
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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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**

Hercules
Hercules Capital Limited

A letter from the Board is set out on pages 7 to 44 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 45 of this circular.

A letter from Hercules 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 76 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 Thursday, 27 April 2017 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 Friday, 7 April 2017. 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).

10 March 2017

CONTENTS

	<u>Pages</u>
Definitions	1
Letter from the Board	
Introduction	7
Background	8
I. Non-exempt Continuing Connected Transactions	8
II. Requirements under the Listing Rules	40
III. Independent Shareholders' Approval	41
IV. General	42
V. The EGM	43
VI. Voting by Poll	44
VII. Recommendation	44
Letter from the Independent Board Committee	45
Letter from the Independent Financial Adviser	46
Appendix – General Information	A-1
Notice of Extraordinary General Meeting	EGM-1

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 22 December 2016 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
“Board”	the board of Directors
“Chassis Supply Agreement”	the agreement entered into between the Company and Qingling Group on 17 December 2013 relating to the supply of automobile chassis and related components by the Company to Qingling Group commencing on 5 August 2014 and expiring on 31 December 2016
“Company”	慶鈴汽車股份有限公司 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 17 December 2013 entered into between CQAC and the Company relating to the supply of certain automobile parts by CQAC to the Company commencing on 20 September 2014 and expiring on 31 December 2016
“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 an Independent Third Party respectively
“CQACL Agreement”	the agreement dated 17 December 2013 entered into between CQACL and the Company relating to the supply of certain automobile parts by CQACL to the Company commencing on 20 September 2014 and expiring on 31 December 2016
“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 17 December 2013 entered into between CQCC and the Company relating to the supply of certain automobile parts by CQCC to the Company commencing on 20 September 2014 and expiring on 31 December 2016

DEFINITIONS

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 an Independent Third Party respectively
“CQFC Agreement”	the agreement dated 17 December 2013 entered into between CQFC and the Company relating to the supply of certain automobile parts by CQFC to the Company commencing on 20 September 2014 and expiring on 31 December 2016
“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 and two Independent Third Parties respectively
“CQNHK Agreement”	the agreement dated 17 December 2013 entered into between CQNHK and the Company relating to the supply of certain automobile parts by CQNHK to the Company commencing on 20 September 2014 and expiring on 31 December 2016
“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 an Independent Third Party respectively
“CQPC Agreement”	the agreement dated 17 December 2013 entered into between CQPC and the Company relating to the supply of certain automobile parts by CQPC to the Company commencing on 20 September 2014 and expiring on 31 December 2016
“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 Sales JV Supply Agreement and the Supply Agreement (IQAC)
“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
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors (namely, Mr. LONG Tao,

DEFINITIONS

	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”	Hercules 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 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 established in the PRC which is owned as to 49% by the Qingling Group and 51% by Isuzu
“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 17 December 2013 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 24 June 2014 and expiring on 31 December 2016
“Latest Practicable Date”	7 March 2017, 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
“New Chassis Supply Agreement”	the conditional 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, details of which are set out in the section headed “THE NEW CHASSIS SUPPLY AGREEMENT”
“New CQAC Agreement”	the conditional 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, 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”

DEFINITIONS

“New CQACL Agreement”	the conditional 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, details of which are set out in the section headed “THE NEW CQACL AGREEMENT”
“New CQCC Agreement”	the conditional 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, details of which are set out in the section headed “THE NEW CQCC AGREEMENT”
“New CQFC Agreement”	the conditional 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, 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 22 December 2016 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 22 December 2016 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 22 December 2016 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 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, details of which are set out in the section headed “THE NEW QINGLING GROUP AGREEMENT”
“New Sales JV Supply Agreement”	the agreement dated 22 December 2016 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 agreement dated 22 December 2016 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”

DEFINITIONS

“New Supply Agreement (IQAC)”	the agreement dated 22 December 2016 entered into between the Company and IQAC relating to the provision of parts of engines and related products by IQAC to the Company, and the provision of automobiles, parts of engines and raw material by the Company to IQAC, details of which are set out in the section headed “THE NEW SUPPLY AGREEMENT (IQAC)”
“Non-exempt CCT Agreements”	the New Parts Supply Agreements, the New Chassis Supply Agreement, the New Isuzu Supply Agreement, the New Supply Agreement, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC)
“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, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC)
“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
“QIEC”	慶鈴五十鈴（重慶）發動機有限公司 Qingling Isuzu (Chongqing) Engine Co., Ltd., a sino-foreign equity joint venture established in the PRC which is owned as to 50% by the Company and 50% by Isuzu
“Qingling Group”	慶鈴汽車（集團）有限公司 Qingling Motors (Group) Co. Ltd, a state-owned limited liability company established in the PRC and a controlling shareholder of the Company
“Qingling Group Agreement”	the agreement dated 17 December 2013 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”
“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 established in the PRC which is owned as to 50% by the Company and 50% by Isuzu
“Sales JV Supply Agreement”	the agreement dated 17 December 2013 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 2014 and expiring on 31 December 2016
“Share(s)”	the Domestic Shares and the H Shares of the Company
“Shareholder(s)”	the holder(s) of the shares of the Company

DEFINITIONS

“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 17 December 2013 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 22 April 2014 and expiring on 31 December 2016
“Supply Agreement (IQAC)”	the agreement dated 17 December 2013 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 2014 and expiring on 31 December 2016

LETTER FROM THE BOARD



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. Keiichiro MAEGAKI
(Vice Chairman and General Manager)
Mr. GAO Jianmin
Mr. Masanori OTA
Mr. Yoshifumi KOMURA
Mr. LI Juxing
Mr. XU Song

Legal Address:

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

Independent Non-executive Directors:

Mr. LONG Tao
Mr. SONG Xiaojiang
Mr. LIU Tianni
Mr. LIU Erh Fei

Principal Place of Business in Hong Kong:

Suite 4901, 49th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

10 March 2017

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. Hercules 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

LETTER FROM THE BOARD

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 page 45 of this circular and a letter from the Independent Financial Adviser is set out on pages 46 to 76 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 2016;
- (ii) the Parts Supply Agreements which expired on 31 December 2016;
- (iii) the Isuzu Supply Agreement which expired on 31 December 2016;
- (iv) the Supply Agreement which expired on 31 December 2016;
- (v) the Sales JV Supply Agreement which expired on 31 December 2016; and
- (vi) the Supply Agreement (IQAC) which expired on 31 December 2016.

Details of the Former Continuing Connected Transactions are more particularly set out in the announcement of the Company dated 17 December 2013 and the circular of the Company dated 5 March 2014.

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, the agreement numbered (5) below with the Sales JV Company and the agreement numbered (6) below with IQAC, 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	:	22 December 2016
Parties	:	(i) The Company; and (ii) Qingling Group.
Term	:	From 1 January 2017 to 31 December 2019
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the general meeting
Products supplied by the Company to Qingling Group	:	Automobile chassis and related components

LETTER FROM THE BOARD

Price determination : By reference to the market prices of the chassis and related components

Payment terms : 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 without limitation, prices, payment and settlement terms, quantities, qualities, delivery and inspection of products 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 detailed terms shall be on normal commercial terms or, if there is no sufficient comparable transactions to judge 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.

Historical transaction amounts

The actual amount received 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)		
	From 5 August 2014 to 31 December 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 30 November 2016	From 5 August 2014 to 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
Chassis Supply Agreement	688,150,000	1,574,500,000	1,439,830,000	950,000,000	2,500,000,000	2,800,000,000

None of the actual amounts received above exceeded their respective annual caps for the period from 5 August 2014 to 31 December 2014 and for the year ended 31 December 2015. It is expected that the amount for the year ended 31 December 2016 will not exceed the annual cap for the corresponding year.

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. The Company adopts the following procedures in determining the market price of the chassis and related components: first, upon receipt of orders for chassis and relevant parts together with their product specifications, the Company will gather information on the prices of chassis and related components with similar specifications, technology and quality requirements in the automobile market, taking into account the prices of chassis and related components set by other automobile suppliers (such market price information in relation to chassis and

LETTER FROM THE BOARD

related components is collected through the Company's marketing and sales staff at different points of sales and its distributors in the PRC). After that, the Company will estimate its internal production costs and finally, proposing the pricing terms to be negotiated by both parties.

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. When it enters into each definitive agreement with Qingling Group, the Company will compare the proposed pricing terms with the price lists of chassis supply transactions conducted with Independent Third Parties to ensure that the pricing terms will be no less favourable than terms available to Independent Third Parties. Also, all proposed pricing terms would be audited by the Company's finance department and approved at the management level.

The Company has also in place internal procedures to ensure that the transactions contemplated under the New Chassis Supply Agreement are on terms no less favourable to the Company than terms available to Independent Third Parties. Details of such internal procedures are set out in the section headed "*Other principles considered by the Company in relation to the operations of the New Parts Supply Agreements and the New Chassis Supply Agreement*" in this letter from the board, on pages 21 to 22 of this circular.

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 annual caps for the transactions under the New Chassis Supply Agreement:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
New Chassis Supply Agreement	2,243,460,000	2,654,710,000	3,066,800,000

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.

The Company understands from Qingling Group that in view of the increasing demand of land transportation for consumer goods logistics and commodity as a result of transformation of land transportation mode and more stringent governance on overloading of vehicles, Qingling Group is anticipating an increase in production of special-purpose vehicles in the coming three years. Hence, a

LETTER FROM THE BOARD

compound annual growth rate of approximately 16.1% for the three years ending 31 December 2019 is expected to be seen on the quantity of chassis demanded by Qingling Group from the Group. Based on the above and taking into account of the expected prices of chassis and related components, the Board proposes the aforesaid annual caps for the New Chassis Supply Agreement with a compound annual growth rate of approximately 16.9%.

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 Independent Third Parties), and in accordance with the pricing policy of the Company. The 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 39 to 40 of this circular.

2. THE NEW PARTS SUPPLY AGREEMENTS

a. THE NEW CQACL AGREEMENT

Date	:	22 December 2016
Parties	:	(i) CQACL; and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the general meeting
Term	:	From 1 January 2017 to 31 December 2019
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 in the following order: (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%.

LETTER FROM THE BOARD

Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level.

In any event, on terms no less favourable than those offered by CQACL to Independent Third Parties

Payment term : Payment within one month after delivery

b. THE NEW QINGLING GROUP AGREEMENT

Date : 22 December 2016

Parties : (i) Qingling Group; and
(ii) The Company

Condition precedent : Conditional upon approval by the Independent Shareholders at the general meeting

Term : From 1 January 2017 to 31 December 2019

Products provided by : Automobile parts including but not limited to stamping
Qingling Group to the components, compartments and other parts and components
Company

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 in the following order:

- (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%.

Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level.

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 delivery

c. THE NEW CQCC AGREEMENT

Date : 22 December 2016

Parties : (i) CQCC; and
(ii) The Company

Condition precedent : Conditional upon approval by the Independent Shareholders at the general meeting

LETTER FROM THE BOARD

Term	:	From 1 January 2017 to 31 December 2019
Products provided by CQCC to the Company	:	Automobile parts including but not limited to casts of engine 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 in the following order: (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%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level. In any event, on terms no less favourable than those offered by CQCC to Independent Third Parties
Payment term	:	Payment within one month after delivery

d. THE NEW CQFC AGREEMENT

Date	:	22 December 2016
Parties	:	(i) CQFC; and (ii) The Company
Condition precedent	:	Conditional upon approval by the Independent Shareholders at the general meeting
Term	:	From 1 January 2017 to 31 December 2019
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 the Company to CQFC	:	The following consolidated services will be provided by the Company to CQFC: (a) water and gas supply services; (b) equipment repair and maintenance services; (c) medical and hygiene services; and (d) the three warranties (under certain conditions, the Company will provide the return, replacement or repair service for the equipments) and etc.

LETTER FROM THE BOARD

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 in the following order:

- (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%.

Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level.

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. Taxes payable refers to the value-added tax pursuant to the relevant PRC tax laws.

Payment term : *With respect to automobile parts:*

Payment within one month after delivery

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, the Company is entitled to terminate the supply of consolidated services to CQFC by notifying CQFC in writing.

As the provision of consolidated services is not within the business in which the Group principally engages and the projected transaction amounts are relatively small, the Company has adopted the pricing term of actual costs incurred plus taxes payable instead of setting a profit margin level. CQFC requires various supporting services for its daily operations. 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 and hence maximizing the Company's profits. Therefore, the Company considers such pricing policy fair and reasonable.

e. THE NEW CQAC AGREEMENT

Date : 22 December 2016

Parties : (i) CQAC; and
(ii) The Company

Condition precedent : Conditional upon approval by the Independent Shareholders at the general meeting

Term : From 1 January 2017 to 31 December 2019

LETTER FROM THE BOARD

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 CQAC's production and inspection of automobile axles to be provided by CQAC to the Company
Price determination	: <i>With respect to automobile parts:</i> Currently at prices not higher than market prices determined in the following order: (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%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level. In any event, on terms no less favourable than those offered by CQAC to Independent Third Parties <i>With respect to lease of machineries:</i> Rentals for lease of machineries are as follows: (i) RMB 610,000 (from 1 January 2017 to 31 December 2017) (ii) RMB 510,000 (from 1 January 2018 to 31 December 2018) (iii) RMB 300,000 (from 1 January 2019 to 31 December 2019) Rentals payable are determined based on the depreciation charge of the relevant machineries for the relevant year plus taxes payable.
Payment term	: <i>With respect to automobile parts:</i> Payment within one month after delivery

f. THE NEW CQNHK AGREEMENT

Date	: 22 December 2016
Parties	: (i) CQNHK; and (ii) The Company
Condition precedent	: Conditional upon approval by the Independent Shareholders at the general meeting
Term	: From 1 January 2017 to 31 December 2019

LETTER FROM THE BOARD

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 in the following order: (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%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level. In any event, on terms no less favourable than those offered by CQNHK to Independent Third Parties
Payment term	: Payment within one month after delivery

g. THE NEW CQPC AGREEMENT

Date	: 22 December 2016
Parties	: (i) CQPC; and (ii) The Company
Condition precedent	: Conditional upon approval by the Independent Shareholders at the general meeting
Term	: From 1 January 2017 to 31 December 2019
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 in the following order: (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%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level. In any event, no less favourable than those offered by CQPC to Independent Third Parties
Payment term	: Payment within one month after delivery

LETTER FROM THE BOARD

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 period from 20 September 2014 to 31 December 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 30 November 2016	For the period from 20 September 2014 to 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
CQACL Agreement	3,430,000	10,430,000	8,690,000	5,000,000	21,000,000	25,000,000
Qingling Group Agreement	77,130,000	141,560,000	15,530,000	113,000,000	269,000,000	351,000,000
CQCC Agreement	7,290,000	27,700,000	21,680,000	8,000,000	36,000,000	46,000,000
CQFC Agreement	10,250,000	40,350,000	33,550,000	15,000,000	90,000,000	110,000,000
CQAC Agreement	13,690,000	115,930,000	400,300,000	44,000,000	235,000,000	620,000,000
CQNHK Agreement	14,720,000	60,450,000	51,790,000	25,000,000	133,000,000	170,000,000
CQPC Agreement	19,110,000	63,100,000	58,830,000	30,000,000	148,000,000	200,000,000

None of aggregate amounts above for the period from 20 September 2014 to 31 December 2014 and for the year ended 31 December 2015 exceeded their respective annual caps for the corresponding period or year. It is expected that the respective amounts incurred for the year ended 31 December 2016 will not exceed their respective caps for the corresponding year.

Projected transaction amounts

The Directors project that under each of the New Parts Supply Agreements, the value of the automobile parts to be provided by the relevant parties to the Company for the three years ending 31 December 2019 will not exceed the amounts set out below:

	Projected transaction amounts Aggregate amounts (in RMB)		
	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
New CQACL Agreement	12,430,000	19,130,000	22,570,000
New Qingling Group Agreement	135,370,000	178,330,000	220,860,000
New CQCC Agreement	46,030,000	69,350,000	84,890,000
New CQFC Agreement			
(a) the value of automobile parts from CQFC to the Company	60,290,000	94,950,000	115,080,000
(b) the value of consolidated services from the Company to CQFC	6,400,000	10,550,000	12,890,000
New CQAC Agreement			
(a) the value of automobile parts from CQAC to the Company	835,810,000	1,394,810,000	1,801,240,000
(b) the value of machinery leasing from the Company to CQAC	610,000	510,000	300,000
New CQNHK Agreement	91,690,000	151,440,000	186,940,000
New CQPC Agreement	104,860,000	171,950,000	210,520,000

LETTER FROM THE BOARD

Basis of consideration

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

- (i) after arm's length negotiations between the parties thereto; and
- (ii) by reference to the statistics published in the "China Automotive Industry Yearbook" (中國汽車工業年鑒), according to which the average profit margin of the automobile industry in the PRC was 6.99% in 2015, whilst the average profit margins for automobile enterprises and automobile and motorcycle parts enterprises were 7.08% and 7.11% respectively in 2015.

The above profit margin of 7.11% for the automobile and motorcycle parts enterprises 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 Companies 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. Moreover, as the term of the agreement lasts for three years, the profit margin of the market would probably fluctuate during the term. According to the statistics published in "China Automobile Industry Newsletter of Production and Sales" (中國汽車工業產銷快訊) issued by China Association of Automobile Manufacturers (中國汽車工業協會), the profit margin of automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016 was approximately 7.35%. 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%, which is only slightly higher than the current average profit margin of the market and is fair and reasonable. The actual profit margin will be determined based on the nature, functionality, technology and quality standards of different parts.

Currently, the Company is the only 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 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 Isuzu 4J\4Z\4K\4H\6H engines, specified axles for Isuzu 100P\600P\700P\F light-, medium-, and heavy-duty trucks, supplied under the New Parts Supply Agreements.

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 than 8%. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment, the price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 8%. With respect to the transactions under

LETTER FROM THE BOARD

the New Parts Supply Agreements, the Company and each relevant party would conduct regular and formal business meetings and the Company would request for a complete cost chart in relation to the products supplied such that the Company could calculate the actual costs of the relevant products. Such consideration is the maximum consideration to be payable by the Company under the New Parts Supply Agreements. The actual consideration to be payable by the Company will be determined by reference to the prevailing market conditions. With reference to the range of profit margins for the historical transactions under the Parts Supply Agreements, the average profit margins of major products charged by each relevant party were in the range of approximately 0.2% and 4.9%.

To ensure that the New Parts Supply Agreements will be conducted on terms no less favourable to the Company than terms available from Independent Third Parties, the Company has in place internal procedures to determine the prices of the parts and components supplied under the New Parts Supply Agreements. Details of such internal procedures are set out in the section headed “*Other principles considered by the Company in relation to the operations of the New Parts Supply Agreements and the New Chassis Supply Agreement*” in this letter from the board, on pages 21 to 22 of this circular.

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 annual caps in aggregate for the transactions under the New Parts Supply Agreements, and these transactions will also be subject to the annual caps of the relevant individual New Parts Supply Agreements as disclosed on page 17 of this circular:

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending	For the year ending	For the year ending
	31 December 2017	31 December 2018	31 December 2019
New Parts Supply Agreements	1,293,490,000	2,091,020,000	2,655,290,000

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 2019 (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; and (iv) the new additional growth of sales expected to be achieved through establishing new distributors and expanding marketing branches in countries and towns with active market.

With improvement of the market condition in the second half of 2016 and the Company’s enhancement in market exploration and development by adopting the following measures, the Company expects that the 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

LETTER FROM THE BOARD

sales volume for the three years ending 31 December 2019 will see a rising trend (for example, the Company expects that the sales volume of its automobile models 100P/600P/700P for the three years ending 31 December 2019 will increase with compound annual growth rates ranging from approximately 39% to 41%) and hence the Group's requirement for automobile parts and components will also increase:

- (i) continuous market exploration, focusing on keeping pace with the trend of industrial development and in-depth exploration of the emerging markets in countries and towns;
- (ii) continuous adoption of the localization of parts and accessories policy and the strengthening and enhancement of the management of the Group to control the costs and enhance the 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; and
- (iv) product quality enhancement by the Company and maintaining the positions of its products as being of high quality and mid-priced.

The Group will continue to enhance its technology development by launching new varieties of vehicles such as heavy-duty trucks and special-purpose vehicles like ambulances, fire trucks, anti-explosion vehicles, city logistics refrigerated trucks, vehicles for transporting hazardous products, new energy vehicles, etc. The Company has completed the on-site assessment conducted by the Ministry of Industry and Information Technology and has obtained the manufacture qualification for new energy vehicles. 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 2019. It is expected that the launching of new models, varieties and specifications of vehicles can help further boosting the sales volume of vehicles of the Group.

During the year ended 31 December 2015 and the six months ended 30 June 2016, the Company engaged 15 and 20 new distributors in counties and towns respectively. Currently, the Group sells its products through 200 distributors and 450 sales branches in the PRC. 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. Having considered the above factors and taking into account a buffer for the fluctuations in price, the Board proposed the aforesaid annual caps with respect to the New Parts Supply Agreements with a compound annual growth rate of approximately 43.3%.

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, machining components, cars 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)

LETTER FROM THE BOARD

above; and the Qingling Group Companies produce 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, after-sales services for its products 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, aftersales services and other related services. Also, CQAC requires certain machineries for its production and inspection of automobile axles. Such automobile 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 Independent Third Parties), and in accordance with the pricing policy of the Company. The 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 39 to 40 of this circular.

Other principles considered by the Company in relation to the operations of the New Parts Supply Agreements and the New Chassis Supply Agreement

To ensure that the transactions contemplated under the New Parts Supply Agreements and the New Chassis Supply Agreement are on terms no less favourable to the Company than terms offered by the Qingling Group Companies to Independent Third Parties:

- (i) the said agreements specifically provide that transactions contemplated thereunder to be on terms no less favourable to the Company than terms offered to Independent Third Parties;
- (ii) the Company will determine the price of the automobile parts and the chassis by reference to the average profit margin in the market or based on the principle of the cost plus a margin. The underlying costs include raw materials, accessories, depreciation,

LETTER FROM THE BOARD

salary, motion, cutters/tools, technological consumption, equipment maintenance, management fees, and financial fees etc. With the assistance of the relevant procurement experience of its procurement department, the Company gathers information on market prices and profit margin levels of automobile parts and chassis in the industry through industrial associations and independent autoparts suppliers in the PRC;

- (iii) the Company possesses a 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”). The professional technical team also has market intelligence of the pricing level of various automobile parts including the plastic parts, aluminium casting parts and forging parts in the industry. The professional technical team will therefore be able to make business judgment for and provide professional opinions to the Company when negotiating with the vendors over the price;
- (iv) the Company will also determine the prices of parts and components by reference to the corresponding historical prices. The Company, when determining the prices of the automobile parts and chassis with the Qingling Group Companies, would request Qingling Group and its relevant associates to minimise 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 prices of different parts will remain relatively the same with that in the past three years, in spite of the continuous increase in costs such as raw materials, fuel, salary in the recent years;
- (v) the Qingling Group Companies regularly provide to the Company with estimated costs of automobile parts and chassis supplied under the relevant agreements upon which the parties further negotiate to determine the prices of automobile parts and chassis with reference to the relevant industrial standard and experience; and
- (vi) the Company has access to the quarterly operating statements and audited annual financial statements of the Qingling Group Companies, enabling it to know well the actual profit margin level achieved by the Qingling Group Companies.

3. THE NEW ISUZU SUPPLY AGREEMENT

Date	: 22 December 2016
Parties	: (i) Isuzu; and (ii) the Company
Term	: From 1 January 2017 to 31 December 2019
Nature of the Transaction	: Supply of automobile parts and components by Isuzu to the Company, including but not limited to injectors, ECU, high-pressure common rail pipe and other automobile components for engines and vehicles assembly
Condition precedent	: Conditional upon approval by the Independent Shareholders at the general meeting
Payment term	: Payment on delivery

LETTER FROM THE BOARD

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, quantities, qualities, delivery and inspection of products 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 judge 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 notice to the Company.

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 (in RMB)			Annual caps (in RMB)		
	From the period from 24 June 2014 to 31 December 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 30 November 2016	From the period from 24 June 2014 to 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
Isuzu Supply Agreement . . .	445,220,000	849,180,000	668,320,000	830,000,000	2,150,000,000	2,800,000,000

None of aggregate amounts above exceeded their respective annual caps for the period from 24 June 2014 to 31 December 2014 and for the year ended 31 December 2015. It is expected that the aggregate amount for the year ended 31 December 2016 will not exceed the respective caps for the corresponding year.

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%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level. The maximum profit margin of 10% is determined by reference to the statistics published in the “China Automotive Industry Yearbook” (中國汽車工業年鑒) (2015: the average profit margins for automobile enterprises and automobile and motorcycle parts enterprises in PRC were 7.08% and 7.11% respectively). 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 and the maximum profit

LETTER FROM THE BOARD

margin of 8% for other Non-exempt Continuing Connected Transactions (except for the New Supply Agreement). Nonetheless, 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 needs to purchase relevant automobile parts and components from Isuzu. The Company also made reference to the estimated prices of the same automobile parts and components sold by Isuzu in the domestic markets of Japan to compare and determine the purchase price from 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 (e.g. packaging and transportation fees), can serve as references for assessing the reasonableness of the price charged by Isuzu. On the basis of the above factors, upon fair negotiations between the parties, 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. Such profit margin only represents the maximum premium which could be charged. The actual price shall be finalised by both parties on the basis that it is fair and reasonable to both parties. Further, as the term of the agreements lasts for three years, there could be material change in the market during the term. Including a buffer in the maximum rate of profit margin to be charged provides the Company with flexibility in price negotiation in response to a sudden rise in profit margin resulting from unexpected changes in market conditions. For the reasons stated above, the Directors (including the independent non-executive Directors) are of the view that setting such maximum profit margin is on normal commercial terms, and that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Due to confidentiality, Isuzu would not provide the Company with information on its production costs and the profit margin level of its products sold in the domestic market of Japan. However, there would be monthly meetings between the Company and Isuzu, during which the Company and Isuzu would discuss the price of the products under the New Isuzu Supply Agreement with reference to the cost information provided by Isuzu (although such cost information would be presented to the Company by Isuzu orally only and no written documents would be provided). 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 profit margin of not more than 10%. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment, the price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 10%. In determining the prices of the relevant parts, the Company will also make reference to (i) the estimated prices 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. 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. Details of

LETTER FROM THE BOARD

the internal procedures in place to determine the purchase prices of the parts supplied by Isuzu to the Company are set out in the section headed “*Other principles considered by the Company in relation to the operations of the New Isuzu Supply Agreement*” in this letter from the board, on pages 26 to 27 of this circular.

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) 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	For the year Ending	For the year Ending
	31 December 2017	31 December 2018	31 December 2019
New Isuzu Supply Agreement	1,078,750,000	1,286,950,000	1,573,450,000

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; 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; and (iv) the expected expansion of sales network through distributors in the PRC.

With improvement of the market condition in the second half of 2016 and the Company’s enhancement in market exploration and development by adopting the following measures, the Company expects that the 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 for the three years ending 31 December 2019 will see a rising trend and hence increase the Group’s demand for automobile parts and components supplied by Isuzu with an expected compound annual growth rate of approximately 20.24%:

- (i) continuous market exploration, focusing on keeping pace with the trend of industrial development and in-depth exploration of the emerging markets in countries and towns;
- (ii) continuous adoption of the localization of parts and accessories policy and the strengthening and enhancement of the management of the Group to control the costs and enhance the 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; and
- (iv) product quality enhancement by the Company and maintaining the positions of its products as being of high quality and mid-priced.

LETTER FROM THE BOARD

The Group will continue to enhance its technology development by launching new varieties of vehicles such as heavy-duty trucks and special-purpose vehicles like ambulances, fire trucks, anti-explosion vehicles, city logistics refrigerated trucks, vehicles for transporting hazardous products, new energy vehicles, etc. The Company has completed the on-site assessment conducted by the Ministry of Industry and Information Technology and has obtained the manufacture qualification for new energy vehicles. 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 2019. It is expected that the launching of new models, varieties and specifications of vehicles can help further boosting the sales volume of vehicles of the Group.

During the year ended 31 December 2015 and the six months ended 30 June 2016, the Company engaged 15 and 20 new distributors in counties and towns respectively. Currently, the Group sells its products through 200 distributors and 450 sales branches in the PRC. 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. Having considered the above factors, and taking into account a buffer for the fluctuations in price, the Board proposed the aforesaid annual caps with a compound annual growth rate of approximately 20.8%.

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. The 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 39 to 40 of this circular.

Other principles considered by the Company in relation to the operations of the New Isuzu Supply Agreement

To ensure that the transactions contemplated under the New Isuzu Supply Agreement are on terms no less favourable to the Company than terms offered by Isuzu to Independent Third Parties, the said agreements specifically provide that transactions contemplated thereunder to be on terms no less favourable to the Company than terms offered to Independent Third Parties.

In addition, 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, therefore, no comparable market price is available for such parts in the domestic market of the PRC. In determining the price of such parts, the Company will ensure that the price of parts

LETTER FROM THE BOARD

procured from Isuzu is determined on normal commercial terms, and is fair and reasonable to the Company by reference to the price of the same parts sold by Isuzu in the domestic market of Japan:

1. first of all, a benchmark price will be determined according to the selling price of the same model of vehicle in the market of Japan, then the estimated price of each relevant autopart will be calculated according to the value allocation table of the vehicle provided by Isuzu. The value allocation table of a vehicle shows the automobile parts required for manufacturing that particular model of vehicle, as well as the percentage of each of the automobile parts in the vehicle in terms of value. Therefore, the value of each automobile part can be estimated by multiplying the selling price of a particular model of vehicle by the relevant percentage of the automobile part in the vehicle in terms of value as shown in the value allocation table;
2. packaging and transportation fees incurred by Isuzu will then be added to the estimated price and that becomes the price that the Company uses to compare with when determining whether the purchase price of a particular automobile part from Isuzu is fair and reasonable.

4. THE NEW SUPPLY AGREEMENT

Date	:	22 December 2016
Parties	:	(i) The Company; and (ii) QIEC.
Effective date	:	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 2017 (whichever is later)
Valid term	:	1 January 2017 to 31 December 2019
Nature of the transaction	:	The Company will provide parts of engines and raw materials to QIEC, and QIEC will provide engine assemblies and their parts to the Company.
Price determination	:	The actual selling price of the products to be supplied/purchased and other related terms in any further specific agreement shall be the actual costs of the supplying party plus a profit margin 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 terms	:	Payment within half a month after delivery

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 orders making procedure, method of delivery, price, payment methods, quantity, standard of quality, and other terms and conditions in relation to the supply and purchase of specific type 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, the Company is entitled to terminate the New Supply Agreement by notifying QIEC in writing.

LETTER FROM THE BOARD

Historical transaction amounts

The following table sets out the historical aggregate transaction amounts between the Company and QIEC 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:

Actual amount incurred (in RMB)			Annual caps (in RMB)		
For the period from 22 April 2014 to 31 December 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 30 November 2016	For the period from 22 April 2014 to 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
(a) the value of engines and their parts from QIEC to the Company					
1,214,790,000	1,265,390,000	1,112,430,000	1,690,000,000	3,120,000,000	4,000,000,000
(b) the value of engine parts and raw materials from the Company to QIEC					
711,800,000	890,570,000	733,600,000	1,250,000,000	2,300,000,000	2,960,000,000
Aggregate					
1,926,590,000	2,155,960,000	1,846,030,000	2,940,000,000	5,420,000,000	6,960,000,000

None of aggregate amounts above exceeded their respective annual caps for the period from 22 April 2014 to 31 December 2014 and for the year ended 31 December 2015. It is expected that the aggregate amount for the year ended 31 December 2016 will not exceed the annual cap for the corresponding period. If the aggregate amount for the year ended 31 December 2016 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 profit margin of not exceeding 10%. In relation to the engines and their parts supplied by QIEC to the Company, the Company will have regular and formal business negotiations with QIEC, and request QIEC to provide a complete cost calculation list for each of the parts it supplies, which could be used to calculate the full actual cost. The Company has taken into account statistics published in the “China Automotive Industry Yearbook” (中國汽車工業年鑒) when setting the 10% limit for the profit margin level. According to the 2015 China Automotive Industry Yearbook, the average profit margin for automotive industry in the PRC is 6.99% in 2015, while the profit margin for automobile enterprises and automobile and motorcycle parts enterprises are 7.08% and 7.11% respectively in 2015. It is expected that no engines and their parts under the New Supply Agreement will be supplied by Independent Third Parties to the Company because such products will be of specific specifications which are not available from other suppliers. Also, it is expected that the Company will not supply the engine parts and raw materials specified under the New 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 will be sold to Qingling Motors Outlets solely for the purposes of automobile maintenance and parts replacement in the PRC market.

When setting the 10% limit for the profit margin level, the Company has considered that the engine assemblies and parts to be supplied by QIEC to the Company under the New Supply Agreement are of high technology level and good quality and such engine assemblies are not merely single parts

LETTER FROM THE BOARD

but are the core parts of the Isuzu commercial vehicles. Also, as the Company considers that the quality of the engine assemblies and parts provided by QIEC are higher than the market level and comply with the technology and performance standard as required for Isuzu commercial vehicles, it is of the view that setting the maximum profit margin level for the supply of the engine assemblies and parts by QIEC to the Company at 10% is slightly higher than the current average profit margin of the market but conforms with the industry standard. Such profit margin only represents the maximum premium which could be charged. The actual price shall be finalised by both parties on the basis that it is fair and reasonable to both parties. With reference to the range of profit margins for the historical transactions under the Supply Agreement, the average profit margins of major products charged by QIEC to the Company were in the range of approximately 0.51% and 6.39%. As the term of the agreement lasts for three years, there could be material change in the market during the term. Including a buffer in the maximum rate of profit margin to be charged provides the Company with flexibility in price negotiation in response to a sudden rise in profit margin resulting from unexpected changes in market conditions. Although the maximum profit margin level being set at 10% is slightly higher than the current average profit margin of the market and other Non-exempt Continuing Connected Transactions (except for the New Isuzu Supply Agreement) at 8%, for the reasons stated above, the Directors (including the independent non-executive Directors) are of the view that such maximum profit margin is on normal commercial terms, and that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole. As the New Supply Agreement was entered into between the Company and QIEC after arm's length negotiations, the Company and QIEC also agreed to set the maximum profit margin level for the supply of the engine parts and raw materials by the Company to QIEC at 10% on the same basis.

The Company will only supply engine parts and raw materials as those supplied under the New Supply Agreement to (i) QIEC for assembling and composing engine assemblies; and (ii) Qingling Motors Outlets for automobile maintenance and parts replacement purposes. Qingling Motors Outlets are the only Independent Third Parties to which such engines parts and raw materials are sold. Although the agreement stipulates that the maximum profit margin is 10%, as the engine parts and raw materials supplied by the Company to QIEC will be used for assembling and composing engine assemblies, and such engine assemblies will subsequently be sold back to the Company exclusively by QIEC, the engine parts and raw materials are sold by the Company to QIEC at cost so as to lower the prices of the engine assemblies to be sold by QIEC to the Company. As such, the profit margin of the same type of products sold by the Company to Qingling Motors Outlets will be of a higher level. 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 be sold back to the Company exclusively, the Company will charge profit margin based on normal commercial terms.

LETTER FROM THE BOARD

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 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
The New Supply Agreement			
(a) the value of engine assemblies and their parts from QIEC to the Company	1,973,970,000	3,264,770,000	4,099,630,000
(b) the value of engine parts and raw materials from the Company to QIEC	1,198,430,000	1,961,260,000	2,373,850,000
Aggregate	3,172,400,000	5,226,030,000	6,473,480,000

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; and (ii) the expected growth of the Company from the effective date of the New Supply Agreement to the end of 2019 in view of the economic growth in the PRC and the growth in demand for engines and their parts.

The reduction in transaction amounts for the Supply Agreement and the drop in the Group's sales volume of vehicles was mainly attributable to the downward adjustment pressure on the automobile industry as the economy of the PRC was at the critical stage of structural adjustment, transformation and upgrading during 2014 to 2016. However, with improvement of the market condition in the second half of 2016 and the Company's enhancement in market exploration and development by adopting the following measures, the Company expects that the demand of automobiles, in particular for technologically advanced and high-quality commercial vehicles like those manufactured and sold by the Group will see a rising trend. The Company expects that the launching of new models, varieties and specifications of vehicles can help further boosting the sales volume of vehicles by a compound annual growth rate of approximately 41.9% from 2017 to 2019. For example, the sales volume of the Company's vehicle model 100P is expected to increase from 23,200 in 2017 to 45,400 in 2019, representing a compound annual growth rate of approximately 40%. Hence, there will be an increase in the demand of the engines and their parts from QIEC and the engine parts and raw materials from the Company at similar growth rate:

- (i) continuous market exploration, focusing on keeping pace with the trend of industrial development and in-depth exploration of the emerging markets in countries and towns;
- (ii) continuous adoption of the localization of parts and accessories policy and the strengthening and enhancement of the management of the Group to control the costs and enhance the 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; and
- (iv) product quality enhancement by the Company and maintaining the positions of its products as being of high quality and mid-priced.

LETTER FROM THE BOARD

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 Independent Third Parties), and in accordance with the pricing policy of the Company. With respect to the engine assemblies and 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. The 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 39 to 40 of this circular.

Other principles considered by the Company in relation to the operations of the New Supply Agreement

The New Supply Agreement specifically provides that the actual selling price of the products to be supplied/ purchased shall be the actual costs of the supplying party plus a profit margin of not exceeding 10% and that such premium shall be finalised by both parties on the basis that it is fair and reasonable to both parties. Further, QIEC is owned as to 50% and 50% respectively by the Company and Isuzu and half of the directors of the QIEC were nominated by the Company. As such, the Company will be able to ensure that the transactions contemplated under the New Supply Agreement are on normal commercial terms or on terms no less favourable than terms offered to/by Independent Third Parties.

LETTER FROM THE BOARD

5. THE NEW SALES JV SUPPLY AGREEMENT

Date	:	22 December 2016
Parties	:	(i) The Company; and (ii) the Sales JV Company.
Effective date	:	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 2017 (whichever is later)
Valid term	:	1 January 2017 to 31 December 2019
Nature of the transaction	:	The Company will provide automobiles and their parts to the Sales JV Company.
Price determination	:	The actual 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%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level.

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 orders making procedure, method of delivery, price, payment methods, quantity, standard of quality, and other terms and conditions in relation to the supply and purchase of specific type 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, 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 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 30 November 2016	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
8,720,000	9,280,000	32,960,000	53,000,000	85,000,000	213,000,000

LETTER FROM THE BOARD

None of aggregate amounts above exceeded their respective annual caps for the two years ended 31 December 2015. It is expected that the aggregate amount for the year ended 31 December 2016 will not exceed the annual cap for the corresponding period. If the aggregate amount for the year ended 31 December 2016 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 the automobiles and their parts supplied by the Company to the Sales JV Company pursuant to the New Sales JV Supply Agreement will only be supplied to the Sales JV Company and the distributors of the Company, there are no comparable market prices, and 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%. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment, the price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 8%. The Company has taken into account statistics published in the “China Automotive Industry Yearbook” (中國汽車工業年鑒) when setting the 8% limit for the profit margin level. According to the 2015 China Automotive Industry Yearbook, the average profit margin for automotive industry in the PRC is 6.99% in 2015, while the profit margin for automobile enterprises and automobile and motorcycle parts enterprises are 7.08% and 7.11% respectively in 2015. As the term of the agreement lasts for three years, the profit margin of the market would probably fluctuate during the term. According to the statistics published in “China Automobile Industry Newsletter of Production and Sales” (中國汽車工業產銷快訊) issued by China Association of Automobile Manufacturers (中國汽車工業協會), the profit margin of automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016 was approximately 7.35%. Therefore, the maximum profit margin set to be 8%, which is only slightly higher than the current average profit margin of the market, is fair and reasonable.

With respect to the automobiles and parts supplied to the Sales JV Company, the Company will ensure that the Sales JV Company enjoys comparable sales policy as other distributors of the Company, where the price offered to the Sales JV Company shall not be lower than those offered to such distributors. To ensure such transactions are conducted on normal commercial terms, the Company would set out a supply price list for the provision of automobiles and parts, and pricing for all transactions are carried out in accordance with the prices on such list; and when setting out the supply price list for the provision of automobiles to the Sales JV Company, reference is made to the pricing for transactions the Company conducted with Independent Third Parties, and the price list is set out on the basis of the prices on the price list being not less favourable than that offered to Independent Third Parties. All proposed pricing terms would be audited by the Company’s finance department and approved at the management level.

LETTER FROM THE BOARD

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 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
The New Sales JV Supply Agreement	440,180,000	918,370,000	1,168,140,000

Basis of proposed annual caps

The said proposed caps for the New Sales JV Supply Agreement are determined with reference to (i) the expansion of the sales capacity of the Group; (ii) the expected growth of the Company from the effective date of the New Sales JV Supply Agreement to the end of 2019 in view of the economic growth in the PRC and the growth in demand for automobile and their parts; (iii) the price of automobile, parts and transportation in the market and their price trends; (iv) historical transaction amounts; (v) the repositioning, enhancement and extension of the function of the Sales JV Company, the expansion of the business of the Sales JV Company into sales of automobile parts and incorporating the export of parts into its business scope to expand the after-sale demand for vehicle-used parts; and (vi) the enrichment of the JV Sales Company's sales function of automobiles by expanding from only selling one of the refrigerated trucks previously to the whole series of models of vehicles, such that its role as a distributor of the Company in Chongqing is consolidated and further enhanced.

The historical transaction amounts of the transactions under the Sales JV Supply Agreement increased at an annualized compound annual growth rate of approximately 87.6% during the period from 2014 to 2016. The registered capital of the Sales JV Company has been increased in 2015 for the expansion of its business in view of the increasing demand in after sales automobile parts and components resulting from the expansion of the sales of Isuzu brand vehicles. Therefore, the demand of automobiles and their parts from the Company by the Sales JV Company increased during the period between 2014 and 2016.

It is expected that the compound annual growth rate of the sales volume of vehicles of the Group during 2017 to 2019 will be 41.9%, and due to the expansion of the business scope of Sales JV Company, the projected numbers of vehicles to be sold to Sales JV Company are expected to increase substantially during the three years ending 31 December 2019 as compared to 2016. For example, the sales volume of the automobile model T/U supplied to the Sales JV Company is expected to increase from 1,220 in 2017 to 3,900 in 2019, representing a compound annual growth rate of approximately 79%. Therefore, the proposed annual cap of the New Sales JV Supply Agreement in 2017 increases significantly from 2016 and will further increase at a compound annual growth rate of approximately 62.9% for the three years ending 31 December 2019.

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

LETTER FROM THE BOARD

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 Independent Third Parties), and in accordance with the pricing policy of the Company. The 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 39 to 40 of this circular.

Other principles considered by the Company in relation to the operations of the New Sales JV Supply Agreement

The New Sales JV Supply Agreement specifically provides that the actual selling prices of the automobiles or their parts to be supplied/purchased 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%.

6. THE NEW SUPPLY AGREEMENT (IQAC)

Date	:	22 December 2016
Parties	:	(i) IQAC; and (ii) the Company.
Effective date	:	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 2017 (whichever is later)
Valid term	:	1 January 2017 to 31 December 2019
Nature of the transaction	:	IQAC will provide parts of engines (including but not limited to Engine 5C with parts and other parts) and related products to the Company. The Company will provide automobiles, parts of engines and raw materials to IQAC.

LETTER FROM THE BOARD

Price determination : Prices for products provided shall not be higher than the market prices and shall not be less favourable than the prices offered to Independent Third Parties. If there are no comparable market prices, prices shall be determined based on the actual or reasonable costs incurred (whichever is lower) plus a profit margin of not more than 8%. Reasonable cost is the estimation of the cost of the relevant products by the parties using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level.

Pursuant to the New Supply Agreement (IQAC), the parties shall enter into further specific agreement(s) with detailed terms in accordance with the underlying principles under the New Supply Agreement (IQAC), specifying the price, payment methods, quantity, standard of quality, method of delivery and other terms and conditions in relation to the supply and purchase of specific type of products.

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

Historical transaction amounts

The following table sets out the historical aggregate transaction amounts between the Company and IQAC in respect of the supply of automobiles, parts of engines and raw materials from the Company to IQAC, and parts of engines from IQAC to the Company under the Supply Agreement (IQAC):

Actual amount incurred (in RMB)			Annual caps (in RMB)		
For the year ended 31 December 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 30 November 2016	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016
(a) the value of automobiles, parts of engines and raw materials from the Company to IQAC					
31,290,000	37,980,000	60,880,000	51,780,000	114,450,000	173,780,000
(b) the value of parts of engines and related products from IQAC to the Company					
—	—	1,590,000	—	—	4,460,000
<u>Aggregate</u>					
31,290,000	37,980,000	62,470,000	51,780,000	114,450,000	178,240,000

None of aggregate amounts above exceeded their respective annual caps for the two years ended 31 December 2015. It is expected that the aggregate amount for the year ended 31 December 2016 will not exceed the annual cap for the corresponding period. If the aggregate amount for the year ended 31 December 2016 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.

LETTER FROM THE BOARD

Basis of consideration

As 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%. In relation to the engines and their parts supplied by QIEC to the Company, the Company will have regular and formal business negotiations with QIEC, and request QIEC to provide a complete cost calculation list for each of the parts it supplies, which could be used to calculate the full actual cost. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment, the price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 8%. The Company has taken into account statistics published in the “China Automotive Industry Yearbook” (中國汽車工業年鑒) when setting the 8% limit for the profit margin level. According to the 2015 China Automotive Industry Yearbook, the average profit margin for automotive industry in the PRC is 6.99% in 2015, while the profit margin for automobile enterprises and automobile and motorcycle parts enterprises are 7.08% and 7.11% respectively in 2015. As the term of the agreement lasts for three years, the profit margin of the market would probably fluctuate during the term. According to the statistics published in “China Automobile Industry Newsletter of Production and Sales” (中國汽車工業產銷快訊) issued by China Association of Automobile Manufacturers (中國汽車工業協會), the profit margin of automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016 was approximately 7.35%. Therefore, the maximum profit margin set to be 8%, which is only slightly higher than the current average profit margin of the market, is fair and reasonable.

With respect to the parts of engines supplied by IQAC to the Company and the automobiles and parts of engines and raw materials supplied by the Company to IQAC, as the relevant products are all produced using Isuzu proprietary equipment, process and technology, and the relevant parts of engines and raw materials are specifically for the production of Isuzu vehicles manufactured by Qingling Group, there are no substitute products on the market. Even if there are similar relevant products on the market, they are not authentic Isuzu parts. Since their technical quality standards cannot be confirmed, there is no comparable market price available, and the Company does not supply such products to Independent Third Parties. To ensure such transactions are conducted on normal commercial terms, all proposed pricing terms would be audited by the Company’s Finance department and approved at the management level.

Proposed annual caps

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

	Proposed annual caps Aggregate amount (in RMB)		
	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
New Supply Agreement (IQAC)			
the value of parts of automobiles and engines and raw materials from the Company to IQAC	143,970,000	326,250,000	488,560,000
the value of parts of engines and related products from IQAC to the Company	6,710,000	12,070,000	18,780,000
Aggregate	150,680,000	338,320,000	507,340,000

LETTER FROM THE BOARD

Basis of proposed annual caps

The said proposed annual caps for the New Supply Agreement (IQAC) are determined with reference to the market sale forecast for the heavy-duty vehicles of the Company and the manufacturing and operation plans of IQAC.

The historical transaction amounts of the transactions under the Supply Agreement (IQAC) in respect of the sales of parts of automobile and engines and raw materials to IQAC by the Company increased at an annualized compound annual growth rate of approximately 45.6% during 2014 to 2016 while the Company purchased minimal amounts of parts of engines and related products from IQAC in 2016 only. The increase in sales of parts of automobile and engines and raw materials to IQAC was mainly attributable to the increase in demand from IQAC for the export sales to IQAC's overseas customers.

The annual caps of the New Supply Agreement (IQAC) in respect of the provision of parts of automobiles and engines and raw materials by the Company to IQAC will increase at a compound annual growth rate of approximately 84.2% for the three years ending 31 December 2019. The Company understands from IQAC that the demand on parts of automobiles and engines and raw materials from IQAC shall increase during the three years ending 31 December 2019 as IQAC will continue to expand its overseas market. Therefore, it is expected that the products under the New Supply Agreement (IQAC) to be purchased by IQAC for its export business will continue to increase at an compound annual growth rate of approximately 54.2%. IQAC also purchases parts of engines and raw materials from the Company for the production of engine parts, which will then be sold to QIEC for the production of engines. The engines produced by QIEC will be sold back to the Company for the production of the Company's heavy-duty vehicles. The Company anticipates that 2,500 units of heavy-duty vehicles will be sold in 2017, which will further increase at an compound annual growth rate of approximately 67.3% for the three years ending 31 December 2019. Therefore, it is expected that the parts of automobiles and engines and raw materials to be purchased from the Company by IQAC for the production of engine parts will also increase at an compound annual growth rate of approximately 103.3% for the three years ending 31 December 2019.

In respect of the provision of parts of engines and related products by IQAC to the Company, it is also expected to be increasing at an compound annual growth rate of approximately 67.3% for the three years ending 31 December 2019. As certain parts of engines of the heavy-duty vehicles produced by the Group will be supplied by IQAC, it is expected that the Company will need to purchase parts of engines and related products from IQAC for the maintenance of the Group's heavy-duty vehicles during the three years ending 31 December 2019. The growth rate of the proposed annual caps of the New Supply Agreement (IQAC) in respect of the provision of parts of engines and related products by IQAC to the Company for the three years ending 31 December 2019 is basically in line with the growth rate of heavy-duty vehicles to be sold by the Group.

Reasons for entering into the New Supply Agreement (IQAC)

The manufacturing of the Company's heavy-duty vehicles requires the engine components provided by IQAC, which will then be assembled into heavy-duty engines by QIEC for the Company's use in the production of heavy-duty vehicles, and also, the Company have to purchase related parts from IQAC to meet the after-sale demand for vehicle-used parts. IQAC targets at the domestic and overseas market and it needs to make bulk purchase from the Company for vehicles, engine

LETTER FROM THE BOARD

components and raw materials to reduce the procurement costs and to obtain operating efficiency. The Directors believe that the provision of parts of engines from the IQAC to the Company and the provision of automobiles, parts of engines and raw materials from the Company to IQAC 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 (IQAC) 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 (IQAC) 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 (IQAC) will be conducted in accordance with the terms of the New Supply Agreement (IQAC), on normal commercial terms (or on terms no less favourable than terms available to or from Independent Third Parties), and in accordance with the pricing policy of the Company. With respect to the parts of engines supplied by IQAC to the Company, the Company will request IQAC to supply the actual costs of the relevant products prior to the pricing of transaction under the New Supply Agreement (IQAC). The 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 39 to 40 of this circular.

Other principles considered by the Company in relation to the operations of the New Supply Agreement (IQAC)

The New Supply Agreement (IQAC) specifically provides that prices for products provided shall not be higher than the market prices and shall not be less favourable than the prices offered to Independent Third Parties. If there are no comparable market prices, prices shall be determined based on the actual or reasonable costs incurred (whichever is lower) plus a profit margin of not more than 8%.

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

LETTER FROM THE BOARD

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 be then 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 are owned as to 75%, 75%, 72.43%, 80%, 75.15% and 55.8% respectively by Qingling Group, they are associates of Qingling Group. Therefore, Qingling Group, CQCC, CQFC, CQACL, CQAC, CQPC and CQNHK 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.

LETTER FROM THE BOARD

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 and is therefore a connected person of the Company. Each of QIEC and Sales JV Company is owned as to 50% and 50% respectively by the Company and Isuzu. 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 the New Isuzu Supply Agreement, the New Supply Agreement and the New Sales JV Supply Agreement therefore constitutes continuing connected transactions of the Company under the Listing Rules.

As at the Latest Practicable Date, IQAC is owned as to 49% and 51% respectively by Qingling Group and Isuzu. Both Qingling Group and Isuzu are substantial shareholders of the Company, holding approximately 50.10% and 20.00% of the entire issued share capital of the Company respectively and are therefore both connected persons of the Company. Consequently IQAC is a connected person of the Company under the Listing Rules. The entering into of the New Supply Agreement (IQAC) 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; (v) the New Sales JV Supply Agreement; and (vi) the New Supply Agreement (IQAC) 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.

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 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 and their respective annual caps.

LETTER FROM THE BOARD

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% 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, 23.21% 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 QIEC, Sales JV Company and the relevant Qingling Group Companies, 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.

As at the Latest Practicable Date, IQAC is owned as to 49% and 51% respectively by Qingling Group and Isuzu. Both Qingling Group and Isuzu are substantial shareholders of the Company, holding approximately 50.10% and 20.00% of the entire issued share capital of the Company respectively. In view of the said interest held by Qingling Group and Isuzu in IQAC, Qingling Group, Isuzu and their associates will be required to abstain from voting on ordinary resolutions to be proposed at the EGM in respect of the New Supply Agreement (IQAC) and its 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.

Hercules 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.

LETTER FROM THE BOARD

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.

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.

IQAC is principally engaged in the domestic development of automobile engines and other parts, manufacturing of key new parts of automobiles, assembling and sales of components, sales of automobile parts and components, export and sales of engines manufactured by the Company and Isuzu brand commercial vehicles and international cargo transport agent (excluding international express).

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. However, Mr. Luo Yuguang is a director of Qingling Group, Mr. Yoshifumi Komura is a director of Isuzu, and they both have voluntarily abstained from voting on the relevant board resolutions.

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 Thursday, 27 April 2017 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

LETTER FROM THE BOARD

Cun, Zhongliangshan, Jiulongpo District, Chongqing, the PRC by post, by cable or by fax (at fax no. (86)23-68830397) on or before Friday, 7 April 2017 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 Hercules Capital Limited, the Independent Financial Adviser, considers that the Non-exempt Continuing Connected Transactions and the respective annual caps are on normal commercial terms, 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 page 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 76 of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

10 March 2017

To the Independent Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 10 March 2017 (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, such transactions are conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and 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 Hercules 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 76 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

10 March 2017

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

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 Parts Supply Agreements, the New Chassis Supply Agreement, the New Isuzu Supply Agreement, the New Supply Agreement, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC), details of which are set out in the “Letter from the Board” contained in the circular dated 10 March 2017 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 22 December 2016, the Company entered into various agreements with CQACL, Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC, Isuzu, QIEC, Sales JV Company and IQAC (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 Group to the respective Connected Persons; and (ii) the supply of engines and their parts, automobile parts and components and related products by the respective Connected Persons to the Group for the period from the respective commencement date of the agreements to 31 December 2019.

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 and CQNHK were owned as to 75.00%, 75.00%, 72.43%, 80.00%, 75.15% and 55.80% 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 each of QIEC and Sales JV Company was owned as to 50.00% by the Company and 50.00% by Isuzu. Meanwhile, Isuzu and Isuzu China, a wholly-owned subsidiary of Isuzu, held approximately 21.54%, 23.21%, 23.00%, 20.00%, 19.00% and 5.00% of CQCC, CQFC, CQACL, CQAC, CQPC and CQNHK respectively and IQAC was owned as to 49.00%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

by Qingling Group and 51.00% by Isuzu. Accordingly, Qingling Group, CQCC, CQFC, CQACL, CQAC, CQPC, CQNHK, Isuzu, QIEC, Sales JV Company and IQAC 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, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC) 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; (v) the New Sales JV Supply Agreement; and (vi) the New Supply Agreement (IQAC) 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 (IQAC) 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, the New Supply Agreement (IQAC) 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 terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and whether the Non-exempt Continuing Connected Transactions are on normal commercial terms and conducted in the ordinary and usual course of business of the Group, and are in the interests of the Company and Shareholders as a whole. We, Hercules 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 and occasions as detailed in the announcement of the Company dated 27 April 2016 and circular of the Company dated 28 April 2016, 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 could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 collectively and individually accept 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 confirm 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 subjects 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 and that we do not have any obligation to update, revise or reaffirm this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in assessing the Non-exempt Continuing Connected Transactions and arriving at our opinion are set out as follows:

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 and CQACL, 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and components; (iv) motor vehicle seats, interior accessories and other seats; (v) plastic automobile parts and other plastic parts components; and (vi) aluminum automobile parts and other aluminum parts and components, respectively.

QIEC and Sales JV Company are sino-foreign equity joint ventures established in the PRC which are owned as to 50.00% by the Company and 50.00% by Isuzu. QIEC is principally engaged in the manufacturing and sale of vehicle-used engines and their parts while Sales JV Company is principally engaged in the sale, import and export, import and export agency services and after-sales services in relation to vehicles and parts in Isuzu brand (including vehicles in Qingling brand which have been registered by the Company) manufactured by the Company, second-hand vehicle sales (excluding second-hand vehicle brokerage business), vehicle maintenance equipment leasing, automotive marketing planning, automotive technical consulting, training services and business services for dealers and car repair factories.

IQAC is owned as to 49.00% by Qingling Group and 51.00% Isuzu. It is principally engaged in research and development for localization of automobile engine and its parts and components, manufacturing, assembly and sale of key components for new vehicle models, sale of vehicle parts and components, export sales of automobile engines and commercial vehicles in Isuzu brand manufactured by the Company as well as international cargo transport agency services (excluding international courier services).

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

The Group has been purchasing various parts of engines and engine assemblies, automobile parts and components and related products from QIEC, CQACL, Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC, Isuzu and IQAC, and supplying automobile chassis and related components to Qingling Group, various parts of engines and raw materials to QIEC, automobiles and their parts to Sales JV Company and parts of automobile and engines and raw materials to IQAC under the Chassis Supply Agreement, the Parts Supply Agreements, the Isuzu Supply Agreement, the Supply Agreement, the Sales JV Supply Agreement and the Supply Agreement (IQAC). The above-mentioned agreements expired on 31 December 2016. 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, 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), the New Isuzu Supply Agreement, the New Supply Agreement, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC) with Qingling Group, CQACL, Qingling Group, CQCC, CQFC, CQAC, CQNHK, CQPC, Isuzu, QIEC, Sales JV Company and IQAC respectively on 22 December 2016.

(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 under the brand name of “Isuzu” and the automobile parts and components used therein must meet the “Isuzu” standard. We were advised by management of the Company that the Company is the only 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

drawings, technology specifications and quality standards given or confirmed by Isuzu under its guidance. Without the authorities given by Isuzu or the Company, independent third parties are not able to produce relevant parts that meet the quality standards of Isuzu. The Company and the relevant Connected Persons have obtained the authorities to produce the automobile parts and components that meet the quality standards of Isuzu while other suppliers do not have the technology know-how and specific equipment of Isuzu to produce such automobile parts and components specified under the New Parts Supply Agreements and the New Isuzu Supply Agreement. Therefore, the Company 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, machining components, cars and other parts and components; (iii) casts of engine cylinder blocks, cylinder heads and main bearing covers and other parts and components; (iv) raw forgings of engine crankshafts, 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) injectors, ECU, high-pressure common rail pipe and other automobile components for engines and vehicles 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 repair and maintenance services for the machineries, after-sales services for its products and other auxiliary and utility-related services for its regular operations in order to facilitate the operation of the Group and minimize the costs of the Group in setting up crews to handle the repair and maintenance services, after-sales services and other related services. 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 inspection of automobile axle assemblies, 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 trucks and 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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (v) other suppliers do not possess the technology know-how and specific equipment of Isuzu and thus their products will not meet the requirements of Isuzu even though they may be capable of manufacturing parts with the same specifications;
- (vi) the Company is specialized in the production and sale of automobile chassis and related components. 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
- (vii) the provision of consolidated services and lease of machineries by the Group to CQFC and CQAC respectively can utilize the Group's resources to generate additional income to the Group and reduce the Group's costs,

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, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC)

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. By entering into the New Supply Agreement, QIEC can purchase engine parts and raw materials from the Company for assembling and composing engine assembly while the Company in turn can secure the supply of engine assemblies and their parts from QIEC for assembling automobiles and for the maintenance of automobiles.

Meanwhile, Sales JV Company is specialized in the sale, import and export, import and export agency services and after-sales services in relation to vehicles and parts in Isuzu brand (including vehicles in Qingling brand which have been registered by the Company) manufactured by the Company, second-hand vehicle sales (excluding second-hand vehicle brokerage business), vehicle maintenance equipment leasing, automotive marketing planning, automotive technical consulting, training services and business services for dealers and car 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.

Furthermore, the Company has been purchasing from IQAC engine components, which will then be assembled into heavy-duty engines by QIEC for the Company's use in the production of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

heavy-duty vehicles, and related parts to meet the demand of after-sales spare parts. In return, IQAC has been purchasing vehicle and engine components and raw materials from the Company to reduce the procurement costs and obtain operating efficiency through bulk purchases.

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, the New Sales JV Supply Agreement and the New Supply Agreement (IQAC) 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 2017 to 31 December 2019, conditional upon approval by the Independent Shareholders at the general meeting. The price shall be determined by reference to the market prices of the chassis and related components with 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. 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 without limitation, prices, payment and settlement terms, quantities, qualities, delivery and inspection of products 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 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. 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 have reviewed the transactions conducted under the Chassis Supply Agreement and noted 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 set by other automobile suppliers; (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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 five sets of documents regarding the above-mentioned pricing procedures of transactions under the Chassis Supply Agreement, which were randomly selected and thus we considered are representative, and noted that the pricing procedures were properly followed by the Company.

We have also reviewed four sets of invoices issued by the Company to Qingling Group and the Independent Third Parties in relation to the sale of automobile chassis and related components, which were randomly selected and contained four different items and thus we considered are representative, and noted that the 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. In the event that there is any transaction without sufficient comparable transactions, the Company will 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 will 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 will 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, will also make business judgment for, and provide professional advices to, the Company in case comparable transactions are absent and the Company is required to negotiate the pricing terms with Qingling Group. We noted that the margin level for the Company is not fixed in the New Chassis Supply Agreement for transactions contemplated thereunder without sufficient comparable transactions. 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.

We were confirmed by management of the Company that the same pricing policy and internal control policies will be applied by the Company for pricing determination of transactions under the New Chassis Supply Agreement.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

(i) 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 2017 to 31 December 2019, conditional upon approval by the Independent Shareholders at the general meeting:

- (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 and other parts and components from Qingling Group;
- (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;
- (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 determined in the following order: (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 reasonable costs is the cost of the relevant products estimated by the purchasing party using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level of the supplying party. If the actual costs provided by the supplying party are higher

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment. The price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 8%. 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 statistics published in the "China Automotive Industry Yearbook", according to which the average profit margin of the automobile industry in the PRC was 6.99% in 2015, whilst the average profit margins for automobile enterprises and automobile and motorcycle parts enterprises were 7.08% and 7.11% respectively in 2015, as well as the historical transaction prices of the parts.

We were given to understand that the Company is currently the only enterprise in the PRC engaging in the manufacturing of commercial vehicles under the brand name of Isuzu, and the Company and the 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. Independent Third Parties without authorization given by Isuzu or the Company will not be able to produce the relevant parts and meet the quality standards of Isuzu. As no authorizations have been given to Independent Third Parties in the market for the production of the parts supplied to the Company by Qingling Group Companies for assembling Isuzu commercial vehicles, no comparable market prices are available for the parts such as cylinder blocks, cylinder heads, rod castings of some specific engines and certain specified axles. Accordingly, the prices of the products to be supplied to the Company under the New Parts Supply Agreements 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 to be payable by the Company under the New Parts Supply Agreements. The actual consideration to be 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 automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016 was approximately 7.35%, which is approximately 8.1% lower than the maximum rate of 8% to be charged by the respective Qingling Group Companies under the New Parts Supply Agreements.

We were advised by management of the Company that the manufacturing of parts ordered from the Qingling Group Companies generally involves more complex technologies and stringent procedures on quality control as compared to those products that are readily available in the market. Accordingly, the Company considers that a higher profit margin is justifiable for parts purchased from the Qingling Group Companies. Furthermore, having considered that (i) the profit margin of automobile parts and accessories manufacturers in the PRC published by China Association of Automobile Manufacturers is only an average level and the actual profit margin will vary from transaction to transaction depending on the nature, prevailing market price, technology specifications, quality standards of the parts and supply-demand relationship in the market; and (ii) it is reasonable to include a buffer in the maximum rate of profit margin to be charged under the New Parts Supply Agreements so as to allow flexibility in price negotiation in response to market changes as such agreements have a term of 3 years, during which there might be significant market changes, and a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

sudden rise in profit margin resulting from unexpected changes in market conditions might lead to a mandatory cessation of the transactions under the New Parts Supply Agreements if no buffers were provided, we consider that it is fair and reasonable to set the ceiling of the profit margin at 8%, although it is higher than the current average market rate.

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 the Qingling Group Companies to Independent Third Parties, the New Parts Supply Agreements specifically provided 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 the Qingling Group Companies, would request the 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, in spite of the continuous increase in costs such as raw materials, fuel and salary in the recent years. Moreover, the 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 relevant industrial standard and experience. The Company's access to the quarterly operating statements and audited annual financial statements of the Qingling Group Companies also enable the Company to know well the actual profit margin level achieved by the Qingling Group Companies.

We have reviewed twenty-two samples of invoices issued by the Qingling Group Companies to the Company and estimated costs of automobile parts supplied under the Parts Supply Agreements provided by the Qingling Group Companies, which were randomly selected and contained 38 different items and thus we considered are representative, and noted that the average profit margins of major products charged by the Qingling Group Companies were in the range of approximately 0.2% and 4.9%.

Having considered that (i) the actual average profit margins of major products charged by the Qingling Group Companies under the Parts Supply Agreements were lower than the maximum profit margin of 8%; (ii) the actual average profit margins of major products charged by the Qingling Group Companies for the transactions under the Parts Supply Agreements were lower than the profit margin of automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016; (iii) the profit margin of 8% under the New Parts Supply Agreements represents only the maximum rate that can be charged by the 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 the 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *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, including (i) water and gas supply services; (ii) equipment repair and maintenance services; (iii) medical and hygiene services; and (iv) the three warranties (under certain conditions, the Company will provide the return, replacement or repair service for the equipments) and etc. to CQFC for the period from 1 January 2017 to 31 December 2019, conditional upon approval by the Independent Shareholders at the general meeting, at prices based on actual costs incurred plus value-added taxes payable pursuant to the relevant PRC tax laws. 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 so far. As such, no transactions with Independent Third Parties 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 services to CQFC is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) *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 inspection of automobile axles to be provided by CQAC to the Company for the period from 1 January 2017 to 31 December 2019, conditional upon approval by the Independent Shareholders at the general meeting. The rentals for leasing of machineries are RMB610,000 for the period from 1 January 2017 to 31 December 2017, RMB510,000 for the period from 1 January 2018 to 31 December 2018 and RMB300,000 for the period from 1 January 2019 to 31 December 2019, which were determined based on the depreciation charge of the relevant machineries for the relevant year plus taxes payable pursuant to the relevant PRC tax laws.

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,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

no transactions with Independent Third Parties 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 axles 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 and components including, but not limited to, injectors, ECU, high-pressure common rail pipe and other automobile components for engines and vehicles assembly to the Company for the period from 1 January 2017 to 31 December 2019, conditional upon approval by the Independent Shareholders at the general meeting.

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, qualities, delivery and inspection of products 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. 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 notice to the Company.

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 New Isuzu Supply Agreement has been and 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%. Reasonable cost is the cost of the relevant products estimated by the purchasing party using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level of the supplying party. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment. The price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 10%. The maximum profit margin of 10% was determined by reference to the statistics published in the “China Automotive Industry Yearbook”, which indicated that the average profit margin for automobile enterprises and automobile and motorcycles parts enterprises in the PRC were 7.08% and 7.11% respectively in 2015.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 and the benchmark price of individual parts was then estimated based on the value allocation table of the vehicle provided by Isuzu, which showed the automobile parts required for manufacturing that particular model of vehicle as well as the percentage of each of the automobile parts in that vehicle in terms of value, and the selling price of the same model of vehicle in the market of Japan plus the estimated packaging and transportation fees to be incurred by Isuzu. Given that those imported 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 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 average profit margin for automobile enterprises and automobile and motorcycles parts enterprises in the PRC of 7.08% and 7.11% respectively in 2015 and the maximum profit margin that can be charged under the New Parts Supply Agreements 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 automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016 was approximately 7.35%, 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 and components 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 since the 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; (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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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; (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 Agreements 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 changes, 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 Agreements. 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 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 2017 (whichever is later) to 31 December 2019.

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 orders making procedure, method of delivery, prices, payment method, quantities, standard of qualities, and other terms and conditions in relation to the supply and purchase of specific type of products. In the event that QIEC ceases 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.

We noted that the terms of the Supply Agreement and the New Supply Agreement are more or less the same. 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%. The profit margin of not more than 10% was determined by reference to the statistics published in the “China Automotive Industry Yearbook”, which indicated that the average profit margin for automotive industry in the PRC is 6.99% in 2015 while the average profit margin for automobile enterprises and automobile and motorcycles parts enterprises in the PRC were 7.08% and 7.11% respectively in 2015.

We were given to understand from 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 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 will have regular and formal business negotiations with QIEC, and request QIEC to provide a complete cost calculation list for each of the parts it supplies so that the full actual cost can be calculated and verified by the Company. Furthermore, QIEC is owned as to 50% and 50% by the Company and Isuzu respectively and half of the directors of QIEC were nominated by the Company. The Company has therefore a significant influence, control and execution power over the management policies of QIEC. As such, the Company considers, and we concur with its view, that QIEC's commitment and execution of offering to the Company normal commercial terms for transactions under the New Supply Agreement can be safeguarded.

We have reviewed (i) three sets of invoices issued by the Company to QIEC and Qingling Motors Outlets and the actual costs incurred by the Company for transactions under the Supply Agreement; and (ii) three 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 contained three different items respectively 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 0.0% and 4.0*% 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 cost 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 under the Supply Agreement 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 the 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 the sale of engine assemblies by QIEC to the Company, we consider 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, without any markup 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 average profit margin for automobile enterprises and automobile and motorcycles parts enterprises in the PRC of 7.08% and 7.11% respectively in 2015 and the maximum profit margin that can be charged under the New Parts Supply Agreements 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 profit margin of automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016 of 7.35%; (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 commercial 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 performance standard as required for Isuzu commercial vehicle; and (vii) both the Company and QIEC are mutually bounded 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 Agreements 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 2017 (whichever is later) to 31 December 2019.

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 orders making procedure, method of delivery, price, payment methods, quantity, standard of quality, and other terms and conditions in relation to the supply of specific type of products. 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, the Company is entitled to terminate the New Sales JV Supply Agreement by notifying Sales JV Company in writing.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

than the market prices of the automobiles or their parts and shall not be lower than the prices offered to other independent distributors of the Company. 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%. Reasonable cost is the cost of the relevant products estimated by the purchasing party using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level of the supplying party. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment. The price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) 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.

To ensure the transactions under the Sales JV Supply Agreement were conducted on normal commercial terms, the Company would prepare and update regularly a price list for the supply of automobiles and parts to Sales JV Company by referencing to the pricing for transactions conducted with other independent distributors of the Company. The price list would be approved by management of the Company and all sales transactions under the Sales JV Supply Agreement would be carried out in accordance with the prices on such list, which were set on the basis of being not less favourable than the terms offered to other independent distributors. All proposed pricing terms of transactions under the Sales JV Supply Agreement would be audited by the Company's finance department to ensure that the proposed terms were in line with the pre-approved price list. We have reviewed five sets of the documents regarding the above-mentioned pricing procedures of transactions under the Sales JV Supply Agreement, which were selected randomly and thus we considered are representative, and noted that the pricing procedures were properly followed by the Company.

We have also reviewed three sets of invoices issued by the Company to Sales JV Company and other distributors of the Company in relation to the sale of automobiles and their parts, which were randomly selected and contained ten different items and thus we considered are representative, and noted that the terms offered by the Company to Sales JV Company were similar and not less favorable than terms offered to other 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 average profit margin for automobile enterprises in the PRC of 7.08%, 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.

(f) The New Supply Agreement (IQAC)

Pursuant to the New Supply Agreement (IQAC), IQAC agreed to provide parts of engines (including but not limited to Engine 5C with parts and other parts) and related products to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company, and the Company agreed to provide parts of automobiles and engines and raw materials to IQAC, 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 2017 (whichever is later) to 31 December 2019.

The New Supply Agreement (IQAC) is a master agreement which sets out the principles upon which detailed terms are to be determined between the Company and IQAC. Under the New Supply Agreement (IQAC), the parties shall enter into further specific agreement(s) with detailed terms in accordance with the underlying principles set out in the New Supply Agreement (IQAC) specifying the price, payment methods, quantity, standard of quality, method of delivery, and other terms and conditions in relation to the supply and purchase of specific type of products. Should IQAC cease to be a connected person of the Company and the transactions under the New Supply Agreement (IQAC) cease to be continuing connected transactions, the Company is entitled to terminate the New Supply Agreement (IQAC) by notifying IQAC in writing.

Pursuant to the New Supply Agreement (IQAC), the prices of products provided shall not be higher than the market prices and shall not be less favorable to the Company than the prices offered to Independent Third Parties. If there are no comparable market prices, prices shall be determined based on actual or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. Reasonable cost is the cost of the relevant products estimated by the purchasing party using the historical cost in the market as reference and based on the relevant enterprise technology, craft and comprehensive management level of the supplying party. If the actual costs provided by the supplying party are higher than the reasonable costs estimated by the purchasing party, the parties will further negotiate and discuss whether the reasonable costs require adjustment. The price of the relevant products shall be finalised on the basis of the actual costs or reasonable costs (whichever is lower) plus a profit margin of not more than 8%.

The terms of the New Supply Agreement (IQAC) are more or less the same as those of the Supply Agreement (IQAC). As advised by management of the Company, the Company has not purchased/sold the products under the Supply Agreement (IQAC) from/to any Independent Third Party up to the Latest Practicable Date as the relevant products are all produced using Isuzu proprietary equipment, process and technology, and the relevant parts of engines and raw materials are specifically for the production of Isuzu vehicles manufactured by Qingling Group. There are no substitute products in the market. Even if there are similar relevant products in the market, they are not authentic Isuzu parts. Since their technical quality standards cannot be confirmed, there are no comparable market prices available. Therefore, the selling prices of the products under the Supply Agreement (IQAC) were determined based on actual or reasonable costs (whichever is lower) incurred plus a profit margin of not more than 8%. To ensure such transactions were conducted on normal commercial terms, the pricing terms of transactions under the Supply Agreement (IQAC) were audited by the Company's finance department and approved at the management level.

We were given to understand that IQAC purchased parts of engines and related products from Independent Third Parties and sold to the Company at cost. We have reviewed three sets of the invoices issued by IQAC to the Company and the Independent Third Parties to IQAC regarding the relevant parts of engines and related products supplied under the Supply Agreement (IQAC), which were randomly selected and contained four different items and thus we considered are representative, and noted that IQAC sold the products to the Company at cost. We have also reviewed three samples of invoices issued by the Company to IQAC and costs of parts of automobiles and engines and raw

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

materials of the Company, which were randomly selected and contained six different items and thus we considered are representative, and noted that the average profit margin of major products charged by the Company was approximately 5.2%. In addition, we have reviewed five sets of the relevant documents showing the approvals of the pricing terms of transactions under the Supply Agreement (IQAC) by management of the Company. We were also confirmed by management of the Company that the same pricing policy and internal control policies will be applied by the Company for price determination of transactions under the New Supply Agreement (IQAC).

Given that (i) the actual average profit margins of major products charged by IQAC and the Company under the Supply Agreement (IQAC) were lower than the maximum profit margin of 8% and the profit margin of automobile parts and accessories manufacturers in the PRC for the eight months ended 31 August 2016; (ii) the pricing policy applied for transactions under the Supply Agreement (IQAC) shall continue to be applied consistently to transactions under the New Supply Agreement (IQAC); (iii) the New Supply Agreement (IQAC) specifically provided that the prices for products provided shall not be higher than the market prices and shall not be less favorable than the prices offered to Independent Third Parties; and (iv) the profit margin ceiling of 8% under the New Supply Agreement (IQAC) 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, we consider that the terms of the New Supply Agreement (IQAC) 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 for 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)			Compound annual growth rate Note 7
	For the period from the contract commencement date to 31 December 2014 Note 6	For the year ended 31 December 2015 Note 6	For the period from 1 January 2016 to 30 November 2016 Note 6	
Chassis Supply Agreement Note 1	688.15	1,842.16	1,439.83	(3.5%)
Parts Supply Agreements				
CQACL Agreement Note 2	4.01	12.20	8.69	(18.4%)
Qingling Group Agreement Note 2	90.24	165.63	15.53	(77.0%)
CQCC Agreement Note 2	8.53	32.41	21.68	(11.6%)
CQFC Agreement Note 2	11.99	47.20	35.55	(7.2%)
CQAC Agreement Note 2	16.02	135.63	400.30	177.2%
CQNHK Agreement Note 2	17.22	70.72	51.79	(3.8%)
CQPC Agreement Note 2	22.36	73.83	58.83	(10.1%)
Isuzu Supply Agreement Note 3	445.22	849.18	668.32	(7.5%)
Supply Agreement Note 4				
– the value of engines and their parts from QIEC to the Company	1,241.79	1,480.51	1,112.43	(16.7%)
– the value of engine parts and raw materials from the Company to QIEC	711.80	1,041.97	733.60	(11.6%)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Historical Transaction Amount (RMB' million)			Compound annual growth rate Note 7
	For the period from the contract commencement date to 31 December 2014 Note 6	For the year ended 31 December 2015 Note 6	For the period from 1 January 2016 to 30 November 2016 Note 6	
Sales JV Supply Agreement Note 5	10.20	10.86	32.96	87.6%
Supply Agreement (IQAC) Note 5				
– the value of parts of engines and related products from IQAC to the Company	—	—	1.59	N/A
– the value of parts of automobiles and engines and raw materials from the Company to IQAC	31.29	44.43	60.88	45.6%

Notes:

1. The agreement commenced from 5 August 2014.
2. These agreements commenced from 20 September 2014.
3. The agreement commenced from 24 June 2014.
4. The agreement commenced from 22 April 2014.
5. These agreements commenced from 1 January 2014.
6. Transaction amounts included the value-added tax.
7. Calculated based on annualized figures for 2014 and 2016.

The proposed annual caps in respect of the Non-exempt Continuing Connected Transactions (the “Annual Caps”) are set out as follows:

	Annual Caps (RMB' million)			Compound annual growth rate
	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019	
New Chassis Supply Agreement	2,243.46	2,654.71	3,066.80	16.9%
New Parts Supply Agreements				
– New CQACL Agreement	12.43	19.13	22.57	34.8%
– New Qingling Group Agreement	135.37	178.33	220.86	27.7%
– New CQCC Agreement	46.03	69.35	84.89	35.8%
– New CQFC Agreement				
(a) the value of automobile parts from CQFC to the Company	60.29	94.95	115.08	38.2%
(b) the value of consolidated services from the Company to CQFC	6.40	10.55	12.89	41.9%
– New CQAC Agreement				
(a) the value of automobile parts from CQAC to the Company	835.81	1,394.81	1,801.24	46.8%
(b) the value of machinery leasing from the Company to CQAC	0.61	0.51	0.30	(29.9)%
– New CQNHK Agreement	91.69	151.44	186.94	42.8%
– New CQPC Agreement	104.86	171.95	210.52	41.7%
New Isuzu Supply Agreement	1,078.75	1,286.95	1,573.45	20.8%
New Supply Agreement				
(a) the value of engines and their parts from QIEC to the Company	1,973.97	3,264.77	4,099.63	44.1%
(b) the value of engine parts and raw materials from the Company to QIEC	1,198.43	1,961.26	2,373.85	40.7%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Annual Caps (RMB' million)			Compound annual growth rate
	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019	
New Sales JV Supply Agreement	440.18	918.37	1,168.14	62.9%
New Supply Agreement (IQAC)				
(a) the value of parts of engines and related products from IQAC to the Company	6.71	12.07	18.78	67.3%
(b) the value of parts of automobiles and engines and raw materials from the Company to IQAC	143.97	326.25	488.56	84.2%

As shown in the above table, the Annual Caps are expected to increase with an annualized compound annual growth rate ranging from approximately 16.9% to 84.2% for the period from 2017 to 2019. 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, Qingling Group and IQAC for the three years ending 31 December 2019 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 2019, 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

Based on 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 2016 was approximately RMB74,412.7 billion, representing an increase of approximately 8.0% over the last year, and the national per capita disposable income was approximately RMB23,821 for the year ended 31 December 2016, representing a growth of approximately 8.4% over the same period of the previous year. However, the OECD Economic Outlook, Volume 2016 Issue 2 released in November 2016 by the Organization for Economic Cooperation and Development, an international organization with 34 country members, revealed that the economic growth was being supported by stimulus while risks were rising as the economy was undergoing transitions on several fronts although consumption growth was set to hold up, especially as incomes rose and urbanization continued. It is expected that the GDP growth rate of the PRC for 2017 and 2018 would be 6.4% and 6.1% respectively.

According to China Association of Automobile Manufacturers, the production volume and sales volume of commodity vehicles in the PRC was approximately 3.42 million units and 3.45 million units for the year ended 31 December 2015 respectively, representing a decrease of approximately 10.0% and 9.0%, respectively, as compared to the previous year. The performance of the commodity vehicle industry showed a recovery in 2016. For the year ended 31 December 2016, the production volume and sales volume of commodity vehicles in the PRC was approximately 3.70 million units and 3.65 million units respectively, representing an increase of approximately 8.0% and 5.8%, respectively, as compared to the previous year. China Association of Automobile Manufacturers estimated that the sales volume of commodity vehicles would further increase in 2017.

In view of the economic growth in the PRC and the recovery of the commodity vehicle industry in 2016, 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

vehicles as well as their components in the PRC will continue to increase in the foreseeable future although in a slow pace for the industry as a whole.

(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 amounts 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 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 3.5%. 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.

The Company advised us that after discussing with Qingling Group, the Company were given to understand that the chassis to be purchased by Qingling Group under the New Chassis Supply Agreement will 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 anticipates that the production volume of its special-purpose vehicles shall increase in the coming three years at a compound annual growth rate of approximately 16.1%, from 23,000 units for the year ending 31 December 2017 to 31,000 units for the year ending 31 December 2019, in view of the increasing demand of land transportation for consumer goods logistics and commodity as a result of transformation of land transportation mode and more stringent governance on overloading of vehicles. 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 2019 and noted that in order to meet its increasing production volume and stock for spares, Qingling Group expects that the quantity of chassis to be purchased from the Group will also increase at a compound annual growth rate of approximately 16.1% from 23,000 units for the year ending 31 December 2017 to 31,000 units for the year ending 31 December 2019, which is the same as the growth rate in production volume of special-purpose vehicles, and Qingling Group's purchases of chassis from the Group is expected to increase with a compound annual growth rate of approximately 16.9% for the three years ending 31 December 2019 after taking into account a buffer for the fluctuations in price and product mix of chassis and related components to be ordered by Qingling Group.

Based on the above, we consider that the Annual Caps for the New Chassis Supply Agreement with a compound annual growth rate of approximately 16.9% 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 Agreements, 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 2019; (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; and (iv) the new additional growth of sales expected to be achieved through establishing new distributors and expanding marketing branches in counties and towns with active market.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2019, taking into account, inter alia, the overall business environment and specific growth strategies; (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; 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; and (ii) the expected growth of the Company from the effective date of the New Supply Agreement to the end of 2019 in view of the economic growth in the PRC and the growth in demand for engines and their parts.

We have reviewed the schedules of expected average costs/selling prices and number of units to be purchased/sold by the Group in relation to the transactions under the New Parts Supply Agreements, the New Isuzu Supply Agreement and the New Supply Agreement for the three years ending 31 December 2019 and noted that the Annual Caps for the New Parts Supply Agreements, the New Isuzu Supply Agreement and the New Supply Agreement in relation to the trading of automobile parts and components shall increase at a compound annual growth rate in the range of approximately 20.8% and 46.8% for the three years ending 31 December 2019, which are mainly attributable to the expected increases in trading volume of the products under the New Parts Supply Agreements, the New Isuzu Supply Agreement and the New Supply Agreement.

The projected transaction amounts of the transactions under the New Parts Supply Agreements, the New Isuzu Supply Agreement and the New Supply Agreement for the three years ending 31 December 2019 are set out as below:

	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019	Compound annual growth rate
New CQACL Agreement				
Quantity	51,000	82,000	97,500	38.3%
Average unit price (RMB)	244	233	231	(2.7)%
Transaction amount (RMB' million)	12.43	19.13	22.57	34.8%
New Qingling Group Agreement				
Quantity of vehicle body	12,000	15,000	18,000	22.5%
Average unit price (RMB)	9,095	9,203	9,292	1.1%
Transaction amount of vehicle body (RMB' million)	109.14	138.04	167.26	23.8%
Transaction amount of other parts and components (RMB' million)	26.23	40.29	53.60	42.9%
Total transaction amount (RMB' million)	135.37	178.33	220.86	27.7%
New CQCC Agreement				
Quantity	77,000	124,100	150,700	39.9%
Average unit price (RMB)	598	559	563	(3.0)%
Transaction amount (RMB' million)	46.03	69.35	84.89	35.8%
New CQFC Agreement				
Quantity	84,500	130,700	157,400	36.5%
Average unit price (RMB)	714	726	731	1.2%
Transaction amount (RMB' million)	60.29	94.95	115.08	38.2%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019	Compound annual growth rate
New CQAC Agreement				
Quantity	71,000	117,000	143,000	41.9%
Average unit price (RMB)	11,772	11,921	12,596	3.4%
Transaction amount (RMB' million)	835.81	1,394.81	1,801.24	46.8%
New CQNHK Agreement				
Quantity	71,000	117,000	143,000	41.9%
Average unit price (RMB)	1,291	1,294	1,307	0.6%
Transaction amount (RMB' million)	91.69	151.44	186.94	42.8%
New CQPC Agreement				
Quantity	71,000	117,000	143,000	41.9%
Average unit price (RMB)	1,477	1,470	1,472	(0.2)%
Transaction amount (RMB' million)	104.86	171.95	210.52	41.7%
New Isuzu Supply Agreement				
Quantity	90,600	109,400	131,000	20.2%
Average unit price (RMB)	11,907	11,764	12,011	0.4%
Transaction amount (RMB' million)	1,078.75	1,286.95	1,573.45	20.8%
New Supply Agreement – purchase of engines and their parts from QIEC by the Company				
Quantity	71,000	117,000	143,000	41.9%
Average unit price (RMB)	27,802	27,904	28,669	1.5%
Transaction amount (RMB' million)	1,973.97	3,264.77	4,099.63	44.1%
New Supply Agreement – purchase of engine parts and raw material from the Company by QIEC				
Quantity	76,000	120,000	143,500	37.4%
Average unit price (RMB)	15,772	16,346	16,544	2.4%
Transaction amount (RMB' million)	1,198.43	1,961.26	2,373.85	40.7%

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 Agreements, the New Isuzu Supply Agreement and the New Supply Agreement range from approximately -3.0% to 3.4%. 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 forecast period were mainly due to the expected changes in product mix of products to be purchased/sold by the Group. The Directors consider that the growth rates in the Annual Caps are reasonable, having taken into account (i) the historical transaction amounts; (ii) change of product mix; and (iii) projected sales volume of the Group's vehicles, details of which are set out below.

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

We noted that, save for the transactions under the CQAC Agreement which recorded a compound annual growth rate of approximately 177.2% and the Qingling Group Agreement which recorded a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

negative compound annual growth rate of approximately 77.0%, the transaction amounts for the transactions under the Parts Supply Agreements, the Isuzu Supply Agreement and the Supply Agreement decreased with a negative annualized compound annual growth rate ranging from approximately 3.8% to 18.4% 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 CQAC Agreement), the Isuzu Supply Agreement and the Supply Agreement was mainly attributable to the drop in the Group's sales volume of vehicles during 2014 and 2016 resulting from the downward adjustment pressure on the automobile industry as the economy of the PRC was at the critical stage of structural adjustment, transformation and upgrading. According to the 2015 annual report and 2016 interim report of the Company, the number of vehicles sold by the Group increased by approximately 4.3% from 55,388 units in 2014 to 57,744 units in 2015. However, the number of vehicles sold by the Group recorded a decrease of approximately 21.7% from 32,482 units for the six months ended 30 June 2015 to 25,420 units for the six months ended 30 June 2016.

We understand from management of the Company that the Company has changed the product mix of parts and components purchased from Qingling Group and CQAC under the Qingling Group Agreement and the CQAC Agreement respectively since November 2015. Prior to November 2015, the Company mainly purchased parts and components from Qingling Group and CQAC for the production of motor vehicle axles by itself. In November 2015, the Company ceased to produce motor vehicle axles and started to purchase motor vehicle axles directly from CQAC. Since then, the Company no longer purchased the parts and components from Qingling Group for the production of motor vehicle axles, which accounted for more than 88% of the total transaction amounts for 2014 and 2015. Therefore, the transaction amounts for the transactions under the Qingling Group Agreement reduced significantly in 2016. On the other hand, the front and rear motor vehicle axles have become the major automobile parts, in terms of transaction amount, purchased by the Company from CQAC, instead of other parts and components purchased previously. As the costs of the front and rear motor vehicles axles are much higher than other parts and components previously purchased from CQAC, the transaction amounts for the transactions under the CQAC Agreement increased substantially during the period from 2014 to 2016.

(ii) Change of product mix in respect of the New Qingling Group Agreement

We have reviewed the list of products purchased under the Qingling Group Agreement by the Company from Qingling Group and noted that the products purchased in 2014 and 2015 were mainly parts and components used for the production of front and rear axles while the parts and components purchased in 2016 were mainly for miscellaneous usage. We were advised by management of the Company that apart from the parts and components previously purchased from Qingling Group for miscellaneous usage, the Company intends to purchase vehicle bodies from Qingling Group starting from 2017, which would account for over 75% of the projected transaction amounts under the New Qingling Group Agreement for the three years ending 31 December 2019, for the production of new models of special-purpose vehicles (廂車). Therefore, the transaction amounts under the New Qingling Group Agreement for the year ending 31 December 2017 is expected to be substantially higher than the historical transaction amounts for the eleven months ended 30 November 2016 and it is expected to increase at a compound annual growth rate of approximately 27.7% for the three years ending 31 December 2019. We have reviewed the production plan of the Group in relation to the production of the new models of special-purpose vehicles and noted that the Company expects that production volume would be 12,000 units in 2017 and increase at a compound annual growth rate of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately 22.5%, which is generally in line with the expected compound annual growth of approximately 27.7% for the transaction amounts under the New Qingling Group Agreement for the three years ending 31 December 2019.

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

For the year ended 31 December 2015, the Group recorded a turnover of approximately RMB5.5 billion, representing a decrease of approximately 5.1% as compared to the previous year. However, the number of vehicles sold by the Group increased by approximately 4.3% to 57,744 units for the year ended 31 December 2015, which was mainly attributable to the Group's success in new market exploration and development and the launching of new vehicle models or specifications. For the six months ended 30 June 2016, the Group recorded a turnover of approximately RMB2.4 billion, representing a decrease of approximately 18.6% as compared to the last corresponding period. The number of vehicles sold by the Group decreased by approximately 21.7% to 25,420 units for the six months ended 30 June 2016. The reduction in sales volume was mainly attributable to the stagnant economy of the PRC.

Nevertheless, with the improvement in the market conditions in the second half of 2016 and the Company's enhancement in market exploration and development 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; (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; 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 2019. 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 41.9% from 71,000 units for the year ending 31 December 2017 to 143,000 units for the year ending 31 December 2019.

We noted that the projected sales volume of the Group's vehicles is much 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 heavy-duty trucks and special-purpose vehicles like ambulances, fire trucks, anti-explosion vehicles, city logistics refrigerated trucks, vehicles for transporting hazardous products, new energy vehicles, etc. The Company has completed the on-site assessment conducted by the Ministry of Industry and Information Technology and obtained the manufacture qualification for new energy vehicles in June 2016. 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 2019.

During the year ended 31 December 2015 and the six months ended 30 June 2016, the Company engaged 15 and 20 new distributors in counties and towns respectively. Currently, the Group sells its products through 200 distributors and 450 sales branches in the PRC. The Group will further improve the quality of services provided by the sales branches and carry out various marketing

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 41.9% from 2017 to 2019.

We noted from the schedules for preparing the Annual Caps of the transactions under the New Parts Supply Agreements (save for the New Qingling Group Agreement, details of which are set out in the paragraph headed "(ii) Change of product mix in respect of the New Qingling Group Agreement" above) 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 36.5% and 41.9% for the three years ending 31 December 2019, which is similar to the expected increase in the sales volume of the Group's vehicles of approximately 41.9%. We also noted that the expected purchase volume under the New Isuzu Supply Agreement only increases at a compound annual growth rate of approximately 20.2%, which is much lower than the expected growth rate in the sales volume of the Group's vehicles. We were advised by management of the Company that the products to be purchased under the New Isuzu Supply Agreement are imported products which require a longer time frame for completing the purchase cycle and thus the Company will purchase the products in advance for stock management. Accordingly, the number of units to be purchased during the year ending 31 December 2017 will be larger than the production needs for that particular year while the number of units to be purchased during the year ending 31 December 2019 will be smaller than that of the production plan of the Group. We are satisfied that the expected quantity to be purchased/sold by the Group in calculating the Annual Caps of the New Parts Supply Agreements, 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 2019.

Based on the above, we are of the view that the Group's expected compound annual growth rates, in the range of approximately 20.8% to 44.1%, in transaction amounts of the transactions under the New Parts Supply Agreements, the New Isuzu Supply Agreement and the New Supply Agreement for the three years ending 31 December 2019, 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 Agreements, 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 expansion of the sales capacity of the Group; (ii) the expected growth of the Company from the effective date of the New Sales JV Supply Agreement to the end of 2019 in view of the economic growth in the PRC and the growth in demand for automobile and their parts; (iii) the price of automobile, parts and transportation in the market and their price trends; (iv) historical transaction amounts; (v) the repositioning, enhancement and extension of the function of Sales JV Company, the expansion of the business of Sales JV Company into sales of automobile parts and incorporating the export of parts into its business scope to expand the after-sales demand for vehicle-used parts; and (vi) the enrichment of Sales JV Company's sales function of automobiles by expanding from only selling one of the refrigerated trucks previously to the whole series of models of vehicles, such that its role as a distributor of the Company in Chongqing is consolidated and further enhanced.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the historical transaction amounts of the transactions under the Sales JV Supply Agreement increased at an annualized compound annual growth rate of approximately 87.6% during the period from 2014 to 2016. We were advised by management of the Company that the registered capital of Sales JV Company has been increased in 2015 for the expansion of its business into the sales of automobile parts and components for after-sales services worldwide in view of the increasing demand in after-sales automobile parts and components resulting from the expansion of the sales of Isuzu brand vehicles. Therefore, the demand of automobiles and their parts from the Company by Sales JV Company increased during the period between 2014 and 2016.

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 2017 will increase significantly from 2016 and further increase at a compound annual growth rate of approximately 62.9% for the three years ending 31 December 2019 with over 92% 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 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 65.6% for the three years ending 31 December 2019. 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 is mainly attributable to the substantial increase in the projected number of vehicles to be sold to Sales JV Company, from 2,520 units for the year ending 31 December 2017 to 7,630 units for the year ending 31 December 2019, resulting from: (i) the expansion of the Group's sales capacity; (ii) the expected growth in transaction amount under the New Sales JV Supply Agreement boosted by China's economic growth and increased demand in automobiles and parts; (iii) repositioning of the functions of Sales JV Company from specializing only in aftermarket technology, skills training and maintenance of model vehicles to enriching and enhancing its vehicle performance; and (iv) the enrichment of Sales JV Company's sales function of automobiles by expanding from mainly focus on selling one of the refrigerated trucks previously to a full range of models of vehicles including light, medium and heavy-duty trucks. 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 3.5% for the year ending 31 December 2017 to approximately 5.3% for the year ending 31 December 2019.

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.

(f) *Annual Caps of the New Supply Agreement (IQAC)*

The Annual Caps of the New Supply Agreement (IQAC) were determined with reference to the market sale forecast for the heavy-duty vehicles of the Company and the manufacturing and operation plans of IQAC.

We noted that the historical transaction amounts of the transactions under the Supply Agreement (IQAC) in respect of the sales of parts of automobile and engines and raw materials to IQAC by the Company increased at a compound annual growth rate of approximately 45.6% during 2014 and 2016 while the Company purchased minimal amounts of parts of engines and related products from IQAC in 2016 only. We understand from management of the Company that the increase

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

in sales of parts of automobile and engines and raw materials to IQAC was mainly attributable to the increase in demand from IQAC for the export sales to its overseas customers. Accordingly, the transaction amount under the Supply Agreement (IQAC) in respect of the sales of parts of automobile and engines and raw materials increased during the period under review.

We have reviewed the breakdown of Annual Caps of the New Supply Agreement (IQAC) and noted that the Company expects the Annual Caps of the New Supply Agreement (IQAC) in respect of the provision of parts of automobiles and engines and raw materials by the Company to IQAC will increase at a compound annual growth rate of approximately 84.2% for the three years ending 31 December 2019. We also noted that over 93% of the parts of automobiles and engines and raw materials to be purchased by IQAC will be used for the export sales business of IQAC and the production of parts of engines of heavy-duty trucks. During its discussion with IQAC, the Company was given to understand that the demand on parts of automobiles and engines and raw materials from IQAC shall increase during the three years ending 31 December 2019 as IQAC will continue to expand its overseas market. Therefore, it is expected that the products under the New Supply Agreement (IQAC) to be purchased by IQAC for its export business will increase at a compound annual growth rate of approximately 54.2%. We have reviewed the schedule of expected average selling prices and number of units to be sold by the Group to IQAC in relation to parts of automobiles and engines and raw materials for the export sales business of IQAC and the business plan of IQAC regarding export sales and noted that the projected number of units to be sold to IQAC is generally in line with the export sales business plan of IQAC. We have also reviewed the historical transaction amount of the products under the Supply Agreement (IQAC) purchased by IQAC for its export business and noted that it has increased at an annualized compound annual growth rate of approximately 50.4% from 2014 to 2016. Based on the above, we consider that the compound annual growth rate of approximately 54.2% adopted by the Company for projection of the transaction amount of parts of automobiles and engines and raw materials to be purchased by IQAC is fair and reasonable.

We were given to understand that IQAC also purchases imported parts of engines and raw materials from the Company for the production of engine parts, which will then be sold to QIEC for the production of engines. The engines produced by QIEC will in turn be sold to the Company for the production of the Company's heavy-duty vehicles. Therefore, the increase in demand of the Company's heavy-duty vehicles will indirectly drive up the demand of imported parts of engines and raw materials to be purchased by IQAC. We have reviewed the production plan of the Group and noted that the Company anticipates that 2,500 units of heavy-duty vehicles will be sold in 2017 and the sales volume will further increase at a compound annual growth rate of approximately 67.3%, to 7,000 units in 2019 based on the market analysis performed by the Company. We were explained by management of the Company that heavy-duty vehicles is one of the major products to be promoted by the Group in the coming few years. It is expected that new models of heavy-duty vehicles will be launched in 2017 and 2018 respectively and therefore the growth rate of the sales volume of the Group's heavy-duty vehicles is expected to be higher than the growth rate of the overall sales volume of the Group's vehicles of approximately 41.9%. To cope with the expected increase in demand of the Company's heavy-duty vehicles, it is expected that the imported parts of engines and raw materials to be purchased from the Company by IQAC for the production of engine parts will also increase substantially, at a compound annual growth of approximately 103.3%, for the three years ending 31 December 2019. The Company explained to us that multiple parts and raw materials are required for production of an engine parts to be used for further production of a vehicle. In addition, as more advanced technical level of engine parts is required for the new models of heavy-duty vehicles as compared to the existing models,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

imported engine parts and raw material are preferred. Therefore, the growth rate of transaction amount for purchases of imported parts of engines and raw materials from the Company by IQAC would be even much higher than the expected growth rate of the sales volume of the Group's heavy-duty vehicles.

We have reviewed the schedule of expected average costs and number of units to be purchased by the Group in relation to the parts of engines and related products and noted that the Company expects the Annual Caps of the New Supply Agreement (IQAC) in respect of the provision of parts of engines and related products by IQAC to the Company will increase at a compound annual growth rate of approximately 67.3% for the three years ending 31 December 2019. We also noted that the increase in demand of parts of engines and related products provided by IQAC was projected to match with the expected increase in heavy-duty vehicles produced by the Group of approximately 67.3% as set out in the production plan of the Group as certain parts of engines produced by IQAC are used in heavy-duty vehicles of the Group and thus the Company will need to purchase the corresponding amount of parts of engines and related products from IQAC for maintenance of the Group's heavy-duty vehicles during the three years ending 31 December 2019.

Based on the above, we consider that the Annual Caps of the New Supply Agreement (IQAC) 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. We therefore recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution(s) to approve the Non-exempt Continuing Connected Transactions at the upcoming EGM.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

Notes:

1. Mr. Louis Koo is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 20 years of experience in investment banking and corporate finance.
2. Ms. Amilia Tsang is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 15 years of experience in corporate finance, investment and corporate management.

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 and the general manager of Qingling Group, Mr. XU Song is a deputy general manager and a member of the Party Committee of Qingling Group, Mr. LI Juxing is the deputy general manager of Qingling Group. Mr. Keiichiro MAEGAKI is a managing executive officer of Isuzu, Mr. Mansanori OTA is a managing executive officer of Isuzu and Mr. Yoshifumi KOMURA is a managing 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%
Allianz SE	H Shares	102,122,000	Interest of controlled corporation	8.24%	4.11%
Edgbaston Investment Partners LLP	H Shares	68,655,000	Investment Manager	5.54%	2.77%

Note:

The following is a breakdown of the interests in the Shares held by Allianz SE:

Name of controlled corporation	Name of controlling shareholders	% controlled	Total interests in shares	
			Direct interests	Indirect interests
Allianz Asset Management AG	Allianz SE	100%	—	102,122,000
Allianz Global Investors GmbH	Allianz Asset Management AG	100%	—	101,600,000
RCM Asia Pacific Ltd.	Allianz Global Investors GmbH	100%	98,240,000	—
Allianz Global Investors Taiwan Ltd.	Allianz Global Investors GmbH	100%	3,360,000	—
Allianz Asset Management of America Holdings Inc	Allianz Asset Management AG	100%	—	522,000
Allianz Asset Management of America L.P.	Allianz Asset Management of America Holdings Inc.	100%	—	522,000
Allianz Global Investors U.S. Holdings LLC	Allianz Asset Management of America L.P.	100%	—	522,000
Allianz Global Investors Fund Management LLC	Allianz Global Investors U.S. Holdings LLC	100%	522,000	—

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 2015, 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 2015, 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:

<u>Name</u>	<u>Qualification</u>
Hercules 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, Hercules 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, Hercules Capital Limited did not have any direct or indirect interest in any asset which had been, since 31 December 2015, 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.

Hercules Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 10 March 2017 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. Woo Kwan Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours 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;
- (e) the New Sales JV Supply Agreement; and
- (f) the New Supply Agreement (IQAC).

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.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 Thursday, 27 April 2017 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 22 December 2016 entered into between the Company and Qingling Motors (Group) Co. Ltd (“**Qingling Group**”) in respect of the supply of certain 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 2019 (as set out in the circular of the Company dated 10 March 2017) 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 22 December 2016 entered into: (i) between Chongqing Qingling Aluminium Casting Co. Ltd. (“**CQACL**”) and the Company (the “**New CQACL Agreement**”); (ii) between Qingling Group and the Company (the “**New Qingling Group Agreement**”); (iii) between Chongqing Qingling Casting Company Limited, (“**CQCC**”) and the Company (the “**New CQCC Agreement**”); (iv) between Chongqing Qingling Forging Co. Ltd. (“**CQFC**”) and the Company (the “**New CQFC Agreement**”); (v) between Chongqing Qingling Axle Co. Ltd. (“**CQAC**”) and the Company (the “**New CQAC Agreement**”); (vi) between Chongqing Qingling NHK Seat Co. Ltd. (“**CQNHK**”) and the Company (the “**New CQNHK Agreement**”); and (vii) between Chongqing Qingling Plastic Co. Ltd. (“**CQPC**”) and the Company (the “**New CQPC Agreement**”) (copies of which marked “B” have been produced to the

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 2019 (as set out in the circular of the Company dated 10 March 2017) 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 22 December 2016 entered into between Isuzu Motors Limited (“**Isuzu**”) and the Company in respect of the supply of certain 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 2019 (as set out in the circular of the Company dated 10 March 2017) 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 22 December 2016 entered into: (i) between the Company and Qingling Isuzu (Chongqing) Engine Co., Ltd. (the “**QIEC**”) in respect of the supply of parts of engines and raw materials to and purchase of engines and their parts from QIEC (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 2019 (as set out in the circular of the Company dated 10 March 2017) 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.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

5. “THAT:

- (a) the conditional agreement dated 22 December 2016 entered into: (i) between the Company and Qingling Isuzu (Chongqing) Automobile Sales and Service Co., Ltd (“**Sales JV Company**”) in respect of the supply 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 2019 (as set out in the circular of the Company dated 10 March 2017) 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.”

6. “THAT:

- (a) the conditional agreement dated 22 December 2016 entered into: (i) between the Company and Isuzu Qingling (Chongqing) Autoparts Co., Ltd (“**IQAC**”) in respect of the purchase of parts of engines and related products from and supply of automobiles, parts of engines and raw materials to IQAC (the “**New Supply Agreement (IQAC)**”, a copy of which marked “F” 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 2019 (as set out in the circular of the Company dated 10 March 2017) 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 (IQAC) and the annual caps and the transactions thereby contemplated.”

By Order of the Board
Qingling Motors Co. Ltd
ZOU Guanghua
Company Secretary

Chongqing, the PRC, 10 March 2017

Notes:

- (1) Any shareholder 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

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 Tuesday, 28 March 2017 to Thursday, 27 April 2017 (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 Monday, 27 March 2017.
- (5) Shareholders whose names appear on the register of shareholders of the Company on Tuesday, 28 March 2017 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 Friday, 7 April 2017. 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. Keiichiro MAEGAKI, Mr. GAO Jianmin, Mr. Masanori OTA, Mr. Yoshifumi KOMURA, Mr. LI Juxing and Mr. XU Song are executive directors and Mr. LONG Tao, Mr. SONG Xiaojiang, Mr. LIU Tianni and Mr. LIU Erh Fei are independent nonexecutive directors.