 Services Agreement on 20 August 2009 pursuant to which the Company agreed to purchase processed automobile parts and components from the Geely Holding Group. The Existing August 09 Services Agreement has an original term commencing from the effective date of the Existing August 09 Services Agreement to 31 December 2011. The Existing August 09 Services Agreement was approved by the then Independent Shareholders at an extraordinary general meeting of the Company held on 23 September 2009.

The increase in the annual caps is due to the increase in the number of processed automobile parts and components to be purchased by the Group from the Geely Holding Group as a result of the increase in the number of different vehicle models being manufactured by the Group.

In view of the anticipated increase in procurement of processed automobile parts and components from the Geely Holding Group, it is expected that the annual caps for the year ending 31 December 2010 and 2011 in respect of the Existing August 09 Services Agreement will be exceeded. In this connection, the parties agreed to increase the annual caps for the years ending 31 December 2010 and 2011 from RMB205,296,000 (equivalent to approximately HK\$ 233,298,374) to RMB1,101,004,000 (equivalent to approximately HK\$1,251,180,946) and from RMB359,153,000 (equivalent to approximately HK\$408,141,469) to RMB2,554,814,000 (equivalent to approximately HK\$2,903,290,630), respectively.

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.

Shanghai Maple is principally engaged in manufacturing and sales of automobiles and related components, and manufacturing of air-conditioning related parts.

Shanghai LTI is principally engaged in the research, development, production, and sales of automobiles and related automobile components in the PRC.

LETTER FROM THE BOARD

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

Services Agreement

- (i) *Sales of CKDs and Sedan Tool Kits from the Group to the Geely Holding Group and Sales of CBUs from the Geely Holding Group to the Group:*

The Geely Holding Group performs final assembly on the CKDs and the Sedan Tool Kits and facilitates payment of the PRC consumption tax. After performing final assembly, the Geely Holding Group sells the CBUs back to the Group's sales companies for distribution to end customers. The Directors consider that the Group is not in possession of the automobile catalogue issued by the National Development Reform Commission (NDRC) in the PRC, which is required to facilitate payment of the PRC consumption tax, the continuing connected transactions contemplated under the Services Agreement will ensure smooth operation of the Group, as certain subsidiaries of the Geely Holding Group hold the relevant approved automobile products catalogue required for payment of the PRC consumption tax.

- (ii) *Sales of automobile parts and components from the Geely Holding Group to the Group:*

The Directors consider that the continuing connected transactions contemplated under the Services Agreement are beneficially to the Group, as the Geely Holding Group has long-term relationship with suppliers of these automobile parts and components. Procurement of the automobile parts and components through the Geely Holding Group would enable the Group to secure a stable source of raw materials at competitive prices.

- (iii) *Provision of process manufacturing services from the Geely Holding Group to the Group:*

Certain imported molding equipment are required by the Group for the manufacturing of sedans. Only certain subsidiaries of the Geely Holding Group have the right to import these molding equipment required by the Group, the Directors consider that the continuing connected transactions contemplated under the Services Agreement are beneficial to the Group.

The Directors (including the independent non-executive Directors) consider that the Services Agreement has been arrived at after an arm's length negotiation between the parties to the Services Agreement, on normal commercial terms and are in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors) also considered that the annual caps comprise the lease payments incurred by the Geely Holding Group associated with the process manufacturing services which are requested by the Group. The Directors (including the independent non-executive Directors) are of the view that terms of the Services Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Loan Guarantee Agreement

In view of the long-term good relationship with certain PRC banks, the Geely Holding Group is in a better position to obtain relatively larger loans on behalf of the Group at cheaper finance costs for sedan manufacturing and research and development activity relating to the Group. Given that the Geely Holding Group (i) guarantees that the loans will only be utilized for sedan manufacturing and research and development activity relating to the Group; (ii) would obtain consent from the Group prior to drawdown of the loans; and (iii) the Group is the ultimate borrowers of the loans for the manufacture and research and development of sedans, the Directors (including the independent non-executive Directors) consider that the Guarantees and the continuing connected transactions contemplated under the Loan Guarantee Agreement will enhance the Group's future development.

Shanghai LTI Supply and Purchase Agreement

(i) *Sale of automobile parts and components*

The Directors consider that entering into of the Shanghai LTI Supply and Purchase Agreement with selling price of automobile parts and components based on normal commercial terms or no less favourable terms than those quoted by independent third parties (as the case maybe) would enhance the demand of products produced by the Shanghai LTI.

(ii) *Sale of SKD Components; and*

(iii) *CKDs (without the imported engine, transmission and automobile parts)*

Shanghai Maple, in its ordinary and usual course of business, performs final assembly, sale and distribution of automobiles in the PRC. As Shanghai Maple holds the relevant approved automobile products catalogue which is required for the sale of automobiles in the PRC under the PRC laws, and the terms of the Shanghai LTI Supply and Purchase Agreement are based on normal commercial terms or no less favourable terms than those quoted by independent third parties (as the case maybe), the Directors consider that it is in the interest of the Shanghai LTI to supply the SKD Components and CKDs to Shanghai Maple for final assembly, sales and distribution.

The Directors (including the independent non-executive Directors) are of the view that terms of the Shanghai LTI Supply and Purchase Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Supplemental Services Agreement

The Group has been purchasing necessary processed automobile parts and components from the Geely Holding Group under the Existing August 09 Services Agreement. The original annual cap in relation to the purchase of processed automobile parts and components for the years ending 31 December 2010 and 2011 was determined based on, amongst all, projected units of automobile parts and components to be sold based on the production budget of the Group.

LETTER FROM THE BOARD

The increase in the annual caps is due to the increase in the number of processed automobile parts and components to be purchased by the Group from the Geely Holding Group as a result of the increase in the number of vehicle models being manufactured by the Group.

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, it is expected that the annual caps for the purchase of processed automobile parts and components will exceed the original annual caps as set in the Existing August 09 Services Agreement. The Directors (including the independent non-executive Directors) are of the view that the increase in annual caps for the purchase of processed automobile parts and components contemplated under the Supplemental Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Each of Geely Holding and Shanghai Maple is a connected person of the Company for the purpose of the Listing Rules by virtue of the fact that each of them is an associate of Mr. Li, an executive Director and a substantial shareholder holding approximately 51.44% interest in the issued share capital of the Company.

As the applicable percentage ratios for the Services Agreement, the Loan Guarantee Agreement, the Supplemental Services Agreement and the Shanghai LTI Supply and Purchase Agreement (together, the Non-exempted Continuing Connected Transactions) are 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. As one of the applicable percentage ratios for the Loan Guarantee Agreement exceeds 5% but less than 25% on an annual basis, the transactions under the Loan Guarantee Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The EGM will be convened to approve Non-exempted Continuing Connected Transactions. Pursuant to Rule 14A.59(5) of the Listing Rules, any connected person of the Company with a material interest in the Non-exempted Continuing Connected Transactions, and any Shareholder with a material interest in the Non-exempted Continuing Connected Transactions and its associates, will not vote. As Mr. Li and his associates are connected persons of the Company with material interests in the Non-exempted Continuing Connected Transactions by virtue of the fact that Mr. Li is an executive Director and he and his associates are holding 3,751,159,000 Shares (representing approximately 51.44% of the issued share capital of the Company) as at the Latest Practicable Date, they will abstain from voting for the resolutions to approve the Non-exempted Continuing Connected Transactions to be put forward at the EGM.

LETTER FROM THE BOARD

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 annual 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 of the Non-exempted Continuing Connected Transactions (including the relevant annual caps).

RECOMMENDATION

The Directors, including the independent non-executive Directors, consider the Non-exempted Continuing Connected Transactions (including the relevant annual caps) are on normal commercial terms, are entered into in the usual and ordinary course of business and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Non-exempted Continuing Connected Transactions.

FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 25 of this circular which contains its view on the Non-exempted Continuing Connected Transactions. Your attention is also drawn to the letter of advice from Quam Capital on pages 26 to 61 which contains its opinion on the terms of the Non-exempted Continuing Connected Transactions.

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

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Non-exempted Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular.



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)

14 December 2009

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 14 December 2009 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders whether the terms and conditions of the Non-exempted Continuing Connected Transactions (including the relevant annual caps) are in the interests of the Company and the Independent Shareholders as a whole and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from Quam Capital, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Non-exempted Continuing Connected Transactions as set out on pages 26 to 61 of the Circular, and the letter from the Board set out on pages 5 to 24 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Quam Capital as stated in its letter of advice, we consider that the terms and conditions of the Non-exempted Continuing Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole, and the terms thereof (including the relevant annual caps) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Non-exempted Continuing Connected Transactions.

Yours faithfully,
Lee Cheuk Yin, Dannis
Song Lin
Yeung Sau Hung, Alex
Independent Board Committee

LETTER FROM QUAM CAPITAL

The following is the full text of the letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempted Continuing Connected Transactions and the relevant annual caps.



Quam Capital Limited

A Member of The Quam Group

14 December 2009

To the Independent Board Committee and the Independent Shareholders
Geely Automobile Holdings Limited
Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempted Continuing Connected Transactions and the relevant annual caps (the “**Caps**”). Details of the terms of the Non-exempted Continuing Connected Transactions and the Caps are set out in the “Letter from the Board” contained in the circular issued by the Company to the Shareholders dated 14 December 2009 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

On 17 September 2007, the Company and Geely Holding entered into the Existing Services Agreement and the Existing Loan Guarantee Agreement for a term up to 31 December 2009, details of which are set out in the Company’s circular dated 31 October 2007. In view of the imminent expiration of such agreements, and to ensure continued smooth operation and future development of the Group’s business, the Group entered into the Services Agreement and the Loan Guarantee Agreement with the Geely Holding Group on 27 November 2009. On the same date, the Group and the Geely Holding Group also entered into the Shanghai LTI Supply and Purchase Agreement and the Supplemental Services Agreement in relation to the Group’s automobile business in the PRC. The Geely Holding Group 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, an executive Director, and his associates and Mr. Li together with his associates held approximately 51.44% interest in the issued share capital of the Company as at the Latest Practicable Date. Therefore, the transactions contemplated under the

LETTER FROM QUAM CAPITAL

aforesaid agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Loan Guarantee Agreement also constitutes a discloseable transaction for the Company pursuant to Chapter 14 of the Listing Rules. All the Non-exempted Continuing Connected Transactions are subject to the approval of the Independent Shareholders at the EGM by way of poll. In addition, the Group has also entered into an agreement dated 27 November 2009 with Shanghai Maple in relation to purchase of imported “TX4” car parts, details of which are set out in the announcement of the Company dated 27 November 2009 (the “**Imported Parts Purchase Agreement**”), which, alike to the Services Agreement and the Shanghai LTI Supply and Purchase Agreement, has duration longer than three years. This exceeds the three-year limit as set out in Rule 14A.35(1) of the Listing Rules.

Messrs. Song Lin, Lee Cheuk Yin, Dannis and Yeung Sau Hung, Alex, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms and conditions of the Non-exempted Continuing Connected Transactions (including the Caps) are fair and reasonable and whether the Non-exempted Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and to advise the Independent Shareholders as to whether to vote in favour of the Non-exempted Continuing Connected Transactions and the adoption of the Caps. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

Quam Capital Limited is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Non-exempted Continuing Connected Transactions, the Caps and the tenure of the Imported Parts Purchase Agreement.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular, the information supplied by the Group and its advisers, the opinions expressed by and the representations of the Directors and the management of the Group, and our review of the relevant public information. We have assumed that all the information and representations contained or referred to in the Circular were true and accurate in all respects at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time that they were made and continue to be true until the date of the EGM and all such statements of belief, opinions and intention of the Directors and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Group and its advisers. The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement in the Circular untrue or misleading.

We consider that we have reviewed sufficient and relevant information currently available to reach an informed view regarding the Non-exempted Continuing Connected Transactions and the Caps and to justify our reliance on the accuracy of the information provided to us and those contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors, the Group or its advisers, nor have we conducted any form of in-depth investigation

LETTER FROM QUAM CAPITAL

into the business, affairs, operations, financial position or future prospects of the Company, Geely Holding or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for the Non-exempted Continuing Connected Transactions and the Caps

(a) The principal business activities and development of the Group

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

Following completion of the Group's restructuring in July 2008 (the "**Restructuring**") involving, among others, the acquisition of additional interests in five major operating associates (the "**Operating Associates**") from the Geely Holding Group (details of which are set out in the Company's circular dated 31 October 2007), the Group commenced various continuing connected transactions, including, but not limited to, those contemplated under the Existing Services Agreement and the Existing Loan Guarantee Agreement, with the Geely Holding Group for conducting its automobile business in the PRC.

As disclosed in the interim report of the Company for the six months ended 30 June 2009 (the "**Interim Report**"), the Group sold a total of 137,758 units of vehicles in the first half of 2009, representing an increase of approximately 29% from the corresponding period in 2008. It is further noted that the Group recorded profit attributable to the equity holders of the Company of approximately RMB595.9 million for the six months ended 30 June 2009, which is the most profitable interim results of the Group since its incorporation. We were advised that such performance is mainly a combined result of the current business model after the Restructuring and the strong natural growth achieved by the Group due to higher vehicles sales volume, together with stable product prices and production costs.

We noted from the Interim Report that Shanghai LTI successfully launched and started mass production of the localised "TX4" models of London Taxies in both the PRC and international markets in June 2009. The management of the Company expects that, following commencement of mass production, the sedan models manufactured by or to be developed by Shanghai LTI (the "**LTI Sedans**") will become one of the major strategic products of the Group.

It is stated in the "Letter from the Board" of the Circular that as a result of the promising domestic sales performance after the implementation of "Stimulus Package for Automobile Industry" in early 2009 and the introduction of fuel tax in January 2009 by the Chinese government, the Group has sold 246,000 units of vehicles in the first ten months of 2009, achieving approximately 99% of its full year sales volume target of 250,000 units of vehicles.

LETTER FROM QUAM CAPITAL

To tap into the increasing demand for the Group's sedans in the inland regions in the PRC, the Group had recently acquired three new manufacturing facilities located in Chengdu, Jinan and Lanzhou respectively, which are located in the Western and North Eastern regions of the PRC. These will enable the Group to have sufficient production capacity to accommodate the expected continued growth in demand for its sedans in view of the prospects of the PRC automobile market and its recent business development. As a result of such acquisitions, the Company will increase its production capacity from 460,000 units of vehicle to 680,000 units of vehicle per annum. Further details of the aforesaid acquisitions are set out in the Company's circular dated 17 November 2009.

(b) The Services Agreement

(i) Sales of automobile parts and components by the Geely Holding Group to the Group

As advised by the management of the Company, the Operating Associates have been procuring certain automobile parts and components for use in the manufacturing of the CKDs and the Sedan Tool Kits through other members of the Geely Holding Group on a sole source basis since 2003. In view of the long-term relationship between the relevant members of the Geely Holding Group and the relevant suppliers of the required parts and components, the Directors consider that it is in the interest of the Group to continue the aforesaid procurement arrangement, as this will ensure it to secure a reliable source of supply of the required automobile parts and components at competitive prices.

(ii) Provision of process manufacturing services by the Geely Holding Group to the Group

We noted that certain imported molding equipment are required for the manufacturing of certain automobile parts and components which form part of the CKDs and the Sedan Tool Kits; and only certain members of the Geely Holding Group have the right to import such molding equipments. We were advised by the management of the Company that it would be cost ineffective and time consuming for the Group to apply for the approval from the relevant PRC regulatory authorities to import and operate the required molding equipment.

As advised by the Company, the process manufacturing services, involving the use of the aforesaid imported molding equipment, are essential and imperative to the manufacturing process of the CKDs and the Sedan Tool Kits, and will continue to be undertaken by certain members of the Geely Holding Group at the Group's production facilities.

LETTER FROM QUAM CAPITAL

Having considered the above, the Directors regard that the relevant outsourcing arrangement with the Geely Holding Group is beneficial to the Group given that, as opposed to outsourcing to other independent processors, it enables the Group to streamline its manufacturing process by (i) minimising the related administrative and logistic costs and the required production and transportation lead time; and (ii) ensuring the quality standard of the relevant automobile parts and components to be manufactured by the Geely Holding Group being met.

(iii) Sales of the CKDs and the Sedan Tool Kits by the Group to the Geely Holding Group and sales of the CBUs by the Geely Holding Group to the Group

It is noted that certain members of the Geely Holding Group have been performing the final assembly of the CKDs and the Sedan Tool Kits and facilitating payment of the PRC consumption tax for the sales of the CBUs (each composing of a CKD and a Sedan Tool Kit) on behalf of the Group. It is also noted that after performing the aforesaid final assembly procedure, the Geely Holding Group will sell the CBUs to the Group's sales companies for onward sales and distribution to independent dealers or end customers.

We were advised by the Directors that it is the regulatory requirement under the PRC laws that automobile manufacturers are required to be approved by and obtain the relevant automobile products catalogue from the National Development Reform Commission of the PRC (the "**Automobile Products Catalogue**") to carry out automobile manufacturing business and facilitate the payment of the consumption tax for the sales of automobiles in the PRC. We are further advised by the Company's management that none of the members of the Group is currently in possession of the Automobile Products Catalogue and it would not be practical at present for the Group to apply for such accreditation. On the other hand, certain members of the Geely Holding Group (including Shanghai Maple) have already been approved as automobile manufacturers in the PRC with the relevant Automobile Products Catalogue for certain types of automobiles in the PRC, including the categories to which the CBUs belong. Given the above and the performance of the Group under such business model since July 2008, the Directors consider that it is in the interest of the Group to continue engaging in the abovementioned sales transactions as stipulated in the Services Agreement.

(c) The Loan Guarantee Agreement

The management of the Company has confirmed that before completion of the Restructuring, for the purpose of facilitating the business development of the Operating Associates, the Geely Holding Group has entered into various facility agreements with certain banks in the PRC for the grant of certain loan facilities being entirely utilised for financing the research and development activities in relation to the Operating Associates' automobile business, which, following completion of the Restructuring, are within the

LETTER FROM QUAM CAPITAL

ordinary and usual course of business of the Group. As at the Latest Practicable Date, banking facilities in a total amount of about RMB2,229 million have been granted by certain banks in the PRC to the Geely Holding Group, which had been completely drawdown as at 31 October 2009, of which about RMB420 million has been guaranteed by the Group with the remaining balance being guaranteed by the Geely Holding Group. These drawdown of loans are secured by guarantees (including the pledge of certain lands, buildings and facilities) granted by the Group and the Geely Holding Group respectively.

As advised by the management of the Company, prior to the solicitation for the abovementioned loan facilities, the Group had attempted to directly obtain loan facilities from the relevant PRC banks to finance their respective production operations and research and development activities. Nevertheless, having considered the terms of the loan facilities offered by such PRC banks to the Group, the management of the Company considered that it is more beneficial to have the Geely Holding Group to solicit for the loan facilities on behalf of the Group from such PRC banks, as it would enable the Group to obtain sufficient funding to accomplish its development plans while avoiding unnecessarily high funding cost.

We were advised by the Company that in order to tap into the increasing demand for the Group's sedans in the future, more funding resources have to be invested in research and development activities in order to differentiate its products from the rest of the market relating to, among others, the design of new sedan models and the development of new engine, gearbox and electronic and electric auto-related components in the coming years. We were further advised that given the long-term good relationship with the relevant PRC banks, it is believed that, as opposed to the Group, the Geely Holding Group will continue to be in a better position to negotiate with such banks on behalf of the Group for the best favourable financing terms relating to additional loan facilities to be obtained for financing the Group's manufacture and research and development activities. In this regard, we concur with the view of the Directors that such financing arrangement is beneficial to both the Company and the Shareholders, as it enables the Group to continue to leverage the Geely Holding Group's ability to obtain low-cost financing for its business operations and the aforementioned development plan.

Based on our discussion with the management of the Company regarding the Group's future capital requirement, it is our understanding that the loan facilities obtained or to be obtained by the Geely Holding Group on behalf of the Group (the "**Loan Facilities**"), which will be solely utilised by the Group to finance their sedan manufacturing activities and the research and development relating thereto, are essential for the Group's continued overall business development, and the sole purpose of the provision of the Guarantees (including the pledge of certain lands, buildings and facilities of the Group) is to facilitate the Geely Holding Group to secure the Loan Facilities.

LETTER FROM QUAM CAPITAL

(d) The Shanghai LTI Supply and Purchase Agreement

As discussed in subsection (a) above, Shanghai LTI has commenced production of “TX4” sedan models in June 2009. Analogous to the current business model of the Group, Shanghai LTI is responsible for the processing of components of the LTI Sedans including the SKD Components and the CKDs (without the imported engine, transmission and automobile parts) and Shanghai Maple, a member of the Geely Holding Group which possesses the relevant Automobile Products Catalogue, will purchase the SKD Components, the CKDs (without the imported engine, transmission and automobile parts) and automobile parts and components from Shanghai LTI to perform further processing of the LTI Sedans and facilitate payment of the PRC consumption tax particularly for the sales of the LTI Sedans on behalf of the Group. It is also noted that after performing the aforesaid further processing, Shanghai Maple will produce the CBUs through assembly of the CKDs, the Sedan Tool Kits, the SKD Components, the imported engine, transmission and automobile parts and components and then either (i) sell them to the Group for distribution to independent dealers or end customers in the PRC; or (ii) directly export them to overseas.

We were advised by the management of the Company that the engines and transmissions for the LTI Sedans are required to be imported from overseas for further processing with the Sedan Tool Kits, the CKDs (without imported engine, transmission and automobile parts) and automobile parts and components to produce the CBUs. We were further advised that in addition to the relevant Automobile Products Catalogue, Shanghai Maple, rather than Shanghai LTI and other members of the Group, also possesses the import license for the required engines and transmissions so that importing tariff for such engines and transmissions can be exempted. Given the above, the Directors consider that it is in the interest of the Group to engage in the abovementioned transactions as stipulated in the Shanghai LTI Supply and Purchase Agreement (the “**LTI Transactions**”).

(e) The Supplemental Services Agreement and the revised annual caps for the two years ending 31 December 2011

As disclosed in the circular of the Company dated 8 September 2009, the existing annual caps in relation to the purchase of processed automobile parts and components contemplated under the Existing August 09 Services Agreement (the “**Processed Parts Purchase Transaction**”) for the two years ending 31 December 2011 previously approved by the then independent Shareholders amounted to RMB205,296,000 (equivalent to approximately HK\$233,298,374) and RMB359,153,000 (equivalent to approximately HK\$408,141,469) respectively. For reasons stated below, the Group entered into the Supplemental Services Agreement to increase the aforesaid annual caps for the two years ending 31 December 2011 to RMB1,101,004,000 (equivalent to approximately HK\$1,251,180,946) and RMB2,554,814,000 (equivalent to approximately HK\$2,903,290,630) respectively.

LETTER FROM QUAM CAPITAL

We were advised by the management of the Company that there are two new processed automobile parts and components in relation to braking and steering systems to be installed in high-end sedan models (the “**New Processed Parts**”), one of which was originally manufactured by Zhejiang Fulin Guorun Automobile Parts & Components Company Limited (“**Fulin Guorun**”), an indirect wholly-owned subsidiary of the Company. However, due to (i) unsatisfactory product quality control of Fulin Guorun; and (ii) the requirement of advanced technology and research and development capability on the New Processed Parts, instead of devoting the Group’s resources to improving the quality control measures and upgrading the technological standard of Fulin Guorun, the Company considered outsourcing the development and manufacture process of the New Processed Parts to the Geely Holding Group to be more cost-effective and a timely measure to fulfill the market demand. Considering (i) the change of supplier of the New Processed Parts as discussed above; (ii) the expected increase in the number of New Processed Parts to be purchased by the Group from the Geely Holding Group as a result of the increase in the number of sedans being manufactured by the Group; and (iii) the continual improvement in the Group’s product mix towards more high-end models integrated with the New Processed Parts, and based on the recent internal forecast of the Group’s products integrated with the New Processed Parts and the prospect of the automobile market in the PRC, the Directors anticipate that there will be deviations in the expected transaction amount from what they originally envisaged. Given the above, we believe the adoption of the revised Caps in respect of the Processed Parts Purchase Transaction for the two years ending 31 December 2011, which reflects the expected changes in the volume of purchase of processed automobile parts and components from the Geely Holding Group resulting from the aforesaid change in supplier and expansion in the application of the New Processed Parts to the Group’s products, is in the interest of the Company and the Shareholders as a whole.

(f) Conclusion

Each of the aforementioned Non-exempted Continuing Connected Transactions is entered into for the implementation and facilitation of the continued manufacturing operations and business expansion of the Group, and each of them is in line with the Group’s principal business activities as discussed in subsection (a) above.

Given the above and in particular the business nature and recent performance of the Group as described in subsection (a) above, it is reasonable to expect that each of the Non-exempted Continuing Connected Transactions will continue to take place on a regular and frequent basis in the Group’s ordinary and usual course of business in future. As such, it would be beneficial to the Group to have the Non-exempted Agreements in place and to adopt the Caps, as that would help facilitate the smooth operation and future development of the Group’s business for the three financial years ending 31 December 2012. In light of the foregoing, we consider that the entering into of the Non-exempted Continuing Connected Transactions together with the adoption of the Caps are conducted in the ordinary and usual course of the Group’s business and are in the interests of both the Company and the Shareholders as a whole.

LETTER FROM QUAM CAPITAL

2. Principal terms of the Non-exempted Agreements

Set out below are the principal terms (except for the term related to tenure which is discussed separately in section (3) below) of the Non-exempted Agreements and the nature of the subject transactions related thereto:

(a) *The Services Agreement*

(i) *Sales of automobile parts and components by the Geely Holding Group to the Group*

Nature of the transactions

The Geely Holding Group agreed to sell the automobile parts and components in accordance with the Services Agreement to the Group. The Directors have confirmed that all the automobile parts and components to be supplied by the Geely Holding Group to the Group will be solely used for its production of the CKDs and the Sedan Tool Kits.

Pricing basis

Pursuant to the Services Agreement, it is noted that the selling prices of the automobile parts and components shall be determined based on the original purchase cost plus the relevant actual service costs incurred in the procurement process by the Geely Holding Group, which shall be subject to a maximum amount of 0.46% of the sum of the original purchase cost and the procurement cost. The Directors confirmed that the consideration payable by the Group to the Geely Holding Group is only to reimburse the actual costs (including the purchase cost of the automobile parts and components and the related labour, administrative and transportation costs) to be incurred in the procurement process by the Geely Holding Group, and therefore no profit would be generated by the Geely Holding Group as a result of its sales of automobile parts and components to the Group. We have also discussed with the management of the Company regarding the basis of determination of the aforesaid 0.46% upper limit on the relevant service costs incurred in the procurement process and were advised that such limit was introduced to limit the upside risk of unexpected amount of service cost charged to the Group, after taking into account the actual costs incurred by the Geely Holding Group in the procurement process in the recent financial periods. We have reviewed the relevant service costs incurred by the Geely Holding Group for the year ended 31 December 2008 and the six months ended 30 June 2009 and noted that the 0.46% upper limit indeed represented the highest service costs incurred during the aforesaid periods.

LETTER FROM QUAM CAPITAL

- (ii) *Provision of process manufacturing services by the Geely Holding Group to the Group*

Nature of the transactions

The Geely Holding Group agreed to provide the process manufacturing services in accordance with the service specifications set out in the Services Agreement to the Group. As advised by the Directors, the process manufacturing services to be performed by the Geely Holding Group mainly relate to the stamping of certain automobile parts and components for use in the manufacturing of the CKDs and the Sedan Tool Kits by the Group.

Pricing basis

Pursuant to the Services Agreement, it is noted that the fee to be charged by the Geely Holding Group shall be determined based on the annual linear depreciation of the value of the imported molding equipment plus the actual cost, namely rental charges for locating the molding equipment at the Group's production facilities and staff cost, incurred by the Geely Holding Group for provision of the process manufacturing services. We were advised that the depreciation policy of the imported molding equipment adopted by the Geely Holding Group is based on straight-line depreciation over an estimated useful life of seven to ten years. The Directors have confirmed to us that such depreciation policy is determined with reference to the product life cycle of the Group's sedans, which is in line with that adopted by the Group.

Furthermore, the Directors confirmed that all the relevant molding equipment imported by the Geely Holding Group on behalf of the Group will be solely used for provision of the process manufacturing services contemplated under the Services Agreement. The Directors also confirmed that, in addition to the depreciation of the molding equipment, the consideration payable by the Group to the Geely Holding Group is only to reimburse the actual costs (including the rental cost of the molding equipment and the related labour costs) to be incurred in the process manufacturing by the Geely Holding Group, and therefore no profit would be generated by the Geely Holding Group as a result of provision of such services to the Group.

LETTER FROM QUAM CAPITAL

- (iii) *Sales of the CKDs and the Sedan Tool Kits by the Group to the Geely Holding Group and sales of the CBUs by the Geely Holding Group to the Group*

Nature of the transactions

The Group agreed to supply to the Geely Holding Group the CKDs and the Sedan Tool Kits in accordance with the Services Agreement. The Directors confirmed that all the CKDs and the Sedan Tool Kits will be solely used for the manufacturing of the CBUs by the Geely Holding Group on behalf of the Group. In addition, the Geely Holding Group may request additional services other than the aforesaid services from the Group (subject to the Group's ability in providing the relevant additional services) that might occur in the manufacturing process of the CKDs and the Sedan Tool Kits for new models in the future. We have discussed with the management of the Company regarding the nature of the possible additional services and were advised that such additional services will likely relate to the modifications of the CKDs and/or the Sedan Tool Kits by the Group to accommodate new sedan models. The Directors confirmed that the pricing term relating to any aforesaid additional services will be based on normal commercial terms to be determined by the parties to the Services Agreement on an arm's length basis and in compliance with the requirements stipulated under the Listing Rules regarding "connected transactions".

Furthermore, the Geely Holding Group agreed to sell to the Group the CBUs in accordance with the Services Agreement. The Directors confirmed that all the CBUs to be manufactured by the Geely Holding Group on behalf of the Group are to be sold back to the Group for onward sales and distribution to independent dealers or end customers.

Pricing basis

Pursuant to the Services Agreement, it is noted that the selling price of the CBUs, depending on the models, to be sold by the Geely Holding Group to the Group shall be determined based on the selling price of the relevant sedans to end customers after deduction of the related distribution costs incurred by the Group (the "**CBU Price**"). As advised by the Company, the aforesaid distribution costs mainly consist of any commission or payment the Group may need to pay its dealers, distributors or sales agents or advertising and after-sales service expenses. The Directors confirmed that (i) the consideration payable by the Group to the Geely Holding Group is only to reimburse the actual PRC taxes (mainly the consumption tax) payable by the Geely Holding Group on behalf of the Group and the actual purchase cost of the Sedan Tool Kits; and (ii) the Geely Holding Group is responsible for all other relevant expenses payable in relation to its final assembly of the CKDs and the Sedan Tool Kits and sale of the CBUs, and therefore no profit would be generated by the Geely Holding Group resulting from sale of the CBUs to the Group.

LETTER FROM QUAM CAPITAL

The selling price of the Sedan Tool Kits to be supplied by the Group to the Geely Holding Group shall be determined based on the manufacturing costs of the Sedan Tool Kits to the Group. The Directors confirmed that such pricing basis is on normal commercial terms given the fact that all the Sedan Tool Kits will be solely used for the manufacture of the CBUs by the Geely Holding Group, which will be sold back to the Group for onward sales and distribution to independent dealers or end users.

The CKDs, depending on the specifications and models, shall be sold to the Geely Holding Group at a price based on the CBU Price less costs of Sedan Tool Kits and the PRC taxes (mainly the consumption tax) and the costs of other necessary and reasonable expenses, which shall be subject to a maximum amount of 0.2% of the CBU Price. It should be noted that given the respective pricing bases of the other transactions contemplated under the Services Agreement as discussed above, the Group will potentially profit from the sale of the CKDs to the Geely Holding Group, and the profitability relating thereto would be principally subject to the final selling prices of the sedans to independent dealers or end customers.

We have also discussed with the management of the Company regarding the basis of determination of the aforesaid 0.2% upper limit on the relevant other expenses and were advised that such limit was introduced to limit the upside risk of unexpected amount of service cost charged to the Group, after taking into account the actual expenses incurred by the Geely Holding Group in the assembly process in the recent financial periods. We have reviewed the relevant expenses incurred by the Geely Holding Group for the year ended 31 December 2008 and the six months ended 30 June 2009 and noted that the 0.2% upper limit indeed represented the highest expenses incurred during the aforesaid periods.

The Directors confirmed that each of the aforesaid pricing bases as provided under the Services Agreement has been determined after arm's length negotiations between the Company and Geely Holding based on the earning objectives of the Group and a pricing policy whereby (i) the final selling prices of the sedans to independent dealers or end customers will be solely determined by the Group with reference to the then prevailing market rates; (ii) the Group will bear the risks of loss and the rewards of its manufacturing and sales of sedans; (iii) any possible profit to be derived therefrom will only be realised from the sales transaction relating to the CKDs; and (iv) the consideration payable by the Group to the Geely Holding Group under the Services Agreement is only to cover the reimbursement of most of the related expenses actually incurred by the Geely Holding Group in support of the Group's manufacturing and sale of sedans business in the PRC, after taking into account the supporting role of the Geely Holding Group in assisting the Group in implementation of its principal activities in the PRC.

In light of the foregoing, we are of the view that the bases for pricing determination under the Services Agreement are fair and reasonable, on better than normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LETTER FROM QUAM CAPITAL

(b) The Loan Guarantee Agreement

Pursuant to the Loan Guarantee Agreement, the Group agreed to provide the Guarantees (including the pledge of certain lands, buildings and facilities of the Group) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Group in relation to the manufacturing and research and development of sedans of the Group.

It should be noted that the Geely Holding Group (i) guarantees that the Loan Facilities will only be utilised for sedan manufacturing and research and development activities relating to the Group; (ii) would obtain consent from the Group prior to the drawdown of the Loan Facilities; and (iii) agrees to provide counter indemnities on the Guarantees whereby in the event that the Guarantees are enforced by the relevant banks as a result of the default of the Geely Holding Group under the relevant facilities agreement, the Group shall have the right to be fully indemnified by the Geely Holding Group.

The Directors have confirmed to us that the provision of the Guarantees, which are capped at range between RMB800 million and RMB1,000 million for the three years ending 31 December 2012, is not expected to have any material adverse impact on the Group's financial position, given (i) the existing financial position of the Group with net asset value of about RMB6.0 billion as at 30 June 2009 as disclosed in the Interim Report; (ii) the economic benefits to be generated from utilising the Loan Facilities; (iii) that the repayment obligations shall lie with the Group which is and will continue to be the ultimate borrower of the Loan Facilities; (iv) that a consent of the Group is required every time prior to drawdown of the Loan Facilities; and (v) the grant of counter indemnities by the Geely Holding Group in consideration of the Guarantees. We have also discussed with the management of the Company regarding the Geely Holding Group's existing financial position and were advised that the Geely Holding Group is expected to be able to raise sufficient funds through external borrowings to repay the Loan Facilities and provide such counter indemnities. The Directors further confirmed that notwithstanding the above, the Group will assess its then financial position every time prior to drawdown of the Loan Facilities in order to avoid any material adverse impacts on its financial position.

Having considered the above and in particular after taking into account the following:

- the solicitation for the Loan Facilities from the relevant PRC banks have been and will be undertaken by the Geely Holding Group on behalf of the Group;

LETTER FROM QUAM CAPITAL

- the Group is indeed the ultimate borrower of the Loan Facilities;
- the sole purpose of the provision of the Guarantees is to facilitate the Geely Holding Group to secure the Loan Facilities which are and will be solely utilised by the Group to finance its sedan manufacturing activities and the research and development relating thereto;
- the drawdown of the Loan Facilities is subject to prior consent of the Group; and
- the Loan Facilities are counter indemnified by the Geely Holding Group,

we are of the view that the provision of the Guarantees contemplated under the Loan Guarantee Agreement (the “**Guarantee Transaction**”) is fair and reasonable, on normal commercial terms and is in the interests of both the Company and the Shareholders as a whole.

(c) *The Supplemental Services Agreement*

Nature of the transactions

The Group has agreed to purchase from the Geely Holding Group the processed automobile parts and components. The Directors confirmed that all the processed automobile parts and components will be solely used for the manufacturing of the sedans by the Group. In addition, the Group may request additional services other than the aforesaid services from the Geely Holding Group (subject to the Geely Holding Group’s ability in providing the relevant additional services) that might occur in the manufacturing process of the sedans for new models in the future. We have discussed with the management of the Company regarding the nature of the possible additional services and are advised that such additional services will likely relate to the modifications of the processed automobile parts and components by the Geely Holding Group to accommodate new sedan models. The Directors confirmed that the pricing term relating to any aforesaid additional services will be based on normal commercial terms to be determined by the parties to the Supplemental Services Agreement on an arm’s length basis and in compliance with the requirements stipulated under the Listing Rules regarding “connected transactions”.

LETTER FROM QUAM CAPITAL

Pricing basis

It is noted that the pricing bases of the processed automobile parts and components under the Processed Parts Purchase Transaction shall remain the same as set out in the Existing August 09 Services Agreement, which shall be based on market price of no less favourable 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. Given that the selling price will be determined with reference to the prevailing market conditions, we consider that the basis for pricing determination is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(d) *The Shanghai LTI Supply and Purchase Agreement*

Nature of the transaction

Shanghai LTI agreed to supply to Shanghai Maple (i) automobile parts and components; (ii) SKD Components; and (iii) CKDs (without the imported engine, transmission and automobile parts) in accordance with the terms set out in the Shanghai LTI Supply and Purchase Agreement.

Pricing basis for sales of the automobile parts and components and the SKD Components

It is noted that the selling prices of the automobile parts and components and the SKD Components shall be at cost plus 3%, subject to review as detailed below. We were advised that the pricing basis for sales of the automobile parts and components and the SKD Components were determined by the parties through arm's length negotiations after taking into account (i) the pricing basis as provided under the agreement dated 22 March 2007 entered into between Shanghai LTI JV and LTI Ltd., a wholly-owned subsidiary of Manganese Bronze Holdings Plc, in relation to the sales of automobile parts and components by Shanghai LTI to LTI Ltd.; (ii) the selling prices of the LTI Sedans in the PRC and the export markets; and (iii) the estimated costs to be incurred by Shanghai LTI in processing of the automobile parts and components and the SKD Components. The Directors further confirmed that the LTI Transactions are essential and imperative to Shanghai LTI's successful manufacturing operations and form part of the business co-operation between the Group and Manganese Bronze Holdings Plc, and therefore we consider that an assessment of the terms of the Shanghai LTI Supply and Purchase Agreement should be undertaken with consideration of the benefits afforded to Shanghai LTI and hence the Group by such agreement.

LETTER FROM QUAM CAPITAL

It should be noted that the board of directors of Shanghai LTI will formally evaluate once every three years whether it would be necessary or appropriate to initiate discussions with Shanghai Maple in relation to the aforementioned pricing basis to ensure fairness to Shanghai LTI by making reference to the prevailing fair market price at the time of the evaluation. The first evaluation shall commence on the third anniversary of the effective date of the Shanghai LTI Supply and Purchase Agreement. The Company will, in compliance with the Listing Rules, make further announcement(s) and obtain approval(s) from the then independent Shareholders (if necessary) in relation to any changes to the aforementioned pricing basis after such periodic evaluation is conducted.

For comparison purposes, we have reviewed the latest annual reports of the Company and those companies listed on the Stock Exchange which engaged in the manufacture and sale of automobiles, automobile parts and automobile related components, in relation to their respective gross profit margin for the respective latest financial year (the “**Comparable Margins**”)

Table 1

Listed issuer (Stock code)	Principal activities	Comparable Margins (%)
Brilliance China Automotive Holdings Limited (Stock code: 1114)	Manufacture and sale of minibuses and automotive components and sedans in the PRC	0.9
Denway Motors Limited (Stock code: 203)	Manufacture, assembly, trading and servicing of motor vehicles and manufacture and trading of motor vehicle related electrical equipment and parts in the PRC, and manufacture and trading of audio equipment in Hong Kong	5.9
Dongfeng Motor Group Company Limited (Stock code: 489)	Manufacturing and sales of commercial and passenger vehicles, vehicle engines and a comprehensive range of auto parts for various vehicles	16.8
Great Wall Motor Company Limited (Stock code: 2333)	Design, research and development, manufacture and sales, as well as distribution of sedans, sports utility vehicles, pick-up trucks and automobile related parts and components products	18.1

LETTER FROM QUAM CAPITAL

Listed issuer (Stock code)	Principal activities	Comparable Margins (%)
Qingling Motors Company Limited (Stock code: 1122)	Production and sale of Isuzu light, medium and heavy-duty trucks, pick-up trucks, multi-purpose vehicles and diesel and petrol engines	17.2
Sinotruk (Hong Kong) Limited (Stock code: 3808)	Research, development and manufacturing of heavy duty trucks and related key parts and components, including engines, cabins, axles, steel frames and gearboxes	14.0
The Company	Manufacturing and trading of automobiles, automobile parts and related automobile components and investment holding.	15.2
Average		12.6
Maximum		18.1
Minimum		0.9

Source: Bloomberg

As illustrated in the above analysis, the initial 3% profit margin stipulated in the Shanghai LTI Supply and Purchase Agreement falls within the range of approximately 0.9% to 18.1% but is significantly lower than the average of the Comparable Margins.

Pricing basis for sales of the CKDs (without imported engine, transmission and automobile parts)

It is noted that the selling price of the CKDs (without imported engine, transmission and automobile parts) shall be based on the selling price of the sedans to end customers less distribution costs, cost of the Sedan Tool Kits, the PRC taxes (mainly the consumption tax), the cost of other necessary and reasonable expenses and the original purchase cost of the imported engine, transmission and automobile parts incurred by Shanghai Maple. The costs of other necessary and reasonable expenses incurred by Shanghai Maple will be subject to a maximum amount of 0.2% of the price of the LTI Sedans.

It should be noted that given the aforesaid pricing basis for sales of the CKDs (without imported engine, transmission and automobile parts), Shanghai LTI will potentially generate profit from its sales of the CKDs (without the imported engine, transmission and automobile parts) to Shanghai Maple, and the profitability relating thereto would be principally subject to the final selling prices of the LTI Sedans to independent dealers or end customers.

LETTER FROM QUAM CAPITAL

The Directors confirmed that each of the aforesaid pricing bases as provided under the Shanghai LTI Supply and Purchase Agreement has been determined after arm's length negotiations between the contracting parties with reference to the earning objectives of the Group and is in line with the pricing policy adopted for the transactions contemplated under the Services Agreement as discussed in subsection (a) above.

We have also discussed with the management of the Company regarding the basis of determination of the aforesaid 0.2% upper limit on the relevant other expenses and were advised that such limit was introduced to limit the upside risk of unexpected amount of service cost charged to the Group, after taking into account the actual expenses incurred by Shanghai Maple in the assembly process in the recent financial periods. We have reviewed the relevant expenses incurred by Shanghai Maple for the year ended 31 December 2008 and the six months ended 30 June 2009 and noted that the 0.2% upper limit indeed represented the largest expenses incurred during the aforesaid period. As such, we concur with the Company that the existence of such upper limit is in the interest of the Company and the Shareholders as a whole.

On the basis of the above, and in particular after taking into account the circumstances of the Company and the following:

- that the pricing bases are subject to periodic review once every three years and the Company undertakes to re-comply with the Listing Rules in the event that the pricing basis is varied in any way (if appropriate);
- that the Shanghai LTI Supply and Purchase Agreement is an integral part of the business co-operation between the Company and Manganese Bronze Holdings Plc;
- that the Shanghai LTI Supply and Purchase Agreement is essential and imperative to the successful manufacturing operations of Shanghai LTI; and
- as advised by the management of the Company, no profit would be generated by Shanghai Maple as a result of its export sales of the LTI Sedans,

we are of the view that the bases for pricing determination under the Shanghai LTI Supply and Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LETTER FROM QUAM CAPITAL

3. The tenures of the Non-exempted Agreements and the Imported Parts Purchase Agreement

The Shanghai LTI Supply and Purchase Agreement is of the longest tenure of about 47 years, having the same expiry date of 6 March 2057 for the joint venture agreement dated 22 March 2007 entered into among the Group, Manganese Bronze Holdings Plc and Shanghai Maple (the “**JV Agreement**”), among the Non-exempted Agreements, each of which shall become effective from the latter of either 1 January 2010 or the date of obtaining the Independent Shareholders’ approval at the EGM. Assuming that there is no change to the proposed date of the EGM, being 31 December 2009, the term of the Services Agreement shall be ten years commencing from 1 January 2010 and ending on 31 December 2020; whereas each of the other Non-exempted Agreements has a duration of not more than three years ending 31 December 2011 (for the Supplemental Services Agreement) or 2012 (for the Loan Guarantee Agreement). Likewise, the Imported Parts Purchase Agreement has a duration of ten years commencing from 1 January 2010 and ending on 31 December 2020.

The terms of the Shanghai LTI Supply and Purchase Agreement, the Services Agreement and the Imported Parts Purchase Agreement exceed the three-year limit as set out in Rule 14A.35(1) of the Listing Rules.

(a) Background of and reasons for the long tenures of the Services Agreement, the Shanghai LTI Supply and Purchase Agreement and the Imported Parts Purchase Agreement

As advised by the management of the Company, for the purposes of ensuring production continuity and stable operation of the Group’s core business, the Group established long-term business co-operation arrangements with the Geely Holding Group by entering into of the Services Agreement and the Shanghai LTI Supply and Purchase Agreement which practically characterise the pricing strategy along with its principal manufacturing process of sedans. In particular, we were further advised that the term of the Shanghai LTI Supply and Purchase Agreement of about 47 years was determined between the contracting parties with reference to the 50-year term of the JV Agreement for the purpose of the formation of Shanghai LTI to develop LTI Sedans in the PRC, details of which are set out in the Company’s circular dated 2 April 2007. Having considered the Group’s principal activities and existing business model and the nature of the respective transactions contemplated under the Services Agreement and the Shanghai LTI Supply and Purchase Agreement, we concur with the view of the Directors that such agreements with long tenures are essential to the Group’s core operation. This is considered to be imperative for the success of the Group’s business.

As disclosed in the “Letter from the Board” of the Circular, it is expected that 上海華普汽車銷售有限公司 (Shanghai Maple Auto Sales Company Limited) (“**Shanghai Maple Auto Sales**”) will commence the rendering of after-sales services of “TX4” model in the PRC in 2010, and certain imported after-sales parts are required for conducting such services. However, only certain subsidiaries of the Geely Holding Group, including Shanghai Maple, have the right to import these “TX4” after-sales parts required by the

LETTER FROM QUAM CAPITAL

Group with relatively low import tax advantage. Given this and the nature of the transaction contemplated under the Imported Parts Purchase Agreement involving the supply of the imported “TX4” after-sales car parts by Shanghai Maple to Shanghai Maple Auto Sales, it is considered that the entering into of the Imported Parts Purchase Agreement with long tenure will enable the Group to secure a continuity of supply of the required imported parts for the provision of the aforesaid new after-sales services. In light of the above, we concur with the view of the Directors that the Imported Parts Purchase Agreement with long tenure is essential to the Group’s core operation.

Considering the above and (i) that the pricing basis as provided under the aforesaid agreements have been determined after arm’s length negotiations between the Group and the Geely Holding Group and are considered to be fair and reasonable as discussed in section (2) above; and (ii) that the pricing bases of the Services Agreement and the Shanghai LTI Supply and Purchase Agreement will ensure any possible profit to be derived from the manufacture and sale of sedans retained by the Group during the terms of such agreements, we concur with the view of the Directors that the entering of the Services Agreement, the Shanghai LTI Supply and Purchase Agreement and the Imported Parts Purchase Agreement with long tenures is beneficial to the Group.

(b) Comparison with similar business arrangements undertaken by other companies listed on the Stock Exchange

We have attempted to review similar agreements entered into by the Group with other independent third parties in relation to the sales and purchases of sedan and/or sedan related parts and components and noted that there is no agreement with tenure of longer than three years. Although no straight comparables can be identified for the Services Agreement, the Shanghai LTI Supply and Purchase Agreement and the Imported Parts Purchase Agreement, in order to assess whether or not it is a normal business practice for contracts of similar business operation arrangements to be of a duration longer than three years, we have made references to, so far as we are aware of, other similar transactions involving the sales or purchases of sedan and/or sedan related parts and components for a term in excess of three years as announced by other listed companies in Hong Kong principally engaged in the sale and manufacture of automobile business in the recent years.

(i) The Shanghai LTI Supply and Purchase Agreement

In respect of the Shanghai LTI Supply and Purchase Agreement, we have identified and reviewed based on our best endeavour, the following similar transactions of sedan related parts procurement undertaken by Dongfeng Motor Co., Ltd and Dongfeng Honda Automobile Co., Ltd (including each of their subsidiaries and associates), being joint ventures in the PRC of a company listed on the Stock Exchange, Dongfeng Motor Group Company Limited, with principal activities of manufacturing and sales of commercial and passenger vehicles, vehicle engines and a comprehensive range of auto parts for various vehicles. It is noted that (i) the joint venture agreements of Dongfeng Motor Co., Ltd and Dongfeng Honda

LETTER FROM QUAM CAPITAL

Automobile Co., Ltd have terms of 50 years which are the same as the tenure of the JV Agreement; and (ii) the subject sale and purchase agreements shall remain effective during the subsistence of the joint venture agreements of Dongfeng Motor Co., Ltd and Dongfeng Honda Automobile Co., Ltd for a term of 50 years, which is in line with the basis for determination of about 47-year term of the Shanghai LTI Supply and Purchase Agreement. In addition, as disclosed in the circular of the Company dated 2 April 2007, Shanghai LTI entered into certain existing sale and purchase transactions with LTI or Shanghai Maple on 22 March 2007 with terms of 50 years, which is in line with the term of the JV Agreement. The Directors confirmed to us that it is a normal business practice to align terms of sale and purchase contracts involving a joint venture company with that of the relevant joint venture agreement. In this regard, we are of the view that it is not unusual for the Shanghai LTI to enter into the Shanghai LTI Supply and Purchase Agreement with tenure in line with that of the JV Agreement. On the basis of the above, we confirm that it is a normal business practice for contracts of similar business operation to be of such duration.

Table 2

Listed issuer (Stock code)	Contracting parties (Note 1)	Type of transaction	Term of transaction
Dongfeng Motor Group Company Limited (Stock code: 489)	Dongfeng Motor Co., Ltd., Dongfeng Peugeot Citroen Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd	Purchase of auto parts and production facilities	Remain effective during the subsistence of the respective joint venture agreements (Note 2)
Dongfeng Motor Group Company Limited (Stock code: 489)	Dongfeng Honda Engine Co., Ltd., Dongfeng Honda Auto Parts Co., Ltd, Dongfeng Honda Automobile Co., Ltd and Dongfeng Motor Co., Ltd.	Sales and purchases of auto parts	Remain effective during the subsistence of the respective joint venture agreements (Note 2)

Source: The annual reports and prospectus of Dongfeng Motor Group Company Limited published on the website of the Stock Exchange.

Notes:

1. Dongfeng Motor Co., Ltd and Dongfeng Honda Automobile Co., Ltd are joint venture companies established in the PRC with a term of 50 years which are owned as to 50% by Dongfeng Motor Group Company Limited.
2. Such contractual arrangements in respect of Dongfeng Motor Co., Ltd and Dongfeng Honda Automobile Co., Ltd shall remain in force during the subsistence of the respective joint venture agreements with a term of 50 years.

LETTER FROM QUAM CAPITAL

(ii) *The Imported Parts Purchase Agreement and the Services Agreement*

Based on our review of the similar transactions conducted in the automobile market as set out in Table 3 below, we noted that it is not uncommon for two contracting parties principally engaged in the sale and manufacture of automobile business to have ongoing business arrangements as part of their long-term strategic co-operation with duration in excess of three years and up to a maximum of ten years, which is the same as the tenures of the Services Agreement and the Imported Parts Purchase Agreement (assuming the effective date of the Services Agreement and the Imported Parts Purchase Agreement to be 1 January 2010). The Directors confirmed to us that it is a normal business practice to have terms of contracts of ten years for similar business operations. In this regard, we confirm that it is a normal business practice for contracts of similar business operation to be of such duration.

Table 3

Listed issuer (Stock code)	Contracting parties	Type of transaction	Term of agreement
AviChina Industry & Technology Company Limited (Stock code: 2357)	Harbin Dongan Automotive Engine Manufacturing Co., Ltd. and Mitsubishi Motor Corporation ("Mitsubishi")	– Purchase of spare parts and components for manufacturing automobile products	10 years
AviChina Industry & Technology Company Limited (Stock code: 2357)	Hafei Motor Co., Ltd. and Mitsubishi	– Supply of raw materials, parts and components and provision of technical services – Provision of assistance to develop certain automobiles using Mitsubishi's technology	10 years
AviChina Industry & Technology Company Limited (Stock code: 2357)	Jiangxii Changhe Suzuki Automobile Co., Ltd. and Suzuki Motor Corporation	– Supply of parts and components – Provision of manufacturing and assembling assistance	8 years

Source: The announcements, circulars and annual reports of AviChina Industry & Technology Company Limited published on the website of the Stock Exchange.

LETTER FROM QUAM CAPITAL

(c) *Conclusion*

In view of the above analysis, we consider it justified for the Group to enter into the Services Agreement, the Shanghai LTI Supply and Purchase Agreement and the Imported Parts Purchase Agreement with terms of more than three years, as this will help facilitate and ensure production continuity and smooth operation of the Group through the respective contracted periods.

4. Requirements of the Listing Rules

For each financial year of the Company during the terms of the Non-exempted Agreements, the subject transactions will be subject to review by the independent non-executive Directors and the Company's auditors as required by the provisions of Rules 14A.37 and 14A.38 of the Listing Rules respectively. The independent non-executive Directors must confirm in the annual report and accounts that the Non-exempted Continuing Connected Transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, no terms on less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Listing Rules require that the Company's auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company), confirming that the Non-exempted Continuing Connected Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded the cap disclosed in its previous announcement.

LETTER FROM QUAM CAPITAL

It was stated in the annual report of the Company for the year ended 31 December 2008 that, among others, the Existing Services Agreement and the Existing Loan Guarantee Agreement have been reviewed by the independent non-executive Directors and they confirmed that the agreements were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (d) the actual transacted amounts did not exceed the respective annual caps for the year ended 31 December 2008 as approved by the Stock Exchange and the then independent Shareholders.

Besides, based on the work performed, the auditors of the Company have confirmed that the entering into of the Existing Services Agreement and the Existing Loan Guarantee Agreement (a) have been approved by the Board; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) the actual transacted amounts did not exceed the respective annual caps for the year ended 31 December 2008 as approved by the Stock Exchange and the then independent Shareholders.

Given the above, we are of the opinion that there will be sufficient procedures and arrangements in place to ensure that the Non-exempted Continuing Connected Transactions will be conducted on terms that are fair and reasonable and on normal commercial terms as far as the Independent Shareholders are concerned.

5. The Caps

(a) *The Services Agreement*

Set out below are the details of (i) the actual transacted amount of each of the transactions contemplated under the Services Agreement (the “**Services Transactions**”) for the financial year ended 31 December 2008 and the nine months ended 30 September 2009 respectively; (ii) the comparison of the annualised transacted amounts with the relevant annual caps approved by the then independent Shareholders (the “**Existing Caps**”) for the two years ended 31 December 2009 (the “**Services Transactions Utilisation Rate(s)**”); and (iii) the respective estimated Caps for the Services Transactions for each of the period from the effective date of the Services Agreement, which is expected to be 1 January 2010 to 31 December 2012:

LETTER FROM QUAM CAPITAL

Table 4

Type of the Services Transactions	Actual transacted amount		Caps		
	for the year ended 31 December	for the nine months ended 30 September	for the year ending 31 December		
	2008 <i>(Note 1)</i>	2009 <i>(Note 2)</i>	2010	2011	2012 <i>(Note 3)</i>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales of automobile parts and components by the Geely Holding Group to the Group	2,581,268 (equivalent to approximately HK\$2,933.4 million)	4,390,871 (equivalent to approximately HK\$4,989.8 million)	11,257,414 (equivalent to approximately HK\$12,792.9 million)	11,746,054 (equivalent to approximately HK\$13,348.2 million)	8,904,623 (equivalent to approximately HK\$10,119.2 million)
<i>Services Transactions</i>					
<i>Utilisation Rate:</i>	172.9%	75.7%	N/A	N/A	N/A
Provision of process manufacturing services by the Geely Holding Group to the Group	17,453 (equivalent to approximately HK\$19.8 million)	28,895 (equivalent to approximately HK\$32.8 million)	133,256 (equivalent to approximately HK\$151.4 million)	130,202 (equivalent to approximately HK\$148.0 million)	113,455 (equivalent to approximately HK\$128.9 million)
<i>Services Transactions</i>					
<i>Utilisation Rate:</i>	28.7%	19.8%	N/A	N/A	N/A
Sales of CKDs by the Group to the Geely Holding Group	3,200,865 (equivalent to approximately HK\$3,637.5 million)	7,773,105 (equivalent to approximately HK\$8,833.4 million)	22,595,838 (equivalent to approximately HK\$25,677.9 million)	34,097,304 (equivalent to approximately HK\$38,748.2 million)	46,942,998 (equivalent to approximately HK\$53,346.2 million)
<i>Services Transactions</i>					
<i>Utilisation Rate:</i>	62.3%	81.6%	N/A	N/A	N/A
Sales of Sedan Tool Kits by the Group to the Geely Holding Group	7,691 (equivalent to approximately HK\$8.7 million)	2,247 (equivalent to approximately HK\$2.6 million)	25,825 (equivalent to approximately HK\$29.3 million)	35,370 (equivalent to approximately HK\$40.2 million)	47,475 (equivalent to approximately HK\$54.0 million)
<i>Services Transactions</i>					
<i>Utilisation Rate:</i>	117.2%	18.2%	N/A	N/A	N/A
Sales of CBUs by the Geely Holding Group to the Group	3,906,663 (equivalent to approximately HK\$4,439.5 million)	8,619,530 (equivalent to approximately HK\$9,795.2 million)	24,301,748 (equivalent to approximately HK\$27,616.5 million)	36,905,446 (equivalent to approximately HK\$41,939.3 million)	50,473,652 (equivalent to approximately HK\$57,358.3 million)
<i>Services Transactions</i>					
<i>Utilisation Rate:</i>	73.0%	86.8%	N/A	N/A	N/A

LETTER FROM QUAM CAPITAL

Notes:

1. Since the Existing Services Agreement was effective upon completion of the Restructuring on 1 July 2008, only actual transacted amounts for the six months ended 31 December 2008 have been included (the “**2008 Actual Transacted Amounts**”). The relevant Services Transactions Utilisation Rate is calculated as the annualised 2008 Actual Transacted Amounts divided by the relevant Existing Caps for the year ended 31 December 2008.
2. The relevant Services Transactions Utilisation Rate is calculated as the annualised actual transacted amounts for the nine months ended 30 September 2009 divided by the relevant Existing Caps for the year ending 31 December 2009.
3. Assuming that there is no change to the proposed date of the EGM, being 31 December 2009, the term of the Services Agreement shall be ten years commencing from 1 January 2010 and ending on 31 December 2020. The Company will, in compliance with the Listing Rules, make further announcement(s) and obtain approval(s) from the then independent Shareholders (if necessary) in relation to the new Caps for the Services Transactions for the remaining term of the Services Agreement prior to or after the expiry of the proposed Caps set out in Table 4 above, being 31 December 2012, as and when necessary.

(i) The historical record of the transacted amounts of the Services Transactions

As illustrated above in Table 4, there has been a growth of transacted amounts for the Services Transactions, and this was generally in line with the respective growth trend in the sales volume of the sedans of the Group during the relevant periods. The only exception noted is the sales of the Sedan Tool Kits by the Group to the Geely Holding Group. We were advised that the decrease in the sales of the Sedan Tool Kits by the Group to the Geely Holding Group for the nine months ended 30 September 2009 was mainly due to the bulk purchase made by the Geely Holding Group in late 2008 in preparation for manufacturing of sedans to be sold in 2009.

It is also noted that the respective annualised Services Transactions Utilisation Rates for the provision of process manufacturing services for the years 2008 and 2009 and that for the sales of the Sedan Tool Kits for the year 2009 were relatively low. We were advised that the relatively low annualised utilisation rates for the provision of process manufacturing services were mainly attributable to the revision of useful life of the molding equipment of the Geely Holding Group from three years to a range of seven to ten years with reference to the historical product life cycle of the Group’s sedans of around seven to ten years. Besides, the relatively low annualised utilisation rate for the sales of Sedan Tool Kits for the year 2009 was mainly due to (i) the bulk purchase made by the Geely Holding Group in late 2008 in preparation for manufacturing of sedans to be sold in 2009; and (ii) the economic downturn outbreak in 2008 which negatively affect the sales of the Group, in particular, in late 2008.

LETTER FROM QUAM CAPITAL

Notwithstanding the above, we are of the view that the generally high Services Transactions Utilisation Rates for other Services Transactions, to a very large extent, is reflective of the market expertise of the Group and their perceptive operation planning and sales projections related thereto.

(ii) The bases of determination of the Caps of the Services Transactions

It is noted that a substantial growth is generally expected by the Directors for each of the Caps of the Services Transactions (save for the decrease in the transactions relating to the sales of automobile parts and components and the provision of process manufacturing services) for the period from the effective date of the Services Agreement to 31 December 2012. It is also noted that the increases in the Caps for the Services Transactions for the three years ending 31 December 2012 are generally in line with the expected growth rate of the sales of the sedans as predicted by the management of the Company for the relevant years. In this regard, we have discussed with the Company's management on the underlying reasons and noted that the Directors have principally taken into account (i) the expected increase in demand for the Group's sedans for the three years ending 31 December 2012 in view of the implementation of certain favourable government policies in the automobile industry and the expected economic development of the PRC; (ii) the expected launch of new sedan models during the three years ending 31 December 2012; (iii) the acquisition of three new manufacturing facilities in Chengdu, Jinan and Lanzhou, which improved production capability and enhanced geographical diversification and expansion of the Group's coverage to the inner cities of the PRC and the export market; (iv) the historical transacted amount of the Services Transactions; (v) the estimated portion of the total procurement of automobile parts and components from the Geely Holding Group; (vi) the estimated cost of imported molding equipment required and other costs incurred for process manufacturing services; (vii) the respective accounting policies of molding equipment of the Group and the Geely Holding Group; and (viii) the prevailing market prices of the Group's sedan models.

In our assessment of the reasonableness and fairness of the respective Caps for the Services Transactions, we have reviewed, among other things, (i) the related sales budget for the three years ending 31 December 2012 compiled by the Group and the underlying bases and assumptions related thereto as detailed above; (ii) the product range and expected launch of new sedan models of the Group; (iii) the latest consumption tax rates on sales of sedans in the PRC released by the PRC tax bureau; (iv) the respective accounting policies of molding equipment of the Group and the Geely Holding Group; (v) the historical transacted amounts of the Services Transactions; (vi) the cost schedule of molding equipment required and other costs incurred for process manufacturing services; and (vii) the prevailing market prices of the Group's major sedan models. We have also discussed with the management of the Company on the underlying principal assumptions and bases

LETTER FROM QUAM CAPITAL

that have been taken into account by the Directors in setting the relevant Caps. We concur with the Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned Caps at the proposed levels, after taking into consideration the following:

- the current intention of the Group to devote to the research and development of automobile technology and to launch new higher-priced sedan models and the LTI Sedans to enhance its competitive advantages in both the local and export market;
- the expected increase in demand for the Group's sedans in view of (i) the expected launch of new sedan models during the three years ending 31 December 2012; (ii) the broadening of geographical coverage and market position of the Group in the PRC and the intention of the management to expand the automobile export market; (iii) the implementation of "Multi-brand Strategy" and "Platform Strategy" on product marketing and product development; and (iv) the expected growth in the PRC automobile industry, given that according to China Association of Automobile Manufacturers (中國汽車工業協會), an automobile organisation approved by the PRC government, the total sales and production volume of sedans in the PRC reached about 599 million units and 610 million units in the first half of 2009, representing an increase of about 15.2% and 17.7% compared to the corresponding period in 2008 respectively.
- that the estimated selling prices of new sedan models to be sold by the Group for each of the three years ending 31 December 2012 are in line with the prevailing market prices of similar existing models in the PRC automobile market;
- that the selling prices of the Group's existing sedans are generally estimated to remain steady for each of the three years ending 31 December 2012;
- that the distribution costs of the CBUs, the manufacturing costs of the Sedan Tool Kits and the procurement cost of the automobile parts and components on a per unit basis are estimated to remain at about the similar level as those incurred in the previous years;
- the adoption of an estimated average consumption tax rate of about 3% or 5% for the transactions relating to the sales of the CKDs, which is in line with the existing consumption tax rates on sales of sedans in the PRC (subject to the engine size of the relevant sedan models);
- that the Geely Holding Group is intended to procure certain imported molding equipment in 2010 and 2011;
- that the Geely Holding Group has revised the useful life of the imported molding equipment to a range of seven to ten years after considering the historical product life cycle of sedans manufactured by the Group of around seven to ten years, which is also in line with the current depreciation policy adopted by the Group; and

LETTER FROM QUAM CAPITAL

- that the Group has set up its own parts procurement division since 2008 and is intended to undertake up to 75% of the total procurement of automobile parts and components required by the Group in the year 2012; this results in a decreasing trend of the Caps for the transactions relating to the sales of automobile parts and components for the three years ending 31 December 2012, despite the increasing demand in the Group's sedans as discussed above.

Based on the factors and reasons discussed above, we are of the view that the Caps for the Services Transactions for the three years ending 31 December 2012 were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

(b) The Loan Guarantee Agreement

Set out below are the details of (i) the actual highest amount of loans guaranteed by the Group as contemplated under the Loan Guarantee Agreement (the “**Guarantee Transaction**”) for the financial year ended 31 December 2008 and the nine months ended 30 September 2009 respectively; (ii) the comparison of the above amounts with the relevant annual caps approved by the then independent Shareholders for the two years ending 31 December 2009 (the “**Guarantee Transaction Utilisation Rate(s)**”); and (iii) the respective Caps for the Guarantee Transaction for each of the period from the effective date of the Loan Guarantee Agreement, which is expected to be 1 January 2010 to 31 December 2012:

Table 5

	Actual highest amount		Caps		
	for the year ended 31 December	for the nine months ended 30 September	for the year ending 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
Provision of the Guarantees	770,000	770,000	1,000,000	900,000	800,000
(equivalent to approximately HK\$875.0 million)	(equivalent to approximately HK\$875.0 million)	(equivalent to approximately HK\$1,136.4 million)	(equivalent to approximately HK\$1,022.8 million)	(equivalent to approximately HK\$909.1 million)	
Guarantee Transaction Utilisation Rate:	90.6%	90.6%	N/A	N/A	N/A

LETTER FROM QUAM CAPITAL

(i) *The historical record of the transacted amount of the Guarantee Transaction*

As illustrated above in Table 5, it is noted that the maximum amounts of loans guaranteed by the Group for the year ended 31 December 2008 and the nine months ended 30 September 2009 remained steady at RMB770 million and the Guarantee Transaction Utilisation Rates remained high at about 90.6%. Given the above, we are of the view that the generally high Guarantee Transaction Utilisation Rates, to a very large extent, is reflective of the perceptive operation planning of the market expertise related thereto.

(ii) *The bases of determination of the Caps of the Guarantee Transaction*

We note a significant increase in the Caps for the Guarantee Transaction for the year ending 31 December 2010 as compared to the historical transacted amounts which is expected to decrease gradually for the two years ending 31 December 2012. In this regard, we have discussed with the Company's management on the underlying reasons, and noted that the Directors have principally taken into account (i) the Group's research and development plan and the related funding requirement and cost; (ii) the ability of the Geely Holding Group to obtain low-cost financing on behalf of the Group given its long-term relationship with certain banks in the PRC; (iii) the amount of the Loan Facilities as at 31 October 2009; and (iv) the estimated amount of the Group's assets available to be pledged for the purpose of the provision of the Guarantees.

In our assessment of the reasonableness and fairness of the Caps for the Guarantee Transaction, we have reviewed, among other things, (i) the respective guarantee policies of the Group and the Geely Holding Group; (ii) the unaudited financial statements of the Group as at 30 June 2009; and (iii) the availability of the Loan Facilities as at 31 October 2009. We have also discussed with the management of the Company on the underlying principal assumptions and bases that have been taken into account by the Directors in setting the relevant Caps. We concur with the Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned Caps at the proposed levels, after taking into consideration the following:

- that more funding resources will be devoted to the Group's research and development activities for, among others, the design of new sedan models and the development of new engine, gearbox and electronic and electric auto-related components, in order to tap into the increasing demand for the Group's sedans in the PRC and export markets in the future;

LETTER FROM QUAM CAPITAL

- that the Loan Facilities available as at the date of the Company's announcement in relation to the Non-exempted Continuing Connected Transactions (the "**CCT Announcement**") amounted to RMB2,229 million, which had been completely drawdown as at the Latest Practicable Date, of which RMB420 million had been guaranteed by the Group in relation to the research and development of its sedans with the remaining balance being guaranteed by the Geely Holding Group;
- that the guarantee policy adopted by the Geely Holding Group is in line with that adopted by the Group;
- the Directors' confirmation that, in the absence of unforeseen circumstances, the provision of the Guarantees in a maximum amount of RMB1,000 million is not expected to have any material adverse impact on the Group's financial position, given (i) the unaudited total net asset value of the Group of about RMB6.0 billion as at 30 June 2009; (ii) that there is no material adverse change to the respective net asset value position of each of the Group since 30 June 2009; and (iii) the grant of counter indemnities by the Geely Holding Group in consideration of the Guarantees; and
- that the Caps in respect of the Guarantee Transaction for the year ending 31 December 2010 increases to RMB1,000 million and gradually decreases to RMB800 million for the two years ending 31 December 2012, after taking into consideration the belief of the Directors that (i) more research and development projects are expected after the year 2009; and (ii) the Group intends to finance certain research and development projects by its internal resources or bank borrowings in the years 2011 and 2012.

Based on the factors and reasons discussed above, we are of the view that the Caps for the Guarantee Transaction for the three years ending 31 December 2012 were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

LETTER FROM QUAM CAPITAL

(c) The Shanghai LTI Supply and Purchase Agreement

Set out below are the proposed Caps of the LTI Transactions for each of the period from the effective date of the Shanghai LTI Supply and Purchase Agreement, which is expected to be 1 January 2010 to 31 December 2012:

Table 6

Type of the LTI Transactions	Caps for the year ending 31 December		
	2010	2011	2012
	<i>(Note)</i>		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of automobile parts and components from Shanghai LTI to Shanghai Maple	60,000 (equivalent to approximately HK\$68.2 million)	70,000 (equivalent to approximately HK\$79.5 million)	80,000 (equivalent to approximately HK\$90.9 million)
Sales of SKD Components from Shanghai LTI to Shanghai Maple	72,000 (equivalent to approximately HK\$81.8 million)	160,000 (equivalent to approximately HK\$181.8 million)	240,000 (equivalent to approximately HK\$272.7 million)
Sales of CKDs (without the imported engine, transmission and automobile parts) from Shanghai LTI to Shanghai Maple	918,708 (equivalent to approximately HK\$1,044.0 million)	1,721,172 (equivalent to approximately HK\$1,955.9 million)	2,226,959 (equivalent to approximately HK\$2,530.7 million)
Total	1,050,708 (equivalent to approximately HK\$1,194.0 million)	1,951,172 (equivalent to approximately HK\$2,217.3 million)	2,546,959 (equivalent to approximately HK\$2,894.4 million)

Note: Assuming that there is no change to the proposed date of the EGM, being 31 December 2009, the term of the Shanghai LTI Supply and Purchase Agreement shall be about 47 years commencing from 1 January 2010 and ending on 6 March 2057, having the same expiry date of the JV Agreement. The Company will, in compliance with the Listing Rules, make further announcement(s) and obtain approval(s) from the then independent Shareholders (if necessary) in relation to the new Caps for the LTI Transactions for the remaining term of the Shanghai LTI Supply and Purchase Agreement prior to or after the expiry of the proposed Caps set out in Table 6 above, being 31 December 2012, as and when necessary.

As illustrated in Table 6 above, it is noted that a substantial growth is generally expected for each of the Caps for the LTI Transactions for the three years ending 31 December 2012. In this regard, we have discussed with the Company's management on the underlying reasons and noted that the Directors have principally taken into account (i) the expected increase in the demand for the LTI Sedans for the three years ending 31

LETTER FROM QUAM CAPITAL

December 2012 in view of the implementation of certain favourable government policies in the automobile industry and the expected economic development of the PRC; (ii) the production plan of Shanghai LTI and the expected launch of new LTI Sedans during the three years ending 31 December 2012; (iii) the production capacity of Shanghai LTI; and (iv) the prevailing market prices of the LTI Sedans in the PRC automobile market.

In our assessment of the reasonableness and fairness of the respective Caps for the LTI Transactions, we have reviewed, among other things, (i) the related sales budget for the three years ending 31 December 2012 compiled by Shanghai LTI and the underlying bases and assumptions related thereto as detailed above; (ii) the product range of Shanghai LTI; and (iii) the prevailing market prices of major LTI Sedan models in the PRC automobile market. We have also discussed with the management of the Company on the underlying principal assumptions and bases that have been taken into account by the Directors in setting the relevant Caps. We concur with the Directors' view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned Caps at the proposed levels, after taking into consideration the following:

- the expected increase in demand for the LTI Sedans in view of (i) that the "TX4" model was launched in June 2009 and is currently under start-up stage; (ii) the broadening of geographical coverage and market position of the Group in the PRC and the intention of the management to expand the export market; and (iii) the expected growth in the PRC automobile industry, given that according to China Association of Automobile Manufacturers (中國汽車工業協會), an automobile organisation approved by the PRC government, the total sales and production volume of sedans in the PRC reached about 599 million units and 610 million units in the first half of 2009, representing an increase of about 15.2% and 17.7% compared to the corresponding period in 2008 respectively;
- the expected increase in automobile parts and components to be manufactured by Shanghai LTI due to its lower cost of production and satisfactory quality standard;
- that the estimated selling prices of the LTI Sedans to be sold by the Group for each of the three years ending 31 December 2012 are in line with the prevailing market prices of similar existing models in the PRC automobile market;
- that the selling prices of the LTI Sedans are generally estimated to remain steady for each of the three years ending 31 December 2012;
- that the distribution costs of the LTI Sedans, the cost of the Sedan Tool Kits, the cost of other necessary and reasonable expenses and the original purchase cost of imported engine, transmission and automobile parts incurred by Shanghai Maple are estimated to remain at about similar level from 2010 to 2012; and

LETTER FROM QUAM CAPITAL

- the adoption of an estimated average consumption tax rate of about 3% or 5% for the transactions relating to the sales of the CKDs (without the imported engine, transmission and automobile parts), which is comparable to the existing consumption tax rates on sales of sedans in the PRC (subject to the engine size of the relevant sedan models).

Based on the factors and reasons discussed above, we are of the view that the Caps for the LTI Transactions for the three years ending 31 December 2012 were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

(d) *The Supplemental Services Agreement*

As disclosed in the “Letter from the Board” in the Circular, the Directors propose to raise the Caps in respect of the Processed Parts Purchase Transaction for the two years ending 31 December 2010 and 2011 from RMB205,296,000 (equivalent to approximately HK\$233,298,374) to RMB1,101,004,000 (equivalent to approximately HK\$1,251,180,946) and RMB359,153,000 (equivalent to approximately HK\$408,141,469) to RMB2,554,814,000 (equivalent to approximately HK\$2,903,290,630) respectively. We have discussed with the management of the Company on the underlying reasons for the aforesaid proposed increases and noted that the Directors have principally taken into account (i) the expected growth in demand for the Group’s sedan models and the expected increase in the number of different sedan models being manufactured by the Group from the effective date of the Supplemental Services Agreement to 31 December 2011; (ii) the change of supplier of the New Processed Parts from Fulin Guorun, a wholly-owned subsidiary of the Company, to the Geely Holding Group as discussed in section (1)(e) above; (iii) the current market condition of the automobile industry and the expected economic development of the PRC; (iv) the production capacity of the Geely Holding Group for the New Processed Parts; and (v) the prevailing market prices of similar processed automobile parts and components and expected changes in selling prices related thereto.

In our assessment of the reasonableness and fairness of the respective Caps, we have reviewed, among other things, (i) the sales target of the sedans and the estimated quantity of sedans with processed automobile parts and components installed from the effective date of the Supplemental Services Agreement to 31 December 2011 compiled by the Group and the underlying bases and assumptions related thereto as detailed above; (ii) the production capacity of the Geely Holding Group for the New Processed Parts; and (iii) the prevailing market prices of similar processed automobile parts and components. We concur with the Directors’ view that it will be reasonable and in the interests of both the Company and the Shareholders to set the aforementioned Caps at the proposed levels, after taking into consideration the following:

- that no deviation is expected on the estimated sales targets for the two years ending 31 December 2011 of the relevant processed automobile parts and components set out in the Existing August 09 Services Agreement;

LETTER FROM QUAM CAPITAL

- that the Group intends to source all the New Processed Parts previously supplied by Fulin Guorun, a wholly-owned subsidiary of the Company, from the Geely Holding Group for reasons as discussed in section (1)(e) above;
- the expected growth in production and application of the New Processed Parts for the Group's sedans in view of (i) that the Geely Holding Group has only commenced the production of one of the New Processed Parts in 2009 and is expected to begin production of the remaining New Processed Parts in the year 2010; (ii) that the New Processed Parts are patented and are compatible to all sedan models of the Group; (iii) that the new sedan models are expected to be launched in the years 2010 and 2011; (iv) the Group's intention to install the New Processed Parts to its sedans progressively with reference to the estimated demand on the New Processed Parts; and (v) that according to China Association of Automobile Manufacturers (中國汽車工業協會), an automobile organisation approved by the PRC government, the total sales and production volume of sedans in the PRC reached about 599 million units and 610 million units in the first half of 2009, representing an increase of about 15.2% and 17.7% compared to the corresponding period in 2008 respectively;
- that, as advised by the Company's management, the Geely Holding Group currently has sufficient production capacity to meet the demand of New Processed Parts from the Group in the years 2010 and 2011;
- that the estimated selling prices of the New Processed Parts to be procured by the Group are in line with its recent selling price to independent third parties or with reference to the intended selling price of sedans with or without relevant New Processed Parts being installed; and
- that the selling prices of the New Processed Parts are estimated to reduce by 10% for each of the two years ending 31 December 2011 considering that the selling prices of one of New Processed Parts previously manufactured by Fulin Guorun decreased by about 10% during the year 2009 as compared with the year 2008.

Based on the factors and reasons discussed above, we are of the view that the Caps for the Processed Parts Purchase Transactions for the two years ending 31 December 2011 were set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

LETTER FROM QUAM CAPITAL

RECOMMENDATION

Having considered the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the nature of the Non-exempted Continuing Connected Transactions;
- that each of the Non-exempted Agreements is entered into for the implementation and facilitation of the continuing manufacturing operations and business expansion of the Group, and each of the Non-exempted Continuing Connected Transactions is in line with the Group's principal business activities as discussed in section (1)(a) above;
- that the respective pricing basis as provided under the Non-exempted Agreement is fair and reasonable;
- that the long tenures of the Services Agreement and the Shanghai LTI Supply and Purchase Agreement are reasonable and justified to ensure the long-term business co-operation between the Group and the Geely Holding Group and to facilitate the smooth operations of the Group's business;
- the control and review procedures and arrangements in place to safeguard the interests of the Company and the Shareholders in relation to the Non-exempted Continuing Connected Transactions; and
- that the Caps have been set by the Directors, after careful and due considerations, at a level which will be in the interests of both the Company and the Shareholders, in view of the factors as discussed in details in section (5) above,

we consider that the Non-exempted Agreements have been entered into within the usual and ordinary course of the Group's business based on normal commercial terms and their respective terms and conditions together with the Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Non-exempted Continuing Connected Transactions and the adoption of the Caps.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Richard D. Winter
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(i) Interests and short positions in the securities of the Company

Name of Director	Capacity	Number of Shares in the Company		Shareholding percentage (%)
		Long position	Short position	
Shares				
Mr. Li Shu Fu (Note 1)	Interest in controlled corporations	3,751,159,000	-	51.44
Mr. Ang Siu Lun, Lawrence	Personal	8,270,000	-	0.11
Mr. Yeung Sau Hung, Alex	Personal	500,000	-	0.01
Share options				
Mr. Gui Sheng Yue	Personal	8,000,000 (Note 2)	-	0.11
Mr. Yang Jian	Personal	8,000,000 (Note 2)	-	0.11
Mr. Liu Jin Liang	Personal	6,000,000 (Note 2)	-	0.08
Mr. Zhao Jie	Personal	6,000,000 (Note 2)	-	0.08

Name of Director	Capacity	Number of Shares in the Company		Shareholding percentage (%)
		Long position	Short position	
Mr. Yin Da Qing, Richard	Personal	7,000,000 (Note 2)	–	0.10
Dr. Zhao Fuquan	Personal	23,000,000 (Note 2)	–	0.32
Mr. Song Lin	Personal	1,500,000 (Note 2)	–	0.02
Mr. Lee Cheuk Yin, Dannis	Personal	1,500,000 (Note 2)	–	0.02

Notes:

1. Proper Glory Holding Inc. (“Proper Glory”) and its concert parties in aggregate hold 3,751,159,000 shares, representing approximately 51.44% of the issued share capital of the Company as at the Latest Practicable Date. Proper Glory is a company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
2. The percentage of holding is calculated on the basis (i) that the options are fully exercised; and (ii) the number of issued share capital of the Company when the options are exercised is the same as that as at the Latest Practicable Date.

(ii) *Interests and short positions in the securities of the associated corporations of the Company*

Name of Director	Name of its associated corporations	Number of Shares in the Company		Shareholding percentage (%)
		Long position	Short position	
Mr. Li Shu Fu	Proper Glory Holding Inc.	(Note 1)	–	(Note 1)
Mr. Li Shu Fu	Geely Group Limited	50,000	–	100
Mr. Li Shu Fu	Zhejiang Geely Holding Group Company Limited	(Note 2)	–	(Note 2)

Name of Director	Name of its associated corporations	Number of Shares in the Company		Shareholding percentage (%)
		Long position	Short position	
Mr. Li Shu Fu	Zhejiang Geely Merrie Automobile Company Limited	(Note 3)	–	(Note 3)
Mr. Li Shu Fu	Shanghai Maple Automobile Company Limited	(Note 4)	–	(Note 4)
Mr. Li Shu Fu	Zhejiang Haoqing Automobile Manufacturing Company Limited	(Note 5)	–	(Note 5)
Mr. Li Shu Fu	Zhejiang Geely Automobile Company Limited	(Note 6)	–	(Note 6)
Mr. Li Shu Fu	Shanghai Maple Guorun Automobile Company Limited	(Note 7)	–	(Note 7)
Mr. Li Shu Fu	Zhejiang Kingkong Automobile Company Limited	(Note 8)	–	(Note 8)
Mr. Li Shu Fu	Zhejiang Ruhoo Automobile Company Limited	(Note 9)	–	(Note 9)
Mr. Li Shu Fu	Hunan Geely Automobile Components Company Limited	(Note 10)	–	(Note 10)

Notes:

1. Proper Glory Holding Inc. (“Proper Glory”) and its concert parties in aggregate hold 3,751,159,000 shares, representing approximately 51.44% of the issued share capital of the Company as at the Latest Practicable Date. Proper Glory is a company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
2. Zhejiang Geely Holding Group Company Limited (“Geely Holding”) is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
3. Zhejiang Geely Merrie Automobile Company Limited is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.

4. Shanghai Maple Automobile Company Limited is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
5. Zhejiang Haoqing Automobile Manufacturing Company Limited is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially wholly owned by Mr. Li Shu Fu and his associate.
6. Zhejiang Geely Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Geely Merrie Automobile Company Limited. Zhejiang Geely Merrie Automobile Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
7. Shanghai Maple Guorun Automobile Company Limited is incorporated in the PRC and is 9%-owned by Shanghai Maple Automobile Company Limited. Shanghai Maple Automobile Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
8. Zhejiang Kingkong Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
9. Zhejiang Ruhoo Automobile Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.
10. Hunan Geely Automobile Components Company Limited is incorporated in the PRC and is 9%-owned by Zhejiang Haoqing Automobile Manufacturing Company Limited. Zhejiang Haoqing Automobile Manufacturing Company Limited is incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is incorporated in the PRC and is 100%-owned by Mr. Li Shu Fu and his associate.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV and the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(b) Interests and short positions in shares and underlying shares of others persons

As at the Latest Practicable Date, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to the Directors or the chief executive of the Company, the persons, other than Directors or the chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and any other members of the Group and the amount of each of such persons' interest in such securities, together with any options in respect of such capital, were as follows:

(i) Substantial Shareholders (as defined in the SFO)

Name	Capacity	Number of shares held		Shareholding percentage (%)
		Long position	Short position	
Proper Glory (Note 1)	Beneficial owner	2,462,400,000	–	33.76
Geely Holding (Note 1)	Beneficial owner	3,751,072,000	–	51.43
Zhejiang Geely Merrie (Note 2)	Interest in controlled corporation	776,408,000	–	10.65
Geely Group Ltd. (Note 1)	Beneficial owner	87,000	–	0.001
	Interest in controlled corporation	2,462,400,000	–	33.76
The Goldman Sachs Group, Inc.	Interest in controlled corporation	1,297,974,003	–	17.80
Gehicle Investment Holdings (Delaware) LLC	Beneficial owner	1,144,958,578	–	15.70

Notes:

1. Proper Glory Holding Inc. (“Proper Glory”) is a company incorporated in the British Virgin Islands and is owned as to 68% by Geely Holding and as to 32% by Geely Group Limited. Geely Group Limited is a limited liability company incorporated in the British Virgin Islands and is wholly owned by Mr. Li Shu Fu. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.

2. Zhejiang Geely Merrie is a limited liability company incorporated in the PRC and is 90%-owned by Geely Holding. Geely Holding is a limited liability company incorporated in the PRC and is beneficially owned by Mr. Li Shu Fu and his associate.

Save as disclosed above so far as is known to the Directors or chief executives of the Company, as at the Latest Practicable Date, no person (not being a Director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

3. COMPETING INTEREST

Zhejiang Geely Holding Group Company Limited, which is ultimately owned by Mr. Li Shu Fu (“Mr. Li”), the Company’s Chairman, and his associates, has signed agreements or been in negotiations with local governments in the PRC and other entities to set up production plants for the manufacturing and distribution of Geely sedans. The potential production and distribution of Geely sedans by Zhejiang Geely Holding Group Company Limited will constitute competing businesses (the “Competing Businesses”) to those currently engaged by the Group’s subsidiaries. Mr. Li has undertaken to the Company (the “Undertaking”) that upon being notified of any decision by the Company pursuant to a resolution approved by a majority of the independent non-executive directors, he will, and will procure his associates (other than the Group) to sell to the Group all of the Competing Businesses and related assets, subject to compliance with applicable requirements of the Listing Rules and other applicable laws and regulations upon terms to be mutually agreed as fair and reasonable.

Save for disclosed above, as at the Latest Practicable Date, none of the Directors or any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. INTERESTS IN ASSETS AND/OR CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Company.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract or had an unexpired service contract with any member of the Group, which is not determinable by any member of the Group within one year without payment of compensation other than statutory compensation.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited accounts of the Company were made up.

7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Quam Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Quam Capital:

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2008, the date to which the latest audited financial statements of the Group was made up;
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

8. GENERAL

- (a) The registered office of the Company is situated at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company in Hong Kong is situated at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

- (b) The company secretary of the Company is Mr. Cheung Chung Yan, David, a fellow member of the Association of Chartered Certified Accountants.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at 18/F., Fook Lee Commercial Centre, Town Plaza, 33 Lockhart Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including 31 December 2009:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 25 of this circular;
- (b) the letter from Quam Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 26 to 61 of this circular;
- (c) the written consent from Quam Capital referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix; and
- (d) the Services Agreement, Loan Guarantee Agreement, Shanghai LTI Supply and Purchase Agreement, Supplemental Services Agreement and Existing August 09 Services Agreement.

NOTICE OF THE EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of the shareholders of Geely Automobile Holdings Limited (the “Company”) will be held at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on Thursday, 31 December 2009 at 10:00 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the conditional master agreement dated 27 November 2009 (the “**Services Agreement**”) entered into between the Company and Zhejiang Geely Holding Group Company Limited (“**Geely Holding**”, together with its subsidiaries, the “**Geely Holding Group**”), a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purpose, pursuant to which, (i) the Company together with its subsidiaries (the “**Group**”) agrees to sell CKDs and Sedan Tool Kits (as defined in the circular of the Company dated 14 December 2009 (the “**Circular**”)) to the Geely Holding Group and (ii) the Geely Holding Group agrees to sell CBUs (as defined in the Circular), automobile parts and components; and provide process manufacturing services to the Group, be and is hereby approved, ratified and confirmed;
- (b) the cap amounts in respect of the supply of CKDs and Sedan Tool Kits to Geely Holding Group and the purchase of CBUs, automobile parts and components and provision of process manufacturing services from Geely Holding Group as set out in the Circular for each of the three financial years ending 31 December 2012 be and are hereby approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Services Agreement.”

NOTICE OF THE EGM

2. **“THAT**

- (a) the conditional agreement dated 27 November 2009 (the **“Loan Guarantee Agreement”**) entered into between the Company and Zhejiang Geely Holding Group Company Limited (**“Geely Holding”**, together with its subsidiaries, the **“Geely Holding Group”**), a copy of which is tabled at the meeting and marked **“B”** and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company together with its subsidiaries (the **“Group”**) agrees to provide guarantees (including the pledge of certain lands, buildings and facilities of the subsidiaries of the Group) on loans obtained or to be obtained by the Geely Holding Group on behalf of the Group (the **“Guarantees”**), be and is hereby approved, ratified and confirmed;
- (b) the cap amounts in respect of the Guarantees as set out in the circular of the Company dated 14 December 2009 for each of the three financial years ending 31 December 2012 be and are hereby approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Loan Guarantee Agreement.”

3. **“THAT**

- (a) the conditional agreement dated 27 November 2009 (the **“Shanghai LTI Supply and Purchase Agreement”**) entered into between Shanghai LTI Automobile Components Company Limited (**“Shanghai LTI”**) and Shanghai Maple Automobile Company Limited (**“Shanghai Maple”**), a copy of which is tabled at the meeting and marked **“C”** and initialed by the chairman of the meeting for identification purpose, pursuant to which, Shanghai LTI agrees to supply to Shanghai Maple and Shanghai Maple agrees to purchase from Shanghai LTI (i) automobile parts and components; (ii) SKD Components; and (iii) CKDs (without the imported engine, transmission and automobile parts) in accordance with the product and service specifications set out in the Shanghai LTI Supply and Purchase Agreement (the **“Supply and Purchase Services”**), be and is hereby approved, ratified and confirmed;
- (b) the cap amounts in respect of the Supply and Purchase Services as set out in the circular of the Company dated 14 December 2009 for each of the three financial years ending 31 December 2012 be and are hereby approved; and

NOTICE OF THE EGM

- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Shanghai LTI Supply and Purchase Agreement.”

4. **“THAT**

- (a) the conditional supplemental agreement dated 27 November 2009 (the “**Supplemental Services Agreement**”) entered into between the Company and Zhejiang Geely Holding Group Company Limited (“**Geely Holding**”, together with its subsidiaries, the “**Geely Holding Group**”), a copy of which is tabled at the meeting and marked “**D**” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the parties agree to increase the annual caps for the purchase of processed automobile parts and components by the Company together with its subsidiaries (the “**Group**”) from the Geely Holding Group (the “**Purchase Services**”), be and is hereby approved, ratified and confirmed;
- (b) the cap amounts in respect of the Purchase Services as set out in the circular of the Company dated 14 December 2009 for each of the two financial years ending 31 December 2011 be and are hereby approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters and transactions contemplated in the Supplemental Services Agreement.”

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

Hong Kong, 14 December 2009

Head office and principal place of business in Hong Kong:
Room 2301, 23rd Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

NOTICE OF THE EGM

Notes:

1. Any member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be delivered to the office of the branch share registrars of the Company, Union Registrars Limited, at 18/F., Fook Lee Commercial Centre, Town Plaza, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.