THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

This circular is for information purposes only and does not constitute an invitation of offer to acquire, purchase or subscribe for the securities of the Company.

WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
PRC CONTINUING CONNECTED TRANSACTIONS

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

CERES

昱豐融資有限公司

CERES CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 29 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. (as defined in this circular) on the Non-exempt Continuing Connected Transactions (as defined in this circular) is set out on pages 31 to 63 of this circular.

A notice of the EGM (as defined in this circular) of Weichai Power Co., Ltd. (the "**Company**"), at which the resolutions for approving, the Supplemental 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) and the PRC Continuing Connected Transactions (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.

9 September 2010

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

"0.1% Threshold"	the thresholds referred to in Rule 14A.33(3)(a) of the Listing Rules
"1% Threshold"	the thresholds referred to in Rule 14A.33(3)(b) of the Listing Rules
"5% Threshold"	the thresholds referred to in Rule 14A.34 of the Listing Rules
"Baoji Huashan"	寶雞華山工程車輛有限責任公司 (Baoji Huashan Engineering Vehicles Co. Ltd.), a company established in the PRC and a connected person of the Company
"Beijing Shaanqi Sale Centre"	北京陝重汽汽銷售中心 (Beijing Shaanzhongqi Vehicle Sale Centre), a company established in the PRC and a connected person of the Company
"Changsha Huantong"	陝西汽車集團長沙環通汽車製造有限公司 (Shaanxi Automobile Group Changsha Huantong Automobile Manufacturing Co. Ltd.), a company established in the PRC and a connected person of the Company
"Company"	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability
"Continuing Connected Transaction(s)"	the continuing connected transaction(s) of the Group set out in the section headed "II. Continuing Connected Transactions" in this circular
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held on 26 October 2010 to consider and, if thought fit, approve, *inter-alia*, the New Caps and the Supplemental Agreements and the PRC Continuing Connected Transactions
"Existing Cap(s)"	the existing cap(s) for the Continuing Connected Transaction(s) set out in the section headed "II. Continuing Connected Transactions" in this circular

"Exempt Continuing Connected Transactions"	being those Continuing Connected Transactions the proposed New Caps for which do not exceed the 5% Threshold and, accordingly, and are not subject to the approval by the Independent Shareholders under the Listing Rules and, where such New Caps exceed the 0.1% Threshold or the 1% Threshold (as the case may be), 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"	陝西法士特汽車傳動集團有限責任公司 (Shaanxi Fast Gear Automotive Transmission Co. Ltd.), a company established in the PRC and a connected person of the Company
"Fast Transmission Group"	Fast Transmission and its subsidiaries
"Fujian Longgong"	福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited), a company incorporated in the PRC and a connected person of the Company
"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 approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi
"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, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM in respect of the Non-exempt 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 approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle
"Latest Practicable Date"	6 September 2010
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Merger"	the Merger on 24 April 2007 (as announced in the announcement of the Company dated 25 April 2007), as a result of which the original subsidiaries of TAGC, together with other assets and liabilities of TAGC, were absorbed by the Company
"New Cap(s)"	as defined in the section headed "II. Continuing Connected Transactions" in this circular
"Non-exempt Continuing Connected Transactions"	being those Continuing Connected Transactions the proposed New Caps for which exceed the 5% Threshold, and, accordingly, 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 of the Independent Shareholders at the EGM will be required
"PRC"	the People's Republic of China
"PRC Continuing Connected Transactions"	the Continuing Connected Transactions set out in the section headed "IV. PRC Continuing Connected Transactions" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"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"	陝西汽車集團有限責任公司 (Shaanxi Automobile Group Co. Ltd.), a company established in the PRC and a connected person of the Company

"Shaanxi Fangyuan"	陝西方圓汽車標準件有限公司 (Shaanxi Fangyuan Automobile Standard Components Co. Ltd.), a company established in the PRC and a connected person of the Company
"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 Sancan Industry and Trading Co. Ltd.), a company established in the PRC and a connected person of the Company
"Shaanxi Import and Export"	陝西重型汽車進出口有限公司 (Shaanxi Heavy-duty Vehicle Import and Export Company Limited), a company established in the PRC and a wholly-owned subsidiary of Shaanxi Zhongqi
"Shaanxi Lantong"	陝西藍通傳動軸有限公司 (Shaanxi Lantong Transmission Axle Co. Ltd.), a company established in the PRC and a connected person of the Company
"Shaanxi Tongchuang"	陝西同創華亨汽散熱有限責任公司 (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 Purpose 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
"Shanghai Longgong Machinery"	龍工(上海)機械制造有限公司 (Longgong (Shanghai) Machinery Co., Ltd.), a company established in the PRC and a connected person of the Company
"Shareholder(s)"	holder(s) of the shares of the Company
"Shenzhen Listing Rules"	《股票上市規則》("listing rules") of the Shenzhen Stock Exchange

"Supplemental Agreements"	the supplemental agreements relating to the Continuing Connected Transactions entered into between the Group and the relevant connected persons as more particularly set out in the section headed "II. Continuing Connected Transactions" in this circular and "Supplemental Agreement" means any of them
"TAGC"	湘火炬汽車集團股份有限公司 (Torch Automotive Group Co., Ltd.), a company established in the PRC and has ceased to exist after the Merger
"Tiangua"	天津市天掛車輛有限公司 (Tianjin City Tiangua Vehicles Company Limited), a company established in the PRC and is a held as to approximately 51% by Shaanxi Zhongqi
"Weichai Casting"	濰柴動力(濰坊)鑄鍛有限公司 (Weichai Power (Weifang) Casting Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Company
"Weichai Deutz"	濰坊濰柴道依茨柴油機有限公司 (Weifang Weichai Deutz Diesel Engine Co., Ltd.), a company established in the PRC and a connected person of the Company
"Weichai Heavy Machinery"	濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.), (formerly known as 山東巨力股份有限公司 (Shandong Juli Company Limited)), a company established in the PRC and a connected person of the Company
"Weichai Holdings"	濰柴控股集團有限公司 (Weichai Group Holdings Limited) (formerly known as 濰坊柴油機廠 (Weifang Diesel Engine Works)), a legal person established in the PRC, a substantial shareholder of the Company and a connected person of the Company
"Weichai Import and Export"	山東濰柴進出口有限公司 (Shandong Weichai Import and Export Co., Ltd.), a company established in the PRC wholly-owned by Weichai Holdings and a connected person of the Company
"Weichai Reproduction"	濰柴動力(濰坊)再製造有限公司 (Weichai Power (Weifang) Reproduction Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Company

"Weichai Resources"	濰柴動力備品資源公司 (Weichai Power Reserves and Resources Company), a company established in the PRC and a wholly-owned subsidiary of the Company; and
"Wenzhou Yunding"	陝西汽車集團溫州雲頂汽車有限公司 (Shaanxi Automobile Group Wenzhou Yunding Automobile Co. Ltd.), a company established in the PRC and a connected person of the Company

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.

WEICHAI
濰柴動力股份有限公司
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:
Zhang Fusheng
Liu Huisheng
Yao Yu
Yeung Sai Hong
Chen Xuejian
Li San Yim
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
Jiang Jianfang
Ding Yingdong

Registered office:
197, Section A
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High Technology Industrial
Development Zone
Weifang City
Shandong Province
The People's Republic of China

Principal place of business in Hong Kong:
Room 1909, 19th Floor
Gloucester Tower
15 Queen's Road Central
Hong Kong

9 September 2010

To: *Holders of overseas listed foreign shares ("H Shares") in the capital of Weichai Power Co., Ltd.*

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to the announcement of the Company dated 23 August 2010 which announces that on 23 August 2010, the Company has entered into the Supplemental Agreements. 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.

The Company has also entered into the PRC Continuing Connected Transactions as more particularly set out in the section headed "IV. PRC Continuing Connected Transactions" in this circular.

II. CONTINUING CONNECTED TRANSACTIONS

The Non-exempt Continuing Connected Transactions include the following Continuing Connected Transactions.

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
1. Fast Transmission	SFGC *(note 1)*	Holder of 49% of the equity of SFGC	(a) Sale of parts and components of transmissions and related products by SFGC to Fast Transmission (b) Purchase of parts and components of transmissions and related products by SFGC from Fast Transmission

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
2. Shaanxi Automotive (and its associates) *(note 7)*	Shaanxi Zhongqi *(note 2)*, Hande Axle *(note 3)*, Jinding *(note 4)*, Shaanxi Import and Export *(note 5)* and Tiangua *(note 6)*	Holder of 49% of the equity of Shaanxi Zhongqi	(a) Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be) (b) Purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) from Shaanxi Automotive (and its associates) (as the case may be)

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 approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi.

4. Jinding is held as to approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle.

5. Shaanxi Import and Export is a wholly-owned subsidiary of Shaanxi Zhongqi.

6. Tiangua is held as to approximately 51% by Shaanxi Zhongqi.

7. As more particularly described in the section headed "II.2. Continuing Connected Transactions between Shaanxi Zhongqi (and its subsidiaries) (as the case may be) and Shaanxi Automotive (and its associates) (as the case may be)" in this circular.

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 the relevant Continuing Connected Transaction	New Caps 2010 *RMB*	2011 *RMB*	2012 *RMB*	2013 *RMB*
1. Fast Transmission				
(a) Sale of parts and components of transmissions and related products by SFGC to Fast Transmission	1,500,000,000*	2,300,000,000#	3,500,000,000#	–
(b) Purchase of parts and components of transmissions and related products by SFGC from Fast Transmission	2,250,000,000#	3,350,000,000#	5,000,000,000#	–
2. Shaanxi Automotive (and its associates)				
(a) Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be)	1,700,000,000*	2,750,000,000#	3,450,000,000#	–
(b) Purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) from Shaanxi Automotive (and its associates) (as the case may be)	–	3,650,000,000#	4,550,000,000#	4,800,000,000#

Notes:

1. Where a New Cap is marked "*“, that means the proposed New Caps for the relevant Continuing Connected Transactions do not exceed the 5% Threshold. However, since the New Caps for the same transaction for other periods exceed the 5% Threshold, such Continuing Connected Transaction is subject to approval by the Independent Shareholders.

2. Where a New Cap is marked "#“, that means the relevant Continuing Connected Transactions are Non-exempt Continuing Connected Transactions, because they exceed the 5% Threshold and are subject to the approval by the Independent Shareholders.

1. Continuing Connected Transactions between SFGC and Fast Transmission

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.

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 the Company.

(a) Sale of parts and components of transmissions and related products by SFGC to Fast Transmission

Agreement: Supplemental Agreement to the parts and components sale agreement (“**Fast Transmission Sale Agreement**”) dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008 and 9 November 2009, respectively)

Date: 23 August 2010

Parties:
1. SFGC
2. Fast Transmission

Term: 1 January 2010 to 31 December 2012

Other terms and details:

Pursuant to the Fast Transmission Sale Agreement (as supplemented by the supplemental agreements dated 27 November 2008 and 9 November 2009, respectively, but prior to the entering into of this latest Supplemental Agreement), SFGC has sold to Fast Transmission certain parts and components of transmissions, namely, gearboxes, at market prices and settled by the parties every two to three months, for a term ending 31 December 2011, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this Supplemental Agreement, SFGC has agreed to sell and Fast Transmission has agreed to purchase such parts and components and related products on the same terms for a term ending 31 December 2012. Save as set out herein, aforesaid, the revisions of the Existing Caps below, all other terms of the Fast Transmission Sale Agreement remain unchanged.

The table below summarises the Existing Caps for the three years ending 31 December 2011 for the Continuing Connected Transaction set out in this sub-section 1.(a):

	2009	**2010**	**2011**
	RMB	*RMB*	*RMB*
Existing Cap	820,000,000	1,000,000,000	1,200,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2009 (audited) and the six months ended 30 June 2010 (unaudited) for the Continuing Connected Transaction set out in this sub-section 1.(a):

	Year ended 31 December		**Six months ended 30 June**
	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
Actual transaction amount	599,380,000	775,485,000	624,230,000

The Company estimates that the transaction amount for the Continuing Connected Transaction set out in this sub-section 1.(a) for the three years ending 31 December 2012 will not exceed RMB1,500,000,000, RMB2,300,000,000 and RMB3,500,000,000, respectively and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

SFGC is principally engaged in the manufacture and sale of transmissions and other vehicle parts and components, while Fast Transmission is principally engaged in the processing of vehicle parts and components. The parts and components sold by SFGC to Fast Transmission pursuant to this Continuing Connected Transaction are processed by Fast Transmission. During the first half of 2010, in line with the growth of the PRC economy and the heavy-duty vehicles market, the demand for the said products from SFGC of Fast Transmission has increased substantially. According to the development plan of the Fast Transmission Group, the Company expects that the volume of transmissions to be produced by the Fast Transmission Group will increase by approximately 20% for each of the years ending 31 December 2011 and 31 December 2012. Accordingly, it is expected that the volume of the parts and components to be sold by SFGC to Fast Transmission for its processing will also increase. In addition, it is expected that the production capacity of Fast Transmission will be enhanced following the completion of certain technological transformation in its production facilities which shall lead to a further increase in the demand of Fast Transmission for parts and components of transmissions from SFGC for its production.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical costs, (ii) the estimate of the volume of the said parts and components of transmissions to be sold by SFGC to Fast Transmission, (iii) the average unit prices of such parts and components, and (iv) the assumption that the transaction amount of the sale of the said parts and components will increase by approximately 53% and 52% for each of the years ending 31 December 2011 and 31 December 2012, respectively, taking into account the factors set out under (i) to (iii) above.

The table below summarises the New Caps for the Continuing Connected Transaction set out in this sub-section 1.(a) for the three years ending 31 December 2012:

	2010	**2011**	**2012**
	RMB	*RMB*	*RMB*
New Cap	1,500,000,000	2,300,000,000	3,500,000,000

As certain of the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2012 exceed the 5% Threshold, it constitutes a Non-exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting and announcement requirements set out in Rules 14A.45, 14A.46 and 14A.47 of the Listing Rules and the annual review requirements of Rules 14A.37 and 14A.38 of the Listing Rules, and the approval of 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 and the said Supplemental Agreement.

Since this Continuing Connected Transaction for the three years ending 31 December 2012 is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the approval of the Independent Shareholders, this Supplemental Agreement is conditional upon the said resolution being passed at the EGM.

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

Agreement:	Supplemental Agreement to the parts and components sale agreement ("**Fast Transmission Purchase Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008 and 9 November 2009, respectively)
Date:	23 August 2010
Parties:	1. SFGC 2. Fast Transmission
Term:	1 January 2010 to 31 December 2012

Other terms and details:

Pursuant to the Fast Transmission Purchase Agreement (as supplemented by the supplemental agreements dated 27 November 2008 and 9 November 2009, respectively, but prior to the entering into of this latest Supplemental Agreement), SFGC has purchased from Fast Transmission certain parts and components of transmissions and gears, namely, power take off assemblies and castings, at market prices and settled by the parties every two to three months, for a term ending 31 December 2011, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this Supplemental Agreement, SFGC has agreed to purchase and Fast Transmission has agreed to sell such parts and components and related products on the same terms for a term ending 31 December 2012. Save as set out herein, aforesaid, the revisions of the Existing Caps below, all other terms of the Fast Transmission Purchase Agreement remain unchanged.

The table below summarises the Existing Caps for the three years ending 31 December 2010 for the Continuing Connected Transaction set out in this sub-section 1.(b):

	2009	**2010**	**2011**
	RMB	*RMB*	*RMB*
Existing Cap	1,250,000,000	1,600,000,000	1,800,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2009 (audited) and the six months ended 30 June 2010 (unaudited) for the Continuing Connected Transaction set out in this sub-section 1.(b):

	Year ended 31 December		Six months ended 30 June
	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
Actual Transaction Amount	819,180,000	1,141,571,000	894,330,000

The Company estimates that the transaction amount for the Continuing Connected Transaction set out in this sub-section 1.(b) for the three years ending 31 December 2012 will not exceed RMB2,250,000,000, RMB3,350,000,000 and RMB5,000,000,000 respectively and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

SFGC is principally engaged in the manufacture and sale of transmissions and other vehicle parts and components, while Fast Transmission is principally engaged in the processing of vehicle parts and components. The said parts and components purchased by SFGC from Fast Transmission pursuant to this Continuing Connected Transaction are used in its production. During the first half of 2010, in line with the growth of the PRC economy and the heavy-duty vehicles market, the demand for the said products by SFGC from Fast Transmission have increased substantially. In line with the expectation of the growth in the volume of transmissions to be produced by the Fast Transmission Group, the Company expects that the volume of parts and components of transmissions to be purchased from the Fast Transmission Group will increase by approximately 20% for each of the years ending 31 December 2011 and 31 December 2012. Accordingly, it is expected that the volume of the parts and components to be purchased by SFGC from Fast Transmission for its production will also increase. In addition, it is expected that the production capacity of Fast Transmission will be enhanced following the completion of certain technological transformation in its production facilities which shall lead to a further increase in the volume of parts and components of transmissions to be sold by Fast Transmission to SFGC.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical costs, (ii) the estimate of the volume of the said parts and components of transmissions to be purchased by SFGC from Fast Transmission, (iii) the average unit prices of such parts and components, and (iv) the assumption that the transaction amount of the purchase of the said parts and components by SFGC will increase by approximately 49% and 49% for each of the years ending 31 December 2011 and 31 December 2012, respectively, taking into account the factors set out under (i) to (iii) above.

The table below summarises the New Caps for the Continuing Connected Transaction set out in this sub-section 1.(b) for the three years ending 31 December 2012:

	2010	**2011**	**2012**
	RMB	*RMB*	*RMB*
New Cap	2,250,000,000	3,350,000,000	5,000,000,000

As all the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2012 exceed the 5% Threshold, it constitutes a Non-exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting and announcement requirements set out in Rules 14A.45, 14A.46 and 14A.47 of the Listing Rules and the annual review requirements of Rules 14A.37 and 14A.38 of the Listing Rules, and the approval of 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 and the said Supplemental Agreement.

Since this Continuing Connected Transaction for the three years ending 31 December 2012 is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the approval of the Independent Shareholders, this Supplemental Agreement is conditional upon the said resolution being passed at the EGM.

2. ***Continuing Connected Transactions between Shaanxi Zhongqi (and its subsudiaries) (as the case may be) and Shaanxi Automotive (and its associates) (as the case may be)***

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

Jinding is held as to approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle and is principally engaged in the research and development, production and processing of casting products.

Shaanxi Import and Export is a wholly-owned subsidiary of Shaanxi Zhongqi and is principally engaged in the import and export of vehicles and their parts and components.

Tiangua is held as to approximately 51% by Shaanxi Zhongqi and is principally engaged in the conversion of vehicles and the sale of vehicles and their parts and components.

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 approximately 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 approximately 45.35% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Heavy-duty Coach is principally engaged in the sale of parts and components of vehicles.

Shaanxi Lantong is held as to approximately 60% 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 approximately 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 approximately 51% 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.

Baoji Huashan is held as to approximately 58.42% by Shaanxi Automotive and is principally engaged in the manufacture and sale of special purpose vehicles and their parts and components.

Shaanxi Fangyuan is held as to approximately 49% by Shaanxi Automotive and is principally engaged in the manufacture and sale of hoop parts of vehicles.

Wenzhou Yunding is held as to approximately 51% by Shaanxi Automotive and is principally engaged in the research and development, manufacture, sale and services of parts and components of vehicles.

Changsha Huantong is held as to approximately 51% by Shaanxi Automotive and is principally engaged in the development and sale of vehicles, automobile chassis and parts and components of vehicles.

(a) Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be)

Agreement: Supplemental Agreement to vehicles, parts and components and raw materials sale and heat processing services agreement ("**Shaanxi Zhongqi Sale Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreement dated 27 November 2008)

Date: 23 August 2010

Parties:

1. (a) Shaanxi Zhongqi
   (b) Hande Axle
   (c) Jinding
   (d) Shaanxi Import and Export
   (e) Tiangua

2. (a) Shaanxi Automotive
   (b) Shaanxi Wangfang
   (c) Shaanxi Huazhen
   (d) Shaanxi Heavy-duty Coach
   (e) Shaanxi Lantong
   (f) Beijing Shaanqi Sale Centre
   (g) Shaanxi Tongchuang
   (h) Shaanxi Tongli
   (i) Baoji Huashan
   (j) Wenzhou Yunding
   (k) Changsha Huantong

Term: 1 January 2010 to 31 December 2012

Other terms and details:

Pursuant to Shaanxi Zhongqi Sale Agreement (as supplemented by the supplemental agreement dated 27 November 2008 but prior to the entering into of this latest Supplemental Agreement), each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding and Tiangua) has sold certain vehicles, parts and components of vehicles, raw materials, and provided heat processing services (as the case may be) to Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Beijing Shaanqi Sale Centre, Shaanxi Tongchuang and Shaanxi Tongli) (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2010, upon the expiry of the same, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) (and/or other subsidiaries of Shaanxi Zhongqi) (as the case may be) shall sell certain vehicles, parts and components of vehicles (namely, flip shafts, spring pads, castings, etc.), raw materials and related products and to provide the relevant services (as the case may be) to Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Beijing Shaanqi Sale Centre, Shaanxi Tongchuang, Shaanxi Tongli, Baoji Huashan, Wenzhou Yunding and Changsha Huantong) (and/or other associates of Shaanxi Automotive) (as the case may be) for a term of three years ending 31 December 2012. Save as set out herein, all other terms of the Shaanxi Zhongqi Sale Agreement remain unchanged.

The table below summaries the Existing Caps for the three years ending 31 December 2010 for the Continuing Connected Transaction set out in this sub-section 2.(a):

	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
Existing Cap	650,000,000	850,000,000	1,100,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2009 (audited) and the six months ended 30 June 2010 (unaudited) for the Continuing Connected Transactions set out in this sub-section 2.(a):

	Year ended 31 December		Six Months ended 30 June
	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
	(audited)	*(audited)*	*(unaudited)*
Actual transaction amount	401,657,000	366,105,000	526,255,000

In recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC have stimulated the development of the heavy-duty vehicles industry in the PRC.

Since Shaanxi Zhongqi and its subsidiaries set out above are engaged in the business of the production of heavy-duty vehicles and related products, the Directors believe that the demand for high-speed, heavy-duty vehicles, vehicle parts and components and heat processing services produced and provided by these Group companies will increase substantially and the volume of such products to be purchased by Shaanxi Automotive and/or its associates (as the case may be) for onward sale to third parties will increase correspondingly. The Directors estimate that the amount of such transactions will continue to increase substantially.

The Company estimates that the transaction amount in respect of the Continuing Connected Transaction set out in this sub-section 2.(a) will not exceed RMB1,700,000,000, RMB2,750,000,000 and RMB3,450,000,000, respectively, for each of the three years ending 31 December 2012 and such amounts have accordingly been set as the New Caps for this Continuing Connected Transaction.

The proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical costs; (ii) the estimate of the volume of the said vehicles and parts and components of vehicles to be sold and the amount of the relevant services to provided by Shaanxi Zhongqi and its subsidiaries (as the case may be); (iii) the average unit price of the said vehicles and parts and components and the charges for the said services; (iv) the production plan and expected growth in production capacity of Shaanxi Zhongqi and its subsidiaries; and (v) the assumption that the transaction amount of the said sale and provision of service will increase by approximately 62% and 25% for each of the years ending 31 December 2011 and 31 December 2012, respectively, taking into account the factors set out under (i) to (iv) above. The reason for the relatively higher estimated growth rate for the year of 2011 compared to 2012 was primarily due to the increase in transaction amounts involving Wenzhou Yunding and Changsha Huantong in 2011, which are expected to complete their technological transformation and expansion of production facilities around late 2010 or early 2011 resulting in improvement in production capacity and capability. The transaction amount is expected to stabilize with moderate growth in 2012.

The table below summarises the proposed New Caps for the Continuing Connected Transaction set out in this sub-section 2.(a) for the three years ending 31 December 2012:

	2010	**2011**	**2012**
	RMB	*RMB*	*RMB*
New Cap	1,700,000,000	2,750,000,000	3,450,000,000

As certain of the New Caps for this Continuing Connected Transaction for the year ending 31 December 2012 exceed the 5% Threshold, it constitutes a Non-exempt Continuing Connected Transaction 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 of the Listing Rules, and the approval of 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 this Continuing Connected Transaction is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the Independent Shareholders' approval as aforesaid, this Supplemental Agreement is conditional upon the said resolution being passed at the EGM.

(b) Purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) from Shaanxi Automotive (and its associates) (as the case may be)

Agreement: Supplemental agreement to the parts and components and scrap steel purchase agreement ("**Shaanxi Zhongqi Purchase Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreement dated 27 November 2008)

Date: 23 August 2010

Parties: 1. (a) Shaanxi Zhongqi
(b) Hande Axle
(c) Jinding
(d) Shaanxi Import and Export
(e) Tiangua

2. (a) Shaanxi Automotive
   (b) Shaanxi Wanfang
   (c) Shaanxi Huazhen
   (d) Shaanxi Heavy-duty Coach
   (e) Shaanxi Lantong
   (f) Shaanxi Tongli
   (g) Shaanxi Tongchuang
   (h) Beijing Shaanqi Sale Centre
   (i) Shaanxi Fangyuan
   (j) Changsha Huantong

Term: 1 January 2011 to 31 December 2013

Other terms and details:

Pursuant to the Shaanxi Zhongqi Purchase Agreement dated 1 August 2007 (as supplemented by the supplemental agreement dated 27 November 2008 but prior to the entering into of this latest Supplemental Agreement), each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) has purchased certain parts and components of vehicles and scrap steel (as the case may be) from certain associates of Shaanxi Automotive (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Shaanxi Tongli, Shaanxi Tongchuang and Beijing Shaanqi Sale Centre (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2010, upon the expiry of the same, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) (and/or other subsidies of Shaanqi Zhongqi) (as the case may be) shall purchase certain parts and components of vehicles (namely, pipes and hoop parts, etc.) and related products (as the case may be) from Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Shaanxi Tongli, Shaanxi Tongchuang, Beijing Shaanqi Sale Centre, Shaanxi Fangyuan and Changsha Huantong (and/or other associates of Shaanxi Automotive) (as the case may be), for a term of three years ending 31 December 2013. Save as set out herein, all other terms of the Shaanxi Zhongqi Purchase Agreement shall remain unchanged.

The table below summaries the Existing Caps for the three years ending 31 December 2010 for the Continuing Connected Transaction set out in this sub-section 2.(b):

	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
Existing Cap	1,500,000,000	2,200,000,000	2,700,000,000

The table below summarises the actual aggregate transaction amounts involved for the two years ended 31 December 2009 (audited) and the six months ended 30 June 2010 (unaudited) for the Continuing Connected Transaction set out in this sub-section 2.(b):

	Year ended 31 December		**Six Months ended 30 June**
	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
	(audited)	*(audited)*	*(unaudited)*
Actual transaction amount	1,298,192,000	916,158,000	923,608,000

In recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC have stimulated the development of the heavy-duty vehicles industry in the PRC.

Since Shaanxi Zhongqi and its subsidiaries set out above 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 and its subsidiaries and, accordingly, the volume of parts and components required from Shaanxi Automotive and/or its associates for the production of such products, will increase substantially for the three years ending 31 December 2013.

The Company estimates that the transaction amounts in respect of the Continuing Connected Transaction set out in this sub-section 2.(b) will not exceed RMB3,650,000,000, RMB4,550,000,000 and RMB4,800,000,000, respectively, for each of the three years ending 31 December 2013 and such amounts have accordingly been set as the New Caps for this Continuing Connected Transaction.

The proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical costs; (ii) the estimate of the volume of the said parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries (as the case may be); (iii) the average unit price of the said parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries (as the case may be); (iv) the production plan and expected growth of production capacity of Shaanxi Zhongqi and its subsidiaries; and (v) the assumption that the transaction amount of the said purchase of parts and components of vehicles and related products will increase by approximately 25% and 5% for each of the years ending 31 December 2012 and 2013, respectively, taking into account the factors set out under (i) to (iv) above. The said estimated growth rates for the years of 2012 and 2013 are in line with the growth in the annual production plan of Shaanxi Zhongqi for the years of 2011 and 2012 and an expected relatively moderate growth thereafter.

The table below summarises the proposed New Caps for the Continuing Connected Transaction set out in this sub-section 2.(b) for the three years ending 31 December 2013:

	2011	**2012**	**2013**
	RMB	*RMB*	*RMB*
New Cap	3,650,000,000	4,550,000,000	4,800,000,000

As all the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2013 exceed the 5% threshold, it constitutes a Non-exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting and announcement requirements set out in Rules 14A.45, 14A.46 and 14A.47 of the Listing Rules and the annual review requirements of Rules 14A.37 and 14A.38 of the Listing Rules, and the approval of 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 and the said Supplemental Agreement.

Since this Continuing Connected Transaction for the three years ending 31 December 2013 is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the approval of the Independent Shareholders, this Supplemental Agreement is conditional upon the said resolution being passed at the EGM.

III. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS AND LISTING RULES IMPLICATIONS

As prior to completion of the Merger, SFGC has conducted the Continuing Connected Transactions with Fast Transmission and Shaanxi Zhongqi (and its subsidiaries) (as the case may be) have conducted the Continuing Connected Transactions with Shaanxi Automotive (and its associates) (as the case may be) for many years and the Company has taken up such Continuing Connected Transactions after completion of the Merger, the Directors (including the independent non-executive Directors after consideration of the advice of the Independent Financial Adviser), consider it to be beneficial to the Company to continue to conduct the Continuing Connected Transactions in order to ensure and maximise operating efficiency and stability of the operations of the Group. The Directors are not aware of any disadvantage of the Non-exempt Continuing Connected Transactions to the Group.

The Directors (including the independent non-executive Directors after consideration of the advice of the Independent Financial Adviser) have confirmed that the Non-exempt Continuing Connected Transactions have been subject to arm's length negotiation between the Group and the relevant parties, and have been entered into by the Group in the ordinary and usual course of business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties.

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

Since the New Caps of the Continuing Connected Transactions referred to in the section headed "II. Continuing Connected Transactions" in this circular exceed the 5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and their respective New Caps will be subject to the reporting and announcement requirements set out in Rules 14A.45, 14A.46 and 14A.47 of the Listing Rules, annual review by the independent non-executive Directors under Rule 14A.37 of the Listing Rules and by the Company's auditors under Rule 14A.38 of the Listing Rules and the approval by Independent Shareholders.

IV. PRC CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 23 August 2010 which announces that the Company has entered into certain Exempt Continuing Connected Transactions which constitute PRC Continuing Connected Transactions. A summary of the PRC Continuing Connected Transactions and the relevant new caps are set out below:

PRC Continuing Connected Transactions

Connected person and details of relevant PRC Continuing Connected Transactions	**New Caps**			
	2010 *RMB*	**2011** *RMB*	**2012** *RMB*	**2013** *RMB*
1. Weichai Holdings (and its associates)				
(a) Provision of general services and labour services by Weichai Holdings (and its associates) (as the case may be) to the Company (and its subsidiaries) (as the case may be)	–	62,000,000	67,000,000	73,000,000

Connected person and details of relevant PRC Continuing Connected Transactions	New Caps 2010 *RMB*	2011 *RMB*	2012 *RMB*	2013 *RMB*
(b) Supply and/or connection of utilities by Weichai Holdings (and its associates) (as the case may be) to the Company (and its subsidiaries) (as the case may be)	–	276,000,000	281,000,000	286,000,000
(c) Purchase of diesel engine parts and components, gas and scrap metals, raw materials, etc. and related products and processing services by the Company (and its subsidiaries) (as the case may be) from Weichai Holdings (and its associates) (as the case may be)	–	126,000,000	158,000,000	189,000,000
(d) Sale of diesel engines, diesel engine parts and components, materials and related products and provision of processing services by the Company (and its subsidiaries) (as the case may be) to Weichai Holdings (and its associates) (as the case may be)	–	329,000,000	411,000,000	487,000,000
2. Fujian Longgong and Shanghai Longgong				
Sale of diesel engines and diesel engine parts by the Company to Fujian Longgong and Shanghai Longgong Machinery (and their respective associates) (as the case may be)	–	1,500,000,000	1,680,000,000	1,750,000,000

Connected person and details of relevant PRC Continuing Connected Transactions	New Caps 2010 *RMB*	2011 *RMB*	2012 *RMB*	2013 *RMB*
3. Weichai Deutz				
(a) Sale of semi-finished diesel engine parts and related products by the Company (and its subsidiaries) (as the case may be) to Weichai Deutz	–	166,000,000	230,000,000	315,000,000
(b) Provision of sales and warranty period repair services by the Company to Weichai Deutz	–	40,000,000	47,000,000	54,000,000
(c) Purchase of diesel engine parts and components and related products by the Company (and its subsidiaries) (as the case may be) from Weichai Deutz	–	63,000,000	78,000,000	100,000,000
4. Weichai Heavy Machinery				
(a) Sale of diesel engines and related products by the Company (and its subsidiaries) to Weichai Heavy Machinery	400,000,000	480,000,000	600,000,000	–
(b) Purchase of diesel engine parts and components, materials, steel and scrap metal, used diesel engines, etc. and related products and processing services by the Company (and its subsidiaries) (as the case may be) from Weichai Heavy Machinery	–	680,000,000	830,000,000	1,000,000,000

The Company confirms that, as set out in the announcement of the Company dated 23 August 2010, the PRC Continuing Connected Transactions constitute Exempt Continuing Connected Transactions and are, accordingly, not subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, the PRC Continuing Connected Transactions are subject to the approval by the Shareholders at the EGM.

For details, please refer to (i) the announcement of the Company entitled《濰柴動力股份有限公司日常持續性關聯交易公告》(“Announcement of Weichai Power Co., Ltd. in respect of its Continuing Connected Transactions in the Ordinary Course of Business”) dated 23 August 2010 on the Shenzhen Stock Exchange and (ii) the section headed “II.A. Weichai Continuing Connected Transactions” in the announcement of the Company dated 23 August 2010 in respect of the continuing connected transactions of the Company.

V. EGM

It is proposed that, *inter-alia,* the New Caps and the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions, and the PRC Continuing Connected Transactions, shall be considered and, if thought fit, approved at the EGM. It is also proposed that the bonus shares issue by conversion of capital reserve of the Company and certain amendments to the articles of association of the Company be considered and, if thought fit, approved at the EGM. Please refer to the circular of the Company dated 9 September 2010 for details and the resolutions in respect of the same.

A notice setting out the resolutions in respect of the New Caps and the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions, and the PRC Continuing Connected Transactions, is set out in this circular. No Shareholder is required to abstain from voting in respect of the resolutions for approval of the New Caps and the Supplemental Agreements, and no Shareholders (save as set out in the notice of the EGM) is required to abstain from voting in respect of the resolution in respect of the PRC Continuing Connected Transactions, and it is a requirement of the Listing Rules that such voting must be taken by poll.

None of the Directors has any material interest in the Non-exempt Continuing Connected Transactions.

If you intend to attend the EGM, please complete and return the reply slip enclosed in this circular in accordance with the instructions printed thereon as soon as possible and in any event by no later than 6 October 2010.

The proxy form for use at the EGM is enclosed with this circular. Holders of A Shares may use the forms of proxy published by the Company on the website of The Shenzhen Stock Exchange instead. Whether or not you intend to be present at such meetings, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the Company’s registered office at Securities Department, 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

VI. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser), are of the opinion that the New Caps and the terms of the Supplemental 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 and the respective New Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions and the respective New Caps. 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 Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions, which are set out in this circular.

VII. 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

WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

9 September 2010

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. to consider the New Caps (as defined in the circular of the Company dated 9 September 2010) (the "**Circular**") in relation to the Non-exempt Continuing Connected Transactions, details of which are set out in the section headed "II. Continuing Connected Transactions" in the "Letter from the Board" contained in 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 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 the 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 terms of the Non-exempt Continuing Connected Transactions and the New Caps are fair and reasonable and the Non-exempt Continuing Connected Transactions are in the interest of the Company and its shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreements and the New Caps for the Non-exempt Continuing Connected Transactions.

Yours faithfully,
The Independent Board Committee

Zhang Xiaoyu	**Koo Fook Sun, Louis**	**Fang Zhongchang**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter dated 9 September 2010 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
CERES

Unit C2, 15th Floor
United Centre
95 Queensway
Hong Kong

9 September 2010

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 Supplemental 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 9 September 2010 (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 Supplemental 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 23 August 2010, the Board announced, among other things, that the Group has entered into the Supplemental Agreements with various connected persons (as defined under the Listing Rules) of the Company, including Fast Transmission and Shaanxi Automotive (and its associates). Since the New Caps for the Continuing Connected Transactions with each of Fast Transmission and Shaanxi Automotive (and its associates) exceed the 5% Threshold, these transactions constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules. Accordingly, the Supplemental Agreements governing the Non-exempt Continuing Connected Transactions and the respective New Caps are required to be subject to, among other things, 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 in this regard.

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 the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions 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 the terms of the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions are normal commercial terms and are fair and reasonable; (iii) whether the respective New Caps are fair and reasonable; and (iv) whether the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions 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 and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in the Circular or 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.

Our opinion is necessarily based upon economic, market and other conditions and circumstances existing on, and the facts, information and representations made available to us up to and including, the Latest Practicable Date. Although subsequent developments may affect our opinion, we do not have any obligation to update, revise or reaffirm our opinion contained herein.

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.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions 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

As stated in the Company's annual report for 2009 (the "2009 Annual Report"), the Company is one of the largest manufacturers of high-power, high-speed diesel engines in the PRC and a leading company in the power train market.

The Group is also the largest supplier of diesel engines to manufacturers of heavy-duty trucks with a load capacity of 15 tonnes (and above) and to manufacturers of construction machinery (mainly wheel loaders) with a load capacity of 5 tonnes (and above) in the PRC. In 2009, the Group sold approximately 322,000 units of diesel engines, of which approximately 226,000 units were truck engines and approximately 82,000 units were construction machine engines. In the first half of 2010, the Group sold approximately 222,000 units of heavy-duty truck engines, representing a market share of approximately 38% based on the total domestic sales of approximately 584,000 units of heavy-duty trucks in the PRC for the same period. The Group also sold 84,000 units of construction machine engines in the first half of 2010, of which 61,000 units were for wheel loaders with a load capacity of 5 tonnes. Based on the Group's sales and the total domestic sales of approximately 84,000 units of wheel loaders with a load capacity of 5 tonnes in the PRC in the first half of 2010, the Group had a market share of approximately 73%.

In 2009, the Group sold approximately 60,000 units of heavy-duty trucks, and approximately 532,000 units of heavy-duty gearboxes. Such business had increased substantially and in the first half of 2010 alone, the Group sold 60,000 units of heavy-duty trucks and 492,000 units of heavy-duty gearboxes. Based on such sales volume and the total domestic sales of approximately 584,000 units of heavy-duty trucks in the PRC in the first half of 2010, the Group had maintained a leading position in the industry.

Apart from the production and sale of diesel engines for trucks and construction machinery, the Group is also engaged in production and sale of engine parts and other truck parts, such as spark plugs, axles, chassis, air-conditioner compressors, etc. In 2009, the Group's sales of such products amounted to approximately RMB1,714 million, representing about 5% of its total turnover.

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 which are extracted from the Company's annual reports for 2008 and 2009 and the 2010 interim report.

	Year ended 31 December			6 months ended 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)
Turnover	28,786,183	32,567,190	35,260,899	32,771,851
Gross profit	6,135,665	5,658,599	7,632,210	6,619,885
Profit for the year/period	2,793,576	2,411,709	3,946,864	3,864,843

For the year ended 31 December 2007, the Group reported a more than three-fold increase in its turnover to approximately RMB28,786 million. As explained in the Company's 2007 annual report, the significant increase in the turnover was mainly due to the rising demand in the heavy-duty truck and construction machinery industries for diesel engines, and the absorption of the business of TAGC following completion of the Merger. For similar reasons, the Group recorded a jump in both its gross profit and net profit which reached RMB6,136 million and RMB2,794 million, respectively.

For the year ended 31 December 2008, the Group's audited turnover reached approximately RMB32,567 million, representing a year-on-year increase of approximately 13.1%. As noted in the Company's 2008 annual report, such increase was mainly due to the rising demand for heavy-duty trucks and diesel engines for use in heavy-duty trucks. The average unit selling price of diesel engines and heavy-duty trucks remained relatively stable during the year. However, the Group's gross profit slipped to approximately RMB5,659 million due to the increasing price of raw materials which led to a significant drop in the gross profit margin to approximately 17.4% from approximately 21.3% for the preceding year. As a result, profit for 2008 dropped to approximately RMB2,412 million.

For the year ended 31 December 2009, the Group's turnover continued to grow steadily to approximately RMB35,261 million while gross profit soared to approximately RMB7,632 million. As explained in the 2009 Annual Report, the Group's gross profit margin for 2009 improved to approximately 21.6% due primarily to the reduction in average unit cost through economies of scale and the change of product mix towards products with higher gross profit margin. For similar reasons, the Group recorded a substantial increase in its net profit to approximately RMB3,947 million for 2009 from approximately RMB2,412 million for the preceding year.

In the first half of 2010, the PRC economy has continued to exhibit strong economic growth as a result of the fiscal and monetary stimulus measures to combat the effects of global financial crisis. For the same period, the Group recorded a turnover of approximately RMB32,772 million, two times as much as that for the corresponding period last year. With the improvement in the gross profit margin, the Group also recorded a substantial increase in both its gross profit and net profit for the six months ended 30 June 2010 to approximately RMB6,620 million and RMB3,865 million, respectively.

(b) Overview of the heavy-duty truck market in China

As stated in the letter from the Board contained in the Circular (the "Letter from the Board"), the products transacted between SFGC and Fast Transmission are parts and components of transmissions, which are primarily used in the manufacture of heavy-duty vehicles in the PRC, and the products transacted between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and/or its associates) are heavy-duty vehicles, engines, and related parts and components, raw materials, etc.

The economic development in China has a significant impact on the heavy-duty vehicle industry as economic growth would generally result in increased demand for bulk commodities and this would lead to significant growth of highway freight transport and the trucking industry as they haul the steel, coal, and other raw materials to manufacturing plants around the country, deliver building materials to construction sites, transport cargos to and from container terminals, and carry finished goods to markets, etc.

China had recorded two years of double-digit percentage growth in its gross domestic product ("GDP") since 2006 which then slipped to 9% in 2008 as a result of the global financial crisis. Despite the widening global economic downturn since the second half of 2008, China's economy has remained relatively strong compared with most economies, particularly in the United States and Europe. According to statistics issued by National Bureau of Statistics of China, China's GDP reached RMB33.54 trillion in 2009, or an annual growth of 8.7% from 2008, exceeding the government's annual target of 8%. It is noted in particular that China's economy rose 10.7% year-on-year in the fourth quarter of 2009. This compared with about 6.2% growth in the first quarter, 7.9% in the second, and 9.1% in the third. The accelerating GDP growth in the fourth quarter indicated that the country's economy is on a strong rebound from the slowdown in the fourth quarter of 2008 as a result of the global financial crisis. In the first half of 2010, China's economy continued to grow 11.1% year-on-year to hit RMB17.28 trillion. The double-digit growth in the first half of 2010 was buoyed largely by strong public investment which has been the driving force in the growth of the China economy. Since November 2008, the government has adopted a series of stimulus measures under a RMB4 trillion stimulus package, including tax cuts, and consumer subsidies to shore up growth and employment. An important component of the stimulus package was the revitalization scheme for ten major industries, including steel, car making, textiles and machinery, to which the government devoted huge investment. It also put forward preferential policies to encourage sales of home appliances, cars and motorbikes in rural areas. More government investment was directed to infrastructure, scientific research and public services. According to statistics issued by National Bureau of Statistics of China, China's total fixed-asset investment rose 30.1% to approximately RMB22.5 trillion in 2009, and 25% year-on-year to approximately RMB11.42 trillion in the first half of 2010, spurred by the government's RMB4 trillion stimulus package.

Meanwhile, the thriving heavy-duty vehicle industry in the PRC has been driven by economic growth in the country. During the past few years, the State's expansionary macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under 國家西北大開發戰略 (the State's North-West Great Development Strategy), the Beijing 2008 Olympic Games and the World Expo 2010 in Shanghai, had stimulated the development of the heavy-duty vehicle industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles has entered into a rapid growth period and the evolution of vehicles has moved toward the heavy-duty side.

According to China Automobile Industry Association's statistics, the sales volume of heavy-duty vehicles in China had grown from about 307,300 units in 2006 to about 487,500 units in 2007, up by about 59%. Despite the austerity measures by the PRC government to tackle inflation and the economic downturn following the financial crisis in the second half of 2008, domestic sales of heavy-duty vehicles in 2008 recorded continuous growth of about 11% and reached 541,500 units. And notwithstanding the impact of global financial crisis in the first half of 2009, the heavy-duty vehicle market picked up in the second half of the year with annual sales reaching 636,000 units, representing a year-on-year growth of 18%. Fuelled by the PRC government's RMB4 trillion stimulus package, construction and infrastructure activities have continued to expand in China and boosted the sales of heavy-duty vehicles to 584,000 units in the first half of 2010, representing a whopping growth of 113% year-on-year and almost 92% of the whole year's sales volume in 2009.

The continuous impressive growth provides a solid foundation for sustainable economic development in China in the years ahead. As the infrastructure and construction projects started under the government's stimulus RMB4 trillion package will generally take a few years to complete, it is expected that the economic growth driven by the stimulus measures will last for the next two or three years.

Based on the statistics and discussion, we concur with the view of the Directors that there will be continuous development and positive growth of the heavy-duty vehicle market in the PRC.

Notwithstanding the aforesaid, Independent Shareholders should also note that factors such as the rising prices of raw materials and energy cost, the continuous or deepening economic downturn particularly in the United States and Europe, may further affect the macro-economic environment in China. China's economic growth may or may not be sustainable in the worsening global economic environment and in the absence of new stimulus measures by the government. In particular, the fiscal and monetary policy adopted by the government is key in keeping China's economic growth. The economy in China may slow down due to various reasons including unforeseen factors and hence any such economic slowdown may have impact on the Group's business.

(c) Relationship between the Group and the connected persons under the Supplemental 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, while SFGC is principally engaged in the manufacture, sale, design and development of transmissions and other motor vehicle parts and components, such as gears.

(ii) Shaanxi Automotive and its associates

Shaanxi Automotive is a holder of 49% of the equity of Shaanxi Zhongqi, which 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. Shaanxi Automotive is primarily an investment holding company. The Non-exempt Continuing Connected Transactions are conducted between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive and 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,

– Shaanxi Lantong which is held as to 60% 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 51% by Shaanxi Automotive, and

– Baoji Huashan which is held as to 58.42% by Shaanxi Automotive

– Shaanxi Fangyuan which is held as to 49% by Shaanxi Automotive

– Wenzhou Yunding which is held as to 51% by Shaanxi Automotive

– Changsha Huantong which is held as to 51% by Shaanxi Automotive

All of the above associates of Shaanxi Automotive are principally engaged in the manufacture and/or sale of vehicles, or parts and components of vehicles.

2. Reasons for the Non-exempt Continuing Connected Transactions

As stated in the Letter from the Board, prior to completion of the Merger, each of SFGC and Shaanxi Zhongqi had conducted the relevant Continuing Connected Transactions with Fast Transmission and Shaanxi Automotive (and its associates), respectively, for many years. The Company has taken up such Continuing Connected Transactions after completion of the Merger and the Directors consider it to be beneficial to the Company to continue these Continuing Connected Transactions in order to ensure and maximize operating efficiency and stability of the operations of the Group.

As stated in the circular of the Company dated 12 November 2006 regarding, among other things, the Merger, 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. Fast Transmission is a founder and 49% equity holder of SFGC. According to its website, the Fast Transmission Group is the largest manufacturer of heavy-duty vehicle transmissions, automotive gears and related forgings and castings in the PRC. The Fast Transmission Group's transmission products have a market share of over 80% for 8-tonne (or above) vehicles, and over 90% for 15-tonne (or above) heavy-duty vehicles. The Fast Transmission Group has committed significant investments and resources to product design and development, production technology and facilities and quality assurance, and has a comprehensive annual production capacity of about 800,000 units of vehicle transmissions for different kinds of vehicles, 50 million pieces of automotive gears, and 80,000 tonnes of automotive forgings and castings. By transacting with Fast Transmission and its associates, SFGC can capitalize on the research and development capabilities, advanced production and processing techniques and production facilities of the Fast Transmission Group without making its own investment in such areas.

Following the completion of the Merger, the 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. The Merger, under which Shaanxi Zhongqi has become a subsidiary of the Company, has provided the development opportunity for Shaanxi Automotive through the advanced industrial supply chain and service network established by the Group. According to its website, Shaanxi Automotive was founded in 1968 and, together with its group companies, has operation and production facilities occupying a total area of approximately 4,500,000 square metres. Shaanxi Automotive has a fully integrated product development system, and a research and development platform for full range of heavy-duty vehicles and commercial vehicles. According to a report by China Economic Net (中國經濟網), since 2006 Shaanxi Automotive has performed well in products quality, services and differentiation in the heavy-duty truck market. Shaanxi Automotive has also established a heavy-duty truck service system with large-scale network, unquestioned service policies, high service efficiency and high customer satisfaction and, as a result, has created the record of fastest growing in the heavy-duty truck market in China according to the statistics of China Association of Automobile Manufacturers. It is expected that the sales volume of Shaanxi Automotive will continue to grow given its enhanced competitiveness and a significant market share which will in turn create greater business opportunities for Shaanxi Zhongqi and its subsidiaries. Accordingly, the Group, through its interests in Shaanxi Zhongqi, will be in an advantageous position to capture the growth potential in the heavy-duty truck market.

On the basis of the reasons discussed above, we concur with the Directors that it is in the interests of the Company and the Shareholders as a whole to carry on the Non-exempt Continuing Transactions with each of Fast Transmission and Shaanxi Automotive (and its associates) so long as the terms of the transactions are fair and reasonable.

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

(a) Sale of parts and components of transmissions and related products by SFGC to Fast Transmission

(i) Principal terms of the Supplemental Agreement

Pursuant to the Fast Transmission Sale Agreement as supplemented by the supplemental agreements dated 27 November 2008 and 9 November 2009, respectively, SFGC has sold to Fast Transmission certain parts and components of transmissions, namely, gearboxes, at market prices settled every two to three months, for a term ending 31 December 2011, upon the expiry of which both parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis. Under the latest relevant Supplemental Agreement, SFGC has agreed to sell and Fast Transmission has agreed to purchase such parts and components and related products on the same terms for a term ending 31 December 2012. Save as aforesaid, the revision of the Existing Caps, and the New Caps described below, all other terms of the Fast Transmission Sale Agreement remain unchanged.

Pursuant to the Fast Transmission Sale 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, settlement method, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the Fast Transmission Sale Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As advised by the Group, Fast Transmission provides processing service to SFGC and the parts and components sold by SFGC to Fast Transmission will be processed by Fast Transmission which will then be bought back by SFGC for production of vehicle transmissions. SFGC presently does not sell similar parts and components to independent third parties. Therefore, there are no transactions between SFGC and independent third parties that are comparable to those under the Fast Transmission Sale Agreement. We have discussed with the Group which has confirmed that in determining the sale prices under the Fast Transmission Sale Agreement, SFGC will consider its own costs of materials and production, the processing fees, and the purchase prices to be paid by SFGC to Fast Transmission for buying back the processed goods under the Fast Transmission Purchase Agreement. Since SFGC may purchase processed parts and components from both Fast Transmission and independent third parties, it will not sell the parts and components to Fast Transmission for processing if it is more commercially sensible to purchase the processed goods from independent third party suppliers. We have reviewed sample invoices for the purchase of processed parts and components, details of which are described in sub-section 3(b)(i) below. As advised by the Group, SFGC may in the future sell similar parts and components to independent third parties for processing if opportunity arises. In such event, SFGC will adopt the same pricing policy as described above in determining the sale prices to independent third parties and will ensure that the overall terms of sale, including the sale price, to Fast Transmission under the Fast Transmission Sale Agreement are no less favourable to SFGC than those offered to independent third parties.

We have noted from the 2009 Annual Report that the Group's trading terms with its customers were mainly on credit except for new customers, where payment in advance or cash on delivery was normally required. The credit period granted by the Group to its customers was generally 90 days to 180 days, and customers with established trading records could be granted a longer credit period. As indicated in the 2009 Annual Report, the Group had audited trade and bills receivables of approximately RMB11,353 million as at 31 December 2009, of which about 53% aged within three months and about 42% aged between three to six months. According to the Company's 2010 interim report, the Group had unaudited trade and bills receivables of approximately RMB20,877 million as at 30 June 2010, of which about 46% aged within three months and about 51% aged within three to six months. Based on such accounts receivable aging analysis, we consider that the credit term of two to three months granted by SFGC to Fast Transmission is no less favorable to the Group than those granted by the Group to its customers in general.

In summary, (i) the sale of parts and components of transmission and related products by SFGC to Fast Transmission is conducted in the ordinary and usual course of business of SFGC; (ii) the prices of the goods under these Non-exempt Continuing Connected Transactions shall continue to be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the credit term of two to three months granted by SFGC to Fast Transmission is no less favorable to the Group than those granted by the Group to its customers in general. On this basis, we are of the opinion that the Supplemental Agreement governing the sale of parts and components of transmissions and related products by SFGC to Fast Transmission is in the interests of the Company and the Shareholders as a whole, and its terms 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 and related products by SFGC to Fast Transmission for each of the two years ended 31 December 2008 and 2009 and the six months ended 30 June 2010; (ii) the Existing Caps for the relevant transactions for each of the three years ending 31 December 2011; and (iii) the proposed New Caps in relation to the sale of parts and components of transmission and related products by SFGC to Fast Transmission for each of the three years ending 31 December 2010, 2011 and 2012.

	Total transaction amounts in relation to the sale of parts and components of transmissions and related products by SFGC to Fast Transmission *(RMB' 000)*	**Increase as compared to the preceding financial year** *(%)*
Actual transaction amounts:		
2008 (audited)	599,380	N/A
2009 (audited)	775,485	29.4
6 months up to 30 June 2010 (unaudited) *Note 1*	624,230	61.0

	Total transaction amounts in relation to the sale of parts and components of transmissions and related products by SFGC to Fast Transmission *(RMB' 000)*	Increase as compared to the preceding financial year *(%)*
Existing Caps:		
2009	820,000	N/A
2010	1,000,000	22.0
2011	1,200,000	20.0
New Caps:		
2010 *Note 2*	1,500,000	93.4
2011	2,300,000	53.3
2012	3,500,000	52.2

Notes:

1. The percentage increase has been calculated on an annualized basis.

2. The percentage increase has been calculated by comparison with the actual transaction amount for 2009.

As stated in the Letter from the Board, during the first half of 2010, in line with the growth of the PRC economy and the heavy-duty vehicles market, the demand for parts and components of transmissions from SFGC of Fast Transmission has increased substantially. According to the development plan of the Fast Transmission Group, the Company expects that the volume of transmissions to be produced by the Fast Transmission Group will increase by approximately 20% for each of the years ending 31 December 2011 and 31 December 2012. Accordingly, it is expected that the volume of the parts and components to be sold by SFGC to Fast Transmission for its processing will also increase. In addition, it is expected that the production capacity of Fast Transmission will be enhanced following the completion of certain technological transformation in its production facilities which shall lead to a further increase in the demand of Fast Transmission for parts and components of transmissions from SFGC for its production.

The Company has proposed New Caps for the above Non-exempt Continuing Connected Transaction of RMB1,500 million, RMB2,300 million and RMB3,500 million, respectively, for each of the three years ending 31 December 2010, 2011 and 2012. As stated in the Letter from the Board, such New Caps have been prepared by the Company primarily based on the relevant historical costs, the estimate of the volume of parts and components to be sold by SFGC to Fast Transmission, the average unit prices of such parts and components, and the assumption that the transaction amount of the sale of the said parts and components will increase by approximately 53% and 52% for each of the years ending 31 December 2011 and 31 December 2012, respectively, taking into account all the aforesaid factors.

As indicated in the table above, the transaction amount in relation to the sale of parts and components of transmissions and related products by SFGC to Fast Transmission during the first half of 2010 reached RMB624.2 million and over 62% of the Existing Cap of RMB1,000 million for 2010 has already been utilized. The proposed New Cap of RMB1,500 million for 2010 represents a buffer of about 20% over the estimated transaction amount based on the actual transaction amount for the first half of 2010 on an annualized basis. Since the Group has already entered into the third quarter of its financial year and will not have sufficient time to seek Independent Shareholders' approval to further revise, if necessary, the annual cap for the transaction amount for 2010, we consider it reasonable for the Company to provide for a buffer against unanticipated business growth in setting the New Cap for 2010. We consider that it would not be in the interests of the Company and the Shareholders if SFGC is required to halt its business transactions with Fast Transmission due to full utilization of the annual cap towards the year end. We have reviewed and compared the amount of transactions under the Fast Transmission Sale Agreement for the first four months ended 30 April 2010 with that for the first half of 2010 and have noticed that the transaction amount has been growing at an accelerating rate. On this basis, we consider that the proposed New Cap of RMB1,500 million for 2010 is not excessive.

The respective proposed New Caps of RMB2,300 million and RMB3,500 million for 2011 and 2012 represent an annual growth of approximately 53% and 52% over the proposed New Cap for the preceding year.

As discussed in the sub-section headed "Overview of the heavy-duty truck market in China" above, the domestic sales of heavy-duty vehicles in the first half of 2010 registered a whopping growth of approximately 113% year-on-year which represented an average annual compound growth rate of approximately 39.6% since 2007. Since the infrastructure and construction projects started under the government's stimulus plan in late 2009 will generally take a few years to complete, it is expected that the heavy-duty vehicle market will continue to grow in the next two to three years. The demand for SFGC's products is expected to grow in line with the overall market as SFGC is the largest manufacturer of transmissions for heavy-duty vehicles in the PRC and, therefore, the amount of transactions between SFGC and Fast Transmission is also expected to increase in line with the overall market. Based on the actual transaction amounts for the period from 1 January 2008 to 30 June 2010 in the table above, the sale of parts and components of transmissions and related productions by SFGC to Fast Transmission registered an average annual growth of about 45%.

As advised by the Company, Fast Transmission is undergoing technological transformation in its production facilities of automobile synchronizers, and it is expected that, following the completion of the technological transformation, the capacity and capability of the Fast Transmission Group in the production of synchronizers will be enhanced. Synchronizer is one of the components of automobile transmission. It is estimated that in addition to other parts and components of transmissions, SFGC will also purchase 500,000 units and one million units of synchronizers in 2011 and 2012, respectively, from Fast Transmission under the Fast Transmission Purchase Agreement and the overall sale of parts and components of transmissions, including parts of synchronizers, by SFGC to Fast Transmission for processing in 2011 and 2012 will increase accordingly.

Apart from the expected growth in the sales volume, the Company has also taken into account the hikes in production costs in China, in particular energy and raw material prices and labor costs, in determining the New Caps. As a result of the growth in investments in infrastructure and construction activities in recent years and spurred by the government's RMB4 trillion stimulus package, demand for and hence the prices of certain commodities such as iron ore, steel, coal, etc, have been rising significantly. Industrial manufacturers in China have also been under great pressure from the soaring labour costs and in early 2010, some foreign automobile, electronics and industrial companies announced wage increases of 20% to 67% in response to rising demands by labour. According to information published on the website www.China.org.cn, more than 10 provincial governments in China have announced a new policy on raising minimum wage levels by 10% or more this year. In view of the rising expectation of labour in China and the government's efforts to improve the positions of labour, the upward pressure on wages is expected to ensue.

We have reviewed and discussed with the Company (i) the estimated growth rates in the sales volume and the costs of production; (ii) the estimated quantity and prices of parts and components of synchronizers to be sold by SFGC to Fast Transmission in 2011 and 2012, and (iii) the 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 and the estimated annual growth rates of 52% – 53% as represented by the proposed New Caps for 2011 and 2012 are reasonable.

In summary, on the basis that (i) the demand for heavy-duty vehicles in the PRC market in general is expected to continue to increase along with the construction and infrastructure activities spurred by the government's stimulus package; (ii) there was substantial increase in the transaction amount in the first half of 2010 and the growth rates represented by the proposed New Caps are in line with the historical performance of the heavy-duty vehicle market; (iii) the production capacity and capability of the Fast Transmission Group are expected to increase following the completion of technological transformation for production of synchronizers; and (iv) the production costs in China in general are expected to continue to rise, we are of the view that the proposed New Caps for the sale of parts and components of transmissions and related products by SFGC to Fast Transmission for the three years ending 31 December 2010, 2011 and 2012 at RMB1,500 million, RMB2,300 million and RMB3,500 million, respectively, are fair and reasonable.

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

(i) Principal terms of the Supplemental Agreement

Pursuant to the Fast Transmission Purchase Agreement as supplemented by the supplemental agreements dated 27 November 2008 and 9 November 2009, respectively, 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 every two to three months, for a term ending 31 December 2011, upon the expiry of which both parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis. Under the latest relevant Supplemental Agreement, SFGC has agreed to purchase and Fast Transmission has agreed to sell such parts and components and related products on the same terms for a term ending 31 December 2012. Save as aforesaid, the revision of the Existing Caps, and the New Caps described below, all other terms of the Fast Transmission Purchase Agreement remain unchanged.

Pursuant to the Fast Transmission Purchase 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, settlement method, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the Fast Transmission Purchase Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

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. The take off assemblies and castings, etc. purchased by SFGC under the Fast Transmission Purchase Agreement are processed by Fast Transmission using, among others, the parts and components sold by SFGC under the Fast Transmission Sale Agreement as described above. We have reviewed samples of the purchase invoices for parts and components between SFGC and its suppliers, including Fast Transmission and independent third party suppliers. We have noted that the purchase prices of parts and components payable by SFGC to Fast Transmission under the sampled transactions were no less favourable to SFGC than those offered by independent third party suppliers having regard to the quantity and product type under the transactions.

We have noted from the 2009 Annual Report that the Group's trade payables were normally settled on 90-day term. As indicated in the 2009 Annual Report, the Group had audited trade and bills payables of approximately RMB11,831 million as at 31 December 2009, of which about 80% aged within three months. According to the Company's 2010 interim report, the Group had unaudited trade and bills payables of approximately RMB16,821 million as at 30 June 2010, of which about 86% aged within three months. Based on such accounts payable aging analysis, we consider that the settlement term of two to three months obtained by SFGC from Fast Transmission is in line with the Group's normal commercial terms. Such settlement term is also the same as that granted by SFGC to Fast Transmission under the Fast Transmission Sale Agreement described in sub-section 3(a)(i) above.

In summary, (i) the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission is conducted in the ordinary and usual course of business of SFGC; (ii) the prices of the goods under these Non-exempt Continuing Connected Transactions shall continue to be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the credit term of two to three months obtained by SFGC from Fast Transmission is in line with those obtained by the Group from its suppliers in general and is also the same as that granted by SFGC to Fast Transmission under the Fast Transmission Sale Agreement. On this basis, we are of the opinion that the Supplemental Agreement governing the purchase of parts and components of transmissions and related products is in the interests of the Company and the Shareholders as a whole, and its terms 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 in relation to the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission for each of the two years ended 31 December 2009 and the six months ended 30 June 2010; (ii) the Existing Caps for the relevant transaction for each of the three years ending 31 December 2011; and (iii) the proposed New Caps for the transactions in relation to the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission for each of the three years ending 31 December 2010, 2011 and 2012.

	Total transaction amounts in relation to the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission *(RMB' 000)*	**Increase as compared to the preceding financial year** *(%)*
Actual transaction amounts:		
2008 (audited)	819,180	N/A
2009 (audited)	1,141,571	39.4
6 months up to 30 June 2010 (unaudited) *Note 1*	894,330	56.7
Existing Caps:		
2009	1,250,000	N/A
2010	1,600,000	28.0
2011	1,800,000	12.5
New Caps		
2010 *Note 2*	2,250,000	97.1
2011	3,350,000	48.9
2012	5,000,000	49.3

Notes:

1. The percentage increase has been calculated on an annualized basis

2. The percentage increase has been calculated by comparison with the actual transaction amount for 2009.

As stated in the Letter from the Board, during the first half of 2010, in line with the growth of the PRC economy and the heavy-duty vehicles market, the demand for the parts and components of transmissions of SFGC from Fast Transmission has increased substantially. The Company expects that the volume of parts and components of transmissions to be purchased from the Fast Transmission Group will increase by approximately 20% for each of the years ending 31 December 2011 and 31 December 2012. Accordingly, it is expected that the volume of parts and components to be purchased by SFGC from Fast Transmission for its production will also increase. In addition, it is expected that the production capacity of Fast Transmission will be enhanced following the completion of certain technological transformation in its production facilities which shall lead to a further increase in the volume of parts and components of transmissions to be sold by Fast Transmission to SFGC.

The Company has proposed New Caps for the above Non-exempt Continuing Connected Transaction of RMB2,250 million, RMB3,350 million and RMB5,000 million, respectively, for each of the three years ending 31 December 2010, 2011 and 2012. As stated in the Letter from the Board, such New Caps have been prepared by the Company primarily based on the historical costs, the estimate of the volume of parts and components of transmissions to be purchased by SFGC from Fast Transmission, the average unit prices of such parts and components, and the assumption that the transaction amount of the purchase of the said parts and components by SFGC will increase by approximately 49% for each of the years ending 31 December 2011 and 31 December 2012, taking into account all the aforesaid factors.

As indicated in the table above, the transaction amount in relation to the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission during the first half of 2010 reached RMB894.3 million and about 56% of the Existing Cap of RMB1,600 million for 2010 has already been utilized. The proposed New Cap of RMB2,250 million for 2010 represents a buffer of about 26% over the estimated transaction amount based on the actual transaction amount for the first half of 2010 on an annualized basis. Since the Group has already entered into the third quarter of its financial year and will not have sufficient time to seek Independent Shareholders' approval to further revise, if necessary, the annual cap for the transaction amount for 2010, we consider it reasonable for the Company to provide for a buffer against unanticipated business growth in setting the New Cap for 2010. We consider that it would not be in the interests of the Company and the Shareholders if SFGC is required to halt its business transactions with Fast Transmission due to full utilization of the annual cap towards the year end. We have reviewed and compared the amount of transactions under the Fast Transmission Purchase Agreement for the first four months ended 30 April 2010 with that for the first half of 2010 and have noticed that the transaction amount has been growing at an accelerating rate. If we take into account the accelerating growth in the transaction amount in the second quarter of 2010, the buffer represented by the proposed New Cap for 2010 would be a much reduced rate. On this basis, we consider that the proposed New Cap of RMB2,250 million for 2010 is not excessive.

The respective proposed New Caps of RMB3,350 million and RMB5,000 million for 2011 and 2012 both represent an annual growth of approximately 49% over the proposed New Cap for the preceding year.

As indicated in the table above, the actual transaction amount in respect of the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission increased by approximately 39.4% in 2009 and by a further 56.7% for the first half of 2010 on an annualized basis. Such increase in the transaction amount represents an average growth rate of approximately 48% per annum. The growth rate of approximately 49% represented by the proposed New Caps of RMB3,350 million and RMB5,000 million for 2011 and 2012, respectively, is lower than the actual transaction growth rate for the first half of 2010 and is in line with the average transaction growth rate for the period from 1 January 2008 to 30 June 2010. As discussed in the sub-section headed "Overview of the heavy-duty truck market in China" above, the domestic sales of heavy-duty vehicles in the first half of 2010 registered a whopping growth of 113% year-on-year which represented an average annual compound growth rate of approximately 39.6% since 2007. Since the infrastructure and construction projects started under the government's stimulus plan in late 2009 will generally take a few years to complete, it is expected that the heavy-duty vehicle market will continue to grow in the next two to three years. The demand for SFGC's products is expected to grow in line with the overall market as SFGC is the largest manufacturer of transmissions for heavy-duty vehicles in the PRC and, therefore, the amount of transactions between SFGC and Fast Transmission is also expected to increase in line with the overall market.

As mentioned in sub-section 3(a)(ii) above, following the completion of technological transformation in Fast Transmission's production facilities of synchronizers, the capacity and capability of the Fast Transmission Group in the production of synchronizers will be enhanced. Synchronizer is one of the components of automobile transmission. It is expected that in addition to other parts and components of automobile transmissions, SFGC will also purchase 500,000 units and one million units of synchronizers in 2011 and 2012, respectively, from Fast Transmission. Apart from the expected growth in the sales volume, the Company has also taken into account the hikes in production costs in China, in particular energy and raw material prices and labor costs, in determining the New Caps.

We have reviewed and discussed with the Company (i) the estimated growth rates in the purchase volume and the costs of production; (ii) the estimated quantity and prices of parts and components of synchronizers to be purchased by SFGC from Fast Transmission in 2011 and 2012, and (iii) the 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 and the estimated annual growth rate of approximately 49% as represented by the proposed New Caps for both 2011 and 2012 is reasonable.

In summary, on the basis that (i) the demand for heavy-duty vehicles in the PRC market in general is expected to continue to increase along with the construction and infrastructure activities spurred by the government's stimulus package; (ii) there was substantial increase in the transaction amount in the first half of 2010 and the growth rates represented by the proposed New Caps are in line with the growth rates in the historical transaction amounts; and (iii) the production capacity and capability of the Fast Transmission Group are expected to increase following the completion of technological transformation for production of synchronizers, and (iv) the production costs in China in general are expected to continue to rise, we are of the view that the proposed New Caps for the purchase of parts and components of transmissions and related products by SFGC from Fast Transmission for the three years ending 31 December 2010, 2011 and 2012 at RMB2,250 million, RMB3,350 million and RMB5,000 million, respectively, 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 of vehicles, raw materials and related products and provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates)

(i) Principal terms of the Supplemental Agreement

Pursuant the Shaanxi Zhongqi Sale Agreement (as supplemented by the supplemental agreement dated 27 November 2008), each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding and Tiangua) has sold certain vehicles, parts and components of vehicles, raw materials, and provided heat processing services (as the case may be) to Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Beijing Shaanqi Sale Centre, Shaanxi Tongchuang and Shaanxi Tongli) (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2010, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Under the latest relevant Supplemental Agreement, Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) (and/or other subsidiaries of Shaanxi Zhongqi) (as the case may be) have agreed to sell certain vehicles, parts and components of vehicles (namely, flip shafts, spring pads, castings, etc.), raw materials and related products and to provide the relevant services (as the case may be) to Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Beijing Shaanqi Sale Centre, Shaanxi Tongchuang, Shaanxi Tongli, Baoji Huashan, Wenzhou Yunding and Changsha Huantong) (and/or other associates of Shaanxi Automotive) (as the case may be) for a term of three years ending 31 December 2012. Save as aforesaid, the revision of the Existing Caps, and the New Caps described below, all other terms of the Shaanxi Zhongqi Sale Agreement remain unchanged.

We have reviewed samples of the sale invoices for vehicles, parts and components between Shaanxi Zhongqi and its customers, including Shaanxi Automotive (and its associates) and independent third party customers. We have noted that the sale prices of vehicles, parts and components payable by Shaanxi Automotive (and its associates) to Shaanxi Zhongqi under the sampled transactions were no less favourable to Shaanxi Zhongqi than those offered by Shaanxi Zhongqi to independent third party customers having regard to the quantity and product type under the transactions.

We have noted from the 2009 Annual Report that the Group's trading terms with its customers were mainly on credit except for new customers, where payment in advance or cash on delivery was normally required. The credit period granted by the Group to its customers was generally 90 days to 180 days, and customers with established trading records could be granted a longer credit period. As indicated in the 2009 Annual Report, the Group had audited trade and bills receivables of approximately RMB11,353 million as at 31 December 2009, of which about 53% aged within three months and about 42% aged between three to six months. According to the Company's 2010 interim report, the Group had unaudited trade and bills receivables of approximately RMB20,877 million as at 30 June 2010, of which about 46% aged within three months and about 51% aged within three to six months. Based on such accounts receivable aging analysis, we consider that the credit term of one to three months granted by Shaanxi Zhongqi (and its subsidiaries) to Shaanix Automotive (and its associates) is no less favorable to the Group than those granted by the Group to its customers in general.

In summary, (i) the sale of vehicles, parts and components, and raw materials and related products and the provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) are conducted in the ordinary and usual course of business of Shaanxi Zhongqi and its subsidiaries; (ii) the prices of the goods or services to be transacted under the Supplemental Agreement shall continue to be market prices or prices determined according to the principle of fairness and reasonableness; and (iii) the credit term of one to three months granted by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) is no less favorable to the Group than those granted by the Group to its customers in general. On this basis, we are of the opinion that the Supplemental Agreement governing the sale of vehicles, parts and components of vehicles, raw materials and related products and the provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) is in the interest of the Company and the Shareholders as a whole, and its terms 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 vehicles, parts and components of vehicles, and the provision of heat processing services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) for each of the two years ended 31 December 2008 and 2009 and the six months ended 20 June 2010; (ii) the Existing Caps for the relevant transactions for each of the three years ending 31 December 2008, 2009 and 2010; and (iii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2010, 2011 and 2012:

	Total transaction amounts in relation to the sale of goods and the provision of services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) *(RMB'000)*	**Increase/ (Decrease) as compared to the preceding financial year** *(%)*
Actual transaction amounts:		
2008	401,657	N/A
2009	366,105	(8.9)
Six months ended 30 June 2010 *Note 1*	526,255	187.5

	Total transaction amounts in relation to the sale of goods and the provision of services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) *(RMB'000)*	Increase/ (Decrease) as compared to the preceding financial year *(%)*
Existing Caps:		
2008	650,000	N/A
2009	850,000	30.8
2010	1,100,000	29.4
New Caps:		
2010 *Note 2*	1,700,000	364.3
2011	2,750,000	61.8
2012	3,450,000	25.5

Notes:

1. The percentage increase has been calculated on an annualized basis.

2. The percentage increase has been calculated by comparison with the actual transaction amount for 2009.

The proposed New Caps for the above Non-exempt Continuing Connected Transaction are RMB1,700 million, RMB2,750 million and RMB3,450 million for the three years ending 31 December 2010, 2011 and 2012, respectively. As stated in the Letter from the Board, the proposed New Caps have been prepared by the Company primarily based on the relevant historical costs, the estimate of the volume of the said vehicles and parts and components of vehicles to be sold and the amount of the relevant services to provided by Shaanxi Zhongqi and its subsidiaries, the average unit price of the said vehicles and parts and components and the charges for the said services, the production plan and expected growth in production capacity of Shaanxi Zhongqi and its subsidiaries, and the assumption that the transaction amount of the said sale and provision of service will increase by approximately 62% and 26% for each of the years ending 31 December 2011 and 31 December 2012, respectively, taking into account all the aforesaid factors.

The proposed New Cap for 2010 represents a growth rate of approximately 364% over the actual transaction amount for 2009. The steep growth rate reflects a much higher annual cap set in anticipation of the large increase in transaction amount as indicated in the first half of 2010, and is calculated from a relatively low base figure of 2009 due primarily to the slowdown of the overall economic environment. In the first half of 2010, the actual transaction amount under the Shaanxi Zhongqi Sale Agreement soared to approximately 526.3 million, exceeding the whole year's actual transaction amount in 2009 and representing an increase of approximately 188% on an annualized basis. The proposed New Cap of RMB1,700 million for 2010 represents a buffer of about 62% over the estimated transaction amount based on the actual transaction amount for the first half of 2010 on an annualized basis. We have reviewed the amount of transactions under the Shaanxi Zhongqi Sale Agreement for the first half of 2010 and have noticed that the transaction amount has been growing significantly in May and June 2010 due primarily to the transactions involving two subsidiaries of Shaanxi Automotive, namely Wenzhou Yunding and Changsha Huantong, which commenced operations in mid 2009. As advised by the Company, Wenzhou Yunding and Changsha Huantong have commenced full production operations since mid 2010 and are in the process of expanding their production facilities in order to increase the production capacity and capability. Wenzhou Yunding and Changsha Huantong both have market focus in Southern China, covering Zhejiang, Fujian, Jiangxi, Jiangsu, Shanghai, Hunan and Guangdong, etc., all of which have registered significant economic growth in recent years. Based on estimates of the Company, the sale transactions to be conducted by Shaanxi Zhongqi (and its subsidiaries) with Wenzhou Yunding and Changsha Huantong in the second half of 2010 are expected to amount to over RMB400 million. Based on our review of the bases and assumptions adopted by the Company in determining the proposed New Caps and having considered the substantial increase in the relevant transaction amount in first half of 2010 and the estimated transaction amounts involving Wenzhou Yunding and Changsha Huantong in the second half of 2010, the buffer represented by the proposed New Cap of RMB1,700 million for 2010 will become a much reduced rate. Since the Group has already entered into the third quarter of its financial year and will not have sufficient time to seek Independent Shareholders' approval to further revise, if necessary, the annual cap for the transaction amount for 2010, we consider it reasonable for the Company to provide for a buffer against unanticipated business growth in setting the New Cap for 2010. We consider that it would not be in the interests of the Company and the Shareholders if Shaanxi Zhongqi (and its subsidiaries) are required to halt its business transactions with Shaanxi Automotive (and its associates) due to full utilization of the annual cap towards the year end. On this basis, we consider that the proposed New Cap of RMB1,700 million for 2010 is not excessive.

The respective proposed New Caps of RMB2,750 million and RMB3,450 million for 2011 and 2012 represent an annual growth of approximately 62% and 26% over the proposed New Cap for the preceding year.

As indicated in the table above, the actual transaction amount in respect of the sale of goods and the provision of services by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) increased by approximately 188% in the first half of 2010 on an annualized basis. Such transaction amount also represents an average annual compound growth rate of approximately 62% for the period from 1 January 2008 to 30 June 2010. The growth rate represented by the proposed New Cap of RMB2,750 million for 2011 is in line with such average actual transaction growth rate. As discussed in the sub-section headed "Overview of the heavy-duty truck market in China" above, the domestic sales of heavy-duty vehicles in the first half of 2010 registered a whopping growth of 113% year-on-year which represented an average annual compound growth rate of approximately 39.6% since 2007. Since the infrastructure and construction projects started under the government's stimulus plan in late 2009 will generally take a few years to complete, it is expected that the heavy-duty vehicle market will continue to grow in the next two to three years. According to information published on the website www.zhongka.com (中國重卡網), Shaanxi Automotive was the fifth largest manufacturers of heavy-duty vehicles in China in terms of domestic sales volume in 2009 and rose to the fourth position in the first half of 2010. As Shaanxi Automotive is one of the top five largest manufacturers in the heavy-duty vehicle market in China, the demand for Shaanxi Automotive's products is expected to grow in line with the overall market and, therefore, the amount of transactions between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates) is expected to increase in line with the overall market.

In reviewing the bases and assumptions in determining the proposed New Caps under this sub-section for 2011 and 2012, we have noticed substantial increases in the transaction amounts involving Wenzhou Yunding and Changsha Huantong in 2011 and then moderate growth in 2012. As explained by the Company, Wenzhou Yunding and Changsha Huantong are expected to complete their technological transformation and expansion of production facilities around late 2010 or early 2011, and therefore their overall transactions with Shaanxi Zhongqi (and its subsidiaries) will increase significantly in 2011 following the improvement in production capacity and capability, and then stabilize with moderate growth in 2012. Based on our review and discussion with the Company and the fact that (i) the historical average annual compound growth rate of the transactions under the Shaanxi Zhongqi Sale Agreement since 2008 was approximately 62%, (ii) the historical average annual compound growth rate of the domestic sales volume of heavy-duty vehicles in China since 2007 was approximately 39.6%, and (iii) the production capacity and capability of Shaanxi Automotive (and its associates) are expected to increase following completion of the technological transformation and expansion of production facilities of Wenzhou Yunding and Changsha Huantong, we are of the view that the growth rate represented by the proposed New Cap for 2011 of approximately 62% is reasonable. Following completion of the technological transformation and expansion of production facilities of Wenzhou Yunding and Changsha Huantong around late 2010 or early 2011, the additional sale transaction amounts to Wenzhou Yunding and Changsha Huantong are expected to stabilize in 2012. It is also expected that the growth in the heavy-duty vehicle market in China will ease after significant growth of the past few years. Coupled with the high base effect of the proposed New Cap for 2011, the proposed New Cap for 2012 represents a moderate growth rate of approximately 26%, which we consider reasonable and prudent.

In summary, based on the factors discussed above, we are of the view that the proposed New Caps for the sale of vehicles, parts and components of vehicles, raw materials and related products and the provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates) for the three years ending 31 December 2010, 2011 and 2012 at RMB1,700 million, RMB2,750 million and RMB3,450 million, respectively, are fair and reasonable.

(b) Purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)

(i) Principal terms of the Supplemental Agreement

Pursuant to the Shaanxi Zhongqi Purchase Agreement (as supplemented by the supplemental agreement dated 27 November 2008), each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) has purchased certain parts and components of vehicles and scrap steel (as the case may be) from certain associates of Shaanxi Automotive (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Shaanxi Tongli, Shaanxi Tongchuang and Beijing Shaanqi Sale Centre (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2010, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) (and/or other subsidies of Shaanqi Zhongqi) (as the case may be) shall purchase certain parts and components of vehicles (namely, pipes and hoop parts, etc.) and related products (as the case may be) from Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Heavy-duty Coach, Shaanxi Lantong, Shaanxi Tongli, Shaanxi Tongchuang, Beijing Shaanqi Sale Centre, Shaanxi Fangyuan and Changsha Huantong (and/or other associates of Shaanxi Automotive) (as the case may be), for a term of three years ending 31 December 2013. Save as aforesaid and the New Caps described below, all other terms of the Shaanxi Zhongqi Purchase Agreement remain unchanged.

As advised by the Company, certain goods under the Shaanxi Zhongqi Purchase Agreement may be sourced from both Shaanxi Automotive (and its associates) and independent third party suppliers. The Company has also advised that in determining the purchase prices of the relevant goods, Shaanxi Zhongqi (and its subsidiaries) will consider the market prices of the relevant materials, the costs of production, the processing fees involved and the sale prices of the finished products that it can charge its customers, and the same pricing policy is adopted for all suppliers, including Shaanxi Zhongqi and independent third party suppliers. We have reviewed samples of the purchase invoices for vehicles, parts and components between Shaanxi Zhongqi and its suppliers, including Shaanxi Automotive (and its associates) and independent third party customers. We have noted that the purchase prices of vehicles, parts and components payable by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) under the sampled transactions were no less favourable to Shaanxi Zhongqi (and its subsidiairies) than those offered by independent third party suppliers having regard to the quantity and product type under the transactions.

We have noted from the 2009 Annual Report that the Group's trade payables were normally settled on 90-day term. As indicated in the 2009 Annual Report, the Group had audited trade and bills payables of approximately RMB11,831 million as at 31 December 2009, of which about 80% aged within three months. According to the Company's 2010 interim report, the Group had unaudited trade and bills payables of approximately RMB16,821 million as at 30 June 2010, of which about 86% aged within three months. Based on such accounts payable aging analysis, we consider that the settlement term of one to three months obtained by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is in line with the Group's normal commercial terms. Such settlement term is also the same as that granted by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) under the Shaanxi Zhongqi Sale Agreement described in sub-section 4(a)(i) above.

In summary, (i) the purchase of vehicles, parts and components and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) are conducted in the ordinary and usual course of business of Shaanxi Zhongqi (and its subsidiaries); (ii) Shaanxi Zhongqi (and its subsidiaries) adopts the same pricing policy for all suppliers, including Shaanxi Automotive (and its associates) and independent third party suppliers, and the prices of the goods to be transacted under the relevant Supplemental Agreement shall continue to be market prices or prices determined according to the principle of fairness and reasonableness; and (iii) the credit term of one to three months obtained by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is in line with those obtained by the Group from its suppliers in general and is also the same as that granted by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) under the Shaanxi Zhongqi Sale Agreement.

On this basis, we are of the opinion that the Supplemental Agreement governing the purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is in the interests of the Company and the Shareholders as a whole, and its terms are normal commercial terms and 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 vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for each of the two years ended 31 December 2009; (ii) the Existing Caps for the relevant transactions for each of the three years ending 31 December 2008, 2009 and 2010; and (iii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2011, 2012 and 2013:

	Total transaction amounts in relation to the purchase of goods by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) *(RMB'000)*	**Increase/ (Decrease) as compared to the preceding financial year** *(%)*
Actual transaction amounts:		
2008	1,298,192	N/A
2009	916,158	(29.4)
Six months ended 30 June 2010 *Note 1*	923,608	101.6
Existing Caps:		
2008	1,500,000	N/A
2009	2,200,000	46.7
2010	2,700,000	22.7
New Caps:		
2011 *Note 2*	3,650,000	97.6
2012	4,550,000	24.7
2013	4,800,000	5.5

Notes:

1. The percentage increase has been calculated on an annualized basis.

2. The percentage increase has been calculated on an annualized basis by comparison with the actual transaction amount for the six months ended 30 June 2010.

The proposed New Caps for the above Non-exempt Continuing Connected Transaction are RMB3,650 million, RMB4,550 million and RMB4,800 million for the three years ending 31 December 2011, 2012 and 2013, respectively. As stated in the Letter from the Board, the proposed New Caps have been prepared by the Company primarily based on the relevant historical costs, the estimate of the volume of the said parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries, the average unit price of the said parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries, the production plan and expected growth in production capacity of Shaanxi Zhongqi and its subsidiaries, and the assumption that the transaction amount of the said purchase of parts and components of vehicles and related products will increase by approximately 25% and 5% for each of the years ending 31 December 2012 and 2013, taking into account all the aforesaid factors.

As indicated in the table above, the actual transaction amount in respect of the purchase of goods by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) increased by approximately 102% in the first half of 2010 on an annualized basis. The proposed New Cap of RMB3,650 million for 2011 represents a growth rate of approximately 98% on an annualized basis over the actual transaction amount for the six months ended 30 June 2010, and a growth rate of approximately 35% compared with the Existing Cap of RMB2,700 million for 2010. The respective proposed New Caps of RMB4,550 million and RMB4,800 million for 2012 and 2013 represent an annual growth rate of approximately 25% and 5% over the New Cap for the preceding year.

We have reviewed and discussed with the Company the bases and assumptions adopted by it in determining the proposed New Caps for the Non-exempt Continuing Connected Transactions in this sub-section and have noted the following in particular:

– The Existing Cap for 2010 has been estimated based on Shaanxi Zhongqi's annual production plan of 100,000 units of heavy-duty vehicles, and the purchase requirements of Shaanxi Zhongqi (and its subsidiaries) for 2011 and 2012 have been estimated by the Company based on an annual production plan of 120,000 units and 150,000 units of heavy-duty vehicles, respectively. As stated in the Company's 2010 interim report, Shaanxi Zhongqi recorded an aggregate sales of approximately 60,000 units of heavy-duty vehicles, representing an increase of approximately 118% over the corresponding period in 2009. Based on such sales volume, it is expected that Shaanxi Zhongqi's production plan of 100,000 in 2010 could be met. The production plan of 120,000 units and 150,000 units of heavy-duty vehicles in 2011 and 2012 thus represents an estimated annual growth of 20% and 25%, respectively, compared with that in the preceding year. Based on Shaanxi Zhongqi's historical growth in sales volume, such estimated growth rate in the production plan as well as the estimated purchase requirements, seems reasonable.

– The amount of purchase transaction by Shaanxi Zhongqi (and its subsidiaries) from Changsha Huantong, a subsidiary of Shaanxi Automotive is expected to increase substantially to approximately RMB100 million in 2011 and RMB125 million in 2012. As mentioned in sub-section 4(a)(ii) above, Changsha Huantong has commenced full production operations since mid 2010 and is in the process of further expanding its production facilities. The expansion plan for Changsha Huantong's production facilities is expected to increase both its production capacity and its production capability so that it will become a local industrial base processing a full range of parts and components for production of vehicles. Accordingly, the amount of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Changsha Huantong in 2011 and 2012 is expected to increase.

– The value of the purchase transactions by Shaanxi Zhongqi (and its subsidiaries) in 2011 to 2013 are expected to increase due partly to the fact that it has been Shaanxi Zhongqi's strategy since mid 2010 to gradually shift its product mix from the relatively low-end heavy-duty vehicles with standard features toward higher-end heavy-duty vehicles, which are equipped with superior technology and features, such as higher horse-power, low fuel consumption, and diesel emission control technology, etc. Accordingly, the production costs of such higher-end heavy-duty vehicles will be higher and the value of the parts and components to be purchased by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) will also be higher.

– Another reason for the increase in the amount of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) in 2011 to 2013 is the hikes in production costs in China, in particular energy and raw material prices and labor costs. As a result of the growth in investments in infrastructure and construction activities in recent years and spurred by the government's RMB4 trillion stimulus package, demand for and hence the prices of certain commodities such as iron ore, steel, coal, etc, have been rising significantly. Industrial manufacturers in China have also been under great pressure from the soaring labour costs and in early 2010, some foreign automobile, electronics and industrial companies announced wage increases of 20% to 67% in response to rising demands by labour. According to information published on the website www.China.org.cn, more than 10 provincial governments in China have announced a new policy on raising minimum wage levels by 10% or more this year. In view of the rising expectation of labour in China and the government's efforts to improve the positions of labour, the upward pressure on wages is expected to ensue.

Based on our review and discussion of the information as provided by the Company and having considered (i) the economy of China and the overall performance of the heavy-duty vehicle market, (ii) the sales performance of Shaanxi Zhongqi in the first half of 2010; (iii) the production plan and purchase requirements of Shaanxi Zhongqi (and its subsidiaries) in the next three years; (iv) the shift in product mix toward higher-end heavy-duty vehicles and the expected rise in production costs; we are of the opinion that the assumptions made and factors considered by the Company in determining the New Caps are reasonable and the estimated annual growth rate of approximately 35% and 25%, respectively, as represented by the proposed New Caps for 2011 and 2012 compared with annual cap for preceding year is reasonable. The proposed New Cap for 2013 represents a growth rate of approximately 5% over that for 2012. We consider that such moderate estimated growth rate is reasonable as it is calculated on a relatively high base figure and it is reasonable to expect the growth rate to ease after a few years of rapid business growth and expansion.

In summary, we consider that the proposed New Caps of RMB3,650 million, RMB4,550 million and RMB4,800 million for the purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) under the relevant Supplemental Agreement are fair and reasonable.

5. Annual review of the Non-exempt Continuing Connected Transactions

Pursuant to the Listing Rules, the Company must comply with certain review, reporting and disclosure requirements in respect of the Non-exempt Continuing Connected Transactions which include, in particular, the following:

(a) each year the auditors of the Company must provide a letter to the Board (with a copy of it provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Non-exempt Continuing Connected Transactions:

(i) have received the approval of the Board;

(ii) have been conducted in accordance with the pricing policies of the Group;

(iii) have been entered into in accordance with the relevant agreements governing the Non-exempt Continuing Connected Transactions; and

(iv) have not exceeded the New Caps as disclosed;

(b) the Board must state in the annual report of the Company whether its auditors have confirmed the matters as referred to in paragraph (a) above; and

(c) upon any variation or renewal of the agreements governing the Non-exempt Continuing Connected Transactions, the Company will comply in full with all applicable reporting, annual review, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules in respect of all continuing connected transactions effected after such variation or renewal.

Given 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.

RECOMMENDATION

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

– The Non-exempt Continuing Connected Transactions are ongoing transactions originated from TAGC after completion of the Merger. It is in the interests of the Company and the Shareholders as a whole to continue such transactions as the principal purpose of the Merger is to form a larger consolidated business in the heavy-duty truck 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.

– 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.

– The value of, and the basis for determining, the relevant 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 business of the Group, the relevant Supplemental 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 Supplemental Agreements are normal commercial terms and are fair and reasonable, and the relevant 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 resolutions to approve the relevant Supplemental 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, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

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 Hong Kong 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 Hong Kong 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	6,880,000 *(Note 1)*	Nil	6,880,000	Beneficial owner	Long
Xu Xinyu	1,600,000 *(Note 1)*	Nil	1,600,000	Beneficial owner	Long
Sun Shaojun	1,600,000 *(Note 1)*	Nil	1,600,000	Beneficial owner	Long
Zhang Quan	1,600,000 *(Note 1)*	Nil	1,600,000	Beneficial owner	Long
Liu Huisheng	960,000 *(Note 1)*	Nil	960,000	Beneficial owner	Long
Yeung Sai Hong *(Note 2)*	Nil	37,600,000 *(Note 1)*	37,600,000	Interest of corporation controlled by this person	Long
Li San Yim *(Note 3)*	Nil	34,400,000 *(Note 1)*	34,400,000	Interest of corporation controlled by this person	Long

Name of Director	Personal interest	Corporate interest	Total	Capacity	Type of interest
Julius G. Kiss *(Note 4)*	Nil	17,200,000 *(Note 1)*	17,200,000	Interest of corporation controlled by this person	Long
Name of Supervisor					
Ding Yingdong	560,000 *(Note 1)*	Nil	560,000	Beneficial owner	Long

Notes:

1. 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.

2. Yeung Sai Hong, a non-executive 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 37,600,000 shares of the Company.

3. Li San Yim, a non-executive 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 34,400,000 shares, and Li San Yim was deemed interested in Ni Yinying's entire interest in Fujian Longgong.

4. Julius G. Kiss, a non-executive Director, was indirectly interested in the entire capital of IVM Technical Consultants Wien G.m.b.H., which in turn held 17,200,000 shares of the Company.

5. The New A Shares (as defined in the circular of the Company dated 16 September 2008 (the "Bonus Issue Circular")) under the Bonus Shares Issue (as defined in the Bonus Issue Circular) were issued on the Latest Practicable Date. The information regarding the number of the A Shares referred to in the above table and notes was received by the Company before the Latest Practicable Date, and the Company had not received further information regarding such A Shares on the Latest Practicable Date.

3. 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. Each of the aforesaid directors has since continued to holdover his directorship under the relevant law of the PRC. 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 expiring or 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 2009, 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 any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(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 2009, 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 for the directorship of Mr. Tan Xuguang in Beiqi Foton, none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Company. The Company has an approximately 2.18% interest in the shares of 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) ("Beiqi Foton"). Beiqi Foton is also a customer of the Company's diesel engines. Beiqi Foton is engaged in the production of, inter alia, heavy-duty vehicles/trucks, whilst 陝西汽車集團有限責任公司 (Shaanxi Automotive Group Co. Ltd.) (and its associates) are also engaged in the manufacture and sale of, inter alia, heavy-duty vehicles/trucks and parts and components.

4. 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.

5. 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 2009, the date to which the latest audited consolidated financial statements of the Group were made up.

6. 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 any member of the Group, 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 any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(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. The letter of the Independent Financial Adviser contained herein was issued on 9 September 2010 and was made by the Independent Financial Adviser for incorporation in this circular.

7. GENERAL

(a) The secretary and qualified accountant of the Company is Mr. Cheung Tat Leung, Peter. Mr. Cheung Tat Leung, Peter is a fellow member of the Association of Chartered Certified Accountants and 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 Room 1909, 19th Floor, Gloucester Tower, 15 Queen's Road 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 Hopewell Centre, 46th Floor, 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.

8. 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 Room 1909, 19th Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong, from 9 September 2010 to 23 September 2010 (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 6 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 Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions and the relevant agreements (if any) previously entered into in respect of the same Non-exempt Continuing Connected Transactions.

濰柴動力股份有限公司
WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS OF WEICHAI POWER CO., LTD.

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Weichai Power Co., Ltd. (the "**Company**") will be held at the Company's conference room at 26 Minsheng East Street, Weifang, Shandong Province, the People's Republic of China (the "**PRC**") on 26 October 2010 at 9:00 a.m. for the purpose of considering and, if thought fit, approving the matters set out below, and the bonus shares issue by conversion of capital reserve of the Company and certain amendments to the articles of association of the Company (the details of which are set out the circular of the Company dated 9 September 2010, which contains the notice of EGM setting out the special resolutions numbered 15 and 16 in respect of the same). Unless the context requires otherwise, terms defined in the circular to the shareholders of the Company (the "**Shareholders**") dated 9 September 2010, of which this notice forms part (the "**Circular**") shall have the same meanings when used herein.

ORDINARY RESOLUTIONS

To consider and, if thought fit, approve the following resolutions as ordinary resolutions:

1. " **THAT** the provision of general services and labour services by Weichai Holdings (as defined in the circular of which this notice forms part) (and its associates) (as the case may be) to the Company (and its subsidiaries) (as the case may be) (including the relevant supplemental agreement and new caps) as set out in the section headed "I.A.1.(a)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note J)

2. " **THAT** the supply and/or connection of utilities by Weichai Holdings (as defined in the circular of which this notice forms part) (and its associates) (as the case may be) to the Company (and its subsidiaries) (as the case may be) (including the relevant supplemental agreement and new caps) as set out in the section headed "I.A.1.(b)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note J)

3. "**THAT** the purchase of diesel engine parts and components, gas and scrap metals, raw materials, etc. and related products and processing services by the Company (and its subsidiaries) (as the case may be) from Weichai Holdings (as defined in the circular of which this notice forms part) (and its associates) (as the case may be) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.1.(c)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note J)

4. "**THAT** the sale of diesel engines, diesel engine parts and components, materials and related products and provision of processing services by the Company (and its subsidiaries) (as the case may be) to Weichai Holdings (as defined in the circular of which this notice forms part) (and its associates) (as the case may be) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.1.(d)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note J)

5. "**THAT** the sale of diesel engines and diesel engine parts by the Company to Fujian Longgong (as defined in the circular of which this notice forms part) and Shanghai Longgong Machinery (as defined in the circular of which this notice forms part) (and their respective associates) (as the case may be) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.2." in the announcement of the Company dated 23 August 2010) be and are hereby approved."(note K)

6. "**THAT** the sale of semi-finished diesel engine parts and related products by the Company (and its subsidiaries) (as the case may be) to Weichai Deutz (as defined in the circular of which this notice forms part) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.3.(a)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note L)

7. "**THAT** the provision of sales and warranty period repair services by the Company to Weichai Deutz (as defined in the circular of which this notice forms part) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.3.(b)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note L)

8. "**THAT** the purchase of diesel engine parts and components and related products by the Company (and its subsidiaries) (as the case may be) to Weichai Deutz (as defined in the circular of which this notice forms part) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.3.(c)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note L)

9. "**THAT** the sale of diesel engines and related products by the Company (and its subsidiaries) (as the case may be) to Weichai Heavy Machinery (as defined in the circular of which this notice forms part) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.4.(a)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note M)

10. "**THAT** the purchase of diesel engines parts and components, materials, steel, scrap metal and used diesel engines, etc. and related products by the Company (and its subsidiaries) (as the case may be) from Weichai Heavy Machinery (as defined in the circular of which this notice forms part) (including the relevant supplemental agreement and the new caps) as set out in the section headed "I.A.4.(b)" in the announcement of the Company dated 23 August 2010) be and are hereby approved." (note M)

11. "**THAT** the supplemental agreement dated 23 August 2010 referred to in the section headed "II. Continuing connected transactions – 1. Continuing Connected Transactions between SFGC and Fast Transmission – (a) Sale of parts and components of transmissions and related products 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."

12. "**THAT** the supplemental agreement dated 23 August 2010 referred to in the section headed "II. Continuing connected transactions – 1. Continuing Connected Transactions between SFGC and Fast Transmission – (b) Purchase of parts and components of transmissions and related products 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."

13. "**THAT** the supplemental agreement dated 23 August 2010 referred to in the section headed "II. Continuing connected transactions – 2. Continuing Connected Transactions between Shaanxi Zhongqi (and its subsidiaries) (as the case may be) and Shaanxi Automotive (and its associates) (as the case may be) – (a) Sale of vehicles, parts and components of vehicles and related products and provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) to Shaanxi Automotive (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."

14. "**THAT** the supplemental agreement dated 23 August 2010 referred to in the section headed "II. Continuing connected transactions – 2. Continuing Connected Transactions between Shaanxi Zhongqi (and its subsidiaries) (as the case may be) and Shaanxi Automotive (and its associates) (as the case may be) – (b) Purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) (as the case may be) to Shaanxi Automotive (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."

By Order of the Board of Directors
Weichai Power Co., Ltd.
Cheung Tat Leung, Peter
Company Secretary

Hong Kong, 9 September 2010

Notes:

(A) The Company will not process registration of transfers of H shares (being overseas listed foreign shares and ordinary shares) in the share capital of the Company with a Renminbi denominated par value of RMB1.00 each, which are subscribed and/or paid for in Hong Kong dollars and listed on The Stock Exchange of Hong Kong Limited ("H Shares") from 27 September 2010 to 26 October 2010 (both days inclusive). Holders of H Shares of the Company whose names appear on the register of H Shares of the Company kept at Computershare Hong Kong Investor Services Limited at the end of 24 September 2010 are entitled to attend and vote at the EGM following completion of the registration procedures. To qualify for attendance and voting at the EGM documents on transfers of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H-Share Registrar and Transfer Office, not later than 4:30 p.m. on 24 September 2010. The address of the Company's H-Share Registrar and Transfer Office is as follows:

Computershare Hong Kong Investor Services Limited
Shops 1712--16, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(B) Holders of H Shares intending to attend the EGM should complete and return the reply slip for attending the EGM personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the EGM (i.e. on or before 6 October 2010). The contact details of the Secretary to the Board of the Company are as follows:

Securities Department
197, Section A, Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
Telephone No.: 86 (536) 229 7068
Facsimile No.: 86 (536) 819 7073

(C) Each holder of H Shares of the Company entitled to attend and vote at the EGM may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his behalf. A proxy need not be a shareholder of the Company. With respect to any shareholder who has appointed more than one proxy, the proxy holders may only vote on a poll.

(D) Holders of H Shares of the Company must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant shareholder or by a person duly authorised by the relevant shareholder in writing (a "power of attorney"). If the forms of proxy is signed by the person authorised by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorisation (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the EGM on its behalf, the relevant form of proxy must be affixed with the company seal/chop of the corporate shareholder or duly signed by its director or any other person duly authorised by that corporate shareholder as required by the Articles of Association of the Company.

(E) To be valid, the form of proxy and the relevant notarised power of attorney (if any) and other relevant documents of authorisation (if any) as mentioned in Note (D) above must be delivered to the Company's H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), not less than 24 hours before the time appointed for the EGM.

(F) Each holder of A Shares of the Company who is entitled to attend and vote at the EGM may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his behalf. A proxy need not be a shareholder of the Company. Notes (C) and (D) above also apply to the holders of A Shares of the Company, except that, to be valid, the form of proxy and the relevant power of attorney (if any) and other relevant documents of authorisation (if any) must be delivered to the Secretary to the Board of the Company not less than 24 hours before the time appointed for the EGM. The address of the Secretary to the Board of the Company is stated in Note (B) above.

(G) A shareholder or his proxy should produce proof of identity when attending the EGM. If a corporate shareholder's legal representative or any other person authorised by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid resolution or authorisation document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.

(H) Any proposal to appoint any person to the office of director of the Company at the EGM shall be given in writing and, notice in writing by that person of his consent to be elected as director shall be, lodged at the registered office of the Company at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the People's Republic of China. The period for lodgement of such notices shall commence on (and include) the day after the date of this notice of the EGM and end on (and exclude) the date that is seven (7) days before the date of the EGM.

(I) The EGM is expected to last for not more than half a day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.

(J) Weichai Holdings and Tan Xuguang (being the chairman and a director of Weichai Holdings) shall abstain from voting in respect of this Resolution.

(K) Fujian Longgong (and its associates) shall abstain from voting in respect of this Resolution.

(L) Weichia Holdings, Tan Xuguang (being the chairman and a director of Weichai Holdings) and Zhang Quan (being the chairman of Weichai Deutz) shall abstain from voting in respect of this Resolution.

(M) Weichia Holdings, Tan Xuguang (being the chairman and a director of Weichai Holdings, and also the chairman of Weichai Heavy Machinery) and Liu Huisheng (being a director of Weichai Heavy Machinery) shall abstain from voting in respect of this Resolution.