

**If you are in any doubt** as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred all** your overseas listed foreign shares (“**H Shares**”) in Weichai Power Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

---



**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)**

## **CONTINUING CONNECTED TRANSACTIONS**

Independent financial adviser to the independent board committee  
and the independent shareholders of Weichai Power Co., Ltd.  
on Non-exempt Continuing Connected Transactions



**昱豐融資有限公司**  
**CERES CAPITAL LIMITED**

**CERES**

---

A letter from the Board is set out on pages 5 to 25 of this circular.

A letter from the independent financial adviser to the independent board committee and the independent shareholders of the Weichai Power Co., Ltd. on the Non-exempt Continuing Connected Transactions (as defined in this circular) is set out on pages 27 to 53 of this circular.

A supplementary notice of the EGM (as defined in this circular) of Weichai Power Co., Ltd. (the “**Company**”), at which the resolutions for approving, inter alia, the Continuing Connected Transactions Agreements (as defined in this circular) in respect of the Non-exempt Continuing Connected Transactions (as defined in this circular) and the relevant New Caps (as defined in this circular) will be considered are set out in this circular.

Please refer to the EGM Notice (as defined in this circular) for details in respect of the other resolutions to be considered at the EGM, eligibility of attendance, registration procedure, proxy and other relevant matters.

---

## CONTENTS

---

<b>Definitions .....</b>	<b>1</b>
<b>Letter from the Board .....</b>	<b>5</b>
<b>Letter from Independent Board Committee on the Non-exempt Continuing Connected Transactions .....</b>	<b>26</b>
<b>Letter from Independent Financial Adviser on the Non-exempt Continuing Connected Transactions .....</b>	<b>27</b>
<b>Appendix — General information .....</b>	<b>54</b>
<b>Supplementary Notice of the EGM .....</b>	<b>60</b>

---

## DEFINITIONS

---

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

“%”	per cent.
“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
“Announcement”	the announcement of the Company dated 2 August 2007
“Beijing Shaanqi Sale Centre”	北京陝重汽汽車銷售中心 (Beijing Shaanzhongqi Vehicle Sale Centre), a company established in the PRC and a connected person of the Company
“Board”	the board of Directors
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a joint stock limited company incorporated in the PRC with limited liability
“Continuing Connected Transactions Agreements”	the agreements relating to the Continuing Connected Transactions entered into between the Group and the relevant counterparts
“Continuing Connected Transactions”	the transactions described in the section headed “A. Continuing Connected Transactions” in the 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
“Directors”	directors of the Company
“Dong Feng Automotive”	has the meaning ascribed to it in the section headed “A. Non-exempt Continuing Connected Transactions” in this circular
“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
“EGM Notice”	the notice of the EGM dated 3 July 2007

---

## DEFINITIONS

---

“Exempt Continuing Connected Transactions”	being those Continuing Connected Transactions the proposed New Caps for which do not exceed the 2.5% Threshold and, accordingly, are 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. Non-exempt Continuing Connected Transactions” in this circular
“Group”	the Company and its subsidiaries
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a committee of the Board comprising Mr. Zhang Xiao Yu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang, being the independent non-executive Directors
“Independent Financial Adviser”	Ceres Capital Limited, a licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity and the independent financial adviser to 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
“Latest Practicable Date”	3 August 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before its despatch

---

## DEFINITIONS

---

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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, and 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
“PRC GAAP”	the generally accepted accounting principles of the PRC
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“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. Non-exempt Continuing Connected Transactions” in this circular
“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

---

## DEFINITIONS

---

“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
“Shareholder(s)”	holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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.

*If there is any inconsistency between the Chinese name of the entities mentioned in this circular and their English translation, the Chinese version shall prevail.*

---

## LETTER FROM THE BOARD

---



**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)**

*Executive Directors:*

Tan Xuguang (*Chairman*)  
Xu Xinyu  
Sun Shaojun  
Zhang Quan

*Non-executive Directors:*

Yeung Sai Hong  
Chen Xuejian  
Yao Yu  
Li San Yim  
Liu Huisheng  
Zhang Fusheng  
Julius G. Kiss  
Han Xiaoqun  
Gu Linsheng  
Li Shihao  
Liu Zheng

*Independent Non-executive Directors:*

Zhang Xiaoyu  
Koo Fook Sun, Louis  
Fang Zhongchang

*Supervisors:*

Sun Chengping  
Wang Yong  
Jiang Jianfang

*Registered office:*

197, Section A  
Fu Shou East Street  
High Technology Industrial  
Development Zone  
Weifang City  
Shandong Province  
The People's Republic of China

*Principal place of business  
in Hong Kong:*

Suite 2501–2, 25th Floor  
One International Finance Centre  
1 Harbour View Street Central  
Hong Kong

8 August 2007

To: *Holders of H Shares*  
*Holders of A Shares*

Dear Sir or Madam,

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 2 August 2007 (the “**Announcement**”) which announces that on 1 August 2007, the Company has entered into the Continuing Connected Transactions Agreements.

---

## LETTER FROM THE BOARD

---

This circular gives you further information in relation to the Non-exempt Continuing Connected Transactions and contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions. For any inconsistency between the Announcement and this circular, the information contained herein shall prevail.

### A. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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. Certain of the Continuing Connected Transactions, individually or when aggregated, exceed the 2.5% Threshold and accordingly, constitute Non-exempt Continuing Connected Transactions and are subject to the approval of the Independent Shareholders. For details of the Exempt Continuing Connected Transactions, please refer to the Announcement.



## LETTER FROM THE BOARD

The Non-exempt 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.) (“ <b>Fast Transmission</b> ”)	SFGC ( <i>Note 1</i> )	Holder of 49% of the equity of SFGC	<p>(a) Sale of parts and components of transmissions by SFGC to Fast Transmission</p> <p>(b) Purchase of parts and components of transmissions by SFGC from Fast Transmission</p>
2. 陝西汽車集團有限公司 (Shaanxi Automotive Group Co. Ltd.) (“ <b>Shaanxi Automotive</b> ”) 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	<p>(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</p> <p>(b) Purchase of parts and components of vehicles and scrap steel by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive's associates</p>
3. 東風汽車集團股份有限公司 (Dong Feng Automotive Group Co. Ltd.) (“ <b>Dong Feng Automotive</b> ”)	DFOVCL ( <i>Note 5</i> )	Holder of 40% of the equity of DFOVCL ( <i>Note 5</i> )	<p>(a) Sale of off-road vehicles by DFOVCL to Dong Feng Automotive</p> <p>(b) Purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng</p>

*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. DFOVCL is a 60% subsidiary of the Company.

## LETTER FROM THE BOARD

A summary of the Non-exempt Continuing Connected Transactions, the Continuing Connected Transactions Agreements, the actual transaction amounts for the three years ended 31 December 2006 (audited) for the Non-exempt 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 Non-exempt Continuing Connected Transactions is set out below:

Connected person and details of relevant Continuing Connected Transactions	New Caps		
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>
<b>I. Fast Transmission</b>			
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
<b>II. Shaanxi Automotive and its associates (as the case may be)</b>			
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

---

## LETTER FROM THE BOARD

---

Connected person and details of relevant Continuing Connected Transactions	New Caps		
	2007	2008	2009
	RMB	RMB	RMB

### III. 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

### 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.

---

## LETTER FROM THE BOARD

---

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 RMB350,000,000 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.

---

## LETTER FROM THE BOARD

---

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:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB</i>	<i>RMB</i>	<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.

---

## LETTER FROM THE BOARD

---

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	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 RMB500,000,000 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.

---

## LETTER FROM THE BOARD

---

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:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<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.

## **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.

---

## LETTER FROM THE BOARD

---

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 and 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



---

## LETTER FROM THE BOARD

---

- 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.

---

## LETTER FROM THE BOARD

---

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)
	RMB	RMB	RMB
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 187% 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.

---

## LETTER FROM THE BOARD

---

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:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<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, Hande 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

---

## LETTER FROM THE BOARD

---

*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 scarp 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)
	RMB	RMB	RMB
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.

---

## LETTER FROM THE BOARD

---

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 9% 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 82% 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:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<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.

---

## LETTER FROM THE BOARD

---

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.

### III. 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)
	RMB	RMB	RMB
Actual Transaction Amount	6,800,023	14,829,059	4,820,426

---

## LETTER FROM THE BOARD

---

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 2,082%, 171% and 23% 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:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<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.

---

## LETTER FROM THE BOARD

---

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:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<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 23% increase in the number of parts and components required from Dong Feng Automotive for each of the three years from 2006 to 2009.



---

## LETTER FROM THE BOARD

---

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:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<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. REASONS AND BENEFITS FOR THE DISPOSALS**

As TAGC has conducted the Non-exempt Continuing Connected Transactions with the relevant entities for many years and the Company has taken up such Non-exempt Continuing Connected Transactions after completion of the Merger, the Directors consider it to be beneficial to the Group to continue to conduct these Non-exempt Continuing Connected Transactions (which arise in the ordinary and usual course of business of the Group) in order to ensure and maximize operating efficiency and stability of the operations of the Group. The Board is not aware of any disadvantage of the Non-exempt Continuing Connected Transactions to the Group.

---

## LETTER FROM THE BOARD

---

The Directors, including the independent non-executive Directors (considering the advice of the Independent Financial Adviser), are of the view that the Non-Exempt Continuing Connected Transactions, and the proposed New Caps, are fair and reasonable and in the interests of the Shareholders as a whole

The Board, including the independent non-executive Directors (considering the advice of the Independent Financial Adviser), consider the terms of each of the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions have been negotiated and arrived at on arms length basis and are on normal commercial terms and that such terms are in the interest of the Company and fair and reasonable so far as the Shareholders are concerned.

### **C. LISTING RULES IMPLICATIONS**

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, or otherwise it is appropriate in the interest of the Shareholders, the Non-exempt 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 will be subject to the prior approval of the Independent Shareholders (as mentioned above) at the EGM in relation to, inter alia, the resolutions 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).

### **D. EGM**

Reference is made to EGM Notice.

It is proposed that in addition to the ordinary resolution set out in the EGM Notice, the New Caps and the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions shall also be considered and, if thought fit, approved at the EGM.

A notice setting out the addition resolutions in respect of the New Caps and the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions are set out in this circular. No Shareholder is required to abstain from voting (by way of poll) in respect of the resolutions for approvals of the New Caps and the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions. The procedure for demanding a poll is also set out in the section headed "8. Procedures for demanding a poll at the EGM" below.

---

## LETTER FROM THE BOARD

---

Please refer to the EGM Notice for details in respect of the other resolution to be considered at the EGM, eligibility of attendance, registration procedure, proxy and other relevant matters.

### **E. RECOMMENDATION**

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (considering advice of the Independent Financial Adviser), are of the opinion that the New Caps and the terms of the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions regarding the same.

The Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang) has been appointed to consider the Non-exempt Continuing Connected Transactions. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the New Caps and the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions. Your attention is drawn to (i) the letter setting out the advice from the Independent Board Committee to the Independent Shareholders, and (ii) the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Caps and the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions, which are set out in this circular.

### **F. FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of  
the Board of Directors  
**Tan Xuguang**  
*Chairman and CEO*

---

# LETTER FROM INDEPENDENT BOARD COMMITTEE ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---



**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)**

8 August 2007

*To the Independent Shareholders  
of Weichai Power Co., Ltd.*

Dear Sir or Madam,

## **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. in respect of the Non-exempt Continuing Connected Transactions, details of which are set out in the section headed “A. Non-exempt Continuing Connected Transactions” in the “Letter from the Board” contained in the circular of the Company dated 8 August 2007 (the “**Circular**”). Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of Independent Financial Adviser in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions as set out in the “Letter from Independent Financial Adviser on the Non-exempt Continuing Connected Transactions” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider that the relevant New Caps and the terms of the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the interests of the Shareholders as a whole are concerned. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Caps.

Yours faithfully,

The Independent Board Committee

**Zhang Xiaoyu**

*Independent*

*non-executive Director*

**Koo Fook Sun, Louis**

*Independent*

*non-executive Director*

**Fang Zhongchang**

*Independent*

*non-executive Director*

---

# LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

*The following is the full text of the letter dated 8 August 2007 from Ceres Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions and the respective New Caps, prepared for the purpose of incorporation in this circular.*



昱豐融資有限公司  
CERES CAPITAL LIMITED

---

Suite 3308, Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

8 August 2007

*To the independent board committee and  
the independent shareholders of Weichai Power Co., Ltd.*

Dear Sirs,

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND NEW CAPS

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee (the “Independent Board Committee”) and the independent shareholders (the “Independent Shareholders”) of Weichai Power Co., Ltd. (the “Company”) in respect of the Continuing Connected Transactions Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps, details of which are set out in the circular to the Shareholders dated 8 August 2007 (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 2 August 2007, the Board announced, among other things, that the Group has entered into the Continuing Connected Transactions Agreements with various connected persons (as defined under the Listing Rules) of the Company including Fast Transmission, Shaanxi Automotive and its associates, Huatong and Dong Feng Automotive. Since the New Caps for certain of these Continuing Connected Transactions with Fast Transmission, Shaanxi Zhongqi and its associates and Dong Feng Automotive, either individually or when aggregated with others, exceed the 2.5% Threshold, the Continuing Connected Transactions Agreements governing these

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

transactions (hereinafter referred to as the “Non-exempt Agreements”) and the respective New Caps are required to be subject to, among others, the approval of the independent shareholders at a general meeting of the Company pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising three independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) whether the Non-exempt Agreements are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Non-exempt Agreements and the respective New Caps are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions at the EGM. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Non-exempt Agreements are in the interests of the Company and the Shareholders as a whole and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; (ii) whether or not the terms of the Non-exempt Agreements are normal commercial terms and are fair and reasonable; (iii) whether or not the respective New Caps are fair and reasonable; and (iv) whether or not the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Non-exempt Agreements and the respective New Caps at the EGM.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, its advisers and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business, financial results and positions and affairs of the Group or any parties involved in the Non-exempt Continuing Connected Transactions, or the prospects of the market in which they respectively operate.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

---

# LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

## PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Non-exempt Agreements and the respective New Caps, we have taken into consideration the following principal factors:

### 1. Background information

#### (a) *Overview of the business operation and performance of the Company*

The Company is one of the leading high-speed, heavy-duty diesel engine manufacturers in the PRC, supplying mainly to major domestic truck and construction machinery manufacturers. The Company's core products are six-cylinder, 110-266kw output, 9.7 litre displacement WD615 diesel engines and WD618 diesel engines with output of 265-323kw. Diesel engine manufacturing is a very large industry with a diverse range of engines, which are characterised by their end-products or applications. As disclosed in the Company's annual report for the year ended 31 December 2006 (the "Annual Report"), the sales of diesel engines which were used in heavy-duty trucks and construction machinery accounted for a total of approximately 88.6% of the Group's total turnover for the year 2006. During 2006, the Group sold approximately 145,890 units of diesel engines, of which approximately 80,480 units were truck engines and approximately 59,210 units were construction machine engines. Apart from the production and sale of diesel engines, the Group is also engaged in the production and sale of engine parts. For the year 2006, sales of diesel engine parts amounted to approximately RMB758 million and accounted for approximately 11.4% of the Group's total turnover for the year.

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2004, 2005 and 2006 which is extracted from the Company's 2005 and 2006 annual reports.

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
	(audited and	(audited)	(audited)
	restated)		
Turnover	6,155,779	5,250,735	6,633,668
Gross profit	1,504,706	1,154,327	1,891,285
Profit for the year	533,254	316,683	708,010

For the year ended 31 December 2005, the Group's turnover dropped by approximately 14.7% to approximately RMB5,250.7 million. As explained in the Company's annual report for 2005, such drop in the turnover was mainly due to the decrease in the demand in the heavy-duty trucks market for diesel engines as a result of, among others, the implementation of a series of government policy measures which had slowed down the investments in infrastructure in China in 2005. Due to the drop in the sales volume of diesel engines for heavy-duty trucks which had a relatively higher gross profit margin, the Group's gross profit decreased by approximately 23.3% to approximately RMB1,154.3 million. For the year



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

ended 31 December 2005, the Group recorded a net profit of approximately RMB316.7 million, representing a decrease of approximately 40.6% from the net profit of approximately RMB533.3 million for the preceding financial year.

For the year ended 31 December 2006, the Group recorded an audited turnover of approximately RMB6,634 million, representing an increase of approximately 26.3% over the turnover of approximately RMB5,251 million for the preceding year. As noted in the Company's annual report for 2006, such increase was mainly due to a rebound in the demand from the heavy-duty truck and construction machinery industries and the Group recorded a 27.8% increase in the unit of diesel engines sold during the year. Coupled with the effective cost control measures and the increase in the sales volume of heavy-duty truck diesel engines in 2006 which have a relatively higher gross profit margin than that of construction machinery diesel engines, the Group achieved significant improvement in its gross profit margin to 28.5% for 2006 from 22.0% for 2005. The Group's gross profit for 2006 reached RMB1,891 million as compared to approximately RMB1,154 million for 2005, representing an increase of approximately 63.8%. Profit for the year 2006 reached RMB708 million, representing more than 123% increase from RMB315 million for 2005.

### **(b) *Overview of the heavy-duty truck and construction machinery markets in China***

As stated in the Letter from the Board, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC in recent years, such as those under 國家西北大開發戰略 (the 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.

The National People's Congress in March 2006 endorsed the 11th Five-Year Plan (2006–2010), which builds on a gradual shift in the government's emphasis since 2003 toward policies aimed at achieving balanced, equitable, and sustainable development. Under the plan, one of the goals which relates to economic growth is the indicative target gross domestic product ("GDP") for 2010 of RMB26,000 billion. There is also a stronger emphasis on rural development, such as larger investments in rural infrastructure.

China has seen steady and fast economic growth over the years. According to statistics issued by the National Bureau of Statistics of China, China recorded a growth in GDP in excess of 9% consecutively for five years since 2002. The strong economic performance in China continued and in 2006 GDP reached RMB20,940.7 billion, up by 10.7% over the previous year. The completed investment in fixed assets of the whole country in 2006 was RMB10,987.0 billion, up by 24% over the previous year. Of the total investment, that in the eastern areas stood at RMB5,454.6 billion, up by 19.3% over the previous year; that in the central areas was RMB2,090.5 billion, up by 30.6%; that in the western areas was RMB2,191.6 billion, up by 25.4%; and that in the northeastern areas reached RMB1,052.0 billion, up by 36.2%. The stronger growth in investment in fixed assets in the western and



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

northeastern areas of China has suggested development in construction activities and infrastructural developments in those rural areas and hence a high demand for heavy-duty transportation vehicles and construction machinery. According to the National Bureau of Statistics of China, the Qinghai-Tibet railway was fully put into operation on 1 July 2006, and a total amount of RMB11.9 billion worth of investment was completed for the first phase of the eastern and central routes of the South-to-North Water Diversion Project. The actual economic performance in China in the recent year as indicated by the statistics is also consistent with China's 11th Five-year Plan, which has a stronger emphasis on rural development, such as larger investments in rural infrastructure.

For the first half of 2007, China's GDP growth has even reached 11.5%. According to China Automobile Industry Association's statistics, the sales volume of trucks had increased from a growth rate of 15.45% in 2006 to 21.12% in the first quarter of 2007. The statistics also show that the heavy-duty truck market registered a growth rate of 59.67% during the first quarter of 2007, benefiting from the sharp growth of the highway transport vehicles.

In view of the rapid growth of the national economy, the development and improvement of the expressway network nationwide, logistics, transportation and automobile industries in China, the gradual implementation of large-scale projects such as the South-to-North Water Diversion Project and the national policies focusing on promoting rural urbanisation, we concur with the view of the Directors that there will be a continuous development and positive growth of heavy-duty vehicles and construction machinery markets in the PRC.

**(c) *Relationship between the Group and the connected persons under the Non-exempt Agreements***

**(i) *Fast Transmission***

Fast Transmission is a holder of 49% equity of SFGC, which is a 51% subsidiary of the Company. Fast Transmission is principally engaged in the processing of parts and components of vehicles.

**(ii) *Shaanxi Automotive***

Shaanxi Automotive is a holder of 49% of the equity of Shaanxi Zhongqi, which is a 51% subsidiary of the Company. Shaanxi Automotive is primarily an investment holding company. The Non-exempt Continuing Connected Transactions are conducted between members of the Group and Shaanxi Automotive and/or its associates, including:

- Shaanxi Wanfang which is held as to 49% by Shaanxi Automotive,
- Shaanxi Huazhen which is wholly-owned by Shaanxi Automotive,
- Shaanxi Heavy-duty Coach which is held as to 45% by Shaanxi Automotive,

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

- Shaanxi Lantong which is held as to 50% by Shaanxi Automotive,
- Beijing Shaanqi Sale Centre which is wholly-owned by Shaanxi Automotive,
- Shaanxi Tongchuang which is held as to 50% by Shaanxi Automotive, and
- Shaanxi Tongli which is held as to 35% by Shaanxi Automotive.

All of the above subsidiaries/associates of Shaanxi Automotive are principally engaged in the sale of parts and components of vehicles. Shaanxi Tongli is also engaged in the sale of special-purpose vehicles.

(iii) *Dong Feng Automotive*

Dong Feng Automotive is a holder of 40% of the equity of DFOVCL, which is a 60% subsidiary of the Company. Dong Feng Automotive is principally engaged in the manufacture and sale of commercial and military vehicles.

By virtue of the relationship between the Company and each of Fast Transmission, Shaanxi Automotive and/or its associates, and Dong Feng Automotive as described above, these parties are considered to be connected persons of the Company under the Listing Rules and the transactions between the Company and each of them therefore constitute connected transactions.

### 2. Reasons for the Non-exempt Continuing Connected Transactions

As stated in the Letter from the Board, 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, the said original subsidiaries of TAGC, together with other assets and liabilities of TAGC, were absorbed by the Company and, in order to ensure and maximize 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.

As stated in the circular of the Company dated 12 November 2006, the reason for implementation of the Merger is to form a larger consolidated business in the heavy-duty trucks market that will create new business opportunities and result in positive synergistic effects. The Directors believe that with the combination of the Company's diesel engines and TAGC group's transmission and axles, the enlarged Group will be a leader with the ability to provide an integrated power train for heavy-duty trucks. In the event that the Company is required to cease the business transactions with the associates of TAGC which are now regarded as connected persons of the Company under the Listing Rules, it may cause disruption to certain operations of TAGC which had been absorbed by the Company under the Merger and affect the operating

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

efficiency and stability of the overall operations of the enlarged Group. This would defeat the principal purpose of the Merger, which was a very substantial acquisition of the Company and has fundamental impact on the long-term development of the Group. On this basis, we are of the opinion that it is in the interest of the Company and the Shareholders as a whole to carry on the Non-exempt Continuing Transactions.

### **3. Non-exempt Continuing Connected Transactions between SFGC and Fast Transmission**

#### **(a) *Sale of parts and components of transmissions by SFGC to Fast Transmission***

##### **(i) *Principal terms of the Non-exempt Agreement***

Pursuant to the relevant Non-exempt Agreement, SFGC has agreed to sell and Fast Transmission has agreed to purchase certain parts and components of transmissions, namely gearboxes, etc, at market prices (or prices determined according to the principle of fairness and reasonableness) for a term from 1 May 2007 to 31 December 2009. Upon the expiry of the initial term, SFGC shall have an option to renew the agreement for a term of three years.

Pursuant to the relevant non-exempt Agreement, SFGC and Fast Transmission shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including the particulars of goods, quantity, price, delivery and inspection methods, payment terms, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the relevant Non-exempt Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As stated in the Letter from the Board, during the three years ended 31 December 2006, SFGC has sold to Fast Transmission gearboxes at market prices settled every two to three months. It is expected that the Non-exempt Continuing Connected Transactions between SFGC and Fast Transmission will continue generally on the same terms as in the past.

Subject to approval at a general meeting of the Company, the relevant Non-exempt Agreement shall become effective with retrospective effect from 1 May 2007.

We note from the Annual Report that the credit terms granted by the Group to its customers are normally in the range from 30 days to 180 days. Customers with established trading records could be granted longer credit period. As stated in the Annual Report, the Group had trade and bills receivables of approximately RMB1,397 million as at 31 December 2006, of which about 83% aged within 90 days. Based on the credit terms granted by the Group to its customers in general, we consider that the settlement terms of two to three months granted by SFGC to Fast Transmission are normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

In summary, (i) the sale of parts and components of transmissions by SFGC to Fast Transmission is conducted in the ordinary course of SFGC's business; (ii) the prices of the goods under the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the specific contracts or orders to be entered into for the Non-exempt Continuing Connected Transactions must be based on the principle of fairness and reasonableness and are on normal commercial terms. On this basis, we are of the opinion that the Non-exempt Agreement governing the sale of such goods by SFGC to Fast Transmission is in the interest of the Company and the Shareholders as a whole, and the terms of such Non-exempt Agreement are normal commercial terms and are fair and reasonable.

(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved for the sale of parts and components of transmissions by SFGC to Fast Transmission for each of the three years ended 31 December 2004, 2005 and 2006; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2007, 2008 and 2009:

	<b>Total transaction amounts (RMB)</b>	<b>Increase/ (Decrease) as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2004	20,325,037	N/A
2005	18,684,866	(8.1)
2006	132,372,851	608.4
<b>New Caps:</b>		
2007	350,000,000	164.4
2008	350,000,000	0
2009	350,000,000	0

As stated in the Letter from the Board, the transaction amount for the sale of parts and components of transmission by SFGC to Fast Transmission for the year of 2005 has dropped slightly from 2004 by approximately 8% due to the implementation of a series of austerity 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

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

the transaction amount has grown sharply by 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.

Based on the proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB350,000,000 for each of the three years ending 31 December 2007, 2008 and 2009, such New Caps represent a growth rate of approximately 164% from the respective historical transaction amount for 2006. The estimated growth in terms of transaction amount for 2007 is substantial, although the growth rate of approximately 164% appears much lower than the extraordinary growth of 608% for 2006 which grew from a relatively low base of 2005. As stated in the Letter from the Board, the proposed New Caps in this sub-section 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 required by Fast Transmission and of the average unit price of such parts and components.

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. As discussed in the sub-section headed “Overview of the heavy-duty truck and construction machinery markets in China” above, with rapid growth of the national economy, the development and improvement of the expressway network, logistics, transportation and automobile industries in China, there will be a continuous development and positive growth of the heavy-duty vehicles market in China. Statistics of the China Automobile Industry Association also show that the heavy-duty truck market registered a growth rate of 59.67% during the first quarter of 2007. As discussed in the sub-section headed “Reason for the Non-exempt Continuing Connected Transactions” above, following the completion of the Merger, the enlarged Group has formed a large consolidated business in the heavy-duty trucks market and has the ability to provide an integrated power train for heavy-duty trucks. We therefore consider that the Group will be in an advantageous position to capture the growth potential in the heavy-duty trucks market. We have reviewed and discussed with the Company (i) the unaudited transaction amounts of the Non-exempt Continuing Connected Transactions under this sub-section for the first half of 2007, (ii) the estimated quantity and prices of the relevant goods to be transacted during the remaining period of 2007, 2008 and 2009, and (iii) the basis and assumptions made and factors considered in making such estimates. Based on our review and discussion of the information as provided by the Company and having considered the economy of China and the overall performance of the heavy-duty vehicle market, we are of the opinion that the basis and assumptions made and factors considered by the Company in determining the New Caps are reasonable. We also consider that the proposed New Caps of RMB350,000,000 is not excessive on an average basis. We note that the proposed New Caps for 2008 and 2009 are the same as that for 2007. The Company has advised in particular that they expect the amount of the transactions between SFGC and Fast Transmission under this sub-section will remain stable after continuous substantial growth in 2006 and 2007 and having considered that SFGC has reached its

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

maximum production capacity for the relevant goods in 2007. Due to management prudence, SFGC presently has no intention to expand its production capacity and will consider outsourcing to meet its further production requirements if necessary. Taking into account the substantial growth in the transaction amounts for the years 2006 and 2007 and that SFGC has reached its maximum production capacity for the relevant goods in 2007, we consider that it is reasonable to propose the New Caps for 2008 and 2009 at the same level as RMB350,000,000 for 2007.

In summary, we consider that the proposed New Caps of RMB350,000,000 for each year of 2007, 2008 and 2009 are fair and reasonable.

**(b) *Purchase of parts and components of transmissions by SFGC from Fast Transmission***

**(i) *Principal terms of the Non-exempt Agreement***

Pursuant to the relevant Non-exempt Agreement, Fast Transmission has agreed to sell and SFGC has agreed to purchase certain parts and components of transmissions and gears, namely power take off assemblies and castings, etc, at market prices (or prices determined according to the principle of fairness and reasonableness) for a term from 1 May 2007 to 31 December 2009. Upon the expiry of the initial term, SFGC shall have an option to renew the agreement for a term of three years.

Pursuant to the relevant Non-exempt Agreement, SFGC and Fast Transmission shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including the particulars of goods, quantity, price, delivery and inspection methods, payment terms, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the relevant Non-exempt Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As stated in the Letter from the Board, during the three years ended 31 December 2006, SFGC has purchased from Fast Transmission power off assemblies and castings, etc, at market prices settled every two to three months. It is expected that the Non-exempt Continuing Connected Transactions between SFGC and Fast Transmission will continue generally on the same terms as in the past.

Subject to approval at a general meeting of the Company, the relevant Non-exempt Agreement shall become effective with retrospective effect from 1 May 2007.

We note from the Annual Report that about 96% of the Group's trade and bills payables aged up to 180 days. The Group had trade and bills payables of approximately RMB2,465.6 million as at 31 December 2006, of which about 67.8% aged within 90 days. Based on the credit terms obtained by the Group from its trade creditors in general, we consider that the settlement term of two to three months granted by Fast Transmission to SFGC are normal commercial terms and are fair and

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

reasonable so far as the Company and the Shareholders are concerned. Such settlement term is also the same as that granted by SFGC under its sale of transmissions to Fast Transmission as described above.

In summary, (i) the purchase of parts and components of transmissions and gears by SFGC from Fast Transmission is conducted in the ordinary course of SFGC's business; (ii) the prices of the goods under the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the specific contracts or orders to be entered into for the Non-exempt Continuing Connected Transactions must be based on the principle of fairness and reasonableness and are on normal commercial terms. On this basis, we are of the opinion that the Non-exempt Agreement governing the purchase of such goods by SFGC from Fast Transmission is in the interest of the Company and the Shareholders as a whole, and the terms of such Non-exempt Agreement are normal commercial terms and are fair and reasonable.

(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved for the purchase of parts and components of transmissions and gears by SFGC from Fast Transmission for each of the three years ended 31 December 2004, 2005 and 2006; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2007, 2008 and 2009:

	<b>Total transaction amounts (RMB)</b>	<b>Increase as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2004	31,755,912	N/A
2005	83,547,488	163.1
2006	192,152,105	130.0
<b>New Caps:</b>		
2007	500,000,000	160.2
2008	500,000,000	0
2009	500,000,000	0

As stated in the Letter from the Board, the transaction amount for purchase of parts and components of transmissions and gears by SFGC from Fast Transmission has increased by approximately 163% for 2005 from 2004 and 130% for 2006 from 2005. The Directors believe that the purchase of these parts and components by SFGC from Fast Transmission will continue to increase substantially.



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

Based on the proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB500,000,000 for each of the three years ending 31 December 2007, 2008 and 2009, such New Caps represent a growth rate of approximately 160% from the respective historical transaction amount for 2006. As stated in the Letter from the Board, the proposed New Caps in this sub-section 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 required by SFGC from Fast Transmission for its production and of the average unit price of such parts and components.

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. As discussed in the paragraph headed “Overview of the heavy-duty truck and construction machinery markets in China” above, with rapid growth of the national economy, the development and improvement of the expressway network, logistics, transportation and automobile industries in China, there will be a continuous development and positive growth of heavy-duty vehicles market in China. Statistics of the China Automobile Industry Association also show that the heavy-duty truck market registered a growth rate of 59.67% during the first quarter of 2007. As discussed in the sub-section headed “Reason for the Non-exempt Continuing Connected Transactions” above, following the completion of the Merger, the enlarged Group has formed a large consolidated business in the heavy-duty trucks market and has the ability to provide an integrated power train for heavy-duty trucks. We therefore consider that SFGC will be in an advantageous position to capture the growth potential in the heavy-duty trucks market. We have reviewed and discussed with the Company (i) the unaudited transaction amounts of the Non-exempt Continuing Connected Transactions under this sub-section for the first half of 2007, (ii) the estimated quantity and prices of the relevant goods to be transacted during the remaining period of 2007, 2008 and 2009, and (iii) the basis and assumptions made and factors considered in making such estimates. Based on our review and discussion of the information as provided by the Company and having considered the economy of China and the overall performance of the heavy-duty vehicle market, we are of the opinion that the basis and assumptions made and factors considered by the Company in determining the New Caps are reasonable. We also consider that the proposed New Cap of RMB500,000,000 for 2007 is not excessive on an average basis. We note that the proposed New Caps for 2008 and 2009 are the same as that for 2007. The Company has in particular advised that they expect the amount of the transactions between SFGC and Fast Transmission under this sub-section will remain stable after continuous substantial growth in 2006 and 2007 and having considered that SFGC has reached its maximum production capacity in 2007. Due to management prudence, SFGC presently has no intention to expand its production capacity and will consider outsourcing to meet its further production requirements if necessary. Therefore, the volume of parts and components to be required by SFGC from Fast Transmission for its production for the years 2008 and 2009 is not expected to exceed that for 2007. Taking into account the substantial growth in the transaction amounts from 2005 to



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

2007 and that SFGC has reached its production capacity for the relevant goods in 2007, we consider that it is reasonable to propose the New Caps for 2008 and 2009 at the same level as RMB500,000,000 for 2007.

In summary, we consider that the proposed New Caps of RMB500,000,000 for each year of 2007, 2008 and 2009 are fair and reasonable.

#### **4. Non-exempt Continuing Connected Transactions between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)**

##### **(a) *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)***

###### **(i) *Principal terms of the Non-exempt Agreement***

Pursuant to the relevant Non-exempt Agreement:

- Shaanxi Zhongqi has agreed to sell certain vehicles and parts and components of vehicles, namely, wire gauges and emission pipes, etc, and raw materials, at market prices (or prices determined according to the principle of fairness and reasonableness), 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 certain parts and components of vehicles, namely, ductile iron to Shaanxi Huazhen at market prices (or prices determined according to the principle of fairness and reasonableness) and provide certain heat processing services to Shaanxi Wanfang at market prices (or prices determined according to the principle of fairness and reasonableness); and
- Jinding has agreed to sell certain parts and components of vehicles, namely, castings, etc, at market prices (or prices determined according to the principle of fairness and reasonableness), to each of Shaanxi Tongchuang, Shaanxi Tongli and Shaanxi Wanfang.

The Non-exempt Agreement in relation to this sub-section has a term from 1 May 2007 to 31 December 2009, and upon the expiry of the initial term, Shaanxi Zhongqi, Hande Axle and Jinding shall have an option to renew the agreement for a term of three years.

Pursuant to the relevant Non-exempt Agreement, Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) and Shaanxi Automobile and its associates (as the case may be) shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including the particulars of goods or services,

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

quantity, price, delivery and inspection methods, payment terms, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the relevant Non-exempt Agreement. Payment for the goods or services shall be made by cash on normal commercial settlement terms.

As stated in the Letter from the Board, during the three years ended 31 December 2006, Shaanxi Zhongqi, Hande Axle and Jinding have sold vehicles, parts and components and raw materials and provided heating processing services to Shaanxi Automobile and its associates at market prices settled every two to three months. It is expected that the Non-exempt Continuing Connected Transactions between Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) and Shaanxi Automobile and its associates (as the case may be) will continue generally on the same terms as in the past.

Subject to approval at a general meeting of the Company, the relevant Non-exempt Agreement shall become effective with retrospective effect from 1 May 2007.

We noted from the Annual Report that the credit terms granted by the Group to its customers are normally in the range from 30 days to 180 days. Customers with established trading records could be granted longer credit period. As stated in the Annual Report, the Group had trade and bills receivables of approximately RMB1,397 million as at 31 December 2006, of which about 83% aged within 90 days. Based on the credit terms granted by the Group to its customers in general, we consider that the settlement terms of two to three months granted by Shaanxi Zhongqi and its subsidiaries to Shaanxi Automobile and its associates are normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned.

In summary, (i) the sale of vehicles, wire gauges and emission pipes, and raw materials by Shaanxi Zhongqi, the sale of ductile iron and provision of heat processing services by Hande Axle, and the sale of castings by Jinding are all conducted in the ordinary course of their respective businesses; (ii) the prices of the goods or services under the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the specific contracts or orders to be entered into for the Non-exempt Continuing Connected Transactions must be based on the principle of fairness and reasonableness and are on normal commercial terms. On this basis, we are of the opinion that the Non-exempt Agreement governing the sale of such goods and the provision of services by Shaanxi Zhongqi, Hande Axle and Jinding to Shaanxi Automobile and its associates is in the interest of the Company and the Shareholders as a whole, and the terms of such Non-exempt Agreement are normal commercial terms and are fair and reasonable.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved for the sale of vehicles, parts and components of vehicles, and the provision of heat processing service by Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) to Shaanxi Automobile and its associates (as the case may be) for each of the three years ended 31 December 2004, 2005 and 2006; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2007, 2008 and 2009:

	<b>Total transaction amounts (RMB)</b>	<b>Increase/ (Decrease) as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2004	107,169,802	N/A
2005	69,964,927	(34.7)
2006	200,972,995	187.2
<b>New Caps:</b>		
2007	345,000,000	71.7
2008	458,000,000	32.8
2009	564,000,000	23.1

As advised by the Company, the transaction amount for the sale of vehicles, and parts and components of vehicles, and the 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) for the year of 2005 has dropped from 2004 by almost 35% due to the implementation of a series of austerity 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 transaction amount has grown sharply by an approximately 187% from 2005 to 2006.

Based on the proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB345,000,000, RMB458,000,000 and RMB564,000,000 for the three years ending 31 December 2007, 2008 and 2009 respectively, such New Caps represent a growth rate of approximately 71.7%, 32.8% and 23.1%, respectively, from the amount for the preceding year. Such growth rates represent an average of 42.5%. As stated in the Letter from the Board, the proposed New Caps in this sub-section 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

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

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.

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 187% increase in the aggregate of the transaction amount from 2005 to 2006, the Directors estimate that the amount of such transactions will continue to increase substantially.

As stated in the sub-section headed “Overview of the heavy-duty truck and construction machinery markets in China” above, statistics of the China Automobile Industry Association show that the heavy-duty truck market registered a growth rate of 59.67% during the first quarter of 2007. As discussed in the sub-section headed “Reason for the Non-exempt Continuing Connected Transactions” above, following the completion of the Merger, the enlarged Group has formed a large consolidated business in the heavy-duty trucks market and has the ability to provide an integrated power train for heavy-duty trucks. We therefore consider that the Group will be in an advantageous position to capture the growth potential in the heavy-duty trucks market. We have reviewed (i) the unaudited transaction amounts of the Non-exempt Continuing Connected Transactions under this sub-section for the first half of 2007, (ii) the estimated quantity and prices of goods and services to be transacted during the remaining period of 2007, 2008 and 2009, and (iii) the basis and assumptions made and factors considered in making such estimates. Based on our review and discussion of the information as provided by the Company and having considered the economy of China and the overall performance of the heavy-duty vehicle market, we are of the opinion that the basis and assumptions made and factors considered by the Company in determining the New Caps are reasonable. We also consider that the proposed New Caps of RMB345,000,000 for 2007 is not excessive on an average basis. We have also noted from the website of Shaanxi Automobile that according to China Automobile Industry Association’s statistics, Shaanxi Automobile has sold 30,611 heavy-duty vehicles during the first half of 2007, representing a growth rate of 104% from the corresponding period last year. Shaanxi Automobile has also ranked first in the heavy-duty vehicle sector in terms of its market share growth consecutively for 17 months. In view of such outstanding performance of Shaanxi Automobile and comparing to the growth rate of 59.67% in the heavy-duty trucks market in China during the first quarter of 2007, we consider that the growth rates of 32.8% and 23.1% as represented by the proposed New Caps for 2008 and 2009 in this sub-section are reasonable and very favourable for a large industrial enterprise despite the fact that they are lower than the growth rates for 2006 and 2007 which grew from a relatively low base.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

In summary, on the basis of our review and discussion and that the estimated growth rates in the transaction amounts for 2008 and 2009 are reasonable as discussed above, we consider that the proposed New Caps of RMB345,000,000, RMB458,000,000 and RMB564,000,000 for 2007, 2008 and 2009, respectively, are reasonable.

**(b) *Purchase of parts and components of vehicles and scrap materials by Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) from Shaanxi Automobile's associates***

**(i) *Principal terms of the Non-exempt Agreement***

Pursuant to the relevant Non-exempt Agreement:

- Shaanxi Zhongqi has agreed to purchase certain parts and components of vehicles, namely, wire gauges and emission pipes, etc, at market prices (or prices determined according to the principle of fairness and reasonableness), from each of Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, and Shaanxi Lantong;
- Hande Axle has agreed to purchase certain parts and components of vehicles, namely, brake hoof, etc, at market prices (or prices determined according to the principle of fairness and reasonableness) from each of Shaanxi Wanfang and Shaanxi Huazhen; and
- Jinding has agreed to purchase certain scrap steel, at market prices (or prices determined according to the principle of fairness and reasonableness), from Shaanxi Huazhen.

The Non-exempt Agreement in relation to this sub-section has a term from 1 May 2007 to 31 December 2009, and upon the expiry of the initial term, Shaanxi Zhongqi, Hande Axle and Jinding shall have an option to renew the agreement for a term of three years.

Pursuant to the relevant Non-exempt Agreement, Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) and Shaanxi Automobile's associates shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including the particulars of goods, quantity, price, delivery and inspection methods, payment terms, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the relevant Non-exempt Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As stated in the Letter from the Board, during the three years ended 31 December 2006, Shaanxi Zhongqi, Hande Axle and Jinding have purchased parts and components of vehicles and scrap steel from Shaanxi Automobile's associates at market prices settled every two to three months. It is expected that the Non-exempt Continuing

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

Connected Transactions between Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) and Shaanxi Automobile's associates will continue generally on the same terms as in the past.

Subject to approval at a general meeting of the Company, the relevant Non-exempt Agreement shall become effective with retrospective effect from 1 May 2007.

We note from the Annual Report that about 96% of the Group's trade and bills payables aged up to 180 days. The Group had trade and bills payables of approximately RMB2,465.6 million as at 31 December 2006, of which about 67.8% aged within 90 days. Based on the credit terms obtained by the Group from its trade creditors in general, we consider that the settlement term of two to three months granted by Shaanxi Automobile's associates to Shaanxi Zhongqi, Hande Axle and Jinding are normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. Such settlement term is also the same as that granted by Shaanxi Zhongqi, Hande Axle and Jinding under its sale of goods and provision of services to Shaanxi Automobile and its associates as described above.

In summary, (i) the purchase of wire gauges and emission pipes by Shaanxi Zhongqi, the purchase of brake hoof by Hande Axle, and the purchase of scrap steel by Jinding are all conducted in the ordinary course of their respective businesses; (ii) the prices of the goods under the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the specific contracts or orders to be entered into for the Non-exempt Continuing Connected Transactions must be based on the principle of fairness and reasonableness and are on normal commercial terms. On this basis, we are of the opinion that the Non-exempt Agreement governing the purchase of such goods by Shaanxi Zhongqi, Hande Axle and Jinding from Shaanxi Automobile's associates is in the interest of the Company and the Shareholders as a whole, and the terms of such Non-exempt Agreement are normal commercial terms and are fair and reasonable.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved for the purchase of parts and components of vehicles, and scrap steel by Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) from Shaanxi Automobile's associates for each of the three years ended 31 December 2004, 2005 and 2006; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2007, 2008 and 2009:

	<b>Total transaction amounts (RMB)</b>	<b>Increase/ (Decrease) as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2004	285,645,272	N/A
2005	260,516,334	(8.8)
2006	474,140,473	82.0
<b>New Caps:</b>		
2007	1,120,000,000	136.2
2008	1,340,000,000	19.6
2009	1,501,000,000	12.0

As advised by the Company, the transaction amount for the purchase of parts and components of vehicles, and scrap steel by Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) from Shaanxi Automobile's associates for the year of 2005 has dropped slightly from 2004 by 8.8% due to the implementation of a series of austerity 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 transaction amount has grown sharply by an approximately 82% from 2005 to 2006.

Based on the proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB1,120,000,000, RMB1,340,000,000 and RMB1,501,000,000 for the three years ending 31 December 2007, 2008 and 2009 respectively, such New Caps represent a growth rate of approximately 163.2%, 19.6% and 12.0%, respectively, from the amount for the preceding year. As stated in the Letter from the Board, the proposed New Caps in this sub-section have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of parts and components of vehicles and scrap steel required by Shaanxi Zhongqi, Hande Axle and Jinding for their production and the average unit price of such parts and components and scrap steel.



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

Since Shaanxi Zhongqi, Hande Axle and Jinding are engaged in the business of the production of heavy-duty vehicles, parts and components and related products, the Directors believe that such businesses will be benefited from the strong growth potential of the heavy-duty vehicles market as discussed in the sub-section headed “Overview of the heavy-duty truck and construction machinery markets in China” 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 correspondingly. With an increase of approximately 82% in the aggregate of the transaction amount from 2005 to 2006, the Directors estimate that the amount of such transactions will continue to increase substantially.

As stated in the sub-section headed “Overview of the heavy-duty truck and construction machinery markets in China” above, the statistics from the China Automobile Industry Association show that the heavy-duty truck market registered a growth rate of 59.67% during the first quarter of 2007. As discussed in the sub-section headed “Reason for the Non-exempt Continuing Connected Transactions” above, following the completion of the Merger, the enlarged Group has formed a large consolidated business in the heavy-duty trucks market and has the ability to provide an integrated power train for heavy-duty trucks. We therefore consider that the Group will be in an advantageous position to capture the growth potential in the heavy-duty trucks market. We have reviewed and discussed with the Company (i) the unaudited transaction amounts of the Non-exempt Continuing Connected Transactions under this sub-section for the first half of 2007, (ii) the estimated quantity and prices of goods to be transacted during the remaining period of 2007, 2008 and 2009, and (iii) the basis and assumptions made and factors considered in making such estimates. Based on our review and discussion of the information as provided by the Company and having considered the economy of China and the overall performance of the heavy-duty vehicle market, we are of the opinion that the basis and assumptions made and factors considered by the Company in determining the New Caps are reasonable. We also consider that the proposed New Cap of RMB1,120,000,000 for 2007 is not excessive on an average basis, although it represents approximately 136% growth from the relevant historical transaction amount for 2006. Due to the expected substantial growth and increase in the estimated transaction amount for 2007, the growth rates represented by the New Caps for 2008 and 2009 of 19.6% and 12.0% are lower than those for 2006 and 2007 which grew from a low base. However, we consider such growth rates reasonable and favourable for a large industrial enterprise.

In summary, on the basis of our review and discussion and that the estimated growth rates in the transaction amounts for 2008 and 2009 are reasonable as discussed above, we consider that the proposed New Caps of RMB1,120,000,000, RMB1,340,000,000 and RMB1,501,000,000 for 2007, 2008 and 2009, respectively, are reasonable.



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

### 5. Non-exempt Continuing Connected Transactions between DFOVCL and Dong Feng Automotive

#### (a) *Sale of off-road vehicles by DFOVCL to Dong Feng Automotive*

##### (i) *Principal terms of the Non-exempt Agreement*

Pursuant to the relevant Non-exempt Agreement, DFOVCL has agreed to sell and Dong Feng Automotive has agreed to purchase off-road vehicles, at market prices (or prices determined according to the principle of fairness and reasonableness) settled by the parties every two to three months for a term from 1 May 2007 to 31 December 2009. Upon the expiry of the initial term, DFOVCL shall have an option to renew the agreement for a term of three years.

Pursuant to the relevant Non-exempt Agreement, DFOVCL and Dong Feng Automotive shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including the particulars of models of the vehicles, quantity, price, delivery and inspection methods, payment terms, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the relevant Non-exempt Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

Subject to approval at a general meeting of the Company, the relevant Non-exempt Agreement shall become effective with retrospective effect from 1 May 2007.

We note from the Annual Report that the credit terms granted by the Group to its customers are normally in the range from 30 days to 180 days. Customers with established trading records could be granted longer credit period. As stated in the Annual Report, the Group had trade and bills receivables of approximately RMB1,397 million as at 31 December 2006, of which about 83% aged within 90 days. Based on the credit terms granted by the Group to its customers in general, we consider that the settlement terms of two to three months granted by DFOVCL to Dong Feng Automotive are normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned.

In summary, (i) the sale of off-road vehicles is conducted in the ordinary course of DFOVCL's business; (ii) the prices of the vehicles under the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the specific contracts or orders to be entered into for the Non-exempt Continuing Connected Transactions must be based on the principle of fairness and reasonableness and are on normal commercial terms. On this basis, we are of the opinion that the Non-exempt Agreement governing the sale of such vehicles by DFOVCL to Dong Feng Automotive is in the interest of the Company and the Shareholders as a whole, and the terms of such Non-exempt Agreement are normal commercial terms and are fair and reasonable.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved for the sale of off-road vehicles by DFOVCL to Dong Feng Automotive for each of the three years ended 31 December 2004, 2005 and 2006; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2007, 2008 and 2009:

	<b>Total transaction amounts (RMB)</b>	<b>Increase/ (Decrease) as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2004	6,800,023	N/A
2005	14,829,059	118.1
2006	4,820,426	(67.5)
<b>New Caps:</b>		
2007	130,000,000	2,596.9
2008	350,000,000	169.2
2009	400,000,000	14.3

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 2,082%, 171% and 23% 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.

Based on the proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB130,000,000, RMB350,000,000 and RMB400,000,000 for each of the three years ending 31 December 2007, 2008 and 2009, such New Caps represent a growth rate of approximately 2,597%, 169% and 14% from the respective transaction amount for the preceding year. As stated in the Letter from the Board, the proposed New Caps in this sub-section 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.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

DFOVCL is principally engaged in the manufacture and sale of off-road vehicles and chassis. Although there appears a 25-fold increase in the sale of off-road vehicles by DFOVCL to Dong Feng Automotive for 2007 as represented by the proposed New Caps of RMB130,000,000 as compared to the historical transaction amount for 2006, we consider it not meaningful to assess the New Caps by reference to the historical amounts as DFOVCL has just commenced mass production of off-road vehicles in the first half of 2007. We have reviewed an indication of order volume by Dong Feng Automotive to DFOVCL for the year of 2007 and, based on which, consider that the proposed New Cap of RMB130,000,000 for 2007 is reasonable. It is common for a new product to achieve sharp growth in the early stage after it is commercially launched and then stable growth at around the product maturity stage. As noted from the above table, the growth rate as represented by the New Cap for 2008 eases to 169% and then 14% for 2009. Such growth trend appears to be consistent with the general growth trend of a new product with a sharp growth rate at the early stage and then levelling off. We have reviewed and discussed with the Company the estimated quantity of vehicles and prices to be transacted between DFOVCL and Dong Feng Automotive during 2008 and 2009, and the basis and assumptions made and factors considered in making such estimates. Based on our review and discussion of the information provided by the Company and having considered the production capacity and planning of DFOVCL as a relatively new manufacturer of off-road vehicles, we consider that the basis and assumptions made and factors considered by the Company in determining the New Caps are reasonable and, on that basis, we also consider that the proposed New Caps for the Non-exempt Continuing Connected Transactions in this sub-section are reasonable. Although such New Caps cannot be justified by reference to historical transaction amounts, the interests of the Company and the Shareholders would not be prejudiced so long as the sale of off-road vehicles by DFOVCL to Dong Feng Automotive under the relevant Non-exempt Agreement will be based on normal commercial terms and at market price or prices determined according to the principle of fairness and reasonableness.

**(b) *Purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive***

**(i) *Principal terms of the Non-exempt Agreement***

Pursuant to the relevant Non-exempt Agreement, DFOVCL has agreed to purchase and Dong Feng Automotive has agreed to sell certain parts and components of off-road vehicles, at market prices (or prices determined according to the principle of fairness and reasonableness) for a term from 1 May 2007 to 31 December 2009. Upon the expiry of the initial term, DFOVCL shall have an option to renew the agreement for a term of three years.

Pursuant to the relevant Non-exempt Agreement, DFOVCL and Dong Feng Automotive shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including the particulars of goods, quantity, price, delivery and inspection methods, payment terms, etc. and such terms must be based on

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

the principle of fairness and reasonableness and must not contravene the terms of the relevant Non-exempt Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As stated in the Letter from the Board, during the three years ended 31 December 2006, DFOVCL has purchased certain parts and components from Dong Feng Automotive at market prices settled every two to three months. It is expected that the Non-exempt Continuing Connected Transactions between DFOVCL and Dong Feng Automotive will continue generally on the same terms as in the past.

Subject to approval at a general meeting of the Company, the relevant Non-exempt Agreement shall become effective with retrospective effect from 1 May 2007.

We note from the Annual Report that about 96% of the Group's trade and bills payables aged up to 180 days. The Group had trade and bills payables of approximately RMB2,465.6 million as at 31 December 2006, of which about 67.8% aged within 90 days. Based on the credit terms obtained by the Group from its trade creditors in general, we consider that the settlement term of two to three months granted by Dong Feng Automotive to DFOVCL are normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. Such settlement term is also the same as that granted by DFOVCL under its sale of off-road vehicles to Dong Feng Automotive as described above.

In summary, (i) the purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive is conducted in the ordinary course of the DFOVCL's business; (ii) the prices of the goods under the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the specific contracts or orders to be entered into for the Non-exempt Continuing Connected Transactions must be based on the principle of fairness and reasonableness and are on normal commercial terms. On this basis, we are of the opinion that the Non-exempt Agreement governing the purchase of such parts and components by DFOVCL from Dong Feng Automotive is in the interest of the Company and the Shareholders as a whole, and the terms of such Non-exempt Agreement are normal commercial terms and are fair and reasonable.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved for the purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive for each of the three years ended 31 December 2004, 2005 and 2006; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2007, 2008 and 2009:

	<b>Total transaction amounts (RMB)</b>	<b>Increase/ (Decrease) as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2004	3,943,622	N/A
2005	997,508	(74.7)
2006	2,518,663	152.5
<b>New Caps:</b>		
2007	60,000,000	2,282.2
2008	135,000,000	125.0
2009	160,000,000	18.5

As stated in the Letter from the Board, 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 the three years ending 31 December 2009, with an increase of approximately 2,208%, 117% and 23% in the number of parts and components required from Dong Feng Automotive for each of the three years from 2006 to 2009.

As stated in the Letter from the Board, the proposed New Caps in this sub-section have been prepared by the Company primarily based on the relevant historical costs and the estimate of the volume of parts and components of off-road vehicles required by DFOVCL and of the average unit price of such parts and components.

DFOVCL is principally engaged in the manufacture and sale of off-road vehicles and chassis. Although there appears a 22-fold increase in the purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive for 2007

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

as represented by the proposed New Cap of RMB60,000,000 as compared to the historical transaction amount for 2006, we consider it not meaningful to assess the New Caps by reference to the historical amounts as DFOVCL has just commenced mass production of off-road vehicles in the first half of 2007. As advised by the Company, majority of the parts and components to be purchased by DFOVCL from Dong Feng Automotive shall be used in the production of off-road vehicles for onward sale to Dong Feng Automotive. We have reviewed an indication of order volume by Dong Feng Automotive to DFOVCL for the year of 2007 and, based on which, consider that the estimation of parts and components required by DFOVCL for the production off-road vehicles and the proposed New Cap of RMB60,000,000 for 2007 is reasonable. As discussed above, it is common for a new product to achieve sharp growth in the early stage after it is commercially launched and accordingly, the demand for the related parts and components will follow the same growth trend. As noted from the above table, the growth rate as represented by the New Cap for 2008 eases to 125% and then 18.5% for 2009. Such growth rates are also consistent with the growth rates as represented by the proposed New Caps for the sale of off-road vehicles by DFOVCL to Dong Feng Automotive for 2008 and 2009. We therefore consider that the proposed New Caps for the Non-exempt Continuing Connected Transactions in this sub-section are reasonable. Although such New Caps cannot be justified by reference to historical transaction amounts, the interests of the Company and the Shareholders would not be prejudiced so long as the purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive under the relevant Non-exempt Agreement will be based on normal commercial terms and at market price or prices determined according to the principle of fairness and reasonableness.

### **6. Annual review of the proposed New Caps for the Non-exempt Continuing Connected Transactions**

Pursuant to the Listing Rules, there is restriction of the value of the Non-exempt Continuing Connected Transactions by way of the New Caps for each of the three financial years ending 31 December 2007, 2008 and 2009, and the New Caps are subject to the annual review by the independent non-executive Directors and auditors of the Company of the terms of the Non-exempt Continuing Connected Transactions and the New Caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among others, that the Non-exempt Continuing Connected Transactions are conducted in accordance with the relevant agreement governing the transactions and that the New Caps not being exceeded. In addition, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive directors and/or the auditors of the Company will not be able to confirm the terms of the Non-exempt Continuing Connected Transactions and the New Caps not being exceeded.

In view of the above review requirements, we are of the view that there are appropriate measures in place to govern the conduct of the Non-exempt Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

---

# LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

---

## RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Agreements and the New Caps, we have considered the above principal factors and reasons, in particular, the following:

- (i) The Non-exempt Continuing Connected Transactions are ongoing transactions originated from TAGC following the completion of the Merger. It is in the interest of the Company and the Shareholders to continue such transactions as the principal purpose of the Merger is to form a larger consolidated business in the heavy-duty trucks market that will create new business opportunities and result in positive synergistic effects. The continuation of these transactions is important to ensure and maximize operating efficiency and stability of the operations of the Group after completion of the Merger.
- (ii) The Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms or terms which are based according to the principle of fairness and reasonableness.
- (iii) Internal control procedures, including the annual review by the independent non-executive directors and the auditors of the Company of the terms and the New Caps for each of the Non-exempt Continuing Connected Transactions, are in place to monitor and to compare the terms and conditions of the Non-exempt Continuing Connected Transactions.
- (iv) The value of, and the basis for determining, the New Caps are reasonable, details of which are set out in the relevant sub-sections headed “Rationale for determining the New Caps”.

Based on the above consideration, we are of the opinion that the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of the Group’s business, the relevant Continuing Connected Transactions Agreements governing the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole, the terms of such Continuing Connected Transactions Agreements are normal commercial terms and are fair and reasonable, and the New Caps are fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolution(s) to approve the relevant Continuing Connected Transactions Agreements and the New Caps at the EGM.

Yours faithfully,

For and on behalf of

**Ceres Capital Limited**

**Frank Moy**

**Jinny Mok**

*Managing Director    Executive Director*



## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and Supervisors in the shares, underlying shares and debentures of the Company notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (as if it were applicable also to the Supervisors of the Company) were as follows:

Name of Director	Personal interest	Corporate interest	Total	Capacity	Type of interest
Tan Xuguang	4,300,000 (Note 1)	Nil	4,300,000	Beneficial owner	Long
Xu Xinyu	1,000,000 (Note 1)	Nil	1,000,000	Beneficial owner	Long
Sun Shaojun	1,000,000 (Note 1)	Nil	1,000,000	Beneficial owner	Long
Zhang Quan	1,000,000 (Note 1)	Nil	1,000,000	Beneficial owner	Long
Liu Huisheng	600,000 (Note 1)	Nil	600,000	Beneficial owner	Long
Yeung Sai Hong (Note 2)	Nil	23,500,000 (Note 1)	23,500,000	Interest of corporation controlled by this person	Long
Li San Yim (Note 3)	Nil	21,500,000 (Note 1)	21,500,000	Interest of corporation controlled by this person	Long
Julius G. Kiss (Note 4)	Nil	10,750,000 (Note 1)	10,750,000	Interest of corporation controlled by this person	Long
<b>Name of Supervisor</b>					
Wang Yong	350,000 (Note 1)	Nil	350,000	Beneficial owner	Long



- Notes:
- These are A Shares of the Company. A Shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up and are listed on The Shenzhen Stock Exchange.
  - Yeung Sai Hong, a Director, was directly and indirectly interested in the entire issued share capital of Peterson Holdings Company Limited (培新控股有限公司), which in turn held 23,500,000 Foreign Shares.
  - Li San Yim, a Director, and his wife, Ni Yinying, were interested in 69.16% and 30.84%, respectively in the capital of 福建龍岩工程機械（集團）有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited), which in turn held 21,500,000 Domestic Shares, and Li San Yim was deemed interested in Ni Yinying’s entire interest in Fujian Longgong.
  - Julius G. Kiss, a Director, was indirectly interested in the entire capital of IVM Technical Consultants Wien G.m.b.H., which in turn held 10,750,000 Foreign Shares of the Company.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, insofar as the Directors were aware, the interests and short positions of any person (other than a Director or Supervisor) in the shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of A Shares (Note 7) (being shares of the same class)	Percentage of share capital comprising only A Shares (being shares of the same class)	Number of H Shares (Note 8)	Percentage of share capital comprising only H Shares	Capacity	Type of interest held
濰坊柴油機廠 (Weifang Diesel Engine Works)	77,647,900	19.70%	Nil	—	Beneficial owner	Long
山東省國有資產監督 管理委員會 (State- owned Assets Supervision and Administration of Shandong Province) (Note 1)	77,647,900	19.70%	Nil	—	Interest of corporation controlled by this entity	Long
Peterson Holdings Company Limited (Note 2)	23,500,000	5.96%	Nil	—	Beneficial owner	Long
Advantage Investment Corporation Limited (Note 2)	23,500,000	5.96%	Nil	—	Interest of corporation controlled by this entity	Long
福建龍岩工程機械(集 團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited)	21,500,000	5.45%	Nil	—	Beneficial owner	Long

Name	Number of A Shares (Note 7) (being shares of the same class)	Percentage of share capital comprising only A Shares (being shares of the same class)	Number of H Shares (Note 8)	Percentage of share capital comprising only H Shares	Capacity	Type of interest held
倪銀英 (Ni Yinying) (Note 3)	21,500,000	5.45%	Nil	—	Spouse	Long
濰坊市投資公司 (Weifang Investment Company) (Note 4)	19,311,550	4.90%	Nil	—	Beneficial owner	Long
深圳市創新投資集團 有限公司 (Shenzhen Chuangxin Investment Group Company Limited) (Note 4)	21,500,000	5.45%	Nil	—	Beneficial owner	Long
深圳市投資管理公司 (Shenzhen Investment Management Company) (Note 5)	21,500,000	5.45%	Nil	—	Interest of corporation controlled by this entity	Long
IVM Technical Consultants Wien G.m.b.H.	10,750,000	2.73%	Nil	—	Beneficial owner	Long
ADTECH Advanced Technologies AG (Note 6)	10,750,000	2.73%	Nil	—	Interest of corporation controlled by this entity	Long
Fidelity International Ltd.	Nil	—	12,774,000	10.10%	Investment Manager	Long
Baring Asset Management Limited	Nil	—	8,941,000	7.07%	Investment Manager	Long
Northern Trust Fiduciary Services (Ireland) Limited	Nil	—	7,794,000	6.16%	Investment Manager	Long
UBS AG	Nil	—	7,579,000	5.99%	Investment Manager	Long
IXIS Asset Management Asia Ltd	Nil	—	6,627,000	5.24%	Investment Manager	Long

*Notes:*

1. 山東省國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shandong Province) held the entire registered capital of Weichai Factory. For details, please refer to the announcement of the Company dated 22 March 2006.
2. Yeung Sai Hong, a non-executive Director, was beneficially interested in the entire issued share capital of Advantage Investment Corporation Limited, which was interested in 90% of the entire issued share capital of Peterson Holdings Company Limited.
3. The capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) was held as to approximately 69.16% by Li San Yim (a non-executive Director) and as to approximately 30.84% by 倪銀英 (Ni Yinying). Ni Yinying is Li San Yim's wife, and therefore she is deemed to be interested in Li San Yim's entire interest in Fujian Longgong.
4. 濰坊市投資公司 (Weifang Investment Company) is a State-owned enterprise.
5. 深圳市投資管理公司 (Shenzhen Investment Management Company) was interested in approximately 33.73% of the capital of 深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited).
6. ADTECH Advanced Technologies AG was wholly-owned by Julius G. Kiss, a non-executive Director, and it was interested in the entire capital of IVM Technical Consultants Wien G.m.b.H.
7. A Shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up and they are currently listed on The Shenzhen Stock Exchange.
8. H Shares are overseas listed Foreign Shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each and are subscribed for and traded in Hong Kong Dollars, and they are currently listed on the main board of the Stock Exchange.
9. The English translations of the Chinese names in the above table and notes were prepared by the Company for information purpose only and should not be relied upon.

**4. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS**

- (a) Each of the executive Directors has entered into a service contract with the Company for a term commencing on 18 December 2005 and ending on 17 December 2008. Terms of the service contracts of each executive Directors are in all material respects the same. None of the Directors has entered into any service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which had since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.

- (d) As at the Latest Practicable Date, save as disclosed herein, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Company. As at the Latest Practicable Date, the Directors were not aware that any of the Directors or their respective associates had interest in any business, apart from the Group’s businesses, which competed or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosed under the Listing Rules.

5. LITIGATION

The Company is not engaged in any litigation or arbitration or claims of material importance and, so far as the Directors are aware, no litigation or arbitration or claims of material importance is pending or threatened against the Company.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up.

7. EXPERT

- (a) The following is the qualification of the expert which has given opinions or advice which are contained in this circular:

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

- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear.

**8. PROCEDURES FOR DEMANDING A POLL AT THE EGM**

Under the articles of association of the Company, at any general meeting of Shareholders, a resolution shall be decided on a show of hands unless a poll is demanded by any of the following persons before (or after) any vote by a show of hands:

- (a) the chairman of the meeting;
- (b) at least 2 Shareholders, who have the right to vote, present in person or by proxy;
- (c) one or more Shareholders (including proxies) representing, either calculated separately or in aggregate, one-tenth or more of all shares carrying the right to vote at the meeting.

**9. GENERAL**

- (a) The secretary and qualified accountant of the Company is Mr. Zhang Yuanfu. Mr. Zhang is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, The People's Republic of China.
- (c) The principal place of business of the Company in Hong Kong is at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street Central, Hong Kong.
- (d) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street Central, Hong Kong, from 8 August 2007 to 22 August 2007 (both days inclusive):

- (a) the letter from the Independent Financial Adviser as set out in this circular;
- (b) the written consent from the Independent Financial Adviser referred to in paragraph 7 of this appendix;
- (c) the letter from the Independent Board Committee as set out in this circular;
- (d) the service contracts of the Directors referred to in paragraph 4 of this appendix; and
- (e) the Continuing Connected Transactions Agreements in respect of the Non-exempt Continuing Connected Transactions.



**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)**

**SUPPLEMENTARY NOTICE OF  
EXTRAORDINARY GENERAL MEETING**

Reference is made to the notice dated 3 July 2007 (the “**EGM Notice**”) of Weichai Power Co., Ltd. (the “**Company**”).

It is proposed that in addition to the ordinary resolution set out in the EGM Notice, the following matters also be considered and, if thought fit, approved at the EGM:

**AS ORDINARY RESOLUTIONS:**

2. “**THAT** the parts and components sale agreement referred to in the section headed “A.I.1. Sale of parts and components of transmissions by SFGC to Fast Transmission” in the “Letter from the Board” contained in the circular (the “**Circular**”) of the Company of which this notice forms part and the relevant New Caps (as defined in the Circular) be and are hereby approved.”
3. “**THAT** the parts and components purchase agreement referred to in the section headed “A.I.2. Purchase of parts and components of transmissions by SFGC from Fast Transmission” in the “Letter from the Board” contained in the circular (the “**Circular**”) of the Company of which this notice forms part and the relevant New Caps (as defined in the Circular) be and are hereby approved.”
4. “**THAT** the vehicles, parts and components and raw materials and provision of heat processing services agreement referred to in the section headed “A.II.1. Sale of vehicles and 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)” in the “Letter from the Board” contained in the circular (the “**Circular**”) of the Company of which this notice forms part and the relevant New Caps (as defined in the Circular) be and are hereby approved.
5. “**THAT** the parts and components and scrap steel purchase agreement referred to in the section headed “A.II.2. Purchase of parts and components of vehicles and scrap steel by Shaanxi Zhongqi, Hande Axle and Jinding (as the case may be) from Shaanxi

---

## SUPPLEMENTARY NOTICE OF EGM

---

Automotive's associates" in the "Letter from the Board" contained in the circular (the "**Circular**") of the Company of which this notice forms part and the relevant New Caps (as defined in the Circular) be and are hereby approved."

6. "**THAT** the off-road vehicles sale agreement referred to in the section headed "A.III.1. Sale of off-road vehicles by DFOVCL to Dong Feng Automotive" in the "Letter from the Board" contained in the circular (the "**Circular**") of the Company of which this notice forms part and the relevant New Caps (as defined in the Circular) be and are hereby approved."
7. "**THAT** the parts and components purchase agreement referred to in the section headed "A.III.2. Purchase of parts and components of off-road vehicles by DFOVCL from Dong Feng Automotive" in the "Letter from the Board" contained in the circular (the "**Circular**") of the Company of which this notice forms part and the relevant New Caps (as defined in the Circular) be and are hereby approved."

### Notes:

- (A) Please refer to the EGM Notice for details in respect of the other resolution to be considered at the EGM, eligibility of attendance, registration procedure, proxy and other relevant matters.
- (B) A form of proxy in respect of the ordinary resolutions set out in this notice is despatched with the printed version of this notice.