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WEICHAI

潍柴动力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

**ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTIONS**

SUMMARY

The Board is pleased to announce that on 1 August 2007, the Group has entered into the Continuing Connected Transactions Agreements as more particularly described herein.

Reference is made to the circular of the Company dated 12 November 2006 (the “**Circular**”), which announced that TAGC invested in its principal operating subsidiaries in conjunction with operation support from the other minority shareholders who often are the founders of the relevant businesses. Accordingly, certain of the operating subsidiaries of TAGC had ongoing transactions with these minority shareholders. Following the completion of the Merger on 24 April 2007 (as announced in the announcement of the Company dated 25 April 2007), the said original subsidiaries of TAGC, together with other the assets and liabilities of TAGC, were absorbed by the Company and, in order to ensure and maximise operating efficiency and stability of the operations of the Group, the said transactions of such subsidiaries with their substantial shareholders (as defined in the Listing Rules) were taken over by the Company. Such transactions constitute connected transactions under Chapter 14A of the Listing Rules. After the completion of the Merger, the Company has been proceeding with the relevant procedural matters in respect of the transfer of ownership of the equity in the companies previously held by TAGC, including the said operating subsidiaries of TAGC, to the Company and for the deregistration of TAGC in the PRC. Further, as mentioned in the Circular, the Company was discussing possible continuing connected transactions as well as their transaction terms with the management of the relevant operating subsidiaries and the relevant counterparties, such discussions have been going on since the completion of the Merger. Accordingly, announcement on the Continuing Connected Transactions has not been made immediately after the completion of the Merger. Unless otherwise defined herein or the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings when used herein.

A. CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions include the following:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
1. 陝西法士特汽車傳動集團有限公司 (Shaanxi Fast Gear Automotive Transmission Co. Ltd.) ("Fast Transmission")	SFGC (<i>Note 1</i>)	Holder of 49% of the equity of SFGC	(a) Sale of parts and components of transmissions by SFGC to Fast Transmission (b) Purchase of parts and components of transmissions by SFGC from Fast Transmission (c) Leasing of land and premises by Fast Transmission to SFGC
2. 陝西汽車集團有限公司 (Shaanxi Automotive Group Co. Ltd.) ("Shaanxi Automotive") and its associates (as more particularly described in the section headed "II. Continuing connected transactions between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)" below) (as the case may be)	Shaanxi Zhongqi (<i>Note 2</i>), Hande Axle (<i>Note 3</i>) and Jinding (<i>Note 4</i>) (as the case may be)	Holder of 49% of the equity of Shaanxi Zhongqi	(a) Sale of vehicles, parts and components and raw materials of vehicles and provision of heat processing services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive and its associates (b) Purchase of parts and components of vehicles and scrap steel by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive's associates (c) Payment of utility (such as water and electricity) charges by Shaanxi Automotive to Shaanxi Zhongqi for onward payment to utility providers (d) Leasing of land and premises by Shaanxi Automotive to Shaanxi Zhongqi (and its subsidiaries)
3. 牡丹江華通汽車零部件公司 (Mudan Jiang Huatong Automotive Components Company) ("Huatong")	Futong (<i>Note 5</i>)	Holder of 20.04% of the equity of Futong (<i>Note 5</i>)	Provision of processing services by Huatong to Futong
4. 東風汽車集團股份有限公司 (Dong Feng Automotive Group Co. Ltd.) ("Dong Feng Automotive")	DFOVCL (<i>Note 6</i>)	Holder of 40% of the equity of DFOVCL (<i>Note 6</i>)	(a) Sale of off-road vehicles by DFOVCL to Dong Feng Automotive (b) Purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive

Notes:

1. SFGC is a 51% subsidiary of the Company.
2. Shaanxi Zhongqi is a 51% subsidiary of the Company.
3. Hande Axle is held as to 3.06% by the Company and as to 94% by Shaanxi Zhongqi.
4. Jinding is held as to 87.05% by Shaanxi Zhongqi and as to 4.24% by Hande Axle.
5. Futong is a 51% subsidiary of the Company.
6. DFOVCL is a 60% subsidiary of the Company.

A summary of the Continuing Connected Transactions, the Continuing Connected Transactions Agreements, the actual transaction amounts for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions are set out below.

The Company proposes to set the caps for the Continuing Connected Transactions (the “**New Caps**”) as set out below. The New Caps for the three years ending 31 December 2009 are based on the internal estimates of the Company, which are in turn determined by reference to the historical performance and the operating conditions of the TAGC Group before the completion of the Merger. The bases of the New Caps are more particularly set out below.

A summary of the proposed New Caps for each of the Continuing Connected Transactions is set out below:

Connected person and details of relevant Continuing Connected Transactions	2007 RMB	New Caps 2008 RMB	2009 RMB
I. Fast Transmission			
1. Sale of parts and components of transmissions by SFGC to Fast Transmission	350,000,000 [#]	350,000,000 [#]	350,000,000 [#]
2. Purchase of parts and components of transmissions by SFGC from Fast Transmission	500,000,000 [#]	500,000,000 [#]	500,000,000 [#]
3. Leasing of land and premises by Fast Transmission to SFGC	9,000,000*	9,000,000*	9,000,000*
II. Shaanxi Automotive and its associates (as the case may be)			
1. Sale of vehicles, parts and components and raw materials of vehicles and provision of heat processing services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates)	345,000,000 [#]	458,000,000 [#]	564,000,000 [#]
2. Purchase of parts and components of vehicles and scrap steel by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive’s associates	1,120,000,000 [#]	1,340,000,000 [#]	1,501,000,000 [#]
3. Payment of utility (such as water and electricity) charges by Shaanxi Automotive to Shaanxi Zhongqi for onward payment to utility providers	19,000,000*	21,000,000*	22,000,000*
4. Leasing of land and premises by Shaanxi Automotive to Shaanxi Zhongqi (and its subsidiaries)	13,000,000*	13,000,000*	13,000,000*
III. Huatong			
Provision of processing services by Huatong to Futong	8,000,000*	10,000,000*	13,000,000*
IV. Dong Feng Automotive			
1. Sale of off-road vehicles by DFOVCL to Dong Feng Automotive	130,000,000 [#]	350,000,000 [#]	400,000,000 [#]
2. Purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive	60,000,000 [#]	135,000,000 [#]	160,000,000 [#]

Notes:

- (1) Where a New Cap is marked “*”, that means the proposed New Caps for the relevant Continuing Connected Transactions do not exceed the 2.5% Threshold and are exempt from the approval of the Independent Shareholders.
- (2) Where a New Cap is marked “#”, that means the relevant Continuing Connected Transactions are Non-exempt Continuing Connected Transactions, because they either individually or when aggregated exceed the 2.5% Threshold, or otherwise appropriate in the interest of the Shareholders, and are subject to the approval of the Independent Shareholders.

I. Continuing connected transactions between SFGC and Fast Transmission

Fast Transmission is principally engaged in the processing of parts and components of vehicles. Fast Transmission is a substantial shareholder of SFGC (which is a subsidiary of the Company) and is accordingly a connected person of Company.

SFGC is a 51% subsidiary of the Company and is principally engaged in the manufacture, sale, design and development of transmissions and other motor vehicle parts and components such as gears.

1. Sale of parts and components of transmissions by SFGC to Fast Transmission

Agreement: Parts and components sale agreement

Date: 1 August 2007

Parties: 1. SFGC
2. Fast Transmission

Term: 1 May 2007 to 31 December 2009

Other terms and details:

During the three years ended 31 December 2006, SFGC has sold to Fast Transmission certain parts and components of transmissions, namely, gearboxes, at market prices settled by the parties every two to three months. Pursuant to the parts and components sale agreement, SFGC has agreed to sell and Fast Transmission has agreed to purchase the said parts and components, on the same terms, for a term ending 31 December 2009, upon the expiry of which SFGC shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	RMB	RMB	RMB
Actual Transaction Amount	20,325,037	18,684,866	132,372,851

As explained in the section headed “A. The Merger — 11. Business trends” in the “Letter from the Board” contained in the Circular, in recent years, the State’s macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under the 國家西北大開發戰略 (State’s North-West Great Development Strategy) and in relation to the Beijing 2008 Olympic Games, have stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles will enter into a rapid growth period and the development of the structure of vehicles will move toward the heavy-duty side.

SFGC is principally engaged in the manufacture and sale of transmissions and other vehicle parts and components and is the largest manufacturer of transmissions for heavy duty trucks in the PRC, while Fast Transmission is principally engaged in the

processing of vehicle parts and components, accordingly, the Directors believe that the demand for the products of SFGC and the products to be processed by Fast Transmission will increase substantially. The transaction amount for the year of 2005 has dropped slightly from 2004 by approximately 8% due to the implementation of a series of austere measures by the State in order to slow down investments in infrastructure in the PRC, which have certain negative impact on the market of heavy-duty vehicles. However, the PRC has maintained a strong economic growth over the past few years and the market of heavy-duty vehicles has shown recovery in 2006 and the transactions amount has grown sharply by an approximately 608% from 2005 to 2006. The Directors believe that the sale of parts and components by SFGC to Fast Transmission will continue to increase substantially.

Accordingly, the Company estimates that the transaction amounts involved in the Continuing Connected Transactions set out in this sub-section will not exceed RMB 350,000,000 for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs incurred and the estimate of the volume of parts and components to be sold by Fast Transmission and of the average unit price of such parts and components.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>
New Caps	350,000,000	350,000,000	350,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 exceed the 2.5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company after completion of the Merger under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the Independent Shareholders. No Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps.

Since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and the New Caps are subject to Independent Shareholders' approval as aforesaid, the parts and component sale agreement is conditional upon the said resolution being passed at the EGM.

2. *Purchase of parts and components of transmissions by SFGC from Fast Transmission*

Agreement: Parts and components purchase agreement

Date: 1 August 2007

Parties: 1. Fast Transmission
2. SFGC

Term: 1 May 2007 to 31 December 2009

Other terms and details:

During the three years ended 31 December 2006, SFGC has purchased from Fast Transmission certain parts and components of transmissions and gears, namely, power take off assemblies and castings, at market prices settled by the parties every two to three months. Pursuant to the parts and components purchase agreement, Fast Transmission has agreed to sell and SFGC has agreed to purchase the said parts and components, on the same terms, for a term ending 31 December 2009, upon the expiry of which SFGC shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Transaction Amount	31,755,912	83,547,488	192,152,105

As mentioned above, in recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under the 國家西北大開發戰略 (State's North-West Great Development Strategy) and in relation to the Beijing 2008 Olympic Games, have stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles will enter into a rapid growth period and the development of the structure of vehicles will move toward the heavy-duty side.

Since SFGC is principally engaged in the manufacture and sale of transmissions and other vehicle parts and components and is the largest manufacturer of transmissions for heavy duty trucks in the PRC, the Directors believe that the demand for the products of SFGC in the market and thus the volume of parts and components for its production from Fast Transmission will increase substantially. With an approximately 163% increase and an approximately 130% increase in the sales of parts and components by Fast Transmissions to SFGC from 2004 to 2005 and from 2005 to 2006, respectively, the Directors believe that the purchase of these parts and components by SFGC from Fast Transmission will continue to increase substantially.

The Company estimates that the transaction amounts involved in the Continuing Connected Transaction set out in this sub-section will not exceed RMB 500,000,000 for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of parts and components required by SFGC from Fast Transmission for its production and of the average unit price of such parts and components.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009 :

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Caps	500,000,000	500,000,000	500,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 exceed the 2.5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company after completion of the Merger under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the Independent Shareholders. No Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps.

Since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and the New Caps are subject to the Independent Shareholders' approval as aforesaid, the parts and components purchase agreement is conditional upon the said resolution being passed at the EGM.

3. *Leasing of land and premises by Fast Transmission to SFGC*

Agreement: Supplemental agreement to the land use rights lease agreement dated 21 March 2002 (supplemented by the supplemental agreement dated 2 June 2006) and to the building lease agreement dated 21 March 2002

Date: 1 August 2007

Parties: 1. Fast Transmission
2. SFGC

Term: 1 May 2007 to 31 December 2009

Other terms and details:

Pursuant to the land use rights lease agreement dated 21 March 2002, Fast Transmission has agreed to lease to SFGC certain land situated at 西安市蓮湖區大慶路 (Daqing Road, Lianhu District, Xi'an City), 岐山縣五丈原鎮 (Wuzhangyuan Town Qishan Xian) and 寶雞縣蜀倉鄉 (Xucang Village, Baoji Xian) (together the “**SFGC Land**”) for a term of 20 years with effect from 1 October 2001 at an annual rental of RMB1,267,685.10 in aggregate, to be paid by SFGC before 25 June and 25 December every year. The annual rental shall be revised by the parties every four years based on the national price level of the PRC and the relevant laws and regulations of the PRC. The land tax in respect of the SFGC Land shall be borne by SFGC in accordance with the relevant laws and regulations of the PRC. According to the supplemental agreement dated 2 June 2006, the annual rental was revised to an aggregate of RMB 2,635,520 with effect from 1 July 2006.

Pursuant to the building lease agreement dated 21 March 2002, Fast Transmission has agreed to lease to SFGC certain premises situated at the SFGC Land (the “**SFGC Premises**”) for a term of 20 years with effect from 1 October 2001 at an annual rental of RMB3,140,000 to be paid by SFGC every season each year. The annual rental was determined based on the yearly depreciation of the original value of the SFGC Premises. The property tax in respect of the SFGC Premises shall be borne by SFGC in accordance with the relevant laws and regulations of the PRC. The SFGC Land and SFGC Premises are mainly used by SFGC for its production.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	RMB	RMB	RMB
Actual Transaction Amount	7,216,311	7,225,168	8,716,829

The term of the land lease agreement dated 21 March 2002 (as supplemented by the supplemental agreement dated 2 June 2006) and the building lease agreement dated 21 March 2002 were for 20 years and this supplemental agreement will revise the said terms to a term ending 31 December 2009 with effect from 1 May 2007, upon the expiry of which SFGC shall have an option to renew the agreement for a term of three years. The aggregate of the annual rent for the lease of the SFGC Land and SFGC Premises for the said term ending 31 December 2009 shall remain at RMB2,635,520 and RMB3,140,000, respectively. The aggregate of the land tax and property tax paid by SFGC in respect of the SFGC Land and SFGC Premises were RMB1,560,000 for each of the three years ended 31 December 2006 and the Company expects that such amount will remain unchanged for the three years ending 31 December 2009. RMB9,000,000 is set as the New Cap for these Continuing Connected Transactions for the three years ending 31 December 2009, taking into account the relevant historical costs of the transactions. Save as aforesaid, all other terms of the original lease agreement remain unchanged.

The table below summarises the New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>
New Cap	9,000,000	9,000,000	9,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 do not exceed the 2.5% Threshold, they constitute Exempt Continuing Connected Transactions of The Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38.

Since these Continuing Connected Transactions for the three years ending 31 December 2009 are Exempt Continuing Connected Transactions and the New Caps are not subject to the approval of Independent Shareholders, this supplemental agreement is unconditional. All other terms and conditions of the original agreements (as supplemented) remain unchanged.

II. Continuing connected transactions between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)

Shaanxi Automotive and its associates

Shaanxi Automotive is engaged in investment holding. Shaanxi Automotive is a substantial shareholder of Shaanxi Zhongqi (which is a subsidiary of the Company) and is accordingly a connected person of the Company.

Shaanxi Wanfang is held as to 49% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Wanfang is principally engaged in the sale of parts and components of vehicles.

Shaanxi Huazhen is wholly-owned by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Huazhen is principally engaged in the sale of parts and components of vehicles.

Shaanxi Heavy-duty Coach is held as to 45% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Heavy-duty Coach is principally engaged in the sale of parts and components of vehicles.

Shaanxi Lantong is held as to 50% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Lantong is principally engaged in the sale of parts and components of vehicles.

Beijing Shaanqi Sale Centre is wholly-owned by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Beijing Shaanqi Sale Centre is principally engaged in the sale of parts and components of vehicles.

Shaanxi Tongchuang is held as to 50% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Tongchuang is principally engaged in the sale of parts and components of vehicles.

Shaanxi Tongli is held as to 35% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Tongli is principally engaged in the sale of special-purpose vehicles and parts and components of vehicles.

Shaanxi Zhongqi and its subsidiaries

Shaanxi Zhongqi is a 51% subsidiary of the Company and is principally engaged in the manufacture and sale of heavy-duty vehicles and parts and components of heavy-duty vehicles.

Hande Axle is held as to 3.06% by the Company and as to 94% by Shaanxi Zhongqi. Hande Axle is principally engaged in the production, sale, research and development of axles and parts and components of axles.

Jinding is held as to 87.05% by Shaanxi Zhongqi and as to 4.24% by Hande Axle and is principally engaged in the research and development, production and processing of casting products.

1. *Sale of vehicles, parts and components and raw materials of vehicles and provision of heat processing services by Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) to Shaanxi Automobile and its associates (as the case may be)*

Agreement: Vehicles, parts and components and raw materials sale and heat processing services agreement

Date: 1 August 2007

Parties:

1. (a) Shaanxi Zhongqi
(b) Hande Axle
(c) Jinding; and
2. (a) Shaanxi Automotive
(b) Shaanxi Wanfang
(c) Shaanxi Huazhen
(d) Shaanxi Heavy-duty Coach
(e) Shaanxi Lantong
(f) Beijing Shaanqi Sale Centre
(g) Shaanxi Tongchuang
(h) Shaanxi Tongli

Term: 1 May 2007 to 31 December 2009

Other terms and details:

During the three years ended 31 December 2006:

- (a) Shaanxi Zhongqi has sold certain vehicles and parts and components of vehicles, namely, wire gauges and emission pipes, and raw materials, at market prices, to each of Shaanxi Automotive, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Beijing Shaanqi Sale Centre, Shaanxi Tongli and Shaanxi Tongchuang, settled by the parties every two to three months;
- (b) Hande Axle has sold certain parts and components of vehicles, namely, ductile iron to Shaanxi Huazhen at market prices and provided certain heat processing services to Shaanxi Wanfang at market prices, settled by the parties every two to three months; and
- (c) Jinding has sold certain parts and components of vehicles, namely, castings, at market prices, to each of Shaanxi Tongchuang, Shaanxi Tongli and Shaanxi Wanfang, settled by the parties every two to three months.

Pursuant to the vehicles, parts and components and raw materials sale and heat processing services agreement, Shaanxi Zhongqi has agreed to sell the above vehicles and parts and components of vehicles to each of Shaanxi Automotive, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Beijing Shaanqi Sale Centre, Shaanxi Tongli and Shaanxi Tongchuang; Hande Axle has agreed to sell the above parts and components of vehicles to Shaanxi Huazhen and provide the above heat processing services to Shaanxi Wanfang; and Jinding has agreed to sell the above parts and components of vehicles to each of Shaanxi Tongchuang, Shaanxi Tongli and Shaanxi Wanfang, all at market prices and on the same terms, for a term ending 31 December 2009, upon the expiry of which Shaanxi Zhongqi, Hande Axle and Jinding shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts in aggregate involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Transaction Amount	107,169,802	69,964,927	200,972,995

As mentioned above, in recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under the 國家西北大開發戰略 (State's North-West Great Development Strategy) and in relation to the Beijing 2008 Olympic Games, have stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles will enter into a rapid growth period and the development of the structure of vehicles will move toward the heavy-duty side.

Since Shaanxi Zhongqi, Hande Axle and Jinding are engaged in the business of the production of heavy-duty vehicles and related products, the Directors believe that the demand for vehicles and vehicle parts and components and heat processing services produced and provided by these Group companies will increase substantially and the volume of vehicles and parts and components to be purchased by Shaanxi Automotive and/or its relevant associates (as the case may be) for onward sale to third parties will increase correspondingly. With an approximately 592% increase in the aggregate of the transactions amount from 2005 to 2006, the Directors estimate that the amount of such transactions will continue to increase substantially.

The Company estimates that the aggregate transaction amounts involved in the transactions set out in this sub-section will not exceed RMB345,000,000, RMB458,000,000 and RMB564,000,000, respectively, for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of vehicles and parts and components of vehicles to be sold by Shanxi Zhongqi, Hande Axle and Jinding, and the amount of heat processing services to be provided by Hande Axle, and the average unit price of the said vehicles and vehicle parts and components and the charges for the said heat processing services.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	345,000,000	458,000,000	564,000,000

As the New Cap for these Continuing Connected Transactions for the year ending 31 December 2009 exceeds the 2.5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the Independent Shareholders. No Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap.

Since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and the New Caps are subject to the Independent Shareholders' approval as aforesaid, the vehicles and parts and components sale and heat processing services agreement is conditional upon the said resolution being passed at the EGM.

2. *Purchase of parts and components of vehicles and scrap steel by Shaanxi Zhongqi, Handel Axle and Jinding (as the case may be) from Shaanxi Automotive's associates*

Agreement: Parts and components and scrap steel purchase agreement

Date: 1 August 2007

Parties:

1. (a) Shaanxi Zhongqi
(b) Hande Axle
(c) Jinding; and
2. (a) Shaanxi Wanfang
(b) Shaanxi Huazhen
(c) Shaanxi Heavy-duty Coach
(d) Shaanxi Lantong

Term: 1 May 2007 to 31 December 2009

Other terms and details:

During the three years ended 31 December 2006:

- (a) Shaanxi Zhongqi has purchased certain parts and components of vehicles, namely, wire gauges and emission pipes, at market prices, from each of Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach and Shaanxi Lantong, settled by the parties every two to three months;
- (b) Hande Axle has purchased certain parts and components of vehicles, namely, brake hoof, at market prices, from each of Shaanxi Wanfang and Shaanxi Huazhen, settled by the parties every two to three months; and
- (c) Jinding has purchased certain scrap steel, at market prices, from Shaanxi Huazhen, settled by the parties every two to three months.

Pursuant to the parts and components and scrap steel purchase agreement, Shaanxi Zhongqi has agreed to purchase the said parts and components of vehicles from each of Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach and Shaanxi Lantong; Hande Axle has agreed to purchase the said parts and components of vehicles from each of Shaanxi Wanfang and Shaanxi Huazhen; and Jinding has agreed to purchase the said scrap steel from Shaanxi Huazhen, all at market prices and on the same terms, for a term ending 31 December 2009, upon the expiry of which Shaanxi Zhongqi, Hande Axle and Jinding shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts in aggregate involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Transaction Amount	285,645,272	260,516,334	474,140,473

As mentioned above, in recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under the 國家西北大開發戰略 (State's North-West Great Development Strategy) and in relation to the Beijing 2008 Olympic Games, have stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles will enter into a rapid growth period and the development of the structure of vehicles will move toward the heavy-duty side.

Since Shaanxi Zhongqi, Hande Axle and Jinding are principally engaged in the manufacture and sale of heavy-duty vehicles and related products, the Directors believe that such businesses will be benefited by the above. The Directors believe that the demand for the products of Shaanxi Zhongqi, Hande Axle and Jinding, and accordingly, the volume of parts and components and scrap steel required for the production of such products, will increase substantially for the three years ending 31 December 2009. The transactions amount for the year of 2005 has dropped slightly from 2004 by approximately 27% due to the implementation of a series of austere measures by the State in order to slow down investments in infrastructure in the PRC, which have certain negative impact on the market of heavy-duty vehicles. However, the PRC has maintained a strong economic growth over the past few years and the market of heavy-duty vehicles has shown recovery in 2006 and the transactions amount has grown sharply by an approximately 125% from 2005 to 2006. Accordingly, the Directors estimate that the transactions amount will continue to increase substantially.

The Company estimates that the aggregate transaction amounts involved in the transactions set out in this sub-section will not exceed RMB1,120,000,000, RMB1,340,000,000 and RMB1,501,000,000, respectively, for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and estimate of the volume of parts and components of vehicles and scrap steel required by Shanxi Zhongqi, Hande Axle and Jinding for their productions and the average unit price of such parts and components and scrap steel.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	1,120,000,000	1,340,000,000	1,501,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 exceed the 2.5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the Independent Shareholders. No Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps.

Since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and the New Caps are subject to the Independent Shareholders' approval as aforesaid, the parts and components and scrap steel purchase agreement is conditional upon the said resolution being passed at the EGM.

3. *Payment of utility charges by Shaanxi Automotive to Shaanxi Zhongqi for onward payment to utility providers*

Agreement: Supplemental agreement to general services agreement dated 20 September 2002 (as supplemented by redefinition agreement dated 2003 (the “**Redefinition Agreement**”))

Date: 1 August 2007

Parties: 1. Shaanxi Automotive
2. Shaanxi Zhongqi

Term: 1 May 2007 to 31 December 2009

Other terms and details:

Pursuant to the general services agreement dated 20 September 2002, Shaanxi Zhongqi has agreed, inter alia, to transfer certain utility services including water, electricity and gas it received from third party utilities providers to Shaanxi Automotive, at market prices, for every year after Shaanxi Zhongqi entered into the utilities services agreements with the relevant utility providers, for a term of ten years. Accordingly, Shaanxi Automotive has paid the charges for the relevant utility charges to Shaanxi Zhongqi for its onward payment to the utility providers without any markup (except for the sharing of costs), settled by the parties on a monthly basis. The original term will be revised in the supplemental agreement to the general services agreement to a term ending 31 December 2009, upon the expiry of which Shaanxi Zhongqi shall have an option to renew the agreement for a term of three years. Save as aforesaid, all other terms of the original general services agreement remain unchanged.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	RMB	RMB	RMB
Actual Transaction Amount	12,593,990	12,908,140	13,762,736

As mentioned above, in recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under the 國家西北大開發戰略 (State's North-West Great Development Strategy) and in relation to the Beijing 2008 Olympic Games, have stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles will enter into a rapid growth period and the development of the structure of vehicles will move toward the heavy-duty side. Since Shaanxi Automotive and its associates are principally engaged in the production and sale of heavy-duty vehicles related products, the Directors believe that their businesses will benefit from the above and accordingly, the consumption of utilities by Shaanxi Automotive will increase.

The Company estimates that the transaction amounts involved in the transactions in this subsection will not exceed RMB19,000,000, RMB21,000,000 and RMB22,000,000, respectively, for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and the estimate of the amount of utilities to be consumed by Shaanxi Automotive and of the average price of the provision of such utilities charged by the utility providers.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	RMB	RMB	RMB
New Cap	19,000,000	21,000,000	22,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 do not exceed the 2.5% Threshold, they constitute Exempt Continuing Connected Transactions of the Company after completion of the Merger under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38.

Since these Continuing Connected Transactions are Exempt Continuing Connected Transactions and the New Caps are not subject to the Independent Shareholders' approval as aforesaid, the supplemental agreement to the general services agreement is unconditional.

4. *Leasing of land and premises by Shaanxi Automotive to Shaanxi Zhongqi, Hande Axle and Jinding*

Agreement:

Supplemental agreement to:

- (a) land use right lease agreement dated 20 September 2002 (as supplemented by the Redefinition Agreement) and the building lease agreement dated 20 September 2002 between Shanxi Automotive and Shaanxi Zhongqi (as supplemented by the Redefinition Agreement and the supplemental agreement dated March 2004) (together, the "**Shaanqi Leases**") ;
- (b) land use right lease agreement dated 1 April 2003 and building lease agreement dated 1 April 2003 between Shanxi Automotive and Hande Axle (together, the "**Hande Leases**") ; and
- (c) land use rights and building lease agreement dated 12 September 2005 between Shaanxi Automotive and Jinding (the "**Jinding Lease**").

Date:

1 August 2007

Parties:

- 1. Shaanxi Automotive; and
- 2.
 - (a) Shaanxi Zhongqi
 - (b) Hande Axle
 - (c) Jinding

Term:

1 May 2007 to 31 December 2009

Other terms and details:

The Shaanxi Zhongqi Leases

Pursuant to the land use right lease agreement dated 20 September 2002, Shaanxi Automotive has agreed to lease to Shaanxi Zhongqi certain land situated at 西安市幸福北路39號、71號(No. 39 and 71, Xingfubei Road, Xi'an) and 岐山縣曹家鎮土橋村、河灣村、西溝村、鄭家塬村 (Tuqiao Village, Hewan Village, Xigou Village and Zhengjialeng Village, Caojia Town, Qishan Xian) (the "**Shaanqi Land**") for a term of 20 years with effect from the date of establishment of Shaanxi Zhongqi, i.e. 18 September 2002, at an annual rental of RMB3,816,275.40 to be paid by Shaanxi Zhongqi on a monthly basis. The annual rental shall be revised by the parties every five years based on the national price index of the PRC and the relevant laws and regulations of the PRC. The land tax in respect of the Shaanqi Land shall be borne by Shaanxi Zhongqi in accordance with the relevant laws and regulations of the PRC. According to the Redefinition Agreement, the said annual rental was revised to RMB3,529,751.40.

Pursuant to the building lease agreement dated 20 September 2002, Shaanxi Automotive has agreed to lease to Shaanxi Zhongqi certain premises situated at the Shaanqi Land (the "**Shaanqi Premises**") for a term of 20 years with effect from the date of establishment of Shaanxi Zhongqi, i.e. 18 September 2002, at an annual rental of RMB7,003,511.65, to be paid by Shaanxi Zhongqi on a monthly basis. The annual rental was determined based on the yearly depreciation of the original value of the Shaanqi Premises. The property tax in respect of the Shaanqi Premises shall be borne by Shaanxi Zhongqi in accordance with the relevant laws and regulations of the PRC. Pursuant to the Redefinition Agreement, the said annual rental was revised to

RMB5,936,590.75 and according to the supplemental agreement dated March 2004, the annual rental was increased by RMB792,400. The Shaanqi Land and Shaangi Premises are mainly used for the production of Shaanxi Zhongqi.

The Hande Leases

Pursuant to the land use right lease agreement dated 1 April 2003, Shaanxi Automotive has agreed to lease to Hande Axle certain land situated at 岐山縣河灣村 and 西溝村 (Hewan Village and Xigou Village, Qishan Xian) (the “**Hande Land**”) for a term of 20 years with effect from the date of establishment of Hande, i.e. 18 March 2003, at an annual rental of RMB286,524 to be paid by Hande Axle on a monthly basis. The annual rental shall be revised by the parties every five years based on the national price index of the PRC and the relevant laws and regulations of the PRC. The land tax in respect of the Hande Land shall be borne by Hande Axle in accordance with the relevant laws and regulations of the PRC.

Pursuant to the building lease agreement dated 1 April 2003, Shaanxi Automotive has agreed to lease to Hande Axle certain premises situated at the Hande Land (the “**Hande Premises**”) for a term of 20 years with effect from the date of establishment of Hande, i.e. 18 March 2003, at an annual rental of RMB1,066,920.90 to be paid by Hande Axle on a monthly basis. The property tax in respect of the Hande Premises shall be borne by Hande Axle in accordance with the relevant laws and regulations of the PRC. The Hande Land and Hande Premises are mainly used for the production of Hande.

The Jinding Lease

Pursuant to the land use right and building lease agreement dated 12 September 2005, Shaanxi Automotive has agreed to lease to Jinding certain land situated at 岐山縣曹家鎮 (Caojia Town, Qishan Xian) (the “**Jinding Land**”) at an annual rental of RMB200,200, and certain premises situated at the Jinding Land (the “**Jinding Premises**”) at an annual rental of RMB555,710, for a term of 20 years with effect from the date of establishment of Jinding, i.e. 18 August 2005. The said annual rentals shall be revised by the parties every five years based on the national price index of the PRC and the relevant laws and regulations of the PRC. The annual rentals for the first year of the leases of the Jinding Land and Jinding Premises shall be paid within ten days from the Jinding Lease becoming effective and on 25 June and 25 December every year thereafter. The land tax and property tax in respect of the Jinding Land and Jinding Premises shall be borne by Jinding in accordance with the relevant laws and regulations of the PRC. The Jinding Land and Jinding Premises are mainly used for the production of Jinding.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	RMB	RMB	RMB
Actual Transaction Amount	14,261,174	13,614,862	12,839,305

The term of the Shaanqi Leases, Hande Leases and Jinding Lease will be revised by this supplemental agreement to a term ending 31 December 2009 with effect from 1 May 2007, upon the expiry of which Shaanxi Zhongqi, Hande Axle and Jinding shall have an option to renew the agreement for a term of three years. The annual rentals for the leases of the Shaanqi Land and Shaanqi Premises shall remain at RMB3,529,751.40 and RMB6,728,990.75, respectively; the annual rentals for the leases of the Hande Land and Hande Premises shall remain at RMB286,524 and RMB1,066,920.90, respectively; and the annual rentals for the leases of the Jinding Land and Jinding Premises shall remain at RMB200,200 and RMB555,710, respectively, for the term ending 31 December 2009,

amounting to RMB12,368,097.05 in aggregate. Accordingly, RMB13,000,000 is set as the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009. Save as aforesaid, all other terms of the Shaanqi Leases, Hande Leases and Jinding Lease (as supplemented) remain unchanged.

The table below summarises the New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	13,000,000	13,000,000	13,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 do not exceed the 2.5% Threshold, they constitute Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38.

Since these Continuing Connected Transactions for the three years ending 31 December 2009 are Exempt Continuing Connected Transactions and the New Caps are not subject to the approval of the Independent Shareholders, this supplemental agreement is unconditional. All other terms and conditions of the Shaanxi Leases, Hande Leases and Jinding Lease (as supplemented) remain unchanged.

III. Continuing connected transactions between Futong and Huatong

Huatong is principally engaged in the processing of parts and components of vehicles. Huatong is a substantial shareholder of Futong (which is a subsidiary of the Company) and is accordingly a connected person of the Company.

Futong is principally engaged in the manufacture and marketing of automotive air-conditioning compressors and automotive parts.

Provision of processing services by Huatong to Futong

Agreement:	Processing services agreement
Date:	1 August 2007
Parties:	1. Huatong 2. Futong
Term:	1 May 2007 to 31 December 2009

Other terms and details:

For each of the two years ended 31 December 2006, Huatong has provided certain processing services to Futong in respect of parts and components of vehicles at market prices, settled by the parties every two to three months. Pursuant to the processing services agreement, Huatong has agreed to provide the said processing services to Futong, at market prices and on the same terms, for a term ending 31 December 2009, upon the expiry of which Futong shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this subsection:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Transaction Amount	—	520,501	4,828,515

As mentioned above, in recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under the 國家西北大開發戰略 (State's North-West Great Development Strategy) and in relation to the Beijing 2008 Olympic Games, have stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles will enter into a rapid growth period and the development of the structure of vehicles will move toward the heavy-duty side.

Since Futong is principally engaged in the manufacture of automotive air-conditioning compressors and automotive parts, the Directors believe that such business will benefit from the above and there will be an increase in the demand of its product for the three years ending 31 December 2009, which will drive its production volume leading to an increase in the processing services required from Huatong.

The Company estimates that the transaction amounts involved in the Continuing Connected Transactions set out in this sub-section will not exceed RMB8,000,000, RMB10,000,000 and RMB13,000,000 for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of parts and components to be produced by Futong and the average price of the processing services provided by Huatong.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	8,000,000	10,000,000	13,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 do not exceed the 2.5% Threshold, they constitute Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38.

Since these Continuing Connected Transactions for the three years ending 31 December 2009 are Exempt Continuing Connected Transactions and the New Caps are not subject to the approval of the Independent Shareholders, the processing services agreement is unconditional.

IV. Continuing connected transactions between DFOVCL and Dong Feng Automotive

Dong Feng Automotive is principally engaged in the manufacture and sale of commercial and military vehicles. Dong Feng Automotive is a substantial shareholder of DFOVCL (which is a subsidiary of the Company and is accordingly, a connected person of the Company).

DFOVCL is principally engaged in the manufacture and sale of off-road vehicles and chassis.

1. *Sale of off-road vehicles by DFOVCL to Dong Feng Automotive*

Agreement: Off-road vehicles sale agreement

Date: 1 August 2007

Parties: 1. DFOVCL
2. Dong Feng Automotive

Term: 1 May 2007 to 31 December 2009

Other terms and details:

During the three years ended 31 December 2006, DFOVCL has sold certain off-road vehicles to Dong Feng Automotive, at market prices. Pursuant to the off-road vehicles sale agreement, DFOVCL has agreed to sell such off-road vehicles to Dong Feng Automotive, at market prices and on the same terms, settled by the parties every two to three months for a term ending 31 December 2009, upon the expiry of which DFOVCL shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this sub-section:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Transaction Amount	6,800,023	14,829,059	4,820,426

The fluctuation in the sales of off-road vehicles by DFOVCL to Dong Feng Automotive for the three years ended 31 December 2006 was due to the test production of off-road vehicles by DFOVCL during such period and the production volume of off-road vehicles varied in accordance with the relevant requirement of the test production. With the completion of the test production, DFOVCL has commenced mass production of off-road vehicles since 2007 and accordingly, the Directors believe that the sale of off-road vehicles by DFOVCL to Dong Feng Automotive will increase substantially in the three years ending 31 December 2009, with an approximately 1718%, 150% and 60% increase in the number of off-road vehicles to be sold to Dong Feng Automotive for each of the three years from 2006 to 2009.

The Company estimates that the transaction amounts involved in the Continuing Connected Transactions set out in this sub-section will not exceed RMB130,000,000, RMB350,000,000 and RMB400,000,000 for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of off-road vehicles of DFOVCL to be sold to Dong Feng Automotive and of the average unit price of such vehicles.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	130,000,000	350,000,000	400,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 exceed the 2.5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the Independent Shareholders. No Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps.

Since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and the New Caps are subject to the Independent Shareholders' approval as aforesaid, the off-road vehicles sale agreement is conditional upon the said resolution being passed at the EGM.

2. *Purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive*

Agreement: Parts and components purchase agreement

Date: 1 August 2007

Parties: 1. Dong Feng Automotive
2. DFOVCL

Term: 1 May 2007 to 31 December 2009

Other terms and details:

During the three years ended 31 December 2006, DFOVCL has purchased certain parts and components of off-road vehicles from Dong Feng Automotive, at market prices, settled by the parties every two to three months. Pursuant to the parts and components purchase agreement, DFOVCL has agreed to purchase such parts and components from Dong Feng Automotive, at market prices and on the same terms, for a term ending 31 December 2009, upon the expiry of which DFOVCL shall have an option to renew the agreement for a term of three years.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2006 (audited) for the Continuing Connected Transactions set out in this subsection:

	Year ended 31 December		
	2004	2005	2006
	(audited)	(audited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Transaction Amount	3,943,622	997,508	2,518,663

The fluctuation in the amount of purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive for the three years ended 31 December 2006 was due to the test production of off-road vehicles by DFOVCL during such period and

the volume of parts and components required for the production of DFOVCL varied according to the relevant requirements of the test production. With the completion of the test production, DFOVCL has commenced mass production of off-road vehicles since 2007 and accordingly, the Directors believe that the need for parts and components by DFOVCL for its production from Dong Feng Automotive will increase substantially in three years ending 31 December 2009, with an approximately 2208%, 117% and 54% increase in the number of parts and components required from Dong Feng Automotive for each of the three years from 2006 to 2009.

The Company estimates that the transaction amounts involved for purchase of such parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive will not exceed RMB60,000,000, RMB135,000,000 and RMB160,000,000 for each of the three years ending 31 December 2009 and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions. The proposed New Caps have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of parts and components required by DFOVCL and of the average unit price of such parts and components.

The table below summarises the proposed New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December 2009:

	2007	2008	2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	60,000,000	135,000,000	160,000,000

As the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 do not exceed the 2.5% threshold, they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38. Nevertheless, due to the similar nature of such transactions to the sale of off-road vehicles to Dong Feng Automotive, in the interest of the Shareholders, the New Caps for these Continuing Connected Transactions for the three years ending 31 December 2009 will also be subject to the approval from the Independent Shareholders. No Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps.

Since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and the New Caps are subject to the Independent Shareholders' approval as aforesaid, the parts and components purchase agreement is conditional upon the said resolution being passed at the EGM.

B. LISTING RULES IMPLICATIONS

As TAGC has conducted the Continuing Connected Transactions with the relevant entities for many years and the Company has taken up such Continuing Connected Transactions after completion of the Merger, the Directors consider it to be beneficial to the Company to continue to conduct these Continuing Connected Transactions in order to ensure and maximize operating efficiency and stability of the operations of the Group.

The Directors, including the independent non-executive Directors, have confirmed that the Exempt Continuing Connected Transactions have been subject to arm's length negotiation between the Group and the relevant parties, and have been entered into by the Group in the ordinary and usual course of business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties. The Directors, including the independent non-executive Directors, are of the view that the Exempt Continuing Connected Transactions, and the relevant proposed New Caps, are fair and reasonable and in the interests of the Shareholders as a whole. The Directors, excluding the independent non-executive Directors, are of the view that the Non-exempt Continuing Connected Transactions have

been subject to arm's length negotiation between the Group and the relevant parties, and have been entered into by the Group in the ordinary and usual course of business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties; and that the Non-exempt Continuing Connected Transactions, and the relevant proposed New Caps, are fair and reasonable and in the interests of the Shareholders as a whole.

Since certain of the New Caps (in respect of any one or more of the three years ending 31 December 2009) referred to in the above section exceed the 2.5% Threshold, the Continuing Connected Transactions concerning such New Caps constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the New Caps and the relevant Continuing Connected Transactions Agreements will be subject to the prior approval of the Independent Shareholders (as mentioned above) at the EGM to be convened in relation to, inter alia, the resolution to be proposed in respect of each such New Cap and the relevant Continuing Connected Transactions Agreements, and the reporting requirements set out in Rules 14A.45 and 14A.46 for disclosure of details in the Company's annual reports and accounts, as well as annual review by the independent non-executive Directors under Rule 14A.37 and by the Company's auditors under Rule 14A.38.

If any of the Continuing Connected Transactions Agreements concerning the Non-exempt Continuing Connected Transactions is renewed or if there is a material change to the terms of any of them, or if any of the New Caps for such Non-exempt Continuing Connected Transactions is exceeded, the Company must re-comply with Rules 14A.35(3) and (4).

C. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhongchang) will be appointed to consider the respective New Caps in relation to the Non-exempt Continuing Connected Transactions. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the said New Caps in relation to the Non-exempt Continuing Connected Transactions.

D. DESPATCH OF CIRCULAR

A circular containing, inter alia, (i) further details of the Non-exempt Continuing Connected Transactions; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions; and (iii) a 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, will be sent to the Shareholders in due course.

E. DEFINED TERMS USED IN THIS ANNOUNCEMENT

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“0.1% Threshold”	the thresholds referred to in Rule 14A.33(3) of the Listing Rules
“2.5% Threshold”	the thresholds referred to in Rule 14A.34 of the Listing Rules
“Beijing Shaanqi Sale Centre”	北京陝重汽車銷售中心 (Beijing Shaanzhongqi Vehicle Sale Centre), a company established in the PRC and a connected person of the Company

“Continuing Connected Transactions Agreements”	the agreements relating to the Continuing Connected Transactions entered into between the Group and the relevant counterparts, further details of which are set out in the section headed “A. Continuing Connected Transactions” in this announcement
“Continuing Connected Transactions”	the transactions described in the section headed “A. Continuing Connected Transactions” in this announcement;
“DFOVCL”	東風越野車有限公司 (Dong Feng Off-road Vehicle Co. Ltd.), a company established in the PRC and a 60% Subsidiary of the Company
“Dong Feng Automotive”	has the meaning ascribed to it in the section headed “A. Continuing Connected Transactions” in this announcement
“EGM”	the extraordinary general meeting of The Company to be held on 22 August 2007 to consider and, if thought fit, approve, inter alia, the Non-exempt Continuing Connected Transactions
“Exempt Continuing Connected Transactions”	being those Continuing Connected Transactions the proposed New Caps for which do not exceed the 2.5% Threshold and, accordingly, not subject to the approval by the Independent Shareholders and, where such New Caps exceed the 0.1% Threshold, are only subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules
“Fast Transmission”	has the meaning ascribed to it in the section headed “A. Continuing Connected Transactions” in this announcement
“Futong”	牡丹江富通汽車空調有限公司 (Mudan Jiang Futong Automotive Air Conditioner Co. Ltd.), a company established in the PRC and a 51% subsidiary of the Company
“Hande Axle”	陝西漢德車橋有限公司 (Shaanxi Hande Axle Co., Ltd.), a company established in the PRC and is held as to 3.06% by the Company and as to 94% by Shaanxi Zhongqi
“Huatong”	has the meaning ascribed to it in the section headed “A. Continuing Connected Transactions” in this announcement
“Independent Board Committee”	a committee of the Board comprising Mr. Zhang Xiao Yu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhongchang, being the independent non-executive Directors
“Independent Financial Adviser”	the independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM in relation to the resolutions for approving the New Caps for the Continuing Connected Transactions

“Jinding”	陝西金鼎鑄造有限公司(Shaanxi Jinding Foundry Co., Ltd.), a company established in the PRC and is held as to 87.05% by Shaanxi Zhongqi and as to 4.24% by Hande Axle
“New Caps”	the percentage ratios referred to in Rule 14A.34(1) and Rule 14A.34(2) of the Listing Rules or, where applicable, if the relevant New Cap is equal to or more than 2.5% but less than 25% of any of such percentage ratios
“Non-exempt Continuing Connected Transactions”	being those Continuing Connected Transactions the proposed New Caps for which exceed the 2.5% Threshold, or otherwise appropriate in the interest of the Shareholders, they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 of the Listing Rules, the announcement requirement in Rule 14A.47 of the Listing Rules and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules and approval from the Independent Shareholders at the EGM will be required
“Redefinition Agreement”	has the meaning ascribed to it in the section headed “A. Continuing Connected Transactions – II. Continuing connected transactions between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates) - 3. Payment of utility charges by Shaanxi Automotive to Shaanxi Zhongqi for onward payment to utility providers” in this announcement
“SFGC”	陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co. Ltd.), a company established in the PRC and a 51% subsidiary of the Company
“Shaanxi Automotive”	has the meaning ascribed to it in the section headed “A. Continuing Connected Transactions” in this announcement
“Shaanxi Heavy-duty Coach”	陝西重型客車工業聯營公司 (Shaanxi Heavy-duty Coach Industry Joint Venture Company), a company established in the PRC and a connected person of the Company
“Shaanxi Huazhen”	陝西華臻三產工貿有限責任公司 (Shaanxi Huazhen Sanchan Industry and Trading Co. Ltd.), a company established in the PRC and a connected person of the Company
“Shaanxi Lantong”	陝西藍通傳動軸有限公司 (Shaanxi Lantong Transmission Axle Co. Ltd.), a company established in the PRC and a connected person of the Company
“Shaanxi Tongchuang”	陝西同創華亨汽車散熱有限責任公司(Shaanxi Tongchuang Huaheng Vehicle Radiator Co. Ltd.), a company established in the PRC and a connected person of the Company
“Shaanxi Tongli”	陝西通力專用汽車有限責任公司(Shaanxi Tongli Special-purposed Vehicle Co. Ltd.), a company established in the PRC and a connected person of the Company
“Shaanxi Wanfang”	陝西萬方汽車零部件有限公司 (Shaanxi Wanfang Vehicle Parts and Components Co. Ltd.), a company established in the PRC and a connected person of the Company

“Shaanxi Zhongqi”

陝西重型汽車有限公司 (Shaanxi Heavy Duty Motor Company Limited), a company established in the PRC and a 51% subsidiary of the Company; and

“TAGC”

湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.), a company established in the PRC and has ceased to exist.

Hong Kong, 2 August 2007

By order of the Board

Tan Xuguang
Chairman and CEO

As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun and Mr. Zhang Quan; the non-executive Directors of the Company are Mr. Yeung Sai Hong, Mr. Yao Yu, Mr. Li San Yim, Mr. Liu Huisheng, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun, Mr. Chen Xuejian, Mr. Gu Linsheng, Mr. Li Shihao and Mr. Liu Zheng; and the independent non-executive Directors of the Company are Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhongchang.