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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)

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 26 March 2014, 22 December 2016 and 26 November 2019 in relation to the Existing Trademark Licensing Agreement entered into by the Group. The Existing Trademark Licensing Agreement expired on 26 March 2021.

On 26 March 2021, the Company entered into the Trademark Licensing Agreement with Isuzu, pursuant to which, Isuzu grants the Company a non-transferrable right to use certain trademarks and emblems of Isuzu for the sale of the 600P, 100P and TF/UC series vehicles produced by the Company, for a term commencing on 28 March 2021 and ending on the expiry date of the term stipulated under relevant rules or regulations in the PRC.

As at the date of this announcement, Isuzu is a substantial shareholder of the Company holding approximately 20% of the entire issued share capital of the Company, and is therefore a connected person of the Company. Accordingly, the transactions under the Trademark Licensing Agreement constitute continuing connected transactions of the Company under Chapter 14A of 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 the Trademark Licensing Agreement will, on an annual basis, be more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting and announcement requirements and annual review requirement set out in the Listing Rules but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcements of the Company dated 26 March 2014, 22 December 2016 and 26 November 2019 in relation to the Existing Trademark Licensing Agreement entered into by the Group. The Existing Trademark Licensing Agreement expired on 26 March 2021.

On 26 March 2021, the Company entered into the Trademark Licensing Agreement with Isuzu in respect of use of the trademarks and emblems of Isuzu for the sale of the 600P, 100P and TF/UC series vehicles produced by the Company, details of which are summarised as follows:

Trademark Licensing Agreement

Date	:	26 March 2021
Parties	:	Isuzu; and the Company
Term	:	From 28 March 2021 to the expiry date of the term stipulated under relevant rules or regulations in the PRC.
Transaction	:	Isuzu grants the Company a non-transferrable right to use the trademarks and emblems (“ ISUZU ” and “ 五十鈴 ”) of Isuzu, for the sale of the 600P, 100P and TF/UC series vehicles produced by the Company
Consideration	:	The trademark licensing fee for each series vehicle is as follows: a. JPY2,000 for each 600P series vehicle sold b. JPY1,500 for each 100P series vehicle sold c. JPY1,500 for each TF/UC series vehicle sold
Payment term	:	The aggregate trademark licensing fees during every 6 months period ending 30 September and 31 March within the contract term, after deducting the tax payable by Isuzu to the PRC government, shall be settled by the Company in JPY within 30 days after the end of the respective 6-months period

Pursuant to the Trademark Licensing Agreement, in the event that Isuzu ceases to be a shareholder of the Company, the Trademark Licensing Agreement will be terminated automatically.

Historical Transaction Amounts

The following table sets out the historical transaction amounts for the Existing Trademark Licensing Agreement together with their respective annual caps for the relevant years:

	Actual amount incurred (in RMB)			Annual caps (in RMB)		
	For the year ended 31 December 2019	For the year ended 31 December 2020	For the period from 1 January 2021 to 28 February 2021	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021
Existing Trademark Licensing Agreement	<u>3,727,000</u>	<u>3,245,000</u>	<u>421,000</u>	<u>11,950,000</u>	<u>6,760,000</u>	<u>7,500,000</u>

None of the aggregate amounts of the Existing Trademark Licensing Agreement above exceeded their respective annual caps for the two years ended 31 December 2020. It is expected that the aggregate amount of the Existing Trademark Licensing Agreement for the year ending 31 December 2021 will not exceed the annual cap.

Basis of Consideration

The trademark licensing fee under the Trademark Licensing Agreement is determined after arm's length negotiation between the parties thereto by reference to (i) the trademark licensing fee which Isuzu charges overseas manufacturers for the use of the trademarks and emblems of Isuzu; and (ii) the trademark licensing fees payable by other manufacturers in the PRC for the use of trademarks of other automobile brand names.

Proposed Annual Caps

In accordance with the Trademark Licensing Agreement, it is expected that the aggregate trademark licensing fee payable by the Company for the period from 28 March 2021 to 31 December 2021 and the year ending 31 December 2022 will not exceed the following annual caps:

	Annual caps (in RMB)	
	For the period from 28 March 2021 to 31 December 2021	For the year ending 31 December 2022
Trademark Licensing Agreement	<u>7,079,000</u>	<u>9,240,000</u>

Basis of Proposed Annual Caps

The above annual caps for the transactions under the Trademark Licensing Agreement are set by the Board by reference to (i) the historical sales volume of the relevant series vehicles; (ii) the projected sales volume of the relevant series vehicles during the term of the agreement taking into consideration, among other things, the expected increase in sales volume attributable to the use of the brand of “Isuzu” in the domestic market of the PRC; and (iii) the exchange rate of RMB to JPY at RMB1: JPY16.7.

Reasons for Entering into the Trademark Licensing Agreement

“Isuzu” is a world-renowned brand of commercial vehicles. The Company has been introducing Isuzu’s products and technologies to manufacture products in compliance with the quality standards required by Isuzu, including but not limited to 600P, 100P and TF/UC series vehicles. The use of Isuzu’s trademark on these products could enhance their market recognition. As a result, the Company entered into the Trademark Licensing Agreement to obtain the right to use the trademarks and emblems of Isuzu.

The Directors (including independent non-executive Directors) are of the view that the Trademark Licensing Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and that its terms are fair and reasonable and in the interest of the Company and the shareholders of the Company as a whole.

REQUIREMENTS UNDER THE LISTING RULES

As at the date of this announcement, Isuzu is a substantial shareholder of the Company holding approximately 20% of the entire issued share capital of the Company, and is therefore a connected person of the Company. Accordingly, the transactions under the Trademark Licensing Agreement constitute continuing connected transactions of the Company under Chapter 14A of 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 the Trademark Licensing Agreement will, on an annual basis, be more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting and announcement requirements and annual review requirement set out in the Listing Rules but are exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

If the total annual amount of the transactions contemplated under the Trademark Licensing Agreement is likely to exceed the respective annual cap or the threshold provided under Chapter 14A of the Listing Rules (as the case may be) or there is any material change to the Trademark Licensing Agreement, the Company will take necessary steps to ensure compliance with all applicable rules under Chapter 14A of the Listing Rules.

ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Since the term of the Trademark Licensing Agreement exceeds three years, the Company has appointed the Independent Financial Adviser in accordance with Rule 14A.52 of the Listing Rules to advise the Company on the term of the Trademark Licensing Agreement.

Upon consideration of the following factors, the Independent Financial Adviser was of the view that it was in the interest of the Company to have a term of the Trademark Licensing Agreement in excess of three years and it was a normal business practice for contracts of the type of the Trademark Licensing Agreement to be of such duration.

- (1) The 600P, 100P and TF/UC Series vehicles are manufactured and sold by the Company under the brand name of “Isuzu” and thus the trademark and emblem under the Trademark Licensing Agreement are critical in the sale of the Company’s vehicles, without which the Company may have difficulties in promoting and marketing the relevant vehicles under the brand name of Isuzu;
- (2) “**Isuzu**” is a world-renowned brand of commercial vehicles. The use of Isuzu’s trademark on the Company’s products could enhance their market recognition;
- (3) In order to secure the smooth operations of the Company, it is commercially desirable and essential for the Company to maintain a long-term contractual relationship with Isuzu by securing a longer agreement term for the Trademark Licensing Agreement; and
- (4) It was noted from public information that more than 5 companies, which are principally engaged in the manufacture and sale of automobile and related products and services in the PRC and listed on the Stock Exchange, had executed similar trademark licensing agreements during 2015 to 2021 with term of license for a period vary from 3 to 50 years. Among them, a majority of the trademark licensing agreements had a term of more than three years.

GENERAL

The Company is principally engaged in the production and sales of Isuzu trucks, multipurpose 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.

None of the Directors has a material interest in the transactions under the Trademark Licensing Agreement and therefore none of them are required to abstain from voting on the relevant Board resolutions approving the same. However, each of Mr. MAEGAKI Keiichiro and Mr. ADACHI Katsumi owns shares in Isuzu, and they voluntarily abstained from voting on the Board resolution. Mr. MAEGAKI Keiichiro is an executive officer and the acting head of the production division of the technical department at the headquarters of Isuzu, and Mr. ADACHI Katsumi is a managing executive officer of Isuzu, the assistant to the head of the business division of the business department at the headquarters of Isuzu and the general representative of the Chinese business division of Isuzu.

DEFINITIONS

“Board”	the board of Directors
“Company”	Qingling Motors Co. Ltd (慶鈴汽車股份有限公司), 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
“Director(s)”	the director(s) of the Company
“Existing Trademark Licensing Agreement”	the agreement dated 26 March 2014 entered into between Isuzu and the Company relating to the granting of a non-transferrable right by Isuzu to the Company to use trademarks and emblems of Isuzu (“ISUZU” and “Isuzu”) in the sale of the 600P, 100P and TF/UC series vehicles produced by the Company
“Group”	the Company and its subsidiaries from time to time
“Independent Financial Adviser”	Lego Corporate Finance 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
“Isuzu”	Isuzu Motors Limited, a company incorporated in Japan and listed on the Tokyo Stock Exchange and a substantial shareholder of the Company
“JPY”	Japanese yen, the lawful currency of Japan
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“RMB”	Renminbi, the lawful currency of the PRC

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“substantial shareholder(s)” has the meaning ascribed to it under the Listing Rules

“Trademark Licensing Agreement” the agreement entered into between Isuzu and the Company on 26 March 2021, details of which are set out in the section headed “Trademark Licensing Agreement”

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

Chongqing, the PRC, 26 March 2021

As at the date of this announcement, the Board comprises 11 Directors, of which Mr. LUO Yuguang, Mr. HAYASHI Shuichi, Mr. MAEGAKI Keiichiro, Mr. ADACHI Katsumi, Mr. LI Juxing, Mr. XU Song and Mr. LI Xiaodong are executive Directors and Mr. LONG Tao, Mr. SONG Xiaojian, Mr. LIU Tianni and Mr. LIU Erh Fei are independent non-executive Directors.