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慶鈴汽車股份有限公司

QINGLING MOTORS CO. LTD

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

(Stock Code: 1122)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION MERGER

THE MERGER

The Board is pleased to announce that, on 18 September 2018, the Company convened a Board meeting at which the proposal regarding the Merger was considered and approved. QIEC and IQAC entered into the Merger Agreement on 2 October 2018 (after trading hours), pursuant to which, QIEC will absorb and merge with IQAC, and QIEC will be the surviving company upon completion of the Merger and assume all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC and IQAC will be dissolved and deregistered.

Further, on 2 October 2018 (after trading hours), the Company, Qingling Group and Isuzu also entered into (i) the JV Agreement to set out their respective rights and obligations in QIEC in accordance with the Merger; and (ii) the Priority Supply Memorandum to set out the agreement in relation to the priority supply of goods by QIEC to the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Merger Agreement, the JV Agreement and the transactions contemplated thereunder is or are more than 5% but less than 25%, the Merger Agreement, the JV Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, 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; Qingling Group is a controlling shareholder of the Company holding approximately 50.10% of the entire issued share capital of the Company and is therefore a connected person of the Company. As QIEC is owned as to 50% by each of the Company and Isuzu, respectively, and IQAC is owned as to 49% and 51% by Qingling Group and Isuzu, respectively, both QIEC and IQAC are connected persons of the Company. Accordingly, the Merger Agreement, the JV Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 30 March 2018 regarding the merger of QIEC and IQAC. The Board is pleased to announce that, on 18 September 2018, the Company convened a Board meeting at which the proposal regarding the Merger was considered and approved. QIEC and IQAC entered into the Merger Agreement on 2 October 2018 (after trading hours), pursuant to which, QIEC will absorb and merge with IQAC, and QIEC will be the surviving company upon completion of the Merger and assume all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC and IQAC will be dissolved and deregistered.

Further, on 2 October 2018 (after trading hours), the Company, Qingling Group and Isuzu also entered into (i) the JV Agreement to set out their respective rights and obligations in QIEC in accordance with the Merger; and (ii) the Priority Supply Memorandum to set out the agreement in relation to the priority supply of goods by QIEC to the Company.

The Merger Agreement

Principal terms of the Merger Agreement are set out as follows:

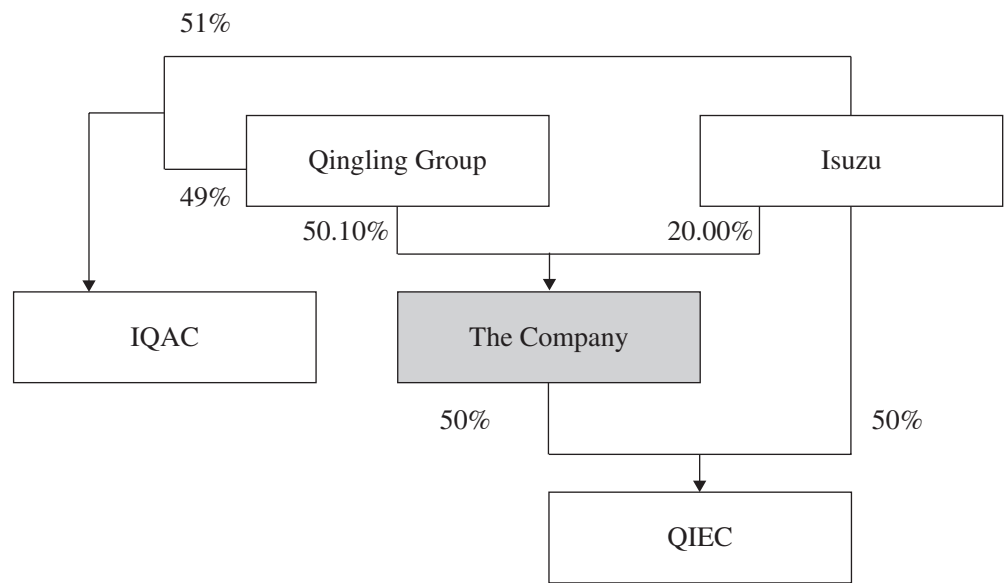
- Date: 2 October 2018 (after trading hours)
- Parties: (1) QIEC; and
(2) IQAC.
- Merger: QIEC shall absorb and merge with IQAC in the way stipulated under the Company Law of the PRC.

QIEC will be the surviving company upon completion of the Merger, and continue to use the name Qingling Isuzu (Chongqing) Engine Co., Ltd. (慶鈴五十鈴(重慶)發動機有限公司) and assume all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC and IQAC will be dissolved and deregistered.

Shareholding structure:

As at the date of this announcement, QIEC is owned as to 50% by each of the Company and Isuzu and IQAC is owned as to 49% and 51% by Qingling Group and Isuzu. Qingling Group and Isuzu hold approximately 50.10% and 20.00% interests in the Company, respectively.

As at the date of this announcement, the shareholding structure of QIEC and IQAC is as shown in the figure below:

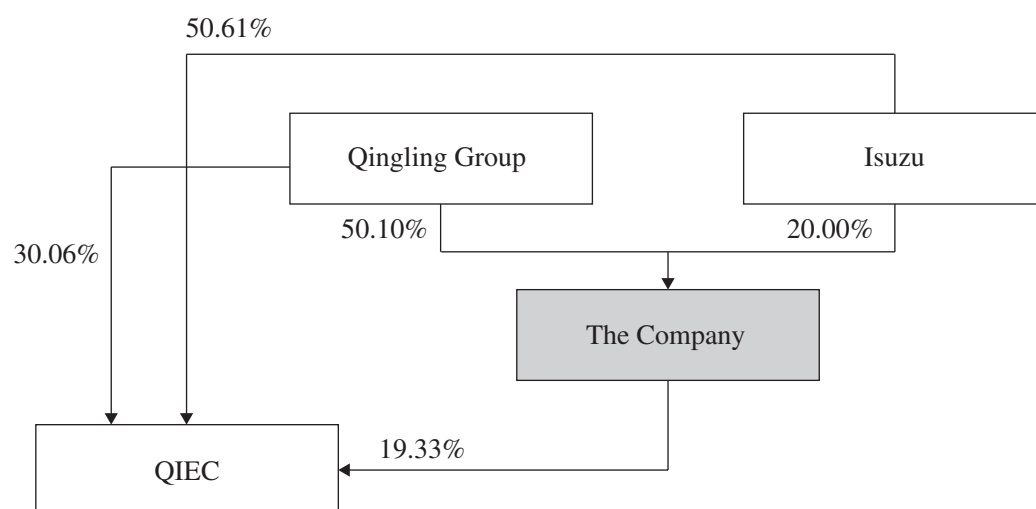


Upon completion of the Merger, the registered capital of QIEC will be the sum of the registered capital of QIEC and IQAC prior to the Merger, i.e. USD324,260,000. The total investment will be USD486,040,000.

The proportion of the capital contribution by the Company, Qingling Group and Isuzu to QIEC upon completion of the Merger are determined with reference to their respective capital contribution to QIEC and IQAC before the Merger and the net asset values of QIEC and IQAC as valued by the Independent Valuer with 31 December 2017 as the valuation benchmark date. According to the QIEC Valuation Report and the IQAC Valuation Report, the total interests of shareholders of QIEC and IQAC as at 31 December 2017 amounted to RMB884,919,700 and RMB1,404,035,500, respectively. The amount and proportion of their respective capital contribution are set out in the table below:

Name of shareholder	Amount of capital contribution (USD)	Proportion of capital contribution
Isuzu	164,107,986	50.61%
Qingling Group	97,472,556	30.06%
The Company	62,679,458	19.33%

The shareholding structure of QIEC upon completion of the Merger is as shown in the figure below:



Conditions precedent: The completion of the Merger is subject to satisfaction of all the following conditions:

1. the respective board of directors of QIEC and IQAC having approved the Merger Agreement and the transactions contemplated thereunder;
2. all compliance requirements including creditor notification and announcement procedures having been satisfied;
3. the Merger Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders at the general meeting of the Company;
4. all necessary consents, filings and approvals for the Merger having been obtained from or made with the relevant PRC government agencies or regulators, and there having been no orders, regulations, rules or decisions made, promulgated or adopted by any PRC government agencies or regulators to forbid or restrict the Merger; and
5. the relevant procedures for the business change in relation to the Merger Agreement and the transactions contemplated thereunder having been completed after fulfilment of the above conditions.

The JV Agreement

Principal terms of the JV Agreement are set out as follows:

- Date: 2 October 2018 (after trading hours)
- Parties: (1) The Company;
(2) Qingling Group; and
(3) Isuzu.
- Registered capital, total investment and proportion of capital contribution: Similar in substance to the terms under the section regarding “Shareholding structure” of the “Merger Agreement” as set forth above.
- Products: (1) 4Z, 4JB1, 4K, 4H/6H, 6U/6W engines and their parts; and
(2) including the import of 4JZ1 engines in preparation and engines and their parts required in the market in the future.
- Business scope: (1) technological innovation, testing, manufacturing, sale and provision of after-sale services required by the market in respect of auto engines and engineering engines and the parts thereof;
(2) localisation development of engines and the relevant parts thereof;
(3) import and domestic procurement in PRC of engine and auto parts and engine parts;
(4) export of engine and auto parts and engine parts to Isuzu and third parties designated by Isuzu;
(5) export and sale of Isuzu-branded commercial vehicles to Isuzu and third parties designated by Isuzu; and
(6) international freight forwarding agency (excluding international express delivery).

Composition of the board of directors:	The board shall consist of seven directors, of which 4, 2 and 1 shall be designated by Isuzu, Qingling Group and the Company, respectively. In principle, Isuzu shall appoint one of its designated directors as the chairman and the position of vice chairman shall be filled by the Company's designated director. Nonetheless, where Isuzu deems necessary, it can appoint one of the directors designated by Qingling Group or the Company to serve as the chairman and appoint one of its designated directors as the vice chairman.
Matters requiring consensus of all directors present at the board meeting:	<ol style="list-style-type: none"> (1) amendments to the articles of association; (2) suspension, termination, dissolution or liquidation; (3) increase or decrease of registered capital and total investment; (4) merger and division; (5) appointment and removal of the general manager and the deputy general manager and the determination of their terms of reference and remuneration; (6) decisions on investment projects over RMB3 million; (7) approval of the prices of products to be sold by QIEC to the Company and the prices of parts to be supplied by the Company to QIEC; (8) approval of the annual final account and accounting report; and the determination of annual profit distribution and loss recovery proposal; (9) issuance of corporate bonds and other methods of financing; and (10) decisions on the transfer and receipt of material assets and provision of financial guarantees.

Pre-emptive right: Where any party proposes to transfer all or part of its shareholding to a third party, it shall give a prior written notice containing transfer terms such as the shareholding to be transferred, the transferee, transfer price and payment terms to all the other parties and obtain their written approval prior to the transfer. The latter are entitled to acquire the shareholding to be transferred pre-emptively based on the transfer terms as set forth in the notice, instead of issuing a written approval; where any party replies to not to exercise its pre-emptive right within 30 days from the date of receipt of the notice or does not reply in 30 days, it shall be deemed to give up the above pre-emptive right and agree on the transfer of the relevant shareholding.

The Priority Supply Memorandum

Principal terms of the Priority Supply Memorandum are set out as follows:

Date: 2 October 2018 (after trading hours)

Parties: (1) The Company;
(2) Qingling Group; and
(3) Isuzu.

Priority supply: (1) the Company, Qingling Group and Isuzu agreed to initiate the negotiation between QIEC and the Company in relation to the method and terms of the provision of products manufactured by QIEC to the Company after the completion of the Merger, including the terms of the priority supply;

(2) the concrete supply terms as stated above shall be effective after the relevant agreement is entered into between QIEC and the Company after negotiation and within 90 days after the completion of the Merger; and

(3) Prior to the execution of the relevant agreement as stated in (2) above, QIEC shall continue to adopt the existing supply method between QIEC and the Company in terms of the provision of engines by QIEC to the Company.

EXISTING CONTINUING CONNECTED TRANSACTIONS WITH QIEC AND IQAC

Reference is made to the Company's announcement dated 22 December 2016 and/or circular dated 10 March 2017 in relation to, among other things, certain agreements with QIEC and/or IQAC respectively, pursuant to which the Group has been conducting continuing connected transactions with QIEC and/or IQAC respectively, which include:

- (a) the new supply 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;
- (b) the new equipment lease dated 22 December 2016 entered into between the Company and QIEC relating to the leasing of leased equipment by the Company to QIEC;
- (c) the new factory lease dated 22 December 2016 entered into between the Company and QIEC relating to the leasing of leased land and factory premises by the Company to QIEC;
- (d) the new consolidated services agreement dated 22 December 2016 entered into between the Company and QIEC relating to the provision of certain services by the Company to QIEC;
- (e) the new supply agreement (IQAC) dated 22 December 2016 entered into between the Company and IQAC relating to the provision of parts of engines by IQAC to the Company, and the provision of automobiles, parts of engines and raw materials by the Company to IQAC;
- (f) the new consolidated services agreement dated 22 December 2016 entered into between the Company and IQAC relating to the provision of certain services by the Company to IQAC; and
- (g) the new testing agreement dated 22 December 2016 entered into by the Company and (among others) QIEC and IQAC relating to the provision of certain testing services by the Company to QIEC and IQAC.

After the completion of Merger, since QIEC will be the surviving company which will assume all the assets, liabilities, operations, qualifications, personnel, contracts and all other rights and obligations of IQAC, all the terms of the above agreements will remain unchanged (apart from the change in the performing party from IQAC to QIEC where applicable) and the continuing connected transactions contemplated thereunder will continue to be conducted by QIEC.

INFORMATION ON THE PARTIES TO THE MERGER

QIEC

QIEC is principally engaged in the manufacturing and sale of vehicle-used engines and their relevant parts. As at the date of this announcement, QIEC is owned as to 50% by each of the Company and Isuzu, respectively.

The financial information of QIEC for the two years ended 31 December 2017 and 2016 respectively is generally as follows:

	For the year ended 31 December 2016 <i>RMB'000</i> <i>(Audited)</i>	For the year ended 31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
Net profit before tax	45,633	52,990
Net profit after tax	38,788	45,304

The audited net asset value of QIEC as at 31 December 2017 was approximately RMB881,505,000.

According to the QIEC Valuation Report prepared by the asset-based approach, the total interests of shareholders of QIEC as at 31 December 2017 amounted to RMB884,919,700

IQAC

IQAC is principally engaged in the manufacturing, procurement and export of 6C engine parts. As at the date of this announcement, IQAC is owned as to 49% and 51% by Qingling Group and Isuzu, respectively.

The financial information of IQAC for the two years ended 31 December 2017 and 2016 respectively is generally as follows:

	For the year ended 31 December 2016 <i>RMB'000</i> <i>(Audited)</i>	For the year ended 31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
Net loss before inclusion of non-operating income and expenses	(17,673)	(41,419)
Net loss after inclusion of non-operating income and expenses	(17,588)	(41,419)

The audited net asset value of IQAC as at 31 December 2017 was approximately RMB1,400,334,000.

According to the IQAC Valuation Report prepared by the asset-based approach, the total interests of shareholders of IQAC as at 31 December 2017 amounted to RMB1,404,035,500.

The Company

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

Isuzu

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

Qingling Group

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

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Merger Agreement, the JV Agreement and the transactions contemplated thereunder is or are more than 5% but less than 25%, the Merger Agreement, the JV Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, 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; Qingling Group is a controlling shareholder of the Company holding approximately 50.10% of the entire issued share capital of the Company and is therefore a connected person of the Company. As QIEC is owned as to 50% by each of the Company and Isuzu, respectively, and IQAC is owned as to 49% and 51% by Qingling Group and Isuzu, respectively, both QIEC and IQAC are connected persons of the Company. Accordingly, the Merger Agreement, the JV Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders as to whether the terms of the Merger Agreement, the JV Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and to advise the Shareholders on how to vote on the ordinary resolutions to be proposed at the EGM.

In this connection, the Company has appointed TC Capital International Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Merger Agreement, the JV Agreement and the transactions contemplated thereunder 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 ordinary resolutions to be proposed at the EGM.

REASONS FOR CONDUCTING THE MERGER

As the domestic environmental protection provisions and requirements are increasingly stringent in PRC, in order to comply with and conform to the relevant laws and regulations on emissions, the manufacturing of automobile engine currently incurs increasingly high development costs. The implementation of the Merger is beneficial to the engine production integration and the concentration of development resources which are currently scattered in QIEC and IQAC and is also conducive to introduction of the latest engine products and technologies from Isuzu, cultivation of a team for research and development of engine technologies, and the strengthening of export sales of engines and expansion of the engine industry. Upon completion of the Merger, the Group will purchase engines from QIEC to ensure a stable supply of engine assemblies which are in line with the latest regulations on emission and energy conservation for the automobiles produced, to satisfy market demands.

None of the Directors has a material interest in the Merger Agreement, the JV Agreement and the transactions contemplated thereunder and therefore none of them are required to abstain from voting on the relevant board resolutions approving the same according to the Listing Rules. However, as Mr. LUO Yuguang, Mr. LI Juxing and Mr. Xu Song are Directors nominated by Qingling Group, while Mr. Shuichi HAYASHI, Mr. Keiichiro MAEGAKI and Mr. Masanori OTA are Directors nominated by Isuzu, these Directors abstained from voting on the relevant board resolutions approving the same. The Directors (excluding the independent non-executive Directors who will form their view after taking into account recommendations of the Independent Financial Adviser) are of the view that the Merger Agreement and the JV Agreement 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.

EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Merger Agreement, the JV Agreement and the transactions contemplated thereunder. Qingling Group, Isuzu and their associates will be required to abstain from voting on the ordinary resolutions in relation to the Merger Agreement, the JV Agreement and the transactions contemplated thereunder.

A circular containing, among other things, details of the information relating to the Merger Agreement and the JV Agreement, a letter of advice from the Independent Financial Adviser, a letter of recommendation from the Independent Board Committee together with the notice of the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. The circular is expected to be despatched by the Company on or before 24 October 2018.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Company”	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 PRC with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic share(s) 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 Merger Agreement, the JV Agreement and the transactions contemplated thereunder
“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, Mr. SONG Xiaojiang, Mr. LIU Tianni and Mr. LIU Erh Fei) established for the purpose of reviewing the Merger Agreement, the JV Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	TC Capital International Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out Type 1 (dealing in securities) and 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 Merger Agreement, the JV Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the connected person(s) who is or are interested in the Merger Agreement, the JV Agreement and the transactions contemplated thereunder
“Independent Valuer”	重慶天健資產評估土地房地產估價有限公司 (Pan-China (Chongqing) Land Real Estate. Appraisal. Co., Ltd)
“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 joint venture company established in the PRC and owned as to 49% and 51% by Qingling Group and Isuzu, respectively
“IQAC Valuation Report”	the valuation report dated 31 May 2018 prepared by the Independent Valuer in relation to IQAC with 31 December 2017 as the valuation benchmark date

“Isuzu”	Isuzu Motors Limited, a company incorporated in Japan and listed on the Tokyo Stock Exchange and a substantial shareholder of the Company
“JV Agreement”	the joint venture agreement entered into among the Company, Qingling Group and Isuzu in relation to QIEC on 2 October 2018
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Merger”	the merger by absorption of IQAC by QIEC
“Merger Agreement”	the merger agreement entered into between QIEC and IQAC in relation to the Merger on 2 October 2018
“percentage ratios”	the percentage ratios under Rule 14.07 of the Listing Rules, other than the equity capital ratio
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Priority Supply Memorandum”	the priority supply memorandum entered into among the Company, Qingling Group and Isuzu in relation to the priority supply by QIEC to the Company on 2 October 2018
“QIEC”	慶鈴五十鈴(重慶)發動機有限公司 (Qingling Isuzu (Chongqing) Engine Co., Ltd.), a Sino-foreign joint venture company established in the PRC and owned as to 50% by each of the Company and Isuzu, respectively
“QIEC Valuation Report”	the valuation report dated 31 May 2018 prepared by the Independent Valuer in relation to QIEC with 31 December 2017 as the valuation benchmark date
“Qingling Group”	慶鈴汽車(集團)有限公司 (Qingling Motors (Group) Company Limited), a state-owned limited liability company established in the PRC and a controlling shareholder of the Company

“Share(s)”	the Domestic Shares and the H Shares of the Company
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

Chongqing, the PRC, 2 October 2018

As at the date of this announcement, the Board comprises 10 Directors, of which Mr. LUO Yuguang, Mr. Shuichi HAYASHI, Mr. Keiichiro MAEGAKI, Mr. Masanori OTA, 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 non-executive Directors.