THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold all or transferred all your shares in **Qingling Motors Co. Ltd**, you should at once hand this circular and the accompanying proxy form and reply slip to the purchaser or to the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

QLMCL

慶鈴汽車股份有限公司

QINGLING MOTORS CO. LTD

(a Sino-foreign joint venture joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1122)

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

CRESCENDO

Crescendo Capital Limited

A letter from the Board is set out on pages 1 to 43 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 44 to 45 of this circular.

A letter from Crescendo Capital Limited, the Independent Financial Adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 46 to 86 of this circular.

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Qingling Motors Co. Ltd (the "**Company**") will be held at New Conference Hall, 1st Floor of Company's Office Building, 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the People's Republic of China (the "**PRC**") on Tuesday, 14 April 2020 at 10:00 a.m. for the purpose of the related matters set out in the notice of EGM. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed reply slip and proxy form in accordance with the instructions printed thereon. The reply slip should be returned to the legal address of the Company at 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC, by post, by cable or by fax (at fax No. (86)23–68830397) on or before Wednesday, 25 March 2020. The proxy form should be returned to the legal address of the Company at 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC (in the case of proxy form of holders of Domestic Shares) or the Company's H Share Registrars, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of proxy form of holders of H Shares) in any event not less than 24 hours before the time of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular and the enclosed proxy form of holders of H Shares for use at the EGM and reply slip have been published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.qingling.com.cn).

27 February 2020

* *For identification purposes only*

CONTENTS

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

"Announcement"	the announcement of the Company dated 26 November 2019 in relation to, among other things, the Non-exempt Continuing Connected Transactions
"Articles"	the articles of association of the Company as may be amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Autoparts Manufacturing"	重慶慶鈴汽車配件製造有限公司 (Chongqing Qingling Autoparts Manufacturing Co., Ltd.*), a domestic company incorporated in the PRC with limited liability wholly owned by Qingling Group
"Board"	the board of Directors
"Chassis Supply Agreement"	the agreement entered into between the Company and Qingling Group on 22 December 2016 relating to the supply of automobile chassis and related components by the Company to Qingling Group commencing on 1 January 2017 and expiring on 31 December 2019
"Yu Gao"	重慶渝高科技產業(集團)股份有限公司(Chongqing Yu Gao-Tech Industry (Group) Co. Ltd*), which is, according to its website, a state-controlled company incorporated in the PRC with limited liability and has over 250 shareholders of which Chongqing Liangjiang New District Industry Development Group Co., Ltd. is the single largest shareholder interested in approximately 37.15% of its registered share capital
"Company"	慶鈴汽車股份限公司 (Qingling Motors Co. Ltd), a sino-foreign joint venture joint stock company incorporated in the PRC with limited liability
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"CQAC"	重慶慶鈴車橋有限公司 (Chongqing Qingling Axle Co. Ltd.*), a sino-foreign joint venture company incorporated in the PRC with limited liability owned as to 80%, 10%, and 10% by Qingling Group, Isuzu and Isuzu China respectively
"CQAC Agreement"	the agreement dated 22 December 2016 entered into between CQAC and the Company relating to the supply of certain automobile parts by CQAC to the Company commencing on 1 January 2017 and expiring on 31 December 2019
"CQACL"	重慶慶鈴鑄鋁有限公司 (Chongqing Qingling Aluminium Casting Co. Ltd.*), a sino-foreign joint venture company incorporated in the PRC with limited liability owned as to 72.43%, 13%, 10% and 4.57% by Qingling Group, Isuzu, Isuzu China and Yu Gao respectively
"CQACL Agreement"	the agreement dated 22 December 2016 entered into between CQACL and the Company relating to the supply of certain automobile parts by CQACL to the Company commencing on 1 January 2017 and expiring on 31 December 2019
"CQCC"	重慶慶鈴鑄造有限公司 Chongqing (Qingling Casting Company Limited*), a sino-foreign joint venture company incorporated in the PRC with limited liability owned as to 75%, 21.54% and 3.46% by Qingling Group, Isuzu and an Independent Third Party respectively
"CQCC Agreement"	the agreement dated 22 December 2016 entered into between CQCC and the Company relating to the supply of certain automobile parts by CQCC to the Company commencing on 1 January 2017 and expiring on 31 December 2019
"CQFC"	重慶慶鈴鍛造有限公司 (Chongqing Qingling Forging Co. Ltd.*), a sino-foreign joint venture company incorporated in the PRC with limited liability and owned as to 75%, 9.18%, 14.03% and 1.8% by Qingling Group, Isuzu, Isuzu China and IJTT respectively

"CQFC Agreement"	the agreement dated 22 December 2016 entered into between CQFC and the Company relating to the supply of certain automobile parts by CQFC to the Company commencing on 1 January 2017 and expiring on 31 December 2019
"CQNHK"	重慶慶鈴日發座椅有限公司 (Chongqing Qingling NHK Seat Co. Ltd.*), a sino-foreign joint venture company incorporated in the PRC with limited liability owned as to 55.80%, 3%, 2%, 30% and 9.2% by Qingling Group, Isuzu, Isuzu China, NHK and Yu Gao respectively
"CQNHK Agreement"	the agreement dated 22 December 2016 entered into between CQNHK and the Company relating to the supply of certain automobile parts by CQNHK to the Company commencing on 1 January 2017 and expiring on 31 December 2019
"CQPC"	重慶慶鈴塑料有限公司 (Chongqing Qingling Plastic Co. Ltd.*), a sino-foreign joint venture company incorporated in the PRC with limited liability owned as to 75.15%, 9%, 10% and 5.85% by Qingling Group, Isuzu, Isuzu China and Yu Gao respectively
"CQPC Agreement"	the agreement dated 22 December 2016 entered into between CQPC and the Company relating to the supply of certain automobile parts by CQPC to the Company commencing on 1 January 2017 and expiring on 31 December 2019
"CQVPM"	重慶慶鈴車輛部品製造有限公司 (Chongqing Qingling Vehicle Parts Manufacturing Co., Ltd.*), a domestic company incorporated in the PRC with limited liability wholly owned by CQCC
"Directors"	the director(s) of the Company
"Domestic Share(s)"	domestic shares of nominal value of RMB1.00 each in the ordinary share capital of the Company
"EGM"	an extraordinary general meeting of the Company to be convened to consider, among other things, the ordinary resolutions to be proposed to approve the Non-exempt Continuing Connected Transactions

"Former Continuing Connected Transactions"	transactions under the Parts Supply Agreements, the Chassis Supply Agreement, the Isuzu Supply Agreement, the Supply Agreement, the Supply Agreement (IQAC) and the Sales JV Supply Agreement
"Group"	the Company and its subsidiaries from time to time
"H Share(s)"	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IJTT"	IJTT Co., Ltd., a company incorporated in Japan and listed on the Tokyo Stock Exchange
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors (namely, Mr. LONG Tao, Mr. SONG Xiaojiang, Mr. LIU Tianni and Mr. LIU Erh Fei) established for the purpose of reviewing the Non-exempt Continuing Connected Transactions
"Independent Financial Adviser"	Crescendo Capital Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions
"Independent Shareholders"	Shareholders other than the connected person(s) who is/are interested in the relevant transactions
"Independent Third Parties"	independent third parties which are not connected with the chief executive, directors, supervisors and substantial shareholder(s) of the Company or any of its subsidiaries and their respective associates, and each of them an "Independent Third Party"

"IQAC"	五十鈴慶鈴(重慶)汽車零部件有限公司 (Isuzu Qingling (Chongqing) Autoparts Co., Ltd,*) a sino-foreign equity joint venture incorporated in the PRC which has been absorbed and merged by QIEC since 29 December 2018 upon the completion of the Merger and was dissolved and deregistered accordingly pursuant to the merger agreement entered into between IQAC and QIEC, details of which are set out in the announcement of the Company dated 2 October 2018 and the circular of the Company dated 26 October 2018
"Isuzu"	Isuzu Motors Limited, a company incorporated in Japan and listed on the Tokyo Stock Exchange and a substantial shareholder of the Company
"Isuzu China"	Isuzu (China) Holding Co., Ltd., a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Isuzu
"Isuzu Supply Agreement"	the agreement dated 22 December 2016 entered into between Isuzu and the Company relating to the provision of automobile parts and components by Isuzu to the Company for a period of three years commencing on 1 January 2017 and expiring on 31 December 2019
"Keyu Autoparts"	重慶慶鈴科渝汽車配件有限公司(Chongqing Qingling Keyu Autoparts Co., Ltd.*), a domestic company incorporated in the PRC with limited liability wholly owned by Qingling Group
"Latest Practicable Date"	24 February 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Merger"	the merger by absorption of IQAC by QIEC since 29 December 2018, where QIEC was the surviving company upon completion of the Merger and assumed all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC and IQAC was dissolved and deregistered, details of which are set out in the announcement of the Company dated 2 October 2018
"New Chassis Supply Agreement"	the conditional agreement dated 26 November 2019 entered into between the Company and Qingling Group (on behalf of itself and its subsidiary – Qingling Zhuanyong) relating to the supply of automobile chassis and related components by the Company to Qingling Group, details of which are set out in the section headed "THE NEW CHASSIS SUPPLY AGREEMENT"
"New CQAC Agreement"	the conditional agreement dated 26 November 2019 entered into between CQAC and the Company relating to the supply of certain automobile parts by CQAC to the Company, and for the lease of machineries by the Company to CQAC, details of which are set out in the section headed "THE NEW CQAC AGREEMENT"
"New CQACL Agreement"	the conditional agreement dated 26 November 2019 entered into between CQACL and the Company relating to the supply of certain automobile parts by CQACL to the Company, details of which are set out in the section headed "THE NEW CQACL AGREEMENT"
"New CQCC Agreement"	the conditional agreement dated 26 November 2019 entered into between CQCC (on behalf of itself and its subsidiary – CQVPM) and the Company relating to the supply of certain automobile parts by CQCC to the Company, details of which are set out in the section headed "THE NEW CQCC AGREEMENT"
"New CQFC Agreement"	the conditional agreement dated 26 November 2019 entered into between CQFC and the Company relating to the supply of certain automobile parts by CQFC to the Company, and the provision of consolidated services by the Company to CQFC, details of which are set out in the section headed "THE NEW CQFC AGREEMENT"

"New CQNHK Agreement"	the conditional agreement dated 26 November 2019 entered into between CQNHK and the Company relating to the supply of certain automobile parts by CQNHK to the Company, details of which are set out in the section headed "THE NEW CQNHK AGREEMENT"
"New CQPC Agreement"	the conditional agreement dated 26 November 2019 entered into between CQPC and the Company relating to the supply of certain automobile parts by CQPC to the Company, details of which are set out in the section headed "THE NEW CQPC AGREEMENT"
"New Isuzu Supply Agreement"	the conditional agreement dated 26 November 2019 entered into between Isuzu and the Company relating to the provision of automobile parts and components by Isuzu to the Company, details of which are set out in the section headed "THE NEW ISUZU SUPPLY AGREEMENT"
"New Parts Supply Agreements"	the New CQACL Agreement, the New Qingling Group Agreement, the New CQCC Agreement, the New CQFC Agreement, the New CQAC Agreement, the New CQNHK Agreement and the New CQPC Agreement
"New Qingling Group Agreement"	the conditional agreement dated 26 November 2019 entered into between Qingling Group (on behalf of itself and its subsidiaries – QM, Qingling Zhuanyong, QAC, Autoparts Manufacturing and Keyu Autoparts) and the Company relating to the supply of certain automobile parts by Qingling Group to the Company, details of which are set out in the section headed "THE NEW QINGLING GROUP AGREEMENT"
"New Sales JV Supply Agreement"	the conditional agreement dated 26 November 2019 entered into between the Company and the Sales JV Company relating to the provision of automobile and their parts by the Company to the Sales JV Company, details of which are set out in the section headed "THE NEW SALES JV SUPPLY AGREEMENT"

"New Supply Agreement"	the conditional agreement dated 26 November 2019 entered into between the Company and QIEC relating to the provision of parts of engines and raw materials by the Company to QIEC, and the provision of engines and their parts by QIEC to the Company, details of which are set out in the section headed "THE NEW SUPPLY AGREEMENT"
"NHK"	NHK Spring Co., LTd., a company incorporated in Japan and listed on the Tokyo Stock Exchange
"Non-exempt CCT Agreements"	the New Parts Supply Agreements, the New Chassis Supply Agreement and the New Isuzu Supply Agreement, the New Supply Agreement and the New Sales JV Supply Agreement
"Non-exempt Continuing Connected Transactions"	the transactions contemplated under the New Parts Supply Agreements, the New Chassis Supply Agreement, the New Isuzu Supply Agreement, the New Supply Agreement and the New Sales JV Supply Agreement
"Parts Supply Agreements"	the CQACL Agreement, the Qingling Group Agreement, the CQCC Agreement, the CQFC Agreement, the CQAC Agreement, the CQNHK Agreement and the CQPC Agreement
"percentage ratios"	the percentage ratios under Rule 14.07 of the Listing Rules, other than the profits ratio and equity capital ratio
"PRC"	the People's Republic of China, which shall, for the purpose of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"QAC"	重慶慶鈴汽車底盤部品有限公司(Chongqing Qingling Automobile Chassis Parts Co. Ltd.*), a domestic company incorporated in the PRC with limited liability wholly owned by Qingling Group

"QIEC"	慶鈴五十鈴(重慶)發動機有限公司 (Qingling Isuzu (Chongqing) Engine Co., Ltd.*) (now known as 五十鈴(中國)發動機有限公司, Isuzu (China) Engine Co., Ltd.*), a sino-foreign equity joint venture incorporated in the PRC which is owned as to 19.33% by the Company, 50.61% by Isuzu and 30.06% by the Qingling Group after the Merger
"Qingling Group"	慶鈴汽車(集團)有限公司 (Qingling Motors (Group) Co. Ltd*), a state-owned limited liability company incorporated in the PRC and a controlling shareholder of the Company
"Qingling Group Agreement"	the agreement dated 22 December 2016 entered into between Qingling Group and the Company relating to the supply of certain automobile parts by Qingling Group to the Company
"Qingling Group Companies"	Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC and CQACL and any of them "Qingling Group Company"
"Qingling Zhuanyong"	重慶慶鈴專用汽車有限公司 (Chongqing Qingling Special Vehicle Co. Ltd*) (formerly known as 重慶慶鈴汽車上裝製造有限公司, Chongqing Qingling Automobile Manufacture and Assembly Co. Ltd.*), a domestic company incorporated in the PRC with limited liability wholly owned by Qingling Group
"QM"	重慶慶鈴汽車機加部品製造有限公司 (Chongqing Qingling Machinery Parts Co. Ltd.*), a domestic company incorporated in the PRC with limited liability wholly owned by Qingling Group
"RMB"	Renminbi, the lawful currency of the PRC
"Sales JV Company"	慶鈴五十鈴(重慶)汽車銷售服務有限公司 (Qingling Isuzu (Chongqing) Automobile Sales and Service Co., Ltd*), a sino-foreign equity joint venture incorporated in the PRC which is owned as to 50% by the Company and 50% by Isuzu

"Sales JV Supply Agreement"	the agreement dated 22 December 2016 entered into between the Company and Sales JV Company relating to the provision of automobile and their parts by the Company to the Sales JV Company commencing from 1 January 2017 and expiring on 31 December 2019
"Share(s)"	the Domestic Shares and the H Shares of the Company
"Shareholder(s)"	the holder(s) of the shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed in the Listing Rules
"Supply Agreement"	the agreement dated 22 December 2016 entered into between the Company and QIEC relating to the provision of parts of engines and raw material by the Company to QIEC, and the provision of engines and their parts by QIEC to the Company commencing from 1 January 2017 and expiring on 31 December 2019
"Supply Agreement (IQAC)"	the agreement dated 22 December 2016 entered into between the Company and IQAC relating to the provision of parts of engines by IQAC to the Company, and the provision of automobiles, parts of engines and raw material by the Company to IQAC commencing from 1 January 2017 and expiring on 31 December 2019

慶鈴汽車股份有限公司
QINGLING MOTORS CO. LTD
(a Sino-foreign joint venture joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1122)

Executive Directors:
Mr. LUO Yuguang *(Chairman)*
Mr. HAYASHI Shuichi
(Vice Chairman and General Manager)
Mr. MAEGAKI Keiichiro
Mr. ADACHI Katsumi
Mr. LI Juxing
Mr. XU Song
Mr. Li Xiaodong

Independent Non-executive Directors:
Mr. LONG Tao
Mr. SONG Xiaojiang
Mr. LIU Tianni
Mr. LIU Erh Fei

Legal Address:
1 Xiexing Cun
Zhongliangshan
Jiulongpo District
Chongqing
The People's Republic of China

Principal Place of Business in Hong Kong:
Office 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Central, Hong Kong

27 February 2020

To the Shareholders:

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement. Pursuant to the requirements under the Listing Rules, the Company will seek the approval of the Independent Shareholders in relation to, inter alia, the Non-exempt Continuing Connected Transactions and the respective annual caps.

The purpose of this circular is to provide you with details of the Non-exempt Continuing Connected Transactions and the respective annual caps. The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM, taking into account the recommendations of the Independent Financial Adviser. Crescendo Capital Limited has been appointed as the independent financial adviser to give recommendations to the Independent Board Committee and the Independent Shareholders as to, among other things, whether the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM. A letter from the Independent Board Committee is set out on pages 44 to 45 of this circular and a letter from the Independent Financial Adviser is set out on pages 46 to 86 of this circular. The purpose of this circular is also to provide you with the notice of EGM at which resolutions will be proposed to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions and the respective annual caps.

BACKGROUND

The Group had carried on the Former Continuing Connected Transactions which include transactions under the following agreements:

(i) the Chassis Supply Agreement which expired on 31 December 2019;

(ii) the Parts Supply Agreements which expired on 31 December 2019;

(iii) the Isuzu Supply Agreement which expired on 31 December 2019;

(iv) the Supply Agreement which expired on 31 December 2019;

(v) the Supply Agreement (IQAC) which expired on 31 December 2019; and

(vi) the Sales JV Supply Agreement which expired on 31 December 2019.

Details of the Former Continuing Connected Transactions are more particularly set out in the announcement of the Company dated 22 December 2016 and the circular of the Company dated 10 March 2017.

The Group will from time to time continue to enter into transactions of a nature similar to the Former Continuing Connected Transactions after the expiry of the agreements to which the Former Continuing Connected Transactions relate. Accordingly, the Group renewed the said agreements on substantially the same terms and entered into the agreements numbered (1) and (2) below with the Qingling Group Companies, the agreement numbered (3) below with Isuzu, the agreement numbered (4) below with QIEC and the agreement numbered (5) below with the Sales JV Company, which the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. THE NEW CHASSIS SUPPLY AGREEMENT

Date	:	26 November 2019
Parties	:	(i) the Company; and (ii) Qingling Group (on behalf of itself and its subsidiary — Qingling Zhuanyong)
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Products supplied by the Company to Qingling Group	:	Automobile chassis and related components
Price determination	:	By reference to the market prices of the chassis and related components
Payment term	:	A credit term of 3 to 6 months after sales

The New Chassis Supply Agreement is a master agreement which sets out the principles upon which detailed terms in relation to the supply of automobile chassis and related components by the Company to Qingling Group are to be determined.

Pursuant to the New Chassis Supply Agreement, the Company will enter into definitive agreements with Qingling Group from time to time to provide for detailed terms of each single transaction in accordance with the principles set out in the New Chassis Supply Agreement. Such detailed terms include but not limited to prices, payment and settlement terms, quantity, standard of quality, testing, product liability, liability for compensation and other terms and conditions in relation to the provision of the automobile chassis and related components.

The Company and Qingling Group agree that such definitive agreements shall be on normal commercial terms or, if there is no sufficient comparable transactions to assess whether they are on normal commercial terms, on terms fair and reasonable to the Company. Qingling Group also undertakes that the terms offered to the Company shall be no less favourable than terms offered to Independent Third Parties in the market where Qingling Group operates.

Should Qingling Group cease to be a connected person of the Company and the transactions under the New Chassis Supply Agreement cease to be a continuing connected transaction of the Company, Qingling Group is entitled to terminate the New Chassis Supply Agreement by notifying the Company in writing.

Historical transaction amounts

The actual amount paid in respect of the transactions contemplated under the Chassis Supply Agreement and the annual caps for each such payments are as follows:

	Actual amount incurred (in RMB)			Annual caps (in RMB)		
	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January 2019 to 31 October 2019	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
Chassis Supply Agreement	1,419,790,000	1,239,140,000	1,081,250,000	2,243,460,000	2,654,710,000	3,066,800,000

None of the actual amounts received above exceeded their respective annual caps for the two years ended 31 December 2018. It is expected that the amount for the year ended 31 December 2019 will not exceed the annual cap for the corresponding year or period.

Basis of consideration

The consideration under the New Chassis Supply Agreement is set by the Board by reference to the market prices of the chassis and related components, and determined after arm's length negotiations between the parties thereto. In determining the price of automobile chassis and related components for transactions contemplated under the New Chassis Supply Agreement, the Company will prepare, and update from time to time, a price list for products to be sold to Qingling Group by reference to (i) the information on the market prices of automobile chassis and related components with similar specifications, technology and quality requirements in the automobile market; (ii) the Company's estimated production costs for the relevant products; and (iii) the prices of chassis supply transactions conducted by the Company with Independent Third Parties. According to the above pricing policies, the terms provided by our Company to Qingling Group in the past are similar to those provided to Independent Third Parties, and their profit margins are of about the same level. Thus, the pricing policies of the New Chassis Supply Agreement are considered to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The profit margin level of automobile chassis and related components supplied by the Company to Qingling Group under the New Chassis Supply Agreement is consistent with the profit margin level of same type of products sold to Independent Third Parties.

The Directors (including the independent non-executive Directors) are of the view that the New Chassis Supply Agreement is on normal commercial terms, and that its terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps

The table below sets out the proposed caps for the transactions under the New Chassis Supply Agreement:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2020	**For the year ending 31 December 2021**	**For the year ending 31 December 2022**
New Chassis Supply Agreement	2,145,830,000	2,456,920,000	3,058,420,000

The Company will seek approval from the Independent Shareholders in respect of the transactions under the New Chassis Supply Agreement and the aforesaid annual caps.

Basis of proposed annual caps

The aforesaid proposed annual caps for the transactions contemplated under the New Chassis Supply Agreement are set by the Board by reference to the actual amounts of transactions received by the Company under the Chassis Supply Agreement and the anticipated market demand in relation to the automobile chassis and related components for the periods/years under the New Chassis Supply Agreement. Further details of the basis of the annual caps are set out in the section headed "*Basis for the determination of the annual caps of the Non-exempt CCT Agreements*" in this letter from the board, on pages 35 to 36 of this circular.

Reasons for entering into the New Chassis Supply Agreement

The Company has been selling chassis to vehicle refitting manufacturers. In order to increase the market sales volume and the market share of the Company, Qingling Group purchases chassis from the Company to manufacture modified vehicles (including but not limited to automobiles for transportation and cold-storage vehicles), so as to meet the customized requirements for vehicles from customers, and in turn enhance the sales of chassis of the Company. Therefore, the parties entered into the New Chassis Supply Agreement.

Internal control

The Company has also implemented internal control measures to ensure that the transactions conducted under the New Chassis Supply Agreement will be conducted in accordance with the terms of the New Chassis Supply Agreement, on normal commercial terms (or on terms no less favourable than terms available to the Independent Third Parties), and in accordance with the pricing policy of the Company. Details of the internal control measures are set out in the section headed "*Internal control procedures adopted by the Company for the implementation of Non-exempt CCT Agreements*" in this letter from the board, on pages 36 to 37 of this circular.

2. THE NEW PARTS SUPPLY AGREEMENTS

a. THE NEW CQACL AGREEMENT

Date	:	26 November 2019
Parties	:	(i) CQACL; and
		(ii) The Company

Condition precedent :	Conditional upon approval by the Independent Shareholders at the EGM
Term :	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Products provided by CQACL to the Company :	Automobile parts including but not limited to aluminium parts and other parts and components
Price determination :	Currently at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8% determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. In any event, on terms no less favourable than those offered by CQACL to Independent Third Parties
Payment term :	Payment within one month after receipt of the invoice

b. THE NEW QINGLING GROUP AGREEMENT

Date	:	26 November 2019
Parties	:	(i) Qingling Group (on behalf of itself and its subsidiaries — QM, Qingling Zhuanyong, QAC, Autoparts Manufacturing and Keyu Autoparts); and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Products provided by Qingling Group to the Company	:	Automobile parts including but not limited to stamping components, compartments, machining components and other parts and components
Price determination	:	Currently at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8% determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%.

		In any event, on terms no less favourable than those offered by Qingling Group to Independent Third Parties
Payment term	:	Payment within one month after receipt of the invoice

c. THE NEW CQCC AGREEMENT

Date	:	26 November 2019
Parties	:	(i) CQCC (on behalf of itself and its subsidiary — CQVPM); and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Products provided by CQCC to the Company	:	Automobile parts including but not limited to casts of engine cylinder blocks, cylinder heads and main bearing covers and other parts and components

Price determination	:	Currently at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8% determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. In any event, on terms no less favourable than those offered by CQCC to Independent Third Parties
Payment term	:	Payment within one month after receipt of the invoice

d. THE NEW CQFC AGREEMENT

Date	:	26 November 2019
Parties	:	(i) CQFC; and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)

Products provided by CQFC to the Company	Automobile parts including but not limited to raw casts of engine crankshafts and connected rods and other parts and components
Services provided by Company to CQFC	The following consolidated services will be provided by the Company to CQFC, inter alia: (a) water, electricity and gas supply services; (b) equipment repair technical services; and (c) medical and hygiene services.
Price determination	*With respect to automobile parts:* Currently at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8% determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. In any event, on terms no less favourable than those offered by CQFC to Independent Third Parties *With respect to consolidated services:* At prices based on actual costs incurred plus taxes payable
Payment term	Payment within one month after receipt of the invoice

With respect to the supply of consolidated services by the Company to CQFC, should CQFC cease to be a connected person of the Company and the consolidated services transactions under the New CQFC Agreement cease to be a continuing connected transaction of the Company, the Company is entitled to terminate the supply of consolidated services to CQFC by notifying CQFC in writing.

e. THE NEW CQAC AGREEMENT

Date	:	26 November 2019
Parties	:	(i) CQAC; and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Products provided by CQAC to the Company	:	Automobile parts including but not limited to front and rear motor vehicle axles and other parts and components
Products/services provided by the Company to CQAC	:	Lease of machineries by the Company to CQAC for production and testing of front and rear motor vehicle axles to be provided by CQAC to the Company

Price determination	:	*With respect to automobile parts:* Currently at prices not higher than market prices determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. In any event, on terms no less favourable than those offered by CQAC to Independent Third Parties *With respect to lease of machineries:* Rentals for lease of machineries are as follows: (i) RMB382,686 (exclusive of VAT) (from 1 January 2020 to 31 December 2020) (ii) RMB382,686 (exclusive of VAT) (from 1 January 2021 to 31 December 2021) (iii) RMB382,686 (exclusive of VAT) (from 1 January 2022 to 31 December 2022) Rentals payable are determined based on normal commercial terms which are no less favourable than those offered by CQAC to Independent Third Parties
Payment term	:	*With respect to automobile parts:* Payment within one month after receipt of the invoice *With respect to lease of machineries:* Payment on a monthly basis before the expiry of the following month

f. THE NEW CQNHK AGREEMENT

Date	:	26 November 2019
Parties	:	(i) CQNHK; and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Products provided by CQNHK to the Company	:	Automobile parts including but not limited to motor vehicle seats and other parts and components
Price determination	:	Currently at prices not higher than market prices determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. In any event, on terms no less favourable than those offered by CQNHK to Independent Third Parties
Payment term	:	Payment within one month after receipt of the invoice

g. THE NEW CQPC AGREEMENT

Date	:	26 November 2019
Parties	:	(i) CQPC; and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Products provided by CQPC to the Company	:	Automobile parts including but not limited to plastic parts and other parts and components
Price determination	:	Currently at prices not higher than market prices determined by reference to the following pricing policy: (i) at prices not higher than market prices; or (ii) if no comparable market price, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. In any event, no less favourable than those offered by CQPC to Independent Third Parties
Payment term	:	Payment within one month after receipt of the invoice

Historical transaction amounts

The following table sets out the approximate historical transaction amounts for the Parts Supply Agreements together with their respective annual caps for the relevant periods or years:

	Actual amounts incurred (in RMB)			Annual caps (in RMB)		
	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January 2019 to 31 October 2019	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
CQACL Agreement	9,290,000	11,070,000	7,610,000	12,430,000	19,130,000	22,570,000
Qingling Group Agreement	10,720,000	20,530,000	11,910,000	135,370,000	178,330,000	220,860,000
CQCC Agreement	25,970,000	30,520,000	20,620,000	46,030,000	69,350,000	84,890,000
CQFC Agreement	37,640,000	42,710,000	28,630,000	66,690,000	105,500,000	127,970,000
CQAC Agreement	393,660,000	422,240,000	306,140,000	836,420,000	1,395,320,000	1,801,540,000
CQNHK Agreement	55,100,000	61,350,000	44,710,000	91,690,000	151,440,000	186,940,000
CQPC Agreement	62,310,000	59,320,000	43,620,000	104,860,000	171,950,000	210,520,000

None of the aggregate amounts above for the two years ended 31 December 2018 exceeded their respective amounts incurred for the corresponding years. It is expected that the respective amounts incurred for the year ended 31 December 2019 will not exceed their respective caps for the corresponding year or period.

Projected transaction amounts

The Directors project that the projected transaction amounts under each of the New Parts Supply Agreements for the three years ending 31 December 2022 will not exceed the amounts set out below:

	Projected transaction amounts Aggregate amounts (in RMB)		
	For the year ending 31 December 2020	**For the year ending 31 December 2021**	**For the year ending 31 December 2022**
New CQACL Agreement	19,020,000	25,670,000	33,210,000
New Qingling Group Agreement	108,120,000	130,000,000	164,490,000
New CQCC Agreement	41,120,000	46,290,000	57,010,000
New CQFC Agreement			
(a) the value of automobile parts from CQFC to the Company	49,080,000	54,080,000	64,320,000
(b) the value of consolidated services from the Company to CQFC	3,190,000	3,640,000	4,550,000
New CQAC Agreement			
(a) the value of automobile parts from CQAC to the Company	708,320,000	852,210,000	1,090,280,000
(b) the value of machinery leasing from the Company to CQAC	390,000	390,000	390,000
New CQNHK Agreement	116,760,000	141,810,000	175,100,000
New CQPC Agreement	100,720,000	125,830,000	163,040,000

Basis of consideration

The considerations payable by the Company for the transactions contemplated under the New Parts Supply Agreements are determined:

(i) after arm's length negotiations between the parties thereto; and

(ii) (1) by reference to the statistics published in the "China Automotive Industry Yearbook" (中國汽車工業年鑒), according to which (a) the average profit margin of the automobile industry in the PRC was 7.51% in 2018 and (b) the profit margin of the PRC automobile parts industry in 2018 was 7.67%; and (2) by reference to the statistics published in the "China Automotive Industry Production and Sales News", according to which the profit margin of key enterprises in the automobile industry was approximately 8.21% for the seven months ended 31 July 2019.

The above average profit margin of 7.51% for the automobile industry in the PRC in 2018 as quoted from "China Automotive Industry Yearbook" is an average level and the actual profit margin will vary from transaction to transaction depending on the nature, prevailing market prices, technology specifications, quality standards of the parts and the supply-demand relationship in the market. In addition to the statistics published in "China Automotive Industry Yearbook", the Company and Qingling Group have also taken reference from the historical transaction prices of the parts in determining the maximum profit margin level. Furthermore, the profit margin of certain parts are relatively higher as it involves complex technologies and it is relatively difficult to implement quality control. As such, the Company and Qingling Group Companies agree to set the maximum profit margin for supplying parts under the New Parts Supply Agreements at 8%, while the actual profit margin will be determined based on the nature, functionality, technology and quality standards of different parts.

Currently, the Company is an enterprise in the PRC engaging in the manufacturing of commercial vehicles under the brand name of Isuzu, and the Company and Qingling Group Companies are responsible for assembling certain parts of vehicles based on the product drawings, technology specifications, and quality standards given or confirmed by Isuzu under its guidance. In the event that an Independent Third Party is not authorised by Isuzu or the Company, it will not be able to produce relevant parts and meet the quality standards of Isuzu. Since no authorisation is given to Independent Third Parties in the market for the production of most of the parts supplied by Isuzu to the Company for assembling Isuzu commercial vehicles, no comparable market price is available for those parts, which include cylinder blocks, cylinder heads, rod castings of engines, specified axles for Isuzu 100P\600P\700P\F light-, medium-, and heavy-duty trucks, supplied under the New Parts Supply Agreements.

On the other hand, comparable market prices are available for a few of the parts supplied under the New Parts Supply Agreements, such as engine oil pans. As such, the Company will determine the market price of those parts based on the price of the parts with similar specifications, technology and quality requirements etc. in the automotive parts market.

If there is no comparable market price, the consideration in respect of the corresponding parts supplied under the New Parts Supply Agreements will be determined by reference to the actual or reasonable costs (whichever is lower) incurred plus a profit margin of not more that 8%, which is the maximum consideration to be payable by the Company under the New Parts Supply Agreements and in any event on terms no less favourable to the Company than terms offered to Independent Third Parties. The Qingling Group Companies will provide to the Company the estimated costs of automobile parts supplied under the relevant agreements regularly upon which the parties will further negotiate and determine the price of automobile parts with reference to the relevant industrial situation and experience. The Company's access to the quarterly operating statements and the audited annual financial statements of the Qingling Group Companies also enables the Company to ascertain the actual profit margin level achieved by the Qingling Group Companies. The actual consideration to be payable by the Company will be determined by reference to the prevailing market conditions, based on the nature, functionality, technology specifications and quality standards of different parts.

Particularly, in relation to the provision of consolidated services by the Company to CQFC pursuant to the New CQFC Agreement, as the provision of consolidated services is not a core business of the Group and the projected transaction amounts for the provision of consolidated services are relatively small, the Company adopts the said pricing term instead of a term with profit margin. Meanwhile, in relation to the rental payment for the lease of machineries by the Company to CQAC pursuant to the New CQAC Agreement, the Company determined the relevant rental payment on normal commercial terms and on terms no less favourable than those offered to Independent Third Parties.

The Directors (including the independent non-executive Directors) are of the view that the New Parts Supply Agreements are on normal commercial terms, and that their terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps

The table below sets out the proposed caps in aggregate for the transactions under each of the New Parts Supply Agreements and a breakdown of the proposed annual caps under each of the New Parts Supply Agreements for the three years ending 31 December 2022 is set out on page 17 of the Circular:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2020	**For the year ending 31 December 2021**	**For the year ending 31 December 2022**
New Parts Supply Agreements	1,146,720,000	1,379,920,000	1,752,390,000

The Company will seek approval from the Independent Shareholders in respect of the transactions under the New Parts Supply Agreements and the aforesaid aggregated annual caps, which are set by reference to the above projected transaction amounts.

Basis of proposed annual caps

The aforesaid proposed annual caps are ascertained by reference to (i) the historical sales volume; (ii) the projected sales volume for the three years ending 31 December 2022; and (iii) the expected increase in the number of new vehicles of new models or different specifications to be launched and made available for sale by the Company. Further details of the basis of the annual caps are set out in the section headed "*Basis for the determination of the annual caps of the Non-exempt CCT Agreements*" in this letter from the board, on pages 35 to 36 of this circular.

Reasons for entering into the New Parts Supply Agreements

As the Company mainly produces various types of vehicles and components under the brand of Isuzu, the Company has to, from time to time, in the course of its business, purchase: (i) stamping components, compartments and other parts and components; (ii) casts of engine cylinder blocks, cylinder heads and main bearing covers and other parts and components; (iii) raw forgings of engine crankshafts, connecting rods and other parts and components; (iv) front and rear motor vehicle axles and other parts and components; (v) motor vehicle seats and other parts and components; (vi) plastic parts and other parts and components; and (vii) aluminum parts and other parts and components. Since the principal businesses of Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC and CQACL include the production and retail of products mentioned in the items (i) to (vii) above; and the Qingling Group Companies produces such products in good quality and are willing to produce such products in accordance with the specifications of the Company, hence the Company purchases the said products from the Qingling Group Companies (as the case may be).

As the Company mainly manufactures automobiles under the brand of Isuzu, the Company's specifications for all product parts must conform with Isuzu's standards. Each connected person has already obtained from Isuzu the technical know-how and specific equipment, hence they are capable of manufacturing based on the specifications of Isuzu's product parts. The Directors believe that the other suppliers do not possess such technical know-how and specific equipment that Isuzu has, and that even if the other suppliers may manufacture parts according to the same specifications, the quality of these products may not conform with the standards of Isuzu. Therefore, in view of the fact that the Group does not require any other products than those supplied by its connected persons, it is of the view that it would not be necessary to look for other sources.

Further, CQFC requires various supporting services such as repair and maintenance services for the machineries and other auxiliary and utility-related services to carry out its regular operations. The Directors believe that provision of those services as set out in the New CQFC Agreement by the Company to CQFC would facilitate the operation of the Group and minimise the costs of the Group in setting up crews to handle the repair and maintenance services and other related services. Also, CQAC requires certain machineries for its production and inspection of vehicle axles. Such vehicle axles will then be provided by CQAC to the Company. The Directors believe that the leasing of such machineries by the Company to CQAC as set out in the New CQAC Agreement would utilise the Group's resources fully and centralise management of the Group.

Internal control

The Company has also implemented internal control measures to ensure that the transactions conducted under the New Parts Supply Agreements will be conducted in accordance with the terms of the New Parts Supply Agreements, on normal commercial terms (or on terms no less favourable than terms available from the Independent Third Parties), and in accordance with the pricing policy of the Company. Details of the internal control measures are set out in the section headed "*Internal control procedures adopted by the Company for the implementation of Non-exempt CCT Agreements*" in this letter from the board, on pages 36 to 37 of this circular.

3. THE NEW ISUZU SUPPLY AGREEMENT

Date	:	26 November 2019
Parties	:	(i) Isuzu; and (ii) the Company
Term	:	From 1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Nature of the Transaction	:	Supply of automobile parts of ISUZU N Series, T Series, UC Series, F Series and other series by Isuzu to the Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Price determination	:	As there is no sufficient comparable transaction, prices shall be determined based on the actual or reasonable costs (whichever is lower) plus a profit margin of not exceeding 10%
Payment term	:	Payment on delivery

The New Isuzu Supply Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between the Company and Isuzu. Pursuant to the New Isuzu Supply Agreement, the Company will enter into definitive agreements from time to time to provide for detailed terms of each single transaction in accordance with the principles set out in the New Isuzu Supply Agreement. Such detailed terms include, but without limitation, prices, payment and settlement terms, quantity, standard of quality, testing, product liability, liability for compensation and other terms and conditions in relation to the provision of the automobile parts, components and/or accessories. The Company and Isuzu agree that such detailed terms shall be on normal commercial terms or, if there is no sufficient comparable transactions to assess whether they are on normal commercial terms, on terms fair and reasonable to the Company. Isuzu also undertakes that the terms offered to the Company shall be no less favourable than terms offered to Independent Third Parties in the market where the Company locates.

In the event that a competitor (including a potential competitor) of Isuzu holds Shares of the same number as or more than that held by Isuzu or there is a change in control in Qingling Group, Isuzu may terminate the New Isuzu Supply Agreement by giving written notice to the Company.

Should Isuzu cease to be a connected person of the Company and the transactions under the New Isuzu Supply Agreement cease to be a continuing connected transaction of the Company, Isuzu is entitled to terminate the New Isuzu Supply Agreement by notifying the Company in writing.

Historical transaction amounts

The following table sets out the historical transaction amounts between the Company and Isuzu in respect of the purchase and supply of automobile parts and components and/or accessories under the Isuzu Supply Agreement for the relevant periods or years:

	Actual amount incurred and received (in RMB)			Annual caps (in RMB)		
	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January 2019 to 31 October 2019	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
Isuzu Supply Agreement	544,450,000	387,770,000	237,710,000	1,078,750,000	1,286,950,000	1,573,450,000

None of the aggregate amounts above exceeded their respective annual caps for the two years ended 31 December 2018. It is expected that the aggregate amount for the year ended 31 December 2019 will not exceed the respective caps for the corresponding year or periods.

Basis of consideration

As there are no sufficient comparable transactions, the consideration in respect of the New Isuzu Supply Agreement is determined by reference to the actual or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 10%, which is determined by reference to the statistics published in the "China Automotive Industry Yearbook" (中國汽車工業年鑒) (2018: the average profit margin for the China's automobile industry was 7.51%). The Company noted that the maximum profit margin of 10% determined by the Company and Isuzu is slightly higher than the average level of the industry. The Company considers that the maximum profit margin of 10% is reasonable as Isuzu has exclusive technology and quality standards designed for parts and components of commercial vehicles. The Company also considers that automobile parts and components produced by Isuzu are exclusive, and the technology and quality of its products are not available in the domestic market of the PRC. In order to ensure that the vehicles produced and sold under the brand name of Isuzu reach the technology and performance standards as required, the Company is required to purchase relevant automobile parts and components from Isuzu. On the basis of the above factors, the Company agreed to set the maximum profit margin level to be received by Isuzu for the transactions contemplated under the New Isuzu Supply Agreement at 10% when determining the consideration, as the products sold by Isuzu are tailor-made and it is a generally acceptable market practice for the vendors to charge a higher premium for tailor-made products.

As Isuzu would not provide the Company with information on the profit margin level of its products sold in the domestic market of Japan, the price of automobile parts and components purchased by the Company from Isuzu will be determined on the basis of the actual or reasonable cost (whichever is the lowest) of those automobile parts and components plus a maximum profit margin of 10%. The Company and Isuzu will arrange monthly meetings to discuss the prices of the relevant products with reference to the cost information and the estimated packaging and transportation fee provided by Isuzu. In determining the prices of the relevant parts, the Company will also make reference to (i) the estimated prices of each of the same automobile parts and components sold in the domestic market of Japan; and (ii) additional fees required, such as packaging and transportation fees, so as to compare and determine the purchase prices of automobile parts and components supplied by Isuzu.

Although the market conditions in Japan and the PRC are different and a direct comparison between prices of the two might not be appropriate in usual cases, given that the automobile parts and components from Isuzu are sold to the Company exclusively in the PRC and no substitutes are available in the domestic market of the PRC, the estimated price of the same in Japan, together with certain additional fees, can serve as references for determining the prices of the relevant parts. As such, the Company believes that the purchase prices of parts to be supplied under the New Isuzu Supply Agreement will not be less favourable than that of similar automobile parts and components supplied by Isuzu to Independent Third Parties in the domestic market of Japan.

The consideration payable by the Company under the New Isuzu Supply Agreement was determined after arm's length negotiations between the parties thereto and on terms no less favourable than terms offered by Isuzu to Independent Third Parties. The Directors (including the independent non-executive Directors who will form their view after taking into account recommendations of the Independent Financial Adviser) are of the view that the New Isuzu Supply Agreement is on normal commercial terms, and that their terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps

The Directors estimate or project that under the New Isuzu Supply Agreement, the value of transactions between Isuzu and the Company will not exceed the amounts set out below:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2020	**For the year ending 31 December 2021**	**For the year ending 31 December 2022**
New Isuzu Supply Agreement	419,090,000	625,080,000	857,920,000

The Company will seek approval from the Independent Shareholders in respect of the transactions under the New Isuzu Supply Agreement and the aforesaid annual caps.

Basis of proposed annual caps

The aforesaid annual caps for the New Isuzu Supply Agreement are set by the Board by reference to (i) the historical sales volume; (ii) the projected sales volume for the duration of the relevant agreements, taking into account, inter alia, the overall business environment and specific growth strategies; (iii) the number of new vehicles of new models or different specifications to be launched and made available for sale by the Company; and (iv) the expected expansion of sales network through distributors in the PRC. Further details of the basis of the annual caps are set out in the section headed "*Basis for the determination of the annual caps of the Non-exempt CCT Agreements*" in this letter from the board, on pages 35 to 36 of this circular.

Reasons for entering into the New Isuzu Supply Agreement

For its business, the Company needs to purchase automobile parts and components from Isuzu from time to time, and requires Isuzu to supply skills and technical know-how in order to fulfill product standards and specifications required by Isuzu. Hence, the two parties entered into the New Isuzu Supply Agreement.

Internal control

The Company has also implemented internal control measures to ensure that the transactions conducted under the New Isuzu Supply Agreement will be conducted in accordance with the terms of the New Isuzu Supply Agreement, on normal commercial terms (or on terms no less favourable than terms available from Independent Third Parties), and in accordance with the pricing policy of the Company. Details of the internal control measures are set out in the section headed "*Internal control procedures adopted by the Company for the implementation of Non-exempt CCT Agreements*" in this letter from the board, on pages 36 to 37 of this circular.

4. THE NEW SUPPLY AGREEMENT

Date	:	26 November 2019
Parties	:	(i) The Company; and (ii) QIEC
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM
Effective date	:	After due execution by the parties and from the date upon obtaining all relevant approvals and/or completing all other procedures in accordance with all applicable laws, rules and regulations or 1 January 2020 (whichever is later)
Term	:	1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Nature of the transaction	:	The Company will provide parts of engines and raw materials required for the manufacture of engines to QIEC, and QIEC will provide engines and their parts to the Company

Price determination	:	As there is no sufficient comparable transaction, the selling price of the products to be supplied/purchased shall be the actual costs of the supplying party plus a premium of not exceeding 10%. Such premium shall be finalised by both parties on the basis that it is fair and reasonable to both parties
Payment term	:	Payment of goods for the last month shall be made to the supplier by the end of each month

Pursuant to the New Supply Agreement, the parties shall enter into further specific agreement(s) with detailed terms in accordance with the underlying principles under the New Supply Agreement, specifying the order-making procedure, method of delivery, price, payment and settlement terms, quantity, standard of quality, inspection of products, product liability, liability for compensation and other terms and conditions in relation to the supply and purchase of specific types of products.

Should QIEC cease to be a connected person of the Company and the transactions under the New Supply Agreement cease to be a continuing connected transaction of the Company, the Company is entitled to terminate the New Supply Agreement by notifying QIEC in writing.

Reference is made to the announcement of the Company dated 2 October 2018 and the circular of the Company dated 26 October 2018 in relation to the Merger. Pursuant to the merger agreement entered into between IQAC and QIEC on 2 October 2018, IQAC was absorbed and merged by QIEC on 29 December 2018 and was dissolved and deregistered. After the completion of the Merger, as QIEC was the surviving company which assumed all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC, all the terms of the relevant agreements would remain unchanged (apart from the change in the performing party from IQAC to QIEC where applicable) and the continuing connected transactions contemplated thereunder would continue to be conducted by QIEC. As such, the terms of the Supply Agreement (IQAC) have been incorporated into the New Supply Agreement, where applicable.

Historical transaction amounts

The following table sets out the aggregate historical transaction amounts between the Company and QIEC and the Company and IQAC (prior to the Merger) respectively, in respect of the purchase and supply of parts of engines and raw materials from the Company to QIEC, and the engines and their parts from QIEC to the Company under the Supply Agreement both prior to and after the Merger; and the purchase and supply of automobiles, parts of engines and raw materials from the Company to IQAC/QIEC, and parts of engines and related products from IQAC/QIEC to the Company under the Supply Agreement (IQAC) both prior to and after the Merger:

		Actual amount incurred (in RMB)			Annual caps (in RMB)		
		For the year ended 31 December 2017	For the period from 1 January 2018 to 29 December 2018	For the period from 30 December 2018 to 31 October 2019	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
(a)	the value of engines and their parts from QIEC to the Company (prior to the Merger)	1,188,110,000	1,200,480,000	–	1,973,970,000	3,264,770,000	–
(b)	the value of the parts of engines and related products from IQAC to the Company (prior to the Merger)	0	8,730,000	–	6,710,000	12,070,000	–
(c)	the value of engines and related parts from QIEC to the Company (after the Merger)	–	–	844,700,000	–	–	4,118,410,000
(d)	the value of engine parts and raw materials from the Company to QIEC (prior to the Merger)	628,700,000	728,740,000	–	1,198,430,000	1,961,260,000	–
(e)	the value of the automobiles, parts of engines and raw materials from the Company to IQAC (prior to the Merger)	125,400,000	92,470,000	–	143,970,000	326,250,000	–

	Actual amount incurred (in RMB)			Annual caps (in RMB)		
	For the year ended 31 December 2017	For the period from 1 January 2018 to 29 December 2018	For the period from 30 December 2018 to 31 October 2019	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
(f) the value of engines parts, automobiles and raw materials from the Company to QIEC (after the Merger)	–	–	570,810,000	–	–	2,862,410,000

None of the aggregate amounts above exceeded their respective annual caps for the two years ended 31 December 2018. It is expected that the aggregate amount for the year ended 31 December 2019 will not exceed the annual cap for the corresponding period. If the aggregate amount for the year ended 31 December 2019 is likely to exceed the annual cap for the corresponding period, the Company will take necessary steps to ensure compliance with all applicable rules under Chapter 14A of the Listing Rules.

Basis of consideration

As there are no sufficient comparable transactions, the consideration is determined by the actual costs of the supplying party plus a premium of not exceeding 10%, which is determined by reference to the statistics published in the "China Automotive Industry Yearbook" (中國汽車工業年鑒) (2018: the average profit margin for the China's automobile industry was 7.51% and the profit margin for the PRC automobile parts industry was 7.67%). Although the maximum profit margin of 10% is slightly higher than the average level of the industry, the Company considers that (i) the maximum profit margin of 10% is reasonable as the production of engine assemblies, being the core parts of the Isuzu vehicles rather than merely single parts, requires a higher technical level as compared to the manufacturing of other general parts and therefore a higher profit margin for engine assemblies is commercially justifiable; and (ii) the quality of the engine assemblies and parts provided by QIEC are higher than the market level and such products are in full compliance with the technology and performance standard as required for Isuzu vehicle. Also, the Company will arrange formal business negotiations with QIEC regularly and request QIEC to provide a cost list for its products so that the Company can examine and determine the price. Based on the above factors, the pricing policies of the New Supply Agreement are considered to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps

The proposed annual caps for the New Supply Agreement during the term of such agreement are as follows:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2020	**For the year ending 31 December 2021**	**For the year ending 31 December 2022**
The New Supply Agreement			
(a) the value of engines and their parts from QIEC to the Company	1,947,410,000	2,892,380,000	3,637,080,000
(b) the value of engine parts and raw materials from the Company to QIEC	1,489,300,000	2,366,450,000	2,983,550,000
Aggregate	3,436,710,000	5,258,830,000	6,620,630,000

The Company will seek approval from the Independent Shareholders in respect of the transactions under the New Supply Agreement and the aforesaid annual caps.

Basis of proposed annual caps

The said proposed annual caps for the New Supply Agreement are determined with reference to (i) the production capacity of each car model of the Group; (ii) the expected sales volume of the Company from the effective date of the New Supply Agreement to the end of 2022; and (iii) the aggregate supply and demand of QIEC after the Merger. Further details of the basis of the annual caps are set out in the section headed "*Basis for the determination of the annual caps of the Non-exempt CCT Agreements*" in this letter from the board, on pages 35 to 36 of this circular.

Reasons for entering into the New Supply Agreement

To enjoy the economy of scale, the business of the Group requires certain degree of division of labour among its members, with each Group member specialising in a particular area of the business, such as production of engines, marketing, provision of repair and maintenance services, testing services etc. QIEC is principally engaged in the manufacturing and sale of vehicle-used engines and their parts. The Directors believe that provision of engines and their parts from QIEC to the Company and the provision of engine parts and raw materials from the Company to QIEC would facilitate the operation of the Group and minimise the costs of the Group in acquiring similar products from Independent Third Parties.

The consideration payable by the relevant parties under the New Supply Agreement is determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) are of the view that the New Supply Agreement is on normal commercial terms, and that its terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Internal control

The Company has also implemented internal control measures to ensure that the transactions conducted under the New Supply Agreement will be conducted in accordance with the terms of the New Supply Agreement, on normal commercial terms (or on terms no less favourable than terms available to or from the Independent Third Parties), and in accordance with the pricing policy of the Company. With respect to the engines and their parts to be supplied by QIEC to the Company, the Company will request QIEC to supply the actual costs of the relevant products prior to the pricing of transaction under the New Supply Agreement. Details of the internal control measures are set out in the section headed "*Internal control procedures adopted by the Company for the implementation of Non-exempt CCT Agreements*" in this letter from the board, on pages 36 to 37 of this circular.

5. THE NEW SALES JV SUPPLY AGREEMENT

Date	:	26 November 2019
Parties	:	(i) The Company; and
		(ii) the Sales JV Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the EGM

Effective date	:	After due execution by the parties and from the date upon obtaining all relevant approvals and/or completing all other procedures in accordance with all applicable laws, rules and regulations or 1 January 2020 (whichever is later)
Term	:	1 January 2020 to 31 December 2022, and renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary)
Nature of the transaction	:	The Company will provide automobiles and their parts to the Sales JV Company
Price determination	:	The selling prices of the automobiles or their parts to be supplied/purchased and other related terms in any further specific agreement shall not be lower than the market prices of the automobiles or their parts and shall not be lower than the prices offered to Independent Third Parties. If there are no comparable market prices, prices shall be based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%

Pursuant to the New Sales JV Supply Agreement, the parties shall enter into further specific agreement(s) with detailed terms in accordance with the underlying principles under the New Sales JV Supply Agreement, specifying the order-making procedure, method of delivery, price, payment and settlement terms, quantity, standard of quality, delivery and inspection, product liability, liability for compensation and other terms and conditions in relation to the supply and purchase of specific types of products.

Should the Sales JV Company cease to be a connected person of the Company and the transactions under the New Sales JV Supply Agreement cease to be a continuing connected transaction of the Company, the Company is entitled to terminate the New Sales JV Supply Agreement by notifying the Sales JV Company in writing.

Historical transaction amounts

The actual amounts paid by the Sales JV Company in respect of the purchase of the automobile and their parts from the Company under the Sales JV Supply Agreement and the annual caps for such payment in the relevant periods or years are as follows:

	Actual amount incurred (in RMB)			Annual caps (in RMB)		
	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January 2019 to 31 October 2019	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
Sales JV Supply Agreement	57,160,000	36,130,000	13,540,000	440,180,000	918,370,000	1,168,140,000

None of the aggregate amounts above exceeded their respective annual caps for the two years ended 31 December 2018. It is expected that the aggregate amount for the year ended 31 December 2019 will not exceed the annual cap for the corresponding period. If the aggregate amount for the year ended 31 December 2019 is likely to exceed the annual cap for the corresponding period, the Company will take necessary steps to ensure compliance with all applicable rules under Chapter 14A of the Listing Rules.

Basis of consideration

Consideration is determined with reference to the market prices of the automobiles or their parts to be provided. If there are no comparable market prices, the consideration shall be determined based on the actual or reasonable costs incurred (whichever is lower) plus a profit margin of not more than 8%, which is determined by reference to the statistics published in the "China Automotive Industry Yearbook" (中國汽車工業年鑒) (2018: the average profit margin for the China's automobile industry was 7.51% and the profit margin for the PRC automobile parts industry was 7.67%).

The Company will regularly prepare and update a price list regarding the supply of automobiles and parts to the customers (including the Sales JV Company and other independent distributors of the Company) which will be approved by management of the Company, and all sales transactions under the New Sales JV Supply Agreement will be carried out in accordance with the prices set out in the price list to ensure that the pricing terms are no less favourable than those offered by the Company to Independent Third Parties, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Proposed annual caps

The proposed annual caps for the New Sales JV Supply Agreement during the term of such agreement are as follows:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2020	**For the year ending 31 December 2021**	**For the year ending 31 December 2022**
The New Sales JV Supply Agreement	170,030,000	254,510,000	320,990,000

The Company will seek approval from Independent Shareholders in respect of the transactions under the New Sales JV Supply Agreement and the aforesaid annual caps.

Basis of proposed annual caps

The said proposed caps for the New Sales JV Supply Agreement are determined with reference to (i) the sales capacity of the Group; (ii) the expected sales volume of the Company from the effective date of the New Sales JV Supply Agreement to the end of 2022; and (iii) the price of automobile, parts and transportation in the market and their price trends. Further details of the basis of the annual caps are set out in the section headed "*Basis for the determination of the annual caps of the Non-exempt CCT Agreements*" in this letter from the board, on pages 35 to 36 of this circular.

Reasons for entering into the New Sales JV Supply Agreement

To enjoy the economy of scale, the business of the Group requires certain degree of division of labour among its members, with each Group member specialising in a particular area of the business, such as production of engines, marketing or provision of repair and maintenance services, testing services etc. The Sales JV Company is principally engaged in the sales of vehicles, assembly and the parts of maintenance and provision of after-sales services. By entering into the New Sales JV Supply Agreement between the Company and the Sales JV Company, the Group may benefit from good sales strategies, management skills and services trading ideas adopted by the Sales JV Company and to expand the market share of its products.

The consideration payable by the Sales JV Company under the Sales JV Supply Agreement is determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) are of the view that the New Sales JV Supply Agreement is on normal commercial terms, and that its terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Internal control

The Company has also implemented internal control measures to ensure that the transactions conducted under the New Sales JV Supply Agreement will be conducted in accordance with the terms of the New Sales JV Supply Agreement, on normal commercial terms (or on terms no less favourable than terms available to the Independent Third Parties), and in accordance with the pricing policy of the Company. Details of the internal control measures are set out in the section headed "*Internal control procedures adopted by the Company for the implementation of Non-exempt CCT Agreements*" in this letter from the board, on pages 36 to 37 of this circular.

Basis for the determination of the annual caps of the Non-exempt CCT Agreements

In arriving at the proposed annual caps for each of the transactions contemplated under the Non-exempt CCT Agreements, the Board has considered:

(1) the historical transaction amounts and prices of the Former Continuing Connected Transactions;

(2) the manufacturing and/or sales plan of the respective contracting parties of the Non-exempt CCT Agreements for the three years ending 31 December 2022; and

(3) the anticipated transaction amounts and prices of the products and/or services involved under the Non-exempt CCT Agreements for the three years ending 31 December 2022.

The Board has provided for an increase in the proposed annual caps for each of the Non-exempt CCT Agreements for the three years ending 31 December 2022 based on the following reasons:

(1) demand for new energy vehicles is expected to gradually rise and become the mainstream of commercial vehicles for the three years ending 31 December 2022 under the influence of (a) the enhanced requirements for environmental protection and energy saving and (b) the promotion of new policies put forward by the government of the PRC;

(2) during the national sixth phase (國六時期), the attributes of high quality and low fuel consumption of the Company's products has enabled them to stand out in the market. Particularly, as middle body series of the Company's automobiles have been developed in addition to the traditional narrow and wide body series of the same, the variety of choices have brought along a relatively large increase in the demand for the Company's light trucks and such increasing trend is expected to continue for the three years ending 31 December 2022;

(3) as a specific model of vehicle manufactured by the Company and introduced into the market was recognised by the market, the Company intends to further research and develop the sports version and the automatic gearbox of automatic vehicles. By then, the products will be equipped with new horsepower gasoline engines in the national sixth phase (國六時期) and is expected to bring an increase in the demand of the products of the Company; and

(4) the Company has been working with its authorised export agents and the operation system of Isuzu to promote the overseas target market access certification, business flow, logistics and network system construction, which is expected to lead to an increase in the export volume for three years ending 31 December 2022.

As such, the Board has determined and adjusted the proposed annual caps for the three years ending 31 December 2022 for the transactions contemplated under the Non-exempt CCT Agreements accordingly to reflect the abovementioned factors.

Internal control procedures adopted by the Company for the implementation of Non-exempt CCT Agreements

The Company has adopted the following internal control procedures to ensure the terms of the Non-exempt CCT Agreements are fair and reasonable and on normal commercial terms:

(1) the Company has adopted and implemented a management system on connected transactions. According to the system, the planning department of the Company is responsible for conducting reviews on the compliance with relevant laws, regulations, company policies and the Listing Rules of the Non-exempt CCT Agreements. In addition, the finance department, procurement department and other relevant operation departments of the Company are jointly responsible for evaluating the transaction terms under the Non-exempt CCT Agreements, in particular, the fairness of the pricing terms under each agreement; and

(2) the Independent Financial Adviser has reviewed the Non-exempt CCT Agreements pursuant to the Listing Rules. The independent non-executive Directors have also reviewed and will continue to review the Non-exempt CCT Agreements to ensure such agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditor of the Company will also conduct an annual review on the pricing and annual cap of such agreements.

When determining the actual selling price of a part or product to be supplied to the Company under the Non-exempt CCT Agreements, the corresponding vendor will provide the Company with a proposed price. As mentioned above, in order to ensure that the pricing terms under the Non-exempt CCT Agreements are fair and reasonable, the Company's finance department and other relevant operation department will review the proposed price provided by the vendor in the following manner:

(a) if comparable market price is available, the proposed price will be compared with the market price to ensure that such proposed price is not higher than the selling price of the part or product with similar specifications, technology and quality requirements etc. provided by any other manufacturer in the market;

(b) if no comparable market price is available, whether or not the proposed price is fair and reasonable will be determined based on the total cost of the part or product, which is estimated with reference to (i) the market price of the raw materials or semi-finished products forming the part or product; and (ii) the cost estimated to be required for manufacturing such part or product based on requirements in relation to the nature, functionality, technology and quality standards etc., plus a profit margin of not more than the maximum profit margin level as stipulated under the relevant agreement, depending on the complexity of technologies and quality control procedures involved; and

(c) the proposed price will be reviewed to ensure that it is in line with the pricing terms of the relevant agreement and that the terms provided to the Company is no less favourable than those offered by the vendor to an Independent Third Party.

In order to facilitate the abovementioned reviewing procedures, the planning department of the Company possesses a professional team which has market intelligence regarding technology, quality, pricing and profit margin level of different types of parts (including statistics obtained from the "China Automotive Industry Yearbook" published by the China Association of Automobile Manufacturers). With the assistance of the relevant procurement experience of its procurement department, the Company also gathers information on market prices and profit margin levels of parts or raw materials in the industry through industrial association and independent autoparts suppliers in the PRC, which could then be used by the Company for comparison.

II. REQUIREMENTS UNDER THE LISTING RULES

As at the Latest Practicable Date, Qingling Group is a substantial shareholder of the Company holding approximately 50.10% of the entire issued share capital of the Company and CQCC, CQFC, CQACL, CQAC, CQPC, CQNHK, QAC, QM, Qingling Zhuanyong, Keyu Autoparts, CQVPM and Autoparts Manufacturing are owned as to 75%, 75%, 72.43%, 80%, 75.15%, 55.8%, 100%, 100%, 100%, 100%, 75% and 100% respectively by Qingling Group, they are associates of Qingling Group. Therefore, Qingling Group, CQCC, CQFC, CQACL, CQAC, CQPC, CQNHK, QAC, QM, Qingling Zhuanyong, Keyu Autoparts, CQVPM and Autoparts Manufacturing are all connected persons of the Company under Chapter 14A of the Listing Rules. The entering into of each of the New Chassis Supply Agreement and the New Parts Supply Agreements therefore constitutes continuing connected transactions of the Company under the Listing Rules.

As at the Latest Practicable Date, Qingling Group is a substantial shareholder of the Company, and Isuzu, as a substantial shareholder of the Company, holds approximately 20.00% of the entire issued share capital of the Company and therefore Qingling Group and Isuzu are connected persons of the Company. The Sales JV Company is owned as to 50% and 50% respectively by the Company and Isuzu, and QIEC is owned as to 50.61%, 30.06% and 19.33% respectively by Isuzu, the Qingling Group and the Company. Consequently, each of QIEC and the Sales JV Company is a connected person of the Company under the Listing Rules. The entering into of each of (i) the New Isuzu Supply Agreement with Isuzu; (ii) the New Supply Agreement with QIEC; and (iii) the New Sales JV Supply Agreement with the Sales JV Company therefore constitutes continuing connected transactions of the Company under the Listing Rules.

Non-exempt Continuing Connected Transactions

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the annual caps for the continuing connected transactions under (i) the New Chassis Supply Agreement; (ii) the New Parts Supply Agreements as aggregated in accordance with Rules 14A.81 to 14A.83 of the Listing Rules; (iii) the New Isuzu Supply Agreement; (iv) the New Supply Agreement; and (v) the New Sales JV Supply Agreement will, on an annual basis, be more than 5%, such continuing connected transactions are subject to reporting and announcement requirements set out in 14A.49 and 14A.35, the annual review requirements set out in Rules 14A.55 and 14A.59 and also the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In order to ensure the compliance of the requirements of Chapter 14A of the Listing Rules, during the period from 1 January 2020 to the date when the Independent Shareholders' approval is obtained, the amount payable by the parties to the Non-exempt CCT Agreements for the products and/or services pursuant to the Non-exempt Continuing Connected Transactions is expected to fall below the de minimis threshold as stipulated under Rule 14A.76(2) of the Listing Rules, therefore such transactions will be exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for continuing connected transactions and such information will be disclosed in the poll results announcement to be published for the EGM.

If the annual value of each of the transactions contemplated under the Non-exempt CCT Agreements is likely to exceed the respective proposed cap or there is any material change to the Non-exempt CCT Agreements, the Company will take necessary steps to ensure compliance with all applicable rules under Chapter 14A of the Listing Rules.

III. INDEPENDENT SHAREHOLDERS' APPROVAL

In view of the above, the Company will seek the approval of the Independent Shareholders in relation to the transactions contemplated under the Non-exempt CCT Agreements. Ordinary resolutions will be proposed at the EGM to approve by way of poll the Non-exempt Continuing Connected Transactions and their respective annual caps.

As at the Latest Practicable Date, Qingling Group is a substantial shareholder of the Company, holding approximately 50.10% of the entire issued share capital of the Company. Qingling Group also holds as to 30.06% of QIEC. In view of the said interest held by Qingling Group in the Company and QIEC, Qingling Group and its associates will be required to abstain from voting on ordinary resolutions to be proposed at the EGM in respect of the New Chassis Supply Agreement, the New Parts Supply Agreements, the New Supply Agreement and their respective annual caps.

As at the Latest Practicable Date, Isuzu is a substantial shareholder of the Company, holding approximately 20.00% of the entire issued share capital of the Company. Isuzu also holds as to 50.61% of QIEC and as to 50% of Sales JV Company; Isuzu and Isuzu China (being a wholly-owned subsidiary of Isuzu) hold approximately 21.54% of CQCC, 23.20% of CQFC, 20% of CQAC, 23% of CQACL, 19% of CQPC and 5% of CQNHK. In view of the said interest held by Isuzu and Isuzu China in the Company, QIEC, Sales JV Company and the relevant Qingling Group Companies respectively, Isuzu and its associates will abstain from voting on ordinary resolutions to be proposed at the EGM in respect of the New Parts Supply Agreements, the New Isuzu Supply Agreement, the New Supply Agreement, the New Sales JV Supply Agreement and their respective annual caps.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM, taking into account the recommendations of the Independent Financial Adviser.

Crescendo Capital Limited has been appointed by the Company as its independent financial adviser to give recommendations to the Independent Board Committee and the Independent Shareholders as to, among other things, whether the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM.

IV. GENERAL

The Company is principally engaged in the production and sales of Isuzu trucks, multi-purposes vehicles, pick-up trucks, other vehicles and automobile parts and accessories.

Isuzu is principally engaged in the production and sale of commercial vehicles and diesel engines.

Qingling Group is principally engaged in the manufacturing, sales and development of new products in relation to motor vehicles and their spare parts and accessories, and the provision of technical advisory services.

CQCC is principally engaged in the manufacturing and sales of automobile parts and components and cast parts.

CQFC is principally engaged in the manufacturing and sales of automobile parts and components and forging parts.

CQAC is principally engaged in the manufacturing and sales of motor vehicle axles and other parts and components.

CQNHK is principally engaged in the manufacturing and sales of motor vehicle seats, interior accessories and other seats.

CQPC is principally engaged in the manufacturing and sales of plastic automobile parts and other plastic parts and components.

CQACL is principally engaged in the manufacturing and sales of aluminum automobile parts and other aluminum parts and components.

QAC is principally engaged in the development, design, manufacturing, sales and providing technical services of automobile parts and components.

QM is principally engaged in the development, design, manufacturing, sales and providing services of automobile parts and components.

Qingling Zhuanyong is principally engaged in the development, design and manufacturing of various types of special vehicles, sales and providing services of automobile parts and components and providing technical services for special vehicles.

QIEC is principally engaged in the manufacturing and sale of vehicle-used engines and their parts.

The Sales JV Company is principally engaged in the sales, import and export, import and export agent and after-sales services of automobiles and parts and related products under Isuzu brand (including Qingling brand registered by the Company) manufactured by the Company, sales of used automobiles (excluding brokerage business of used automobiles), automobile repair and maintenance equipment leasing, automobile marketing planning, automobile technology consultation, training service and operation services for dealers and automobile repair factories.

Autoparts Manufacturing is principally engaged in the manufacturing and sales of automobile parts and components.

Keyu Autoparts is principally engaged in the manufacturing and sales of automobile parts and components, installation of retractors and lease of relevant machineries or sites.

CQVPM is principally engaged in the development, design, manufacturing, sales and providing services of vehicles, mechanical parts and components and exported parts and components.

Yu Gao is principally engaged in the development of high-tech products, self-production and sales, provision of technical services, infrastructure construction such as energy and municipal transportation, real estate development and property management, etc.

IJTT is principally engaged in the manufacturing of transport equipment.

NHK is principally engaged in the manufacturing and sales of suspension springs, automatic car seats, precision springs, suspensions used for HDD, mechanism parts used for HDD and industrial parts.

Isuzu China is principally engaged in the investment in PRC's automobile industry, the purchase and export of goods within PRC that do not involve export quotas or export licence management and the provision of consulting services related to investment activities to corporate investors, etc.

Mr. LUO Yuguang, the chairman of the Board, also being a director of the board of directors of Qingling Group is considered to have a material interest in the transactions under the Non-exempt CCT Agreements of which Qingling Group is involved. Mr. LUO Yuguang has abstained from voting on the resolutions in relation to the relevant Non-exempt Continuing Connected Transactions involving Qingling Group as proposed to the Board. Save as disclosed, none of the Directors has a material interest in the transactions under the Non-exempt CCT Agreements and therefore none of them are required to abstain from voting on the relevant board resolutions approving the same.

V. THE EGM

The relevant ordinary resolutions proposed above are set out in the notice of EGM. The proxy form and reply slip are dispatched together with this circular.

The EGM will be held at New Conference Hall, 1st Floor of the Company's Office Building, 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC on Tuesday, 14 April 2020 at 10:00 a.m..

The Articles provide that those Shareholders who intend to attend any Shareholders' general meeting of the Company shall send a written reply to the Company 20 days before the date of the meeting. In the case the written replies received from the Shareholders indicating that they intend to attend the general meeting represent holders of not more than one half of the total number of shares with voting rights, the Company shall within 5 days inform its Shareholders again in the form of a public notice the proposed matters for consideration at the meeting and the date and venue of the meeting. The Shareholders' general meeting may be convened after such notification has been published. In view of the above requirements in respect of the EGM convened by the notice of EGM, you are urged to complete and return the reply slip to the legal address of the Company at 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC by post, by cable or by fax (at fax No. (86)23–68830397) on or before Wednesday, 25 March 2020 whether or not you intend to attend the EGM.

If you do not intend to or are not able to attend the EGM and intend to appoint a proxy to attend and vote on behalf of you, you are requested to complete and return as soon as possible the form of proxy to the legal address of the Company at 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC (in the case of proxy form of holder of Domestic Shares), or to the Company's H Share Registrars, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in the case of proxy form of holders of H Shares) in accordance with the instructions printed thereon, to be received not later than 24 hours before the time fixed for holding the EGM. Completion and return of the proxy form will not preclude you from attending and voting at the EGM.

VI. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

VII. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the Non-exempt Continuing Connected Transactions and the respective annual caps are on normal commercial terms, 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 relevant resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and the respective annual caps.

The Independent Board Committee, having taken into account the recommendations from Crescendo Capital Limited, the Independent Financial Adviser, considers that the Non-exempt Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group and the respective annual caps are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and the respective annual caps.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 44 to 45 of this circular and the letter from the Independent Financial Adviser containing its recommendations to the Independent Board Committee and Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions and the respective annual caps and the principal factors and reasons considered by them in arriving such recommendations set out on pages 46 to 86 of this circular.

Yours faithfully,
For and on behalf of the Board of
Qingling Motors Co. Ltd
LUO Yuguang
Chairman

慶鈴汽車股份有限公司
QINGLING MOTORS CO. LTD

(a Sino-foreign joint venture joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1122)

The Independent Board Committee:

Mr. Long Tao
Mr. Song Xiaojiang
Mr. Liu Tianni
Mr. Liu Erh Fei

27 February 2020

To the Independent Shareholders,
Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 27 February 2020 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them in the section headed "Definitions" of the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned, whether such transactions are conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and whether they are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM.

Having taken into account the recommendations from Crescendo Capital Limited, the Independent Financial Adviser, and in particular the principal factors set out in the letter from the Independent Financial Adviser, we consider that the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned, such transactions are conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and are in the best interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and the respective annual caps.

The letter from the Independent Financial Adviser containing its recommendations to us and the Independent Shareholders, and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at such recommendations is set out on pages 46 to 86 of the Circular.

Yours faithfully,
The Independent Board Committee of
Qingling Motors Co. Ltd
Mr. Long Tao, Mr. Song Xiaojiang,
Mr. Liu Tianni, Mr. Liu Erh Fei
Independent non-executive Directors

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

1506 Tai Tung Building
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27 February 2020

Qingling Motors Co. Ltd
1 Xiexing Cun
Zhongliangshan
Jiulongpo District
Chongqing
The People's Republic of China

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions contemplated under the New Chassis Supply Agreement, the New Parts Supply Agreements, the New Isuzu Supply Agreement, the New Supply Agreement and the New Sales JV Supply Agreement, details of which are set out in the "Letter from the Board" contained in the circular dated 27 February 2020 to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

On 26 November 2019, the Company entered into various agreements with Qingling Group, CQACL, CQCC, CQFC, CQAC, CQNHK, CQPC, Isuzu, QIEC and Sales JV Company (collectively, the "**Connected Persons**") respectively in relation to (i) the provision of automobile chassis and related components, parts of engines and raw materials, automobiles and their parts, consolidated services and lease of machineries by the Company to the respective Connected Persons; and (ii) the supply of automobile parts and other parts and components and engines and their parts by the respective Connected Persons to the Group for the period from the respective commencement date of the agreements to 31 December 2022.

As at the Latest Practicable Date, Qingling Group was a substantial Shareholder holding approximately 50.10% of the entire issued share capital of the Company, and CQCC, CQFC, CQACL, CQAC, CQPC, CQNHK, QAC, QM, Qingling Zhuangyong, Keyu Autoparts, CQVPM and Autoparts Manufacturing were owned as to 75.00%, 75.00%, 72.43%, 80.00%, 75.15%, 55.80%, 100.00%, 100.00%, 100.00%, 100.00%, 75.00% and 100.00% respectively by Qingling Group and are associates of Qingling Group. Furthermore, Isuzu was a substantial Shareholder holding approximately 20.00% of the entire issued share capital of the Company as at the Latest Practicable Date, and QIEC was owned as to 50.61% by Isuzu, 30.06% by Qingling Group and 19.33% by the Company while Sales JV Company was owned as to 50.00% by the Company and 50.00% by Isuzu. Meanwhile, Isuzu and Isuzu China (being a wholly-owned subsidiary of Isuzu) held approximately 21.54% of CQCC, 23.20% of CQFC, 23.00% of CQACL, 20.00% of CQAC, 19.00% of CQPC and 5.00% of CQNHK. Accordingly, Qingling Group, CQCC, CQFC, CQACL, CQAC, CQPC, CQNHK, QAC, QM, Qingling Zhuangyong, Keyu Autoparts, CQVPM, Autoparts Manufacturing, Isuzu, QIEC and Sales JV Company are all connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of each of the New Chassis Supply Agreement, the New Parts Supply Agreements, the New Isuzu Supply Agreement, the New Supply Agreement and the New Sales JV Supply Agreement constitutes continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the annual caps for the continuing connected transactions contemplated under (i) the New Chassis Supply Agreement; (ii) the New Parts Supply Agreements as aggregated in accordance with Rules 14A.81 to 14A.83 of the Listing Rules; (iii) the New Isuzu Supply Agreement; (iv) the New Supply Agreement; and (v) the New Sales JV Supply Agreement will, on an annual basis, be more than 5%, such continuing connected transactions are subject to reporting and announcement requirements set out in Rules 14A.49 and 14A.35 of the Listing Rules, the annual review requirements set out in Rules 14A.55 and 14A.59 of the Listing Rules and also the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, Qingling Group and its associates are required to abstain from voting on the ordinary resolutions to be proposed at the EGM in respect of the New Chassis Supply Agreement, the New Parts Supply Agreements, the New Supply Agreement and their respective annual caps while Isuzu and its associates are required to abstain from voting on the ordinary resolutions to be proposed at the EGM in respect of the New Parts Supply Agreements, the New Isuzu Supply Agreement, the New Supply Agreement, the New Sales JV Supply Agreement and their respective annual caps.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Long Tao, Mr. Song Xiaojiang, Mr. Liu Tianni and Mr. Liu Erh Fei, has been established to advise the Independent Shareholders as to whether the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, and whether the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole. We, Crescendo Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards and how to vote on the resolutions in relation to the Non-exempt Continuing Connected Transactions to be proposed at the EGM.

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for acting as an independent financial adviser in this appointment, we have not acted as a financial adviser or an independent financial adviser to the Company in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its associates. We were not aware of any relationship or interest between us and the Company or any other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purposes of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the agreements of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Non-exempt Continuing Connected Transactions, we have considered the following principal factors and reasons:

1. Background and reasons for the Non-exempt Continuing Connected Transactions

(a) Background of the parties to the Non-exempt CCT Agreements

The Group is principally engaged in the production and sale of Isuzu trucks, multi-purpose vehicles, pick-up trucks, other vehicles and automobile parts and accessories.

Isuzu, a substantial Shareholder holding approximately 20.00% of the entire issued share capital of the Company, is principally engaged in the production and sale of commercial vehicles and diesel engines.

Qingling Group, a substantial Shareholder holding approximately 50.10% of the entire issued share capital of the Company, is principally engaged in the manufacturing, sales and development of new products in relation to motor vehicles and their spare parts and accessories, and the provision of technical advisory services.

CQCC, CQFC, CQAC, CQNHK, CQPC, CQACL, Autoparts Manufacturing and Keyu Autoparts, associates of Qingling Group, are principally engaged in the manufacturing and sale of (i) automobile parts and components and cast parts; (ii) automobile parts and components and forging parts; (iii) motor vehicle axles and other parts and components; (iv) motor vehicle seats, interior accessories and other seats; (v) plastic automobile parts and other plastic parts components; (vi) aluminum automobile parts and other aluminum parts and components; (vii) automobile parts; and (viii) automobile parts, installation of retractors and lease of relevant machineries or sites, respectively.

QAC, QM and CQVPM, associates of Qingling Group, are principally engaged in the development, design, manufacturing, sales and providing (i) technical services of automobile parts and components; (ii) services of automobile parts and components; and (iii) services of vehicles, mechanical parts and components and exported parts and components, respectively.

Qingling Zhuanyong, an associate of Qingling Group, is principally engaged in the development, design and manufacturing of various types of special vehicles, sales and providing services of automobile parts and components and providing technical services for special vehicles.

QIEC is a sino-foreign equity joint venture established in the PRC which is owned as to 19.33% by the Company, 50.61% by Isuzu, 30.06% by Qingling Group after the Merger. It is principally engaged in the manufacturing and sale of vehicle-used engines and their parts.

Sales JV Company is a sino-foreign equity joint venture established in the PRC which is owned as to 50.00% by the Company and 50.00% by Isuzu. It is principally engaged in the sales, import and export, import and export agency and after-sales services of automobiles and parts and related products under Isuzu brand (including Qingling brand registered by the Company) manufactured by the Company, sales of used automobiles (excluding brokerage business of used automobiles), automobile repair and maintenance equipment leasing, automobile marketing planning, automobile technology consultation, training service and operation services for dealers and automobile repair factories.

(b) Background of the Non-exempt Continuing Connected Transactions

The Group has been purchasing various automobile parts and other parts and components and engine and their parts from CQACL, Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC, Isuzu and QIEC, and supplying automobile chassis and related components to Qingling Group, various parts of engines and raw materials to QIEC and automobiles and their parts to Sales JV Company under the Chassis Supply Agreement, the Parts Supply Agreements, the Isuzu Supply Agreement, the Supply Agreement and the Sales JV Supply Agreement. The above-mentioned agreements expired on 31 December 2019. The Directors envisaged that the Group would continue such transactions on an on-going basis after the expiry of the existing agreements. As such, the Company entered into the New Chassis Supply Agreement with Qingling Group, the New Parts Supply Agreements (which comprises the New CQACL Agreement, the New Qingling Group Agreement, the New CQCC Agreement, the New CQFC Agreement, the New CQAC Agreement, the New CQNHK Agreement and the New CQPC Agreement) with CQACL, Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC respectively, the New Isuzu Supply Agreement with Isuzu, the New Supply Agreement with QIEC and the New Sales JV Supply Agreement with Sales JV Company, on 26 November 2019.

(c) Reasons for entering into the New Chassis Supply Agreement, the New Parts Supply Agreements and the New Isuzu Supply Agreement

The vehicles manufactured by the Group are mainly sold under the brand names of "Isuzu" and "Qingling" and the automobile parts and components used for Isuzu vehicles must meet the "Isuzu" standard. The Company and Qingling Group Companies produce certain parts for assembling vehicles based on the product drawings, technology specifications and quality standards given or confirmed by Isuzu under its guidance. Without the authorities and technical know-how given by Isuzu or the Company, independent third parties are unable to produce relevant parts that meet the quality standards of Isuzu. The Company and the relevant Connected Persons have already obtained the relevant authorization for the production of automobile parts and components that meet the quality standards of Isuzu. The Directors believe that the other suppliers do not possess such technical know-how and specific equipment that Isuzu has, and that even if the other suppliers may manufacture parts according to the same specifications, the quality of their products may not conform with the standards of Isuzu. Therefore, the Company has not looked for other sources of supply and has been purchasing various automobile parts and components specified under the New Parts

Supply Agreements and the New Isuzu Supply Agreement including, but not limited to, (i) aluminum parts and other parts and components; (ii) stamping components, compartments, machining components and other parts and components; (iii) casts of engine cylinder blocks, cylinder heads and main bearing covers and other parts and components; (iv) raw casts of engine crankshafts and connecting rods and other parts and components; (v) front and rear motor vehicle axles and other parts and components; (vi) motor vehicle seats and other parts and components; (vii) plastic parts and other parts and components; and (viii) automobile parts for vehicle assembly, from the respective Connected Persons, which are specialized in the production and sale of the relevant parts and products specified under the New Parts Supply Agreements and the New Isuzu Supply Agreement.

In addition, the Company has been selling automobile chassis and related components specified under the New Chassis Supply Agreement to Qingling Group for its manufacturing of modified vehicles (including but not limited to automobiles for transportation and cold-storage vehicles) for a considerable time. Furthermore, the Group has agreed to provide the consolidated services under the New CQFC Agreement to CQFC such as (i) water, electricity and gas supply services; (ii) equipment repair technical services; and (iii) medical and hygiene services for its regular operations. Meanwhile, in order to better utilize the resources of the Group and centralize its management, the Group has agreed to lease the machineries to CQAC under the New CQAC Agreement for CQAC's production and testing of front and rear motor vehicle axles, which will then be provided by CQAC to the Company.

Having considered that:

(i) the Group needs to purchase various automobile parts and components specified under the New Parts Supply Agreements and the New Isuzu Supply Agreement for its daily operation of manufacturing various types of vehicles from time to time;

(ii) CQACL, Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC and Isuzu are specialized in the production and sale of the products specified under the New Parts Supply Agreements and the New Isuzu Supply Agreement;

(iii) a majority of the vehicles manufactured by the Group are under the brand name of "Isuzu" and the automobile parts and components used by the Company must meet the "Isuzu" standard;

(iv) each of the relevant Connected Persons has obtained the technology know-how and specific equipment from Isuzu, and demonstrated with track records of being a reliable supplier and capable of manufacturing high quality products in accordance with the specifications of the Company;

(v) the Company does not require products other than those supplied by the Connected Persons and thus it is not necessary for it to look for other sources of supply;

(vi) other suppliers do not possess the technical know-how and specific equipment of Isuzu and thus their products may not meet the requirements of Isuzu even though they may be capable of manufacturing parts with the same specifications;

(vii) the Company is specialized in the production and sale of automobile chassis and related components to vehicle refitting manufacturers. The supply of automobile chassis and related components to Qingling Group can expand the chassis production business of the Company and increase the turnover, sales volume and market share of the Company's chassis production business; and

(viii) the provision of consolidated services and lease of machineries by the Group to CQFC and CQAC respectively can utilize the Group's resources more effectively and generate additional income to the Group,

we concur with the view of the Directors that it is reasonable for the Company to continue to source the products from the respective Connected Persons and to supply the products and/or services to Qingling Group Companies, and the transactions contemplated under the New Chassis Supply Agreement, the New Parts Supply Agreements and the New Isuzu Supply Agreement are normal commercial transactions to be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

(d) Reasons for entering into the New Supply Agreement and the New Sales JV Supply Agreement

The Directors consider that specialization and division of labor among group members can increase the operational efficiency of the Group and minimize the costs of the Group through economy of scale.

QIEC is principally engaged in the manufacturing and sale of vehicle-used engines and their parts while the Company focuses on the production and sale of vehicles and automobile parts. By entering into the New Supply Agreement, QIEC can purchase engine parts and raw materials from the Company for assembling and composing engine assemblies while the Company in turn can secure the supply of engine assemblies and their parts from QIEC for assembling and maintenance of automobiles.

Meanwhile, Sales JV Company is specialized in the sale, import and export, import and export agency and after-sales services of automobiles and parts and products under Isuzu brand (including Qingling brand registered by the Company) manufactured by the Company, sales of used automobiles (excluding brokerage business of used automobiles), automobile repair and maintenance equipment leasing, automobile marketing planning, automobile technology consultation, training service and operation services for dealers and automobile repair factories. By entering into the New Sales JV Supply Agreement, the Group shall provide automobiles and their parts to Sales JV Company for further distribution to the retail market. The Directors believe that the good sales strategies, management skills and services trading ideas adopted by Sales JV Company as well as the well-established sales channels of Sales JV Company can further enhance the sales volume and market share of the Group's products.

The Directors believe that the above arrangements for division of labor would facilitate the operation of the Group and minimize the costs of the Group in acquiring similar products from Independent Third Parties. On the above basis, we concur with the view of the Directors that it is reasonable to enter into the New Supply Agreement and the New Sales JV Supply Agreement, and the transactions contemplated thereunder are normal commercial transactions to be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

2. Principal Terms of the Non-exempt Continuing Connected Transactions

(a) The New Chassis Supply Agreement

Pursuant to the New Chassis Supply Agreement, the Company agreed to supply automobile chassis and related components to Qingling Group for the period from 1 January 2020 to 31 December 2022, conditional upon approval by the Independent Shareholders at the EGM. The New Chassis Supply Agreement is renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary). Should Qingling Group cease to be a connected person of the Company and the transactions under the New Chassis Supply Agreement cease to be continuing connected transactions of the Company, Qingling Group is entitled to terminate the New Chassis Supply Agreement by notifying the Company in writing.

According to the New Chassis Supply Agreement, the price of products to be supplied by the Company thereunder shall be determined by reference to the market prices of the chassis and related components and a credit term of 3 to 6 months after sales shall be provided to Qingling Group.

The New Chassis Supply Agreement is a master agreement which sets out the principles upon which detailed terms in relation to the supply of automobile chassis and related components by the Company to Qingling Group are to be determined. Under the New Chassis Supply Agreement, the parties shall enter into definitive agreements from time to time for detailed terms of each single transaction in accordance with the principles set out in the New Chassis Supply Agreement. Such detailed terms include, but not limited to, prices, payment and settlement terms, quantities, standard of quality, testing, product liability, liability for compensation and other terms and conditions in relation to the provision of the automobile chassis and related components.

The Company and Qingling Group agreed that such definitive agreements shall be on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms fair and reasonable to the Company. Qingling Group has also undertaken that the terms offered to the Company shall be no less favorable than terms offered to Independent Third Parties in the market where Qingling Group operates.

We noted that the terms of the New Chassis Supply Agreement are more or less the same as those in the Chassis Supply Agreement. We were given to understand that the consideration of transactions under the Chassis Supply Agreement was set by the Board by reference to the market prices of the chassis and related components, and determined after arm's length negotiations between the parties thereto. As advised by management of the Company, in determining the price of chassis and the relevant parts for transactions contemplated under the Chassis Supply Agreement, the Company would prepare, and update from time to time, a price list for products to be sold to Qingling Group by reference to (i) information on the market prices of chassis and related components with similar specifications, technology and quality requirements in the automobile market; (ii) the Company's estimated production costs for the relevant products; and (iii) the prices of chassis supply transactions conducted by the Company with Independent Third Parties. The price list for transactions with Qingling Group would then be submitted to the Company's management for approval. The pricing terms of transactions under the Chassis Supply Agreement would follow the prices set out in the pre-approved price list and all invoices for transactions under the Chassis Supply Agreement would be audited by the Company's finance department to ensure that pricing terms were in line with the prices in the pre-approved price list.

We have reviewed 3 sets of sample documents regarding the above-mentioned pricing procedures of transactions under the Chassis Supply Agreement (including invoices issued by the Company to Qingling Group and the Independent Third Parties in relation to the sale of automobile chassis and related components and the relevant price list), which were randomly selected and covered 3 different product items and thus we considered are representative, and noted that the pricing procedures were properly followed by the Company and terms offered by the Company to Qingling Group were similar and no less favorable than terms offered to the Independent Third Parties.

We understand from management of the Company that comparable transactions were available for all transactions under the Chassis Supply Agreement conducted by the Company up to the Latest Practicable Date. The profit margin level of automobile chassis and related components supplied by the Company to Qingling Group under the Chassis Supply Agreement was consistent with the profit margin level of the same type of products sold to Independent Third Parties.

We were advised that in the event that there was any transaction without sufficient comparable transactions, the Company would determine the prices of chassis and related components based on the principle of cost plus a profit margin. The underlying costs include raw materials, accessories, depreciation, salary, motion, cutters/tools, technological consumption, equipment maintenance, management fees, and financial fees etc. The profit margin would be determined by reference to the average profit margin of the relevant products in the market. With the assistance of the relevant procurement experience of its procurement department, the Company would gather information on market prices and profit margin levels of chassis and related components in the industry through industrial associations and independent autoparts suppliers in the PRC. The professional technical team, which has market intelligence regarding technology, quality, pricing and profit margin level of different types of automobile parts (including statistics obtained from the "China Automotive Industry Yearbook") and the pricing level of various automobile parts including the plastic parts, aluminum casting parts and forging parts in the industry, would also make business judgment for, and provide professional advices to, the Company when comparable transactions were absent and the Company would be required to negotiate the pricing terms with Qingling Group.

We were confirmed by management of the Company that the same pricing policy and internal control policies would be applied by the Company for pricing determination of transactions under the New Chassis Supply Agreement. Although the margin level for the Company is not fixed in the New Chassis Supply Agreement for transactions contemplated thereunder, we consider that the average profit margin of the relevant products in the market is an objective benchmark and pricing by reference to the prevailing average market rate is fair and reasonable. The absence of a cap on the profit margin to be charged by the Company is also in the interest of the Company as it shall enable the Company to adjust its profit margin in response to any significant market changes.

Given that (i) the pricing procedures of the products under the Chassis Supply Agreement have been properly implemented by the Company and shall be consistently applied for transactions under the New Chassis Supply Agreement; (ii) the terms of the transactions contemplated under the Chassis Supply Agreement offered by the Company to Qingling Group were similar and not less favorable to the Group than terms offered to the Independent Third Parties and such pricing policy shall be consistently applied for transactions under the New Chassis Supply Agreement; (iii) both the Company and Qingling Group have agreed that the terms of the New Chassis Supply Agreement, including selling price of the products to be supplied, shall be on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms fair and reasonable to the Company; and (iv) Qingling Group has undertaken that the terms offered to the Company shall be no less favorable than terms offered to Independent Third Parties in the market where Qingling Group operates, we consider that the terms of the New Chassis Supply Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(b) The New Parts Supply Agreements

Purchases of products by the Company

Pursuant to the New Parts Supply Agreements, which comprise the New CQACL Agreement, the New Qingling Group Agreement, the New CQCC Agreement, the New CQFC Agreement, the New CQAC Agreement, the New CQNHK Agreement and the New CQPC Agreement, the Company will purchase the following products from the respective Connected Persons for the period from 1 January 2020 to 31 December 2022, conditional upon approval by the Independent Shareholders at the EGM and shall be extended if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary):

(i) automobile parts including, but not limited to, aluminum parts and other parts and components from CQACL;

(ii) automobile parts including, but not limited to, stamping components, compartments, machining components and other parts and components from Qingling Group and its subsidiaries, including QM, Qingling Zhuanyong, QAC, Autoparts Manufacturing and Keyu Autoparts;

(iii) automobile parts including, but not limited to, casts of engine cylinder blocks, cylinder heads and main bearing covers and other parts and components from CQCC and CQVPM, a subsidiary of CQCC;

(iv) automobile parts including, but not limited to, raw casts of engine crankshafts and connecting rods and other parts and components from CQFC;

(v) automobile parts including, but not limited to, front and rear motor vehicle axles and other parts and components from CQAC;

(vi) automobile parts including, but not limited to, motor vehicle seats and other parts and components from CQNHK; and

(vii) automobile parts including, but not limited to, plastic parts and other parts and components from CQPC.

The New Parts Supply Agreements are master agreements which set out the principles upon which detailed terms are to be determined between the Company and the respective Connected Persons. The prices of products to be supplied to the Company under the said agreements will be either: (i) at prices not higher than market prices; or (ii) if no comparable market prices, at prices based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%, and in any event, on terms no less favorable to the Company than those offered by the respective Connected Persons to Independent Third Parties. The considerations payable by the Company under the New Parts Supply Agreements were determined after arm's length negotiations between the parties and by reference to the historical transaction prices of the parts and statistics published in the "China Automotive Industry Yearbook", according to which the profit margin of the automobile industry in the PRC was 7.51% in 2018, whilst the profit margin for automobile parts industry in the PRC was 7.67% in 2018.

We were given to understand that the Company and Qingling Group Companies produce certain parts for assembling vehicles based on the product drawings, technology specifications and quality standards given or confirmed by Isuzu under its guidance. Independent Third Parties without authorization and technical know-how and specific equipment given by Isuzu or the Company will not be able to produce the relevant parts that meet the quality standards of Isuzu. Therefore, most of the parts such as engine cylinder blocks, cylinder heads, raw casts of engine crankshafts and connecting rods, supplied to the Company by Qingling Group Companies for assembling Isuzu commercial vehicles have no comparable market prices. Accordingly, the prices of a majority of the products to be supplied to the Company under the New Parts Supply Agreement will be determined based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%, which is the maximum consideration payable by the Company under the New Parts Supply Agreements. The actual consideration payable by the Company will also be determined by reference to the prevailing market conditions, based on the nature, functionality, technology specifications and quality standards of different parts and in any event on terms no less favorable to the Company than terms offered to the Independent Third Parties.

In order to assess whether the price determination mechanism for the transactions without comparable market prices are fair and reasonable, we have reviewed the statistics published in China Automobile Industry Newsletter of Production and Sales issued by China Association of Automobile Manufacturers and noted that the profit margin of key enterprises in the PRC automobile industry for the seven months ended 31 July 2019 was approximately 8.21%, which is higher than the maximum rate of 8% to be charged by the respective Qingling Group Companies under the New Parts Supply Agreements.

We understand from management of the Company that in order to ensure the transactions under the New Parts Supply Agreements are on terms no less favorable to the Company than terms offered by Qingling Group Companies to Independent Third Parties, the New Parts Supply Agreements specifically provide that the transactions contemplated thereunder to be on terms no less favorable to the Company than terms offered to Independent Third Parties. Besides, a professional technical team of the Company with knowledge of market intelligence regarding technology, quality, pricing and profit margin level of different types of automobile parts in the industry will make business judgment for, and provide professional advices to, the Company when negotiating with the vendors over the price. The Company will also determine the price of certain parts and components by reference to the corresponding historical prices. The Company, when determining the prices of the automobile parts with Qingling Group Companies, would request Qingling Group Companies to minimize the effect of the increase in cost on the price of the parts as far as possible through technology and management advancement. As such, the Company expects the price of different parts will remain relatively stable as compared to the past three years. Moreover, Qingling Group Companies regularly provide to the Company with estimated costs of automobile parts supplied under the relevant agreements upon which the parties further negotiate to determine the prices of automobile parts with reference to the prevailing market condition. The Company's access to the quarterly operating statements and audited annual financial statements of Qingling Group Companies also enable the Company to know the actual profit margin level attained by Qingling Group Companies.

We have reviewed 31 samples of invoices issued by Qingling Group Companies to the Company and estimated costs of automobile parts supplied under the Parts Supply Agreements provided by Qingling Group Companies, which were randomly selected and covered 52 different product items and thus we considered are representative, and noted that the average profit margins of major products charged by Qingling Group Companies were in the range of approximately -1.26% and 3.84%.

Having considered that (i) the actual average profit margins of major products charged by Qingling Group Companies under the Parts Supply Agreements were lower than both the agreed maximum profit margin of 8% and the profit margin of key enterprises in the PRC automobile industry for the seven months ended 31 July 2019; (ii) the profit margin of key enterprises in the PRC automobile industry for the seven months ended 31 July 2019 of approximately 8.21% was higher than the maximum rate of 8% to be charged under the New Parts Supply Agreements; (iii) the profit margin of 8% under the New Parts Supply Agreements represents only the maximum rate that can be charged by Qingling Group Companies and the actual profit margin to be charged to the Company will be dependent on the nature, technology specifications, quality standards of different parts and in any event not less favorable to the Company than those offered to any other Independent Third Party; and (iv) adequate measures have been implemented by the Company to ensure the terms offered by Qingling Group Companies under the New Parts Supply Agreements are not less favorable to the Company than those offered to any other Independent Third Party, we consider that the terms of the New Parts Supply Agreements are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Provision of consolidated services by the Company to CQFC

Pursuant to the New CQFC Agreement, in addition to purchases of automobile parts from CQFC, the Company will also provide consolidated services, inter alia (i) water, electricity and gas supply services; (ii) equipment repair technical services; and (iii) medical and hygiene services, to CQFC at prices based on actual costs incurred plus value-added taxes payable pursuant to the relevant PRC tax laws for the period from 1 January 2020 to 31 December 2022, conditional upon approval by the Independent Shareholders at the EGM and shall be extended upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary). Should CQFC cease to be a connected person of the Company and the consolidated services transactions under the New CQFC Agreement cease to be continuing connected transactions for the Company, the Company is entitled to terminate the supply of consolidated services to CQFC by notifying CQFC in writing.

We were advised by management of the Company that a pricing term of actual costs incurred plus taxes payable, instead of a term with profit margin, is adopted by the Company because the provision of consolidated services is not a core business of the Group and the projected transaction amounts for provision of consolidated services are relatively small. Based on the above and given that (i) CQFC requires the consolidated services for its daily operations and the costs of such services will affect CQFC's costs of production for parts to be supplied to the Company; (ii) the selling prices of automobile parts provided by CQFC to the Company are determined at actual costs incurred by CQFC plus a profit margin; and (iii) the provision of consolidated services by the Company to CQFC under zero profit margin can reduce the costs incurred by CQFC in its production of parts to be supplied to the Company, which in turn lower the Company's cost of purchase of automobile parts from CQFC, we concur with the Directors' view that it is commercially justifiable to provide the consolidated services to CQFC at zero profit margin.

We understand from management of the Company that the Company has not provided any consolidated service to any Independent Third Party. As such, no transactions with Independent Third Party can be referenced to. However, having considered the above-mentioned reasons for providing the consolidated services to CQFC at zero profit margin, we consider that the pricing policy in relation to the provision of consolidated service to CQFC is fair and reasonable so far as the Independent Shareholders are concerned.

Leasing of machineries by the Company to CQAC

Pursuant to the New CQAC Agreement, in addition to purchases of automobile parts from CQAC, the Company will also lease machineries to CQAC for its production and testing of front and rear automobile axles to be provided by CQAC to the Company for the period from 1 January 2020 to 31 December 2022, conditional upon approval by the Independent Shareholders at the EGM and shall be extended upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary). The annual rentals for leasing of machineries are RMB382,686 (exclusive of VAT) for the period from 1 January 2020 to 31 December 2022, which were determined based on normal commercial terms which are no less favourable to the Company than those offered by CQAC to Independent Third Parties and having taken into account of the depreciation charge of the relevant machineries for the relevant years.

We understand from management of the Company that the Company has not provided any machinery leasing service to any Independent Third Party up to the Latest Practicable Date. Therefore, no transactions with Independent Third Party can be referenced to. However, having considered that (i) the provision of machinery leasing service is not a core business of the Group; (ii) the purpose of the transactions is to facilitate the production of automobile axle by CQAC for the exclusive supply to the Company; (iii) the rental income can compensate the depreciation charges of the relevant machinery of the Company; and (iv) the leasing of machineries to CQAC shall enable the Company to fully utilize its resources while not causing any significant impact on the operation of the Company, we consider that the pricing policy in relation to the provision of machinery leasing service to CQAC is fair and reasonable so far as the Independent Shareholders are concerned.

(c) The New Isuzu Supply Agreement

Pursuant to the New Isuzu Supply Agreement, Isuzu agreed to supply automobile parts of ISUZU N Series, T Series, UC Series, F Series and other series to the Company for the period from 1 January 2020 to 31 December 2022, conditional upon approval by the Independent Shareholders at the EGM. The New Isuzu Supply Agreement is renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary). In the event that a competitor (including a potential competitor) of Isuzu holds Shares of the same number as or more than that held by Isuzu or there is a change in control in Qingling Group, Isuzu may terminate the New Isuzu Supply Agreement by giving written notice to the Company. In addition, should Isuzu cease to be a connected person of the Company and the transactions under the New Isuzu Supply Agreement cease to be continuing connected transactions of the Company, Isuzu is entitled to terminate the New Isuzu Supply Agreement by notifying the Company in writing.

The New Isuzu Supply Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between the Company and Isuzu. The Company and Isuzu shall enter into definitive agreements for detailed terms of each single transaction in accordance with the underlying principles set out in the New Isuzu Supply Agreement. Such detailed terms include, but without limitation, prices, payment and settlement terms, quantities, standard of quality, testing, product liability, liability for compensation and other terms and conditions in relation to the provision of the automobile parts, components and/or accessories. The Company and Isuzu agreed that such detailed terms shall be on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms fair and reasonable to the Company. Isuzu has also undertaken that the terms offered to the Company shall be no less favorable than terms offered to Independent Third Parties in the market where the Company locates.

The pricing determination basis under the Isuzu Supply Agreement and the New Isuzu Supply Agreement are the same. We have discussed with management of the Company regarding the basis of price determination for transactions with insufficient comparable transactions and were advised that the prices of products under the Isuzu Supply Agreement have been, and the prices of products under the New Isuzu Supply Agreement shall continue to be, determined by reference to the actual or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 10%, which was determined by reference to the statistics published in the "China Automotive Industry Yearbook", according to which the profit margin of the automobile industry in the PRC was 7.51% in 2018, whilst the profit margin for automobile parts industry was 7.67% in 2018.

We were given to understand that there were no supplies of the products under the Isuzu Supply Agreement by independent suppliers in the PRC market because such products are of specific specifications and no authorizations have been given by Isuzu to Independent Third Parties in the market to produce such parts. As such, the Company could not compare the terms of transactions between the Company and Isuzu with those of the independent suppliers. Furthermore, no estimated costs of automobile parts and components supplied under the Isuzu Supply Agreement were given by Isuzu to the Company in writing. Given the above limitations, the Company has adopted alternative measures to ensure the terms offered to the Company for the transactions contemplated under the Isuzu Supply Agreement were fair and reasonable and no less favorable than terms offered by Isuzu to Independent Third Parties.

We understand from management of the Company that monthly meetings between the Company and Isuzu were held, during which the Company and Isuzu would discuss the price of the products under the Isuzu Supply Agreement with reference to the cost information provided by Isuzu. However, due to confidentiality, the cost information was presented to the Company by Isuzu orally only and no written documents were provided. The Company would also compare the price of parts purchased from Isuzu with the market price of the same parts sold by Isuzu in the domestic market in Japan plus the estimated packaging and transportation fees to be incurred by Isuzu. Given that those imported automobile parts from Isuzu are sold to the Company exclusively in the PRC and no substitutes are available in the domestic market of the PRC, the Company considers that the selling price in Japan, together with certain additional fees (e.g. packaging and transportation fees), can serve as one of the references for it to assess the reasonableness of the price charged by Isuzu although the market conditions in Japan and the PRC are different and a direct comparison between the selling prices of the two might not be appropriate in usual cases. The Company also assessed the selling price of the products under the Isuzu Supply Agreement with reference to the selling price of similar products in the PRC to ensure that the terms offered by Isuzu were fair and reasonable to the Company.

We noted that the maximum profit margin of 10% stipulated under the New Isuzu Supply Agreement is higher than the profit margin of automobile industry and automobile parts industry in the PRC of 7.51% and 7.67% respectively in 2018 and the maximum profit margin that can be charged under the New Parts Supply Agreement of 8%.

We have reviewed the statistics published in China Automobile Industry Newsletter of Production and Sales issued by China Association of Automobile Manufacturers and noted that the profit margin of key enterprises in the PRC automobile industry for the seven months ended 31 July 2019 was approximately 8.21%, which is also lower than the maximum rate of 10% to be charged under the New Isuzu Supply Agreement. However, given that (i) the Company is required to purchase the relevant automobile parts from Isuzu mandatorily in order to ensure that the vehicles produced and sold under the brand name of Isuzu reach the technology and performance standards of Isuzu and the automobile parts produced by Isuzu are exclusive and products with the same technology and quality are not available in the domestic market of the PRC; (ii) the products under the New Isuzu Supply Agreement are tailor-made and it is a generally acceptable market practice for the vendors to charge a higher premium for tailor-made products; (iii) the profit margin ceiling of the New Isuzu Supply Agreement represents only the maximum rate that can be charged and the actual rate to be charged will be finalised by both parties on the basis that it is fair and reasonable, and the Company and Isuzu all agreed in the contract that the actual selling price of the products to be supplied by Isuzu shall be on normal commercial terms and the terms offered to the Company shall be no less favorable than terms offered to any other Independent Third Party in the market where the Company locates; (iv) the nature, technical level required and the quality features of the products to be supplied under the New Isuzu Supply Agreement and New Parts Supply Agreement are different and thus variation in the profit margin for products under those agreements is reasonable and commercially justifiable; and (v) the New Isuzu Supply Agreement lasts for 3 years and the market rate of profit margin may fluctuate during the term of the New Isuzu Supply Agreement, the inclusion of a buffer in maximum rate of profit margin is reasonable to allow flexibility in price negotiation in response to market change, we consider that it is fair and reasonable to set the ceiling of the profit margin at 10%, although it is higher than the current average market rate and the maximum profit margin of 8% under the New Parts Supply Agreement. We also consider that the terms of the New Isuzu Supply Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(d) The New Supply Agreement

Pursuant to the New Supply Agreement, the Company agreed to provide parts of engines and raw materials required for the manufacture of engines to QIEC, and QIEC agreed to provide the engine assemblies and their parts to the Company for assembling and maintenance of automobiles for the period from the date upon obtaining all relevant approvals and/or completing all other procedures in accordance with all applicable laws, rules and regulations or 1 January 2020 (whichever is later) to 31 December 2022. The New Supply Agreement is renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary). Should QIEC cease to be a connected person of the Company and the transactions under the New Supply Agreement cease to be continuing connected transactions under the Listing Rules, the Company is entitled to terminate the New Supply Agreement by notifying QIEC in writing.

The New Supply Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between the Company and QIEC. The Company and QIEC shall enter into definitive agreements for detailed terms of each single transaction in accordance with the underlying principles set out in the New Supply Agreement, including the order-making procedure, method of delivery, prices, payment and settlement terms, quantity, standard of quality, inspect of products, product liability, liability for compensation and other terms and conditions in relation to the supply and purchase of specific type of products.

The pricing determination basis under the New Supply Agreement are the same as those stipulated in the Supply Agreement. We understand from management of the Company that as there are no sufficient comparable transactions, the prices of products under the Supply Agreement have been, and the prices of products under the New Supply Agreement shall continue to be, determined by reference to the actual costs of the supplying party plus a profit margin of not exceeding 10%, which was determined by reference to the statistics published in the "China Automotive Industry Yearbook", according to which the profit margin of the automobile industry in the PRC was 7.51% in 2018, whilst the profit margin for automobile parts industry was 7.67% in 2018.

We were given to understand by management of the Company that the Company has not supplied the engine parts and raw materials specified under the Supply Agreement to any Independent Third Party because such products are tailor-made for QIEC and not for sale to other third parties, save for Qingling Motors Outlets, which sell automobiles manufactured by the Company in the PRC and are owned by Independent Third Parties. The engine parts and raw materials were sold to Qingling Motors Outlets solely for the purposes of automobile maintenance and parts replacement in the PRC market. Meanwhile, no Independent Third Parties supplied to the Company the engines and their parts under the Supply Agreement because such products were of specific specifications which were not available from other suppliers. As such, we are also unable to compare the terms of transactions between the Company and QIEC with those of the independent suppliers.

We understand from management of the Company that in order to ensure the terms offered to the Company for the transactions contemplated under the New Supply Agreement are no less favorable than terms offered by QIEC to Independent Third Parties, the New Supply Agreement specifically provided that the actual selling price of the products to be supplied or purchased shall be the actual costs of the supplying party plus a profit margin of not exceeding 10% and that such profit margin shall be finalized by both parties on the basis that is fair and reasonable to both parties. The Company have regular and formal business negotiations with QIEC, and request QIEC to provide a cost list for each of the parts it supplies so that the Company can examine and determine the price.

We have reviewed (i) 3 sets of invoices issued by the Company to QIEC and Qingling Motors Outlets respectively and the actual costs incurred by the Company for transactions under the Supply Agreement, which were randomly selected and covered 3 different product items and thus we considered are representative; and (ii) 13 samples of invoices issued by QIEC to the Company and the estimated costs in relation to engines and their parts supplied by QIEC under the Supply Agreement, which were randomly selected and covered 5 different product items and thus we considered are representative, and noted that (a) the prices charged by the Company to QIEC were lower than those charged to Qingling Motors Outlets; and (b) the average profit margins of major products charged by the Company and QIEC were approximately 0.75% and 3.15% respectively.

We were advised by management of the Company that the engine parts and raw materials supplied by the Company to QIEC under the Supply Agreement were used by QIEC for assembling and composing engine assemblies, and such engine assemblies were subsequently sold back to the Company exclusively by QIEC. As the engine assemblies will be sold back to the Company at actual costs incurred, which include costs of engine parts and raw materials purchased from the Company, plus a profit margin, the engine parts and raw materials were sold by the Company to QIEC at a relatively low margin so as to lower the prices of the engine assemblies to be sold by QIEC to the Company. On the other hand, the Company charged for a profit for the sale of engine parts and raw materials to Qingling Motors Outlets which used the engine parts and raw materials for the purposes of automobile maintenance and parts replacement in the PRC market only. Given that the profit margin charged to QIEC for sale of engine parts and raw materials by the Company to QIEC will be set off by the additional cost charged to the Company for sale of engine assemblies by QIEC to the Company, we considered that it is commercially justifiable to sell the engine parts and raw materials under the Supply Agreement to QIEC, which were solely used for assembling and composing engine assemblies for exclusive sale to the Company, with a lower profit margin and such transactions were conducted in accordance with the terms of the Supply Agreement where the price was determined with reference to the actual costs incurred plus a profit margin of not more than 10% for the transactions contemplated under the Supply Agreement. The Company confirmed that if the engine parts and raw materials supplied by the Company to QIEC are not used for assembling and composing engine assemblies which are subsequently sold back to the Company exclusively, the Company will charge a profit margin based on normal commercial terms.

We noted that the maximum profit margin of 10% stipulated under the New Supply Agreement is higher than the profit margin of automobile industry and automobile parts industry in the PRC of 7.51% and 7.67% respectively in 2018 and the maximum profit margin that can be charged under the New Parts Supply Agreement of 8%. However, given that (i) the actual average profit margins of major products charged by the Company and QIEC under the Supply Agreement were lower than the maximum profit margin of 10%; (ii) the actual average profit margin of major products charged by QIEC under the Supply Agreement was lower than the average profit margin of key enterprises in the PRC automobile industry for the seven months ended 31 July 2019 of 8.21%; (iii) the pricing policy applied to transactions under the Supply Agreement will continue to be consistently applied to transactions under the New Supply Agreement; (iv) the profit margin ceiling of the

New Supply Agreement represents only the maximum rate that can be charged and the actual rate to be charged will be finalised by both parties on the basis that it is fair and reasonable; (v) production of engine assemblies, being the core parts of the Isuzu vehicles rather than merely a single parts, requires a higher technical level as compared to manufacturing of other general parts and therefore a higher profit margin for engine assemblies is commercially justifiable; (vi) the quality of the engine assemblies and parts provided by QIEC are higher than the market level and such products are fully complied with the technology and standard as required for Isuzu vehicle; and (vii) both the Company and QIEC are mutually bound by the same terms on price determination for sale and purchase transactions under the New Supply Agreement, we consider that it is fair and reasonable to set the ceiling of the profit margin at 10% although it is higher than the current average market rate and the maximum profit margin of 8% under the New Parts Supply Agreement and the terms of the New Supply Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(e) The New Sales JV Supply Agreement

Pursuant to the New Sales JV Supply Agreement, the Company agreed to provide automobiles and their parts to Sales JV Company from the date upon obtaining all relevant approvals and/or completing all other procedures in accordance with all applicable laws, rules and regulations or 1 January 2020 (whichever is later) to 31 December 2022. The New Sales JV Supply Agreement is renewable upon expiry if agreed by all parties and having obtained the consent of the Stock Exchange and/or the approval of the Shareholders in accordance with the requirements of the Listing Rules (if necessary). Should Sales JV Company cease to be a connected person of the Company and the transactions under the New Sales JV Supply Agreement cease to be continuing connected transactions of the Company, the Company is entitled to terminate the New Sales JV Supply Agreement by notifying Sales JV Company in writing.

The New Sales JV Supply Agreement is a master agreement which sets out the principles upon which detailed terms in relation to the supply of automobiles and their parts are to be determined between the Company and Sales JV Company. Under the New Sales JV Supply Agreement, the parties shall enter into further specific agreement(s) with detailed terms in accordance with the underlying principles set out in the New Sales JV Supply Agreement specifying the order-making procedure, method of delivery, price, payment and settlement terms, quantity, standard of quality, delivery and inspection, product liability, liability for compensation and other terms and conditions in relation to the supply of specific type of products.

Pursuant to the New Sales JV Supply Agreement, the actual selling prices of the automobiles or their parts to be supplied and other related terms in any further specific agreement shall not be lower than the market prices of the automobiles or their parts and shall not be lower than the prices offered to Independent Third Parties. If there are no comparable market prices, prices shall be based on actual costs or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. The terms of the New Sales JV Supply Agreement are more or less the same as those of the Sales JV Supply Agreement.

We understand from management of the Company that a price list approved by management of the Company regarding the supply of automobiles and parts to the customers (including Sales JV Company and other independent distributors of the Company) would be prepared and updated regularly. All sales transactions under the Sales JV Supply Agreement would be carried out in accordance with the prices on the price list.

We have also reviewed 6 sets of sample documents regarding the above-mentioned pricing procedures of transactions under the Sales JV Supply Agreement (including invoices issued by the Company to Sales JV Company and other independent distributors of the Company in relation to the sale of automobiles and their parts and the relevant price list), which were randomly selected and covered 6 different product items and thus we considered are representative, and noted that the pricing procedures were properly followed by the Company and terms offered by the Company to Sales JV Company were similar and not less favorable than terms offered to other independent distributors of the Company.

Given that (i) the terms of the transactions contemplated under the Sales JV Supply Agreement offered by the Company to Sales JV Company were similar and not less favorable than terms offered to other independent distributors of the Company; (ii) the pricing policy applied for transactions under the Sales JV Supply Agreement shall continue to be applied consistently to transactions under the New Sales JV Supply Agreement; (iii) the New Sales JV Supply Agreement specifically provided that the actual selling prices of the automobiles or their parts to be supplied shall not be lower than the market prices of the automobiles or their parts and shall not be lower than the prices offered to Independent Third Parties; and (iv) the profit margin ceiling of 8% for transactions under the New Sales JV Supply Agreement without comparable market prices exceeds the profit margin of automobile industry in the PRC of 7.51% in 2018, we consider that the terms of the New Sales JV Supply Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

3. Annual caps for the Non-exempt Continuing Connected Transactions

(a) Historical transaction amounts and annual caps of the Non-exempt Continuing Connected Transactions

The historical transaction amounts of the Non-exempt Continuing Connected Transactions are set out as follows:

	Historical Transaction Amount (RMB' million)			
	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January 2019 to 31 October 2019	Annualised compound annual growth rate Note 1
Chassis Supply Agreement	1,419.79	1,239.14	1,081.25	(4.4%)
CQACL Agreement	9.29	11.07	7.61	(0.8%)
Qingling Group Agreement	10.72	20.53	11.91	15.5%
CQCC Agreement	25.97	30.52	20.62	(2.4%)
CQFC Agreement	37.64	42.71	28.63	(4.4%)
CQAC Agreement	393.66	422.24	306.14	(3.4%)
CQNHK Agreement	55.10	61.35	44.71	(1.3%)
CQPC Agreement	62.31	59.32	43.62	(8.3%)
Isuzu Supply Agreement	544.45	387.77	237.71	(27.6%)
Supply Agreement				
(a) the value of engines and their parts from QIEC to the Company (prior to the Merger)	1,188.11	1,200.48	–	N/A Note 2
(b) the value of the parts of engines and related products from IQAC to the Company (prior to the Merger)	–	8.73	–	N/A Note 2
(c) the value of engines and related parts from QIEC to the Company (after the Merger)	–	–	844.70	N/A Note 2
	1,188.11	1,209.21	844.70	(7.6%) Note 2

	Historical Transaction Amount (RMB' million)			
	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January 2019 to 31 October 2019	Annualised compound annual growth rate [Note 1]
(d) the value of engine parts and raw materials from the Company to QIEC (prior to the Merger)	628.70	728.74	–	N/A [Note 2]
(e) the value of the automobiles, parts of engines and raw materials from the Company to IQAC (prior to the Merger)	125.40	92.47	–	N/A [Note 2]
(f) the value of engine parts, automobiles and raw materials from the Company to QIEC (after the Merger)	–	–	570.81	N/A [Note 2]
	754.10	821.21	570.81	(4.7%) [Note 2]
Sales JV Supply Agreement	57.16	36.13	13.54	(46.7%)

Notes:

1. Calculated based on annualized figures for 2019.

2. Upon the completion of the Merger on 29 December 2018, IQAC was absorbed by QIEC and was subsequently dissolved and deregistered. QIEC is the surviving company after the Merger and has assumed all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC. Therefore, the continuing connected transactions contemplated under the Supply Agreement (IQAC) continued to be conducted by QIEC after the Merger. For comparison purpose, the annualized compound annual growth rates are calculated based on the historical transaction amounts of the Supply Agreement and the Supply Agreement (IQAC).

The proposed annual caps for the three years ending 31 December 2022 in respect of the Non-exempt Continuing Connected Transactions (the "**Annual Caps**") are set out as follows:

	Annual Caps (RMB' million) For the year ending 31 December			**Compound annual**
	2020	**2021**	**2022**	**growth rate**
New Chassis Supply Agreement	2,145.83	2,456.92	3,058.42	19.4%
New Parts Supply Agreements	1,146.72	1,379.92	1,752.39	23.6%
– New CQACL Agreement	19.02	25.67	33.21	32.1%
– New Qingling Group Agreement	108.12	130.00	164.49	23.3%
– New CQCC Agreement	41.12	46.29	57.01	17.7%
– New CQFC Agreement				
(a) the value of automobile parts from CQFC to the Company	49.08	54.08	64.32	14.5%
(b) the value of consolidated services from the Company to CQFC	3.19	3.64	4.55	19.4%
– New CQAC Agreement				
(a) the value of automobile parts from CQAC to the Company	708.32	852.21	1,090.28	24.1%
(b) the value of machinery leasing from the Company to CQAC	0.39	0.39	0.39	0.0%
– New CQNHK Agreement	116.76	141.81	175.10	22.5%
– New CQPC Agreement	100.72	125.83	163.04	27.2%
New Isuzu Supply Agreement	419.09	625.08	857.92	43.1%
New Supply Agreement				
(a) the value of engines and their parts from QIEC to the Company	1,947.41	2,892.38	3,637.08	36.7%
(b) the value of engine parts and raw materials from the Company to QIEC	1,489.30	2,366.45	2,983.55	41.5%
New Sales JV Supply Agreement	170.03	254.51	320.99	37.4%

As shown in the above table, the Annual Caps (save for the value of machinery leasing from the Company to CQAC under the New CQAC Agreement) are expected to increase with a compound annual growth rate ranging from approximately 14.5% to 43.1% for the period from 2020 to 2022. To assess whether the Annual Caps are fair and reasonable, we have discussed with management of the Company and reviewed the historical average costs/selling prices and quantity of products purchased/sold by the Group in relation to the Non-exempt Continuing Connected Transactions, the production plans of the Group and Qingling Group for the three years ending 31 December 2022 and the schedules of expected average costs/ selling prices and number of units to be purchased/sold by the Group in relation to the Non-exempt Continuing Connected Transactions for the three years ending 31 December 2022, which were prepared and provided by the Company after discussions with the respective Connected Persons, and having considered the factors set out in the paragraphs below.

(b) Outlook of the commodity vehicle industry in the PRC

With reference to the latest statistics released by the National Bureau of Statistics of the PRC, the gross domestic product ("**GDP**") of the PRC for the year ended 31 December 2019 was approximately RMB99,086.5 billion, representing a growth rate of approximately 6.1% over the last year, and the national per capita disposable income was approximately RMB30,733 for the year ended 31 December 2019, representing a real growth of approximately 5.8% over the previous year. The OECD Economic Outlook, Volume 2019 Issue 2 released in November 2019 by the Organization for Economic Cooperation and Development, an international organization with 34 country members, revealed that in 2019, frontloading of exports had helped to support economic activities in the PRC but increased tariffs would constrain growth going forward. Imports was expected to slow further as demand for imported inputs eased, resulting in an increase in the current account surplus. Benefited from the government infrastructure projects and robust real estate investment, the overall investment growth in the PRC was no longer slowing although manufacturing investment growth was weak. Private consumption was anticipated to grow steadily on the back of relatively strong disposable income gains. Inflation was easing, notwithstanding soaring prices of some consumption goods. Overall speaking, the economic growth was projected to decline in the coming years as the economy continues to rebalance and trade tensions remain high. It was expected that the GDP growth rates in the PRC for 2019, 2020 and 2021 would be 6.2%, 5.7% and 5.5% respectively.

According to the China Association of Automobile Manufacturers, for the year ended 31 December 2019, the production volume of commodity vehicles in the PRC was approximately 4.36 million units, representing an increase of approximately 1.9% as compared to the previous year, while the sales volume of commodity vehicles in the PRC was approximately 4.32 million units, representing a decrease of approximately 1.1% as compared to the last year. The performance of commodity vehicles outweighed the performance of the overall vehicles, the production volume and sales volume of which decreased by approximately 7.5% and 8.2%, respectively, for the year ended 31 December 2019, as compared to the previous year. China Association of Automobile Manufacturers estimated that the sales volume of vehicles would decrease by approximately 8% in 2019 and 2% in 2020 while the sales volume of commodity vehicles would decrease by approximately 2% in 2019 and increase slightly in 2020.

In view of the economic growth in the PRC and the estimated recovery of the commodity vehicle industry in 2020, management of the Company expects that, in the absence of any unforeseeable adverse factors that may have a substantial negative impact on the economy of the PRC, the demand for commodity vehicles as well as their components in the PRC will increase in the foreseeable future although in a slow pace.

(c) Annual Caps of the New Chassis Supply Agreement

The Annual Caps of the New Chassis Supply Agreement were set by the Board by reference to the actual transaction amounts under the Chassis Supply Agreement and the anticipated market demand in relation to the automobile chassis and related components for the term of the New Chassis Supply Agreement.

We noted that the historical transaction amount of the Chassis Supply Agreement decreased at an annualized compound annual growth rate of approximately 4.4%. We were advised by management of the Company that such reduction was mainly due to the decrease in demand of automobile chassis and related components from Qingling Group. We also noted that the historical transaction amounts for 2017, 2018 and 2019 were much lower than the annual caps for the respective years, with an utilization rate of approximately 63%, 47% and 42% (annualized) respectively. We understand from management of the Company that at the time when determining the annual caps for the three years ended 31 December 2019, the Company expected the commodity vehicle industry would continue to grow in view of the increased production and sales volume of commodity vehicles for the year ended 31 December 2016 as well as the estimation made by China Association of Automobile Manufacturers at the relevant time that the sales volume of commodity vehicles would further increase in 2017. However, the growth in vehicle industry slowed down in 2017 and negative growth was recorded in both 2018 and 2019. Therefore, the demand of automobile chassis and related components from Qingling Group during the three years ended 31 December 2019 was lower than the Company's original expectation.

We have reviewed the calculation of the Annual Caps for the three years ending 31 December 2022 and noted that the Annual Cap for the year ending 31 December 2020 is much higher than the annualized transaction amount for the year ended 31 December 2019. We were given to understand that in determining the Annual Cap for the year ending 31 December 2020, the Company has discussed with Qingling Group and considered, among others, the outlook of the commodity vehicle industry in the PRC, details of which are set out in the section headed "Outlook of the commodity vehicle industry in the PRC" above, and considered that the commodity vehicle industry would have a positive growth in 2020 following the negative growth in 2019 and thus the demand of automobile chassis and related components from Qingling Group would increase substantially in 2020 as compared to 2019. The Company advised us that after discussion with Qingling Group, the Company was given to understand that the chassis to be purchased by Qingling Group under the New Chassis Supply Agreement would be mainly used for its production of special-purpose vehicles. We have reviewed Qingling Group's production plan regarding special-purpose vehicles and noted that Qingling Group anticipated that the production volume of its special-purpose vehicles would increase in the coming three years at a compound annual growth rate of approximately 19.5%, from 21,000 units for the year ending 31 December 2020 to 30,000 units for the year ending 31 December 2022, in view of the increasing demand of transportation and logistics services for internet trading. We have also reviewed the schedule of expected average selling prices and number of units to be sold by the Group in relation to the transactions under the New Chassis Supply Agreement for the three years ending 31 December 2022 and noted that in order to meet its increasing production volume and stock for spares, Qingling Group has planned to increase the quantity of chassis to be purchased from the Group at a compound annual growth rate of approximately 19.5% from 22,455 units for the year ending 31 December 2020 to 32,045 units for the year ending 31 December 2022, the growth rate of which is similar to that of its scheduled production volume of special-purpose vehicles. Having taken into account the expected increase in demand of chassis for supporting the scheduled increase in production volume of special-purpose vehicles and a buffer for the fluctuations in price and product mix of chassis and related components to be ordered from the Group, Qingling Group's purchases of chassis from the Group is expected to increase with a compound annual growth rate of approximately 19.4% for the three years ending 31 December 2022.

Based on the above, we consider that the Annual Caps for the New Chassis Supply Agreement with a compound annual growth rate of approximately 19.4% proposed by the Directors are fair and reasonable and in the interests of the Company and Shareholders as a whole.

(d) Annual Caps of the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement

The Annual Caps of the New Parts Supply Agreements were determined by reference to (i) the historical sales volume; (ii) the projected sales volume for the three years ending 31 December 2022; and (iii) the expected increase in number of new vehicles of new models or different specifications to be launched and made available for sale by the Company.

The Annual Caps of the New Isuzu Supply Agreement were set by the Board by reference to (i) the historical sales volume; (ii) the projected sales volume for the three years ending 31 December 2022, taking into account, inter alia, the overall business environment and specific growth strategies; (iii) the number of new vehicles of new models or different specifications to be launched and made available for sale by the Company; and (iv) the expected expansion of sales network through distributors in the PRC.

The Annual Caps of the New Supply Agreement were determined by reference to (i) the production capacity of each car model of the Group; (ii) the expected sales volume of the Company for the three years ending 31 December 2022; and (iii) the aggregate supply and demand of QIEC after the Merger.

We have reviewed the schedules of expected average costs and number of units to be purchased by the Group in relation to the transactions under the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement for the three years ending 31 December 2022 and noted that the Annual Cap for the year ending 31 December 2020 is much higher than the annualized transaction amount for the year ended 31 December 2019. We were given to understand that in determining the Annual Cap for the year ending 31 December 2020, the Company has considered, among others, the outlook of the commodity vehicle industry in the PRC, details of which are set out in the section headed "Outlook of the commodity vehicle industry in the PRC" above and considered that the commodity vehicle industry would have a positive growth in 2020 following the negative growth in 2019 and thus the number of vehicles to be sold by the Group would increase substantially in 2020 as compared to 2019, details of which are set out in the section headed "Projected sales volume of the Group's vehicles" below. We also noted that the Annual Caps for the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement in relation to the trading of automobile parts and components were projected to increase at a compound annual growth rate in the range of approximately 14.5% and 43.1% for the three years ending 31 December 2022 and such increases were mainly attributable to the expected increases in trading volume of the products under the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement.

The projected transaction amounts of the transactions under the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement for the three years ending 31 December 2022 are set out below:

	For the year ending 31 December			Compound annual growth rate
	2020	**2021**	**2022**	
New CQACL Agreement				
Quantity	59,000	68,000	85,000	20.0%
Average unit price (approximately RMB)	322	378	391	10.1%
Transaction amount (RMB' million)	**19.02**	**25.67**	**33.21**	**32.1%**
New Qingling Group Agreement				
Quantity of vehicle body	2,114	2,438	3,124	21.6%
Average unit price (approximately RMB)	16,268	16,255	16,079	(0.6%)
Transaction amount of vehicle body (RMB' million)	34.39	39.63	50.23	20.9%
Quantity of other parts and components	230,932	264,460	318,686	17.5%
Average unit price (approximately RMB)	319	342	359	6.0%
Transaction amount of other parts and components (RMB' million)	73.73	90.37	114.26	24.5%
Total transaction amount (RMB' million)	**108.12**	**130.00**	**164.49**	**23.3%**
New CQCC Agreement				
Quantity	70,000	80,000	100,000	19.5%
Average unit price (approximately RMB)	587	579	570	(1.5%)
Total transaction amount (RMB' million)	**41.12**	**46.29**	**57.01**	**17.7%**
New CQFC Agreement				
Quantity	92,498	103,595	121,125	14.4%
Average unit price (approximately RMB)	531	522	531	0.0%
Transaction amount (RMB' million)	**49.08**	**54.08**	**64.32**	**14.5%**
New CQAC Agreement				
Quantity	70,000	80,000	100,000	19.5%
Average unit price (approximately RMB)	10,119	10,653	10,903	3.8%
Transaction amount (RMB' million)	**708.32**	**852.21**	**1,090.28**	**24.1%**

	For the year ending 31 December			Compound annual growth rate
	2020	**2021**	**2022**	
New CQNHK Agreement				
Quantity	70,000	80,000	100,000	19.5%
Average unit price (approximately RMB)	1,668	1,773	1,751	2.5%
Transaction amount (RMB' million)	**116.76**	**141.81**	**175.10**	**22.5%**
New CQPC Agreement				
Quantity	70,000	80,000	100,000	19.5%
Average unit price (approximately RMB)	1,439	1,573	1,630	6.4%
Transaction amount (RMB' million)	**100.72**	**125.83**	**163.04**	**27.2%**
New Isuzu Supply Agreement				
Quantity	70,000	80,000	100,000	19.5%
Average unit price (approximately RMB)	5,987	7,814	8,579	19.7%
Transaction amount (RMB' million)	**419.09**	**625.08**	**857.92**	**43.1%**
New Supply Agreement				
– purchase of engines and their parts from QIEC by the Company				
Quantity	77,000	87,000	105,000	16.8%
Average unit price (approximately RMB)	25,291	33,246	34,639	17.0%
Transaction amount (RMB' million)	**1,947.41**	**2,892.38**	**3,637.08**	**36.7%**
New Supply Agreement				
– purchase of engines parts and raw material from the Company by QIEC				
Quantity	77,000	87,000	105,000	16.8%
Average unit price (approximately RMB)	19,342	27,201	28,415	21.2%
Transaction amount (RMB' million)	**1,489.30**	**2,366.45**	**2,983.55**	**41.5%**

We noted from the schedules prepared by the Company that the compound annual growth rates in relation to the projected average prices of the products under the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement ranged from approximately -1.5% to 21.2%. We understand from management of the Company that the costs of parts and components are expected to be relatively stable in the coming years and shall be maintained at a level similar to the existing prices as the Company would request the Connected Persons to minimize the effect of the increase in cost on the price of the parts as far as possible through technology and management advancement. The changes in the average prices of the products during the three years ending 31 December 2022 were mainly due to the expected changes in product mix of parts and components to be purchased by the Group. The Directors consider that the growth rates in the Annual Caps are reasonable, having taken into account the historical transaction amounts and the projected sales volume of the Group's vehicles, details of which are set out below.

(i) Historical transaction amounts for the Parts Supply Agreement, the Isuzu Supply Agreement and the Supply Agreement

We noted that, save for the transactions under the Qingling Group Agreement which recorded an annualized compound annual growth rate of approximately 15.5% and the Isuzu Supply Agreement which recorded a negative annualized compound annual growth rate of approximately 27.6%, the transaction amounts for the transactions under the Parts Supply Agreement (except for the Qingling Group Agreement) and the Supply Agreement decreased with annualized compound annual rate ranging from approximately 0.8% to 8.3% during the past three years. We were advised by management of the Company that the reduction in transaction amounts for the Parts Supply Agreements (except for the Qingling Group Agreement) and the Supply Agreement was mainly attributable to the drop in the Group's sales volume of vehicles during the period from 2017 to 2019 resulting from the downward adjustment on the automobile industry as the economy of the PRC faced downward pressure with acute problems caused by unbalanced and inadequate development still awaiting solutions. According to the 2018 annual report and 2019 interim report of the Company, the number of vehicles sold by the Group decreased by approximately 5.4% from 50,379 units in 2017 to 47,677 units in 2018 and continued to reduce by approximately 4.8% from 24,274 units for the six months ended 30 June 2018 to 23,107 units for the six months ended 30 June 2019. Apart from the decrease in the Group's sales volume of vehicles, the implementation of localization of parts and accessories policy also reduced the quantity of products, especially the automobile parts and components for heavy-duty trucks, purchased from Isuzu under the Isuzu Supply Agreement.

We understand from management of the Company that the Company started to purchase parts and components for the production of front and rear axles for one of its models of light-duty vehicles from Qingling Group in 2018. Therefore, a larger quantity of parts and components were purchased for production and stocking purposes and the transaction amounts under the Qingling Group Agreement increased from approximately RMB10.7 million for the year ended 31 December 2017 to approximately RMB11.9 million for the ten months ended 31 October 2019.

We noted that the historical transaction amounts of the Parts Supply Agreement, the Isuzu Supply Agreement and the Supply Agreement for the three years ended 31 December 2019 were much lower than the annual caps for the respective years. We understand from management of the Company that at the time when determining the annual caps for the three years ended 31 December 2019, the Company expected the commodity vehicle industry would continue to grow in view of the increased production and sales volume of commodity vehicles for the year ended 31 December 2016 as well as the estimation made by China Association of Automobile Manufacturers at the relevant time that the sales volume of commodity vehicles would further increase in 2017. However, the growth in the commodity vehicle market slowed down in 2017 and negative growth was recorded in both 2018 and 2019. As a result, the number of vehicles sold by the Group dropped for the year ended 31 December 2018 and the six months ended 30 June 2019. Therefore, the demand of automobiles parts and components as well as the transaction amounts under the Parts Supply Agreement, the Isuzu Supply Agreement and the Supply Agreement for the three years ended 31 December 2019 were much lower than the expected amounts.

(ii) Projected sales volume of the Group's vehicles

For the year ended 31 December 2018, the Group recorded a turnover of approximately RMB5,253.3 million, representing an increase of approximately 3.55% as compared to the previous year. However, the number of vehicles sold by the Group decreased by approximately 5.36% to 47,677 units for the year ended 31 December 2018. For the six months ended 30 June 2019, the Group recorded a turnover of approximately RMB2,414.4 million, representing a decrease of approximately 6.09% as compared to the last corresponding period. The number of vehicles sold by the Group also decreased by approximately 4.81% to 23,107 units for the six months ended 30 June 2019. The reduction in sales volume was mainly attributable to the impact of the macroeconomic downturn as well as the introduction of new policies and regulations for the automobile industry.

Nevertheless, with the Company's enhancement in technical advancement and market exploration by adopting the measures of (i) continuous market exploration, focusing on keeping pace with the trend of industrial development and in-depth exploration of the emerging markets in counties and towns and overseas markets; (ii) continuous adoption of localization of parts and accessories policy, implementation of technical improvement, and the strengthening and enhancement of the Group's cost control measures and competitiveness of the Group's products; (iii) continuous improvement of the Group's technological development and launching of new models, varieties and specifications of vehicles including the new energy vehicles; and (iv) product quality enhancement by the Company and maintaining the positions of its products as being of high quality and mid-priced, the Company expects that demand of automobiles, in particular for technologically advanced and high-quality commercial vehicles like those manufactured and sold by the Group, as well as the Group's sales volume shall resume their rising trend for the three years ending 31 December 2022. We have reviewed the sales plan of the Company and noted that the expected number of vehicles to be sold by the Group will increase at a compound annual growth rate of approximately 19.5% from 70,000 units for the year ending 31 December 2020 to 100,000 units for the year ending 31 December 2022.

We noted that the projected sales volume of the Group's vehicles is larger than the existing level and were given to understand that the Group would continue to enhance its technology development by launching new varieties of vehicles such as light-duty vehicles, heavy-duty trucks and new energy vehicles. With implementation of National VI emission standards in July 2019 and the increasing governmental requirements for environmental protection and energy saving, the demand of new energy vehicles would rise and the Company is well qualified for the mass production of new energy vehicles and vehicles that meet National VI emission standards. The Company anticipates that approximately 100 new models or different specifications of vehicles may be launched and made available for sale in the three years ending 31 December 2022. Currently, the Group sells its products through around 400 dealers in the PRC. The Group will further improve the quality of services provided by the sales branches and carry out various marketing activities to enhance the sales volume of vehicles. The Group shall also continue to adopt the policy of localization of parts and accessories and implementation of technology improvement to further reduce costs and enhance the competitiveness of the Group's products. With the above-mentioned development plan of the Group, it is expected that the sales volume of vehicles can further increase by a compound annual growth rate of approximately 19.5% from 2020 to 2022.

We noted from the schedules for preparing the Annual Caps of the transactions under the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement that the quantity to be purchased/sold by the Company will increase at a compound annual growth rate in a range of approximately 14.4% and 21.6% for the three years ending 31 December 2022, which is similar to the expected increase in the sales volume of the Group's vehicles of approximately 19.5%. We are satisfied that the expected quantity to be purchased/sold by the Group in calculating the Annual Caps of the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement are generally in line with the needs under the production plan of the Group for the three years ending 31 December 2022.

Based on the above, we are of the view that the Group's expected compound annual growth rates, in the range of approximately 14.5% to 43.1%, in transaction amounts of the transactions under the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement for the three years ending 31 December 2022, which are mainly attributable to the increase in expected production and sales volume of the Group, are fair and reasonable. We also consider that the Annual Caps for the New Parts Supply Agreement, the New Isuzu Supply Agreement and the New Supply Agreement proposed by the Directors are fair and reasonable and in the interests of the Company and Shareholders as a whole.

(e) Annual Caps of the New Sales JV Supply Agreement

The Annual Caps of the New Sales JV Supply Agreement were determined by reference to (i) the sales capacity of the Group; (ii) the expected sales volume of vehicles of the Company for the three years ending 31 December 2022; and (iii) the price of automobile, parts and transportation in the market and their price trends.

We noted that the historical transaction amounts of the transactions under the Sales JV Supply Agreement decreased at an annualized compound annual rate of approximately 46.7% during the period from 2017 to 2019. We were advised by management of the Company that the decrease was mainly attributable to the reduction in sales of automobile parts and components to Sales JV Company during the period as approximately 64.5% of the sales of automobile parts and components in 2017 were export sales while no export sales of automobile parts and components were made in 2018 and 2019. We also noted that the historical transaction amounts for the years ended 31 December 2017, 2018 and 2019 were significantly lower than the annual caps for the respective years. We understand from management of the Company that at the time when determining the annual caps for the three years ended 31 December 2019, the Company expected the commodity vehicles industry would continue to grow in view of the increased production and sales volume of commodity vehicles for the year ended 31 December 2016 as well as the estimation made by China Association of Automobile Manufacturers at the relevant time that the sales volume of commodity vehicles would further increase in 2017. However, the growth in commodity vehicle industry slowed down in 2017 and negative growth was recorded in both 2018 and 2019. The number of vehicles sold by the Group also decreased for the year ended 31 December 2018 and the six months ended 30 June 2019. Therefore, the number of automobiles and automobile parts and components sold to Sales JV Company during the three years ended 31 December 2019 was significantly lower than the expected figures.

We have reviewed the breakdown of Annual Caps of the New Sales JV Supply Agreement and noted that the Annual Cap of the New Sales JV Supply Agreement in 2020 would increase significantly from 2019 and further increase at a compound annual growth rate of approximately 37.4% for the three years ending 31 December 2022 with around 50% of the projected transaction amount to be derived from the sales of automobiles while the remaining balance to be derived from sales of automobile parts. We were given to understand that in determining the Annual Cap for the year ended 31 December 2020, the Company has considered, among others, the outlook of the commodity vehicle industry in the PRC, details of which are set out in the section "Outlook of the commodity vehicle industry in the PRC" above and considered that the commodity vehicle industry would have a positive growth in 2020 following the negative growth in 2019 and thus the number of vehicles to be sold by the Group to Sales JV Company would increase substantially in 2020 as compared to 2019. We have also reviewed the schedule of expected average selling prices and number of units to be sold by the Group in relation to automobiles under the New Sales JV Supply Agreement and noted that the transaction amounts in relation to the automobiles will increase at a compound annual growth rate of approximately 41.8% for the three years ending 31 December 2022. The Company intends to maintain the prices of the automobiles at a level similar to the existing prices in order to maintain its competitiveness. Therefore, the expected increase in transaction amounts under the New Sales JV Supply Agreement is mainly attributable to the substantial increase in the projected number of vehicles to be sold to Sales JV Company, from 666 units for the year ending 31 December 2020 to 1,310 units for the year ending 31 December 2022, resulting from: (i) the projected expansion of the Group's sales capacity; and (ii) the enrichment of Sales JV Company's sales function of automobiles by expanding from mainly focus on selling narrow and wide body series vehicles previously to narrow, wide and middle body series vehicles. With the enrichment of the sales function of Sales JV Company, the Company anticipates that the proportion of the Group's vehicles to be sold through Sales JV Company will continue to increase from approximately 1.0% for the year ending 31 December 2020 to approximately 1.3% for the year ending 31 December 2022.

Based on the above, we consider that the Annual Caps of the New Sales JV Supply Agreement proposed by the Directors are fair and reasonable and in the interests of the Company and Shareholders as a whole.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that (i) the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Non-exempt Continuing Connected Transactions (and the proposed Annual Caps thereunder) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we ourselves also recommend the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
Crescendo Capital Limited

Amilia Tsang
Managing Director

Helen Fan
Director

Notes:

1. Ms. Amilia Tsang is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has over 15 years of experience in corporate finance.

2. Ms. Helen Fan is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has over 11 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the Shares

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Mr. Luo Yuguang is a director, the general manager and the deputy secretary of the Party Committee of Qingling Group, Mr. LI Juxing, Mr. XU Song and Mr. LI Xiaodong are the deputy general managers and members of the Party Committee of Qingling Group, Mr. Keiichiro MAEGAKI is a managing executive officer of Isuzu and Mr. ADACHI Katsumi is an executive officer of Isuzu.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company that had an interest or 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.

(b) Persons or corporations who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to each Director or chief executive of the Company, as at the Latest Practicable Date, the following persons or corporations have an interest or 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/which is, 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 and the amount of each of such person's/corporate's interest in such securities, together with particulars of any options in respect of such capital:

Long positions in the Shares:

Name of Shareholders	Class of Shares	No. of Shares	Capacity	% of share capital of the relevant class	% of entire share capital
Qingling Group	Domestic Shares	1,243,616,403	Beneficial Owner	100%	50.10%
Isuzu	H Shares	496,453,654	Beneficial Owner	40.08%	20.00%
Edgbaston Investment Partners LLP	H Shares	74,913,000	Investment Manager	6.05%	3.02%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position in the Shares or 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/which is, 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 any options in respect of such capital.

3. SERVICE CONTRACTS

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

4. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interests which competed or may compete with the Company's business.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are of the view that there was no material adverse change in the financial and trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any asset which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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

7. EXPERT AND CONSENT

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

Name	Qualification
Crescendo Capital Limited	A licensed corporation under the SFO to carry out type 6 regulated activity (advising on corporate finance)

As at the Latest Practicable Date, Crescendo Capital Limited was not interested beneficially or non-beneficially in any Shares or shares in any member of the Group nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, Crescendo Capital Limited did not have any direct or indirect interest in any asset which had been, since 31 December 2018, 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, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Crescendo Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 27 February 2020 and reference to its name in the form and context in which they respectively appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Messrs. Tung & Co. at office 1601, 16/F, LHT Tower, 31 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

(a) the New Chassis Supply Agreement;

(b) the New Parts Supply Agreements;

(c) the New Isuzu Supply Agreement;

(d) the New Supply Agreement; and

(e) the New Sales JV Supply Agreement.

9. GENERAL

Save as otherwise stated in this circular, the English text of this circular shall prevail over the Chinese text in the event of inconsistency.

慶鈴汽車股份有限公司
QINGLING MOTORS CO. LTD

(a Sino-foreign joint venture joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1122)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Qingling Motors Co. Ltd (the "**Company**") will be held at New Conference Hall, 1st Floor of the Company's Office Building, 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the People's Republic of China (the "**PRC**") on Tuesday, 14 April 2020 at 10:00 a.m.. for the purpose of considering and, if thought fit, passing the following ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **"THAT:**

(a) the conditional agreement dated 26 November 2019 entered into between the Company and Qingling Motors (Group) Co. Ltd ("**Qingling Group**") (on behalf of itself and its subsidiary – Chongqing Qingling Special Vehicle Co., Ltd ("**Qingling Zhuanyong**") in respect of the supply of automobile chassis and related components by the Company to Qingling Group (the "**New Chassis Supply Agreement**", a copy of which marked "A" has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the relevant annual caps for each of the three years ending 31 December 2022 (as set out in the circular of the Company dated 27 February 2020) be and are hereby approved;

and Mr. Li Juxing and Mr. Xu Song, who are the directors of the Company, (the "**Authorised Directors**") be and are hereby authorised on behalf of the Company to sign, seal, execute, all such other documents and agreements and to do all such acts and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the New Chassis Supply Agreement and the annual caps and the transactions thereby contemplated."

2. **"THAT:**

(a) the conditional agreements dated 26 November 2019 entered into: (i) between Chongqing Qingling Aluminium Casting Co. Ltd. and the Company (the "**New CQACL Agreement**"); (ii) between Qingling Group (on behalf of itself and its subsidiaries – Chongqing Qingling Machinery Parts Co. Ltd., Qingling Zhuanyong, Chongqing Qingling Automobile Chassis Parts Co. Ltd., Chongqing Qingling Autoparts Manufacturing Co., Ltd. and Chongqing Qingling Keyu Autoparts Co., Ltd.) and the Company (the "**New Qingling Group Agreement**"); (iii) between Chongqing Qingling Casting Company Limited (on behalf of itself and its subsidiary – Chongqing Qingling Vehicle Parts Manufacturing Co., Ltd.) and the Company (the "**New CQCC Agreement**"); (iv) between Chongqing Qingling Forging Co. Ltd. and the Company (the "**New CQFC Agreement**"); (v) between Chongqing Qingling Axle Co. Ltd. and the Company (the "**New CQAC Agreement**"); (vi) between Chongqing Qingling NHK Seat Co. Ltd. and the Company (the "**New CQNHK Agreement**"); and (vii) between Chongqing Qingling Plastic Co. Ltd. and the Company (the "**New CQPC Agreement**") (copies of which marked "B" have been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the relevant annual caps for each of the three years ending 31 December 2022 (as set out in the circular of the Company dated 27 February 2020) be and are hereby approved;

and the Authorised Directors be and are hereby authorised on behalf of the Company to sign, seal, execute, all such other documents and agreements and to do all such acts and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the New CQACL Agreement, the New Qingling Group Agreement, the New CQCC Agreement, the New CQFC Agreement, the New CQAC Agreement, the New CQNHK Agreement and the New CQPC Agreement and the annual caps and the transactions thereby contemplated."

3. **"THAT:**

(a) the conditional agreement dated 26 November 2019 entered into between Isuzu Motors Limited ("**Isuzu**") and the Company in respect of the provision of automobile parts and components by Isuzu to the Company (the "**New Isuzu Supply Agreement**", a copy of which marked "C" has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the relevant annual caps for each of the three years ending 31 December 2022 (as set out in the circular of the Company dated 27 February 2020) be and are hereby approved;

and the Authorised Directors be and are hereby authorised on behalf of the Company to sign, seal, execute, all such other documents and agreements and to do all such acts and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the New Isuzu Supply Agreement and the annual caps and the transactions thereby contemplated."

4. **"THAT:**

(a) the conditional agreement dated 26 November 2019 entered into between the Company and Qingling Isuzu (Chongqing) Engine Co., Ltd. ("**QIEC**") in respect of the provision of parts of engines and raw materials to and the provision of engines and their parts by QIEC to the Company (the "**New Supply Agreement**", a copy of which marked "D" has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the relevant annual caps for each of the three years ending 31 December 2022 (as set out in the circular of the Company dated 27 February 2020) be and are hereby approved;

and the Authorised Directors be and are hereby authorised on behalf of the Company to sign, seal, execute, all such other documents and agreements and to do all such acts and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the New Supply Agreement and the annual caps and the transactions thereby contemplated."

5. **"THAT:**

(a) the conditional agreement dated 26 November 2019 entered into between the Company and Qingling Isuzu (Chongqing) Automobile Sales and Service Co., Ltd ("**Sales JV Company**") in respect of the provision of automobiles and their parts to the Sales JV Company (the "**New Sales JV Supply Agreement**", a copy of which marked "E" has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the relevant annual caps for each of the three years ending 31 December 2022 (as set out in the circular of the Company dated 27 February 2020) be and are hereby approved;

and the Authorised Directors be and are hereby authorised on behalf of the Company to sign, seal, execute, all such other documents and agreements and to do all such acts and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the New Sales JV Supply Agreement and the annual caps and the transactions thereby contemplated."

By Order of the Board
Qingling Motors Co. Ltd
LEI Bin
Company Secretary

Chongqing, the PRC, 27 February 2020

Notes:

(1) Any shareholder entitled to entitled to attend and vote at the EGM mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his/her behalf in accordance with the articles of association of the Company. A proxy need not be a shareholder of the Company.

(2) In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the legal address of the Company at 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC (in the case of proxy form of holders of domestic shares) or at the Company's H Share Registrars, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of proxy form of holders of H Shares) not less than 24 hours before the time for holding the EGM or 24 hours before the time appointed for taking the poll or any adjournment thereof.

(3) Shareholders or their proxies shall produce their identity documents when attending the EGM.

(4) To ascertain the shareholders' entitlement to attend and vote at the EGM, the register of shareholders of the Company will be closed from Monday, 16 March 2020 to Tuesday, 14 April 2020 (both dates inclusive), during which period no transfer of shares will be registered. All duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 13 March 2020.

(5) Shareholders whose names appear on the register of shareholders of the Company on Monday, 16 March 2020 are entitled to attend and vote at the EGM.

(6) Shareholders who intend to attend the EGM shall complete and lodge the reply slip for attending the EGM at the Company's legal address at 1 Xiexing Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC on or before Wednesday, 25 March 2020. The reply slip may be delivered to the Company by hand, by post, by cable or by fax (at fax no.: (86)23–68830397).

(7) The EGM is not expected to take more than half a day. Shareholders or their proxies attending the EGM shall be responsible for their own travel and accommodation expenses.

(8) Pursuant to rule 13.39(4) of the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited, all votes of the shareholders at the meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and the Company will announce the results of the poll in the manner prescribed under rule 13.39(5) of the Listing Rules.

(9) As at the date of this notice, the Board comprises 11 directors, of which Mr. LUO Yuguang, Mr. HAYASHI Shuichi, Mr. Keiichiro MAEGAKI, Mr. ADACHI Katsumi, Mr. LI Juxing, Mr. XU Song and Mr. LI Xiaodong are executive directors and Mr. LONG Tao, Mr. SONG Xiaojiang, Mr. LIU Tianni and Mr. LIU Erh Fei are independent nonexecutive directors.