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

潍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)

(1) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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 5 to 24 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 26 to 62 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 proposed amendments to the Articles of Association (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.

24 September 2012

CONTENTS

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

"5% Threshold"	the thresholds referred to in Rule 14A.34 of the Listing Rules
"A Share(s)"	the A Share(s), being ordinary share(s) issued and/or to be issued as part of the New Shares (as the context may require), in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed or proposed to be listed (as the case may be) on the Shenzhen Stock Exchange
"Articles of Association"	the articles of association of the Company
"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
"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 30 November 2012 to consider and, if thought fit, approve the New Caps and the Supplemental Agreements, and the proposed amendments to the Articles of Association
"EGM Notice"	the notice convening the EGM dated 24 September 2012 contained in this circular
"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

"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
"Group"	the Company and its subsidiaries
"H Share(s)"	the H Share(s), being the overseas listed foreign share(s) issued and/or to be issued as part of the New Shares (as the context may require), in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed or proposed to be listed (as the case may be) on the main board of the Hong Kong Stock Exchange
"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. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen, 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"	20 September 2012
"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
"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 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
"Shareholder(s)"	holder(s) of the shares of the Company
"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
"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
Li Dakai
Fang Hongwei
Sun Shaojun
Zhang Quan

Non-executive Directors:
Chen Xuejian
Yeung Sai Hong
Julius G. Kiss
Han Xiaoqun
Jiang Kui
Liu Huisheng

Independent non-executive Directors:
Liu Zheng
Li Shihao
Loh Yih
Chu, Howard Ho Hwa
Zhang Zhenhua
Li Luwen

Supervisors:
Sun Chengping
Jiang Jianfang
Lu Wenwu

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

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

24 September 2012

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

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to the announcement of the Company dated 30 August 2012 which announces that on 30 August 2012, 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 also proposes to amend the Articles of Association as set out in the section headed "IV. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION".

II. CONTINUING CONNECTED TRANSACTIONS

The Non-exempt Continuing Connected Transactions include the following:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
1. 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
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	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)

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. These are more particularly described in the section headed "II.2. Continuing Connected Transaction 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**		
	2013	**2014**	**2015**
	RMB	*RMB*	*RMB*
1. Fast Transmission			
(a) Sale of parts and components of transmissions and related products by SFGC to Fast Transmission	3,000,000,000#	4,100,000,000#	4,800,000,000#
(b) Purchase of parts and components of transmissions and related products by SFGC from Fast Transmission	3,200,000,000#	4,300,000,000#	5,000,000,000#
2. Shaanxi Automotive (and its associates)			
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)	2,530,000,000#	2,783,000,000#	3,162,500,000#

Note: 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, 9 November 2009 and 23 August 2010, respectively)
Date:	30 August 2012
Parties:	1. SFGC 2. Fast Transmission
Term:	1 January 2013 to 31 December 2015

Other terms and details:

Pursuant to the Fast Transmission Sale Agreement (as supplemented by the abovementioned supplemental agreements 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 generally every two to three months, for a term ending 31 December 2012, 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 2015, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, 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 2012 for the Continuing Connected Transaction set out in this sub-section 1.(a):

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

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2011 (audited) and the six months ended 30 June 2012 (audited) for the Continuing Connected Transaction set out in this sub-section 1.(a):

	Year ended 31 December		Six months ended 30 June
	2010	**2011**	**2012**
	RMB	*RMB*	*RMB*
Actual transaction amount	1,235,452,000	1,084,282,000	585,762,000

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 2015 will not exceed RMB3,000,000,000, RMB4,100,000,000 and RMB4,800,000,000, respectively and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

The parts and components sold by SFGC to Fast Transmission pursuant to this Continuing Connected Transaction are used by Fast Transmission in its manufacture of transmission products and parts and components of vehicles. During 2011 and the first half of 2012, in line with the global economy and adjustments in the market, the demand for the said products from SFGC by Fast Transmission has decreased. With the expected improvement in the market on the basis of, inter alia, the macroeconomic policies of the PRC government and the expected launch of large-scale infrastructure projects in the PRC, the Company expects that the sales of SFGC will increase by approximately 30% for the year ending 31 December 2013, and approximately 15% for each of the years ending 31 December 2014 and 31 December 2015. It is also expected that following the enhancement in the capacity and capabilities of Fast Transmission's production facilities, Fast Transmission will increase its production of synchronizers in 2013. With the expected commencement of operation of the joint venture between SFGC and Caterpillar Inc. in 2014, and to cope with the production requirements of heavy-duty hydraulic automatic transmissions to be developed by the joint venture, the sale of parts and components by SFGC to Fast Transmission for processing is expected to increase. Accordingly, it is expected that the volume of the parts and components to be sold by SFGC to Fast Transmission for its processing will substantially increase in 2013 compared to the transaction amounts in 2011 and the first half of 2012, with a relatively moderate increase thereafter.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical transaction amounts, (ii) the estimate of the volume and amount of the said parts and components of transmissions to be sold by SFGC to Fast Transmission, (iii) the assumption that the overall transaction amount of the sale of the said parts and components will increase by approximately 37% and 17% for each of the years ending 31 December 2014 and 31 December 2015, respectively, taking into account all the aforesaid factors. It is expected that the growth in the said transaction amount in 2014 is relatively higher than that in 2015 due to the expected commencement of operation of the joint venture between SFGC and Caterpillar Inc. in 2014.

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 2015:

	2013	**2014**	**2015**
	RMB	*RMB*	*RMB*
New Cap	3,000,000,000	4,100,000,000	4,800,000,000

As all of the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2015 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 2015 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, 9 November 2009 and 23 August 2010, respectively)
Date:	30 August 2012
Parties:	1. SFGC
	2. Fast Transmission
Term:	1 January 2013 to 31 December 2015

Other terms and details:

Pursuant to the Fast Transmission Purchase Agreement (as supplemented by the abovementioned supplemental agreements 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 generally every two to three months, for a term ending 31 December 2012, 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 2015, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, 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 2012 for the Continuing Connected Transaction set out in this sub-section 1.(b):

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

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2011 (audited) and the six months ended 30 June 2012 (audited) for the Continuing Connected Transaction set out in this sub-section 1.(b):

	Year ended 31 December		Six months ended 30 June
	2010	**2011**	**2012**
	RMB	*RMB*	*RMB*
Actual Transaction Amount	1,798,621,000	1,545,089,000	637,926,000

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 2015 will not exceed RMB3,200,000,000, RMB4,300,000,000 and RMB5,000,000,000 respectively and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

The parts and components purchased by SFGC from Fast Transmission pursuant to this Continuing Connected Transaction are used in its production. During 2011 and the first half of 2012, in line with the global economy and adjustments in the market, the demand for the said products by SFGC from Fast Transmission has decreased. With the expected improvement in the market on the basis of, inter alia, the macroeconomic policies of the PRC government and the expected launch of large-scale infrastructure projects in the PRC, the Company expects that the sales of SFGC will increase by approximately 30% for the year ending 31 December 2013 and approximately 15% for each of the years ending 31 December 2014 and 31 December 2015. It is also expected that following the enhancement in the capacity and capabilities of Fast Transmission's production facilities, Fast Transmission will increase its production of synchronizers in 2013. With the expected commencement of operation of the joint venture between SFGC and Caterpillar Inc. in 2014, and to cope with the production requirements of heavy-duty hydraulic automatic transmissions to be developed by the joint venture, the purchase of parts and components by SFGC from Fast Transmission is expected to increase. Accordingly, it is expected that the volume of the parts and components to be purchased by SFGC from Fast Transmission for its production will substantially increase in 2013 compared to the transaction amounts in 2011 and the first half of 2012, with a relatively moderate increase thereafter.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical transaction amounts, (ii) the estimate of the volume and amount of the said parts and components of transmissions to be purchased by SFGC from Fast Transmission, (iii) the assumption that the overall transaction amount of the purchase of the said parts and components by SFGC will increase by approximately 34% and 16% for each of the years ending 31

December 2014 and 31 December 2015, respectively, taking into account all the aforesaid factors. It is expected that the growth in the said transaction amount in 2014 is relatively higher than that in 2015 due to the expected commencement of operation of the joint venture between SFGC and Caterpillar Inc. in 2014.

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 2015:

	2013	**2014**	**2015**
	RMB	*RMB*	*RMB*
New Cap	3,200,000,000	4,300,000,000	5,000,000,000

As all the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2015 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 transaction between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)***

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 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.

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.

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.

Xunyang Baotong is held as to approximately 51% by Shaanxi Automotive and is principally engaged in the manufacture and sale of parts and components of vehicles.

Dongfeng Axle is held as to approximately 45.24% by Shaanxi Automotive and is principally engaged in the sale of parts and components of vehicles.

Yanan Vehicle is held as to approximately 51% by Shaanxi Automotive and is principally engaged in the manufacture, research and development, and sale of special purpose vehicles.

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

Note:

* *Shaanxi Automotive transferred 21% of equity interest in Wenzhou Yunding to an independent third party in August 2012, subject to the completion of the relevant procedures under the PRC laws and regulations.*

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 agreements dated 27 November 2008 and 23 August 2010, respectively)
Date:	30 August 2012
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 Lantong
   (e) Shaanxi Tongchuang
   (f) Shaanxi Tongli
   (g) Baoji Huashan
   (h) Wenzhou Yunding
   (i) Changsha Huantong
   (j) Xunyang Baotong
   (k) Dongfeng Axle
   (l) Yanan Vehicle
   (m) Shaanxi Fangyuan

Term: 1 January 2013 to 31 December 2015

Other terms and details:

Pursuant to Shaanxi Zhongqi Sale Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), Shaanxi Zhongqi and certain of its subsidiaries 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 certain of its associates (as the case may be), at market prices and settled by the relevant parties generally every one to three months, for a term ending 31 December 2012, 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 (as set out above) (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 (as set out above) (and/or other associates of Shaanxi Automotive) (as the case may be) on the same terms for a term of three years ending 31 December 2015, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. 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 2012 for the Continuing Connected Transaction set out in this sub-section 2:

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

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2011 (audited) and the six months ended 30 June 2012 (audited) for the Continuing Connected Transactions set out in this sub-section 2:

	Year ended 31 December		**Six Months ended 30 June**
	2010	**2011**	**2012**
	RMB	*RMB*	*RMB*
Actual transaction amount	1,117,793,000	1,011,066,000	340,939,000

Since 2011, in line with the austerity measures imposed by the PRC Government, the transaction amount of this Continuing Connected Transaction has decreased.

Since Shaanxi Zhongqi and its subsidiaries set out above are engaged in the business of the production of heavy-duty vehicles and related products, in view of the guidelines and objectives under the National 12th Five-Year Plan which are favourable to the heavy-duty truck market, 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 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 Company estimates that the transaction amount in respect of the Continuing Connected Transaction set out in this sub-section 2 will not exceed RMB2,530,000,000, RMB2,783,000,000 and RMB3,162,500,000, respectively, for each of the three years ending 31 December 2015 and such amounts have accordingly been set as the New Caps for this Continuing Connected Transaction. The substantial expected growth in the transaction amount in 2013 from 2011 and 2012 is primarily due to the relatively low transaction amount recorded in 2011 and the first half of 2012, as a result of the economic and market slowdown. The Group expects that the heavy-duty vehicles market will improve in the second half of 2012 along with the PRC government's measures to expedite infrastructure and housing construction, and more significant growth is expected in 2013 due to time lag effect of the government's earlier stimulus policy.

The proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical transaction amounts; (ii) the estimate of the volume and amount 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; (iv) the expected growth in production capacity of Shaanxi Zhongqi and its subsidiaries; and (v) the assumption that the overall transaction amount of the said sale and provision of service will increase by approximately 10% and 14% for each of the years ending 31 December 2014 and 31 December 2015, respectively, taking into account all the aforesaid factors.

The table below summarises the proposed New Caps for the Continuing Connected Transaction set out in this sub-section 2 for the three years ending 31 December 2015:

	2013	**2014**	**2015**
	RMB	*RMB*	*RMB*
New Cap	2,530,000,000	2,783,000,000	3,162,500,000

As all of the New Caps for this Continuing Connected Transaction for the year ending 31 December 2015 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.

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

As prior to completion of the Merger, each of SFGC and Shaanxi Zhongqi has conducted the relevant Continuing Connected Transactions with Fast Transmission and 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 (excluding the independent non-executive Directors), 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 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 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 Continuing Connected Transactions, and the relevant proposed New Caps, are fair and reasonable and in the interests of the Shareholders as a whole.

At the meeting of the Board on 30 August 2012 approving, *inter alia*, the Continuing Connected Transactions, the following Directors have abstained from voting on the resolutions in respect of the Continuing Connected Transactions as follows, for the reasons of their respective interest and/or position (as the case may be) in the relevant connected persons:

1. Continuing Connected Transactions with Fast Transmission set out under section II.1.(a) and (b) above – Li Dakai; and

2. Continuing Connected Transaction with Shaanxi Automotive (and its associates) set out under section II.2 above – Fang Hongwei.

Since the New Caps of the Continuing Connected Transactions referred to in the section headed "II. Continuing Connected Transactions" in this announcement 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. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Pursuant to the requirements under the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) promulgated by the China Securities Regulatory Commission and the Urgent Notice Regarding Relevant Matters on Amendments to Provisions of Articles of Association in Relation to Cash Dividends Distribution (《關於修訂公司章程現金分紅條款相關事項的緊急通知》) promulgated by the Shandong Securities Regulatory Bureau, the Company proposes to amend certain provisions of the Articles of Association. Details of such amendments are as follows:

1. In the first paragraph of Article 7 of the Articles of Association, the words "amended at the Company's 2012 first extraordinary general meeting held on 30 November 2012," be added after the words "...... amended at the Company's 2011 annual general meeting held on 29 June 2012,";

2. The fifth paragraph of Article 195 of the original Articles of Association be deleted in its entirety *(note 1)*;

3. The following two paragraphs be added to Article 199 of the original Articles of Association in front of the original paragraph such that the original paragraph becomes the third paragraph:

   "Profit distribution plan of the Company shall be drafted by the Board of Directors and submitted to the general meeting for consideration and approval. The independent directors shall give their opinions on the profit distribution plan. Opinions of the independent directors shall be disclosed when the Company makes an announcement on board resolutions or a notice convening the relevant general meeting. When the profit distribution plan is considered at the general meeting, a variety of channels shall be provided for communications and exchanges with shareholders (in particular, the minority shareholders), whose opinions and demands shall be fully heard.

   Notwithstanding the aforesaid provisions, pursuant to the authorisation given by the shareholders of the Company to the Board of Directors at the general meeting of each year, the Board of Directors may, prior to the next annual general meeting, distribute the interim dividend, in the amount as they may think fit in view of the Company's earnings, to shareholders of the Company from time to time without prior approval from the general meeting.";

4. Article 200 of the original Articles of Association be deleted in its entirety *(note 2)*;

5. In Article 201 of the original Articles of Association, the words: "The Company may distribute dividend in cash or in specie (or both).

   Dividends or other distributions for ordinary shares shall be denominated in Renminbi. The profit distribution policy of the Company should focus on the reasonable investment return of the investors while ensuring the sustainability and stability. The dividend distribution in cash shall be made in due time, when the cash flow of the Company satisfied the needs for normal production, operation and development.

   Dividends or other cash distributions for A shares shall be paid in Renminbi.

   Dividends or other cash distributions for overseas listed foreign shares shall be paid in Hong Kong dollar in accordance with the requirements of the state administration of foreign exchange of the PRC. The exchange rate to be used for the conversion shall be the average closing exchange rate of Hong Kong dollars against Renminbi for each of the business days during the week prior to the declaration date as quoted by the People's Bank of China or other exchange rates required or permitted by others laws or regulations decided by the Board of Directors."

be deleted in its entirety and replaced by the words:

"The Company may distribute dividend in cash or in specie (or both), and, provided that the conditions of distribution of dividend in cash as required under this provision are met, priority shall be given to distribution of dividend in cash.

The conditions of distribution of dividend in cash are: (1) the Company recording a profit for the year and the distributable profit (i.e. the after-tax profit of the Company after making up for losses, allocation to the common reserve fund) for the year is positive in value; (2) the Company having no major investment plan or significant cash expenditure (excluding fund-raising activities). Such major investment plan or significant cash expenditure refers to the proposed external investment by the Company with accumulated expenditure within the next twelve months amounting to or exceeding 50% of the latest audited net assets of the Company, or the proposed asset acquisition or facilities procurement by the Company with accumulated expenditure within the next twelve months amounting to or exceeding 30% of the latest audited total assets of the Company; and (3) the Company's funding needs for normal production and operation having been satisfied.

The conditions of distribution of dividend in specie are: provided that reasonable scale of share capital of the Company is ensured, the Company may distribute dividend in specie according to its accumulated distributable profit, common reserve fund and cash flow position.

The Company shall distribute profit at least once a year, and the accumulated profit distribution made in cash by the Company in the latest three years shall not be less than 30% of the average annual distributable profit realised in the latest three years.

Dividends or other distributions for ordinary shares shall be denominated in Renminbi. The profit distribution policy of the Company should focus on the reasonable investment return of the investors while ensuring the Company's sustainable development and maintaining sustainability and stability.

Dividends or other cash distributions for A shares shall be paid in Renminbi.

Dividends or other cash distributions for overseas listed foreign shares shall be paid in Hong Kong dollar in accordance with the requirements of the state administration of foreign exchange of the PRC. The exchange rate to be used for the conversion shall be the average closing exchange rate of Hong Kong dollars against Renminbi for each of the business days during the week prior to the declaration date as quoted by the People's Bank of China or other exchange rates required or permitted by others laws or regulations decided by the Board of Directors.";

6. In Article 202 of the original Articles of Association, the words: "Subject to the authorisation of the general meeting, the Board of Directors may distribute interim dividends or bonuses."

   be deleted in its entirety and replaced by the words:

   "If, due to significant changes in the Company's operating conditions, investment planning and needs for long-term development, it is necessary to adjust the profit distribution policy as set out in these Articles, the Board of Directors of the Company shall submit a proposal for adjustment to the profit distribution policy based on actual circumstances. The adjusted profit distribution policy shall focus on protecting the interests of the shareholders and shall not violate the relevant requirements of the China Securities Regulatory Commission and the Stock Exchange. The independent directors shall give audit opinions on the adjusted profit distribution policy. Such adjustment is subject to consideration and approval by more than two-thirds of the voting rights represented by the shareholders present at the general meeting.";

7. The numbering of the chapters and provisions of the original Articles of Association be amended accordingly pursuant to the above amendments to the Articles of Association."

Since the Company is a PRC incorporated company and the official articles of association of the Company are in the Chinese language, the above proposed amendments are an unofficial English language translation (the "**English Translation**") of the official proposed amendments in the Chinese language (the "**Official Amendments**"), which are set out in the Chinese language version of this circular. Accordingly, in the event of any inconsistency between the English Translation and the Official Amendments, the Official Amendments shall prevail.

Notes:

1. The fifth paragraph of Article 195 of the original Articles of Association is extracted as follows:

   "The detailed distribution percentages of discretionary common reserve fund and dividends on ordinary share in a certain year shall be determined by the Board of Directors in accordance with the operational conditions and development needs of the Company and the resolution of general meeting. Despite the preceding requirements, the Board of Directors may, in accordance with the authority granted to the Board of Directors by shareholders at the annual general meeting of the Company, pay interim dividends to shareholders from time to time out of the earnings of the Company with permission of the Board of Directors, before the next annual general meeting without obtaining the prior approval of the general meeting."

2. Article 200 of the original Articles of Association is extracted as follows:

   "Subject to Article 188, Article 189 and Article 191, if the resolution agreeing the distribution of annual dividends was approved at the general meeting, such annual dividends agreed at the general meeting shall be distributed in proportion of the shares held by the shareholders within 6 months after the end of such fiscal year. However, the distribution of interim dividends by the Board shall not be restricted by the aforesaid period."

V. EGM

It is proposed that the New Caps and the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed amendments to the Articles of Association, shall be considered and, if thought fit, approved at the EGM.

The EGM 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 proposed amendments to the Articles of Association, 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 the proposed amendments to the Articles of Association, and it is a requirement of the Listing Rules that such voting must be taken by poll.

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 10 November 2012.

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. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen) 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.

The Board considers that the proposed resolution in respect of the proposed amendments to the Articles of Association, is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution in relation to the proposed amendments to the Articles of Association.

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)

24 September 2012

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 Supplemental Agreements and the New Caps (as defined in the circular of the Company dated 24 September 2012) (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

Liu Zheng *Independent non-executive Director*	**Li Shihao** *Independent non-executive Director*	**Loh Yih** *Independent non-executive Director*
Chu, Howard Ho Hwa *Independent non-executive Director*	**Zhang Zhenhua** *Independent non-executive Director*	**Li Luwen** *Independent non-executive Director*

The following is the full text of the letter dated 24 September 2012 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

Suite 901, Level 9
The Hong Kong Club Building
3A Chater Road, Central
Hong Kong

24 September 2012

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 24 September 2012 (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 30 August 2012, 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 six 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, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in the Circular, 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 markets 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 2011 (the "2011 Annual Report"), the Company is one of the largest manufacturers of high-speed diesel engines in the PRC and a leading company in the power train market. It is equipped with a comprehensive supply chain of engines, gear boxes and axles.

The Group is the largest supplier of diesel engines for heavy-duty trucks of 14 tonnes (and above) and for construction machinery (mainly wheel loaders) with a load capacity of 5 tonnes (and above) in the PRC. In 2011, the Group sold approximately 318,400 units of diesel truck engines, representing a market share of about 36% based on the total domestic sales of approximately 880,600 units of heavy-duty trucks with a gross weight of above 14 tonnes in the PRC for the same period. The Group also sold 139,100 units of construction machinery engines in 2011, of which 126,300 units were for wheel loaders with a load capacity of 5 tonnes representing a leading position in the industry with a market share close to 78%.

During 2011, the Group also sold approximately 100,300 units of heavy-duty trucks, and approximately 701,200 units of heavy-duty gear boxes. Based on such sales volume and the total domestic sales of approximately 880,600 units of heavy-duty trucks in the PRC in 2011, the Group had also maintained a leading position in the heavy-duty vehicles industry.

Apart from the production and sale of diesel engines for trucks and construction machinery, heavy-duty trucks and heavy-duty gear boxes, the Group is also engaged in the production and sale of parts and components for engines and trucks, such as spark plugs, axles, chassis, air-conditioner compressors, etc. In 2011, the Group's sales of such parts and components amounted to approximately RMB2,906 million, representing about 5% of its total turnover.

The following is a summary of the audited financial results of the Group for each of the three years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012, which are extracted from the Company's annual reports for 2010 and 2011 and the 2012 interim report.

	Year ended 31 December			**6 months ended 30 June**
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(audited)
Turnover	35,260,899	63,279,564	60,019,265	27,059,676
Profit attributable to the Shareholders	3,406,935	6,782,145	5,596,927	1,897,253

As a result of the absorption of the business of TAGC following completion of the Merger in 2007, the Group had recorded substantial growth in both its turnover and net profit. For the year ended 31 December 2009, the Group reported a total turnover of approximately RMB35,261 million and profit attributable to the Shareholders of approximately RMB3,407 million.

For the year ended 31 December 2010, the Group's audited turnover reached approximately RMB63,280 million, representing a year-on-year increase of approximately 79.5%. As noted in the Company's 2010 annual report, the increase was mainly due to the significant growth of the automobile industry and the construction machinery industry, both benefitting from the PRC government's RMB4 trillion stimulus package. With the expansion of the scale of operations, the Group posted a record high profit attributable to the Shareholders of approximately RMB6,782 million for 2010, almost two times as much as that of the preceding year.

In 2011, the PRC government continued to implement its proactive fiscal and monetary policies, and macroeconomic measures were intensified to cool down the overheated economy, in particular to curb inflation and real estate prices. In line with the overall downturn of the market, the Group reported a slight decrease of approximately 5.2% in its turnover to approximately RMB60,019 million for 2011. Due primarily to the change in product structure, the Group also recorded a decrease in its profit margin for 2011 to approximately 9.3%, compared to approximately 10.7% for 2010. As a result, the Group's profit attributable to the Shareholders for 2011 fell to approximately RMB5,597 million, representing a 17.5% drop from that of 2010. As indicated in the 2011 Annual Report, the automobiles and major automobile components business of the Group which accounted for an increasing portion of approximately 56.5% of its total turnover for 2011 had a segment profit margin of approximately 4.98%. The diesel engines business accounted for approximately 40.6% of the Group's total turnover for 2011, and commanded a segment profit margin of approximately 23.0%.

In the first half of 2012, China's economic growth and fixed asset investment growth continued to slow due to the cumulative effect of the government's tightening macroeconomic policy. For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB27,060 million, representing a drop of approximately 26.1% compared to that for the corresponding period in 2011. Profit attributable to the Shareholders for the same period also declined by approximately 45.7% to approximately RMB1,897 million.

(b) Overview of China's economy and the heavy-duty trucks 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 9.6% 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 RMB33.09 trillion in 2009, or an annual growth of 9.2% from 2008, exceeding the government's annual target of 8%. In 2010, China's GDP continued to grow 10.3% to hit RMB39.80 trillion. The double-digit growth in 2010 was buoyed largely by strong public investments. 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 channeled large investment. It also adopted 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.

While the RMB4 trillion stimulus policy has helped China weather the global financial crisis, it also created lingering problems in China, including asset bubbles, inflation and redundant projects. Moving to dampen inflation pressures and curb property prices, the People's Bank of China ("PBOC") raised the reserve ratio requirement for banks six times in 2010 and another six times in the first seven months in 2011. During the same period, it also lifted the benchmark interest rates five times. The tightening measures have had an impact in controlling lending and inflation, and the economic growth has slowed as a consequence. In 2011, GDP of China grew at 9.2%, a full percentage point less than in 2010.

Meanwhile the Eurozone debt crisis continued to deteriorate in 2011 and posed severe challenges to world economic recovery. China's economic indicators, such as those on investment and industrial output, and purchasing, production and new order indices, continued their downward trend and were below expectations. Dragged by lackluster external market and government efforts to cool inflation, China's GDP growth hit a three-year low of 7.6% in the second quarter of 2012. According to the National Bureau of Statistics, the year-on-year GDP growth in the first half of 2012 decreased to 7.8%. In March 2012, Prime Minister Wen Jiabao predicted at the opening of an annual meeting of the National People's Congress that China's growth for 2012 would be 7.5%, a steep drop from the 9.2% of 2011.

In an attempt to prevent a further slowdown in economic growth, the PRC authorities have taken measures and began to ease macroeconomic policies. In December 2011, the PBOC cut banks' reserve requirements for the first time in three years to spur lending. In June 2012, the PBOC also cut benchmark interest rates for the first time since 2008, stepping up efforts to combat a deepening slowdown as the Eurozone debt crisis threatens global growth.

During the past few years, the thriving heavy-duty vehicle industry in the PRC has been driven by economic growth in the country. The government'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 the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the sales volume of heavy-duty trucks in China had more than doubled from about 303,600 units in 2006 to about 636,000 units in 2009. Fuelled by the PRC government's RMB4 trillion stimulus package, construction and infrastructure activities had continued to expand in China and boosted the sales of heavy-duty trucks to 1,017,400 units in 2010, representing a whopping growth of almost 60% year-on-year. Entering 2011, the growth momentum of heavy-duty vehicle sector had been waning due to the tightening macroeconomic policies and the slowdown in both real estate and infrastructure construction in China. The annual sales of heavy-duty trucks dropped about 13% year-on-year to about 880,600 units in 2011. Along with the continued economic slowdown, the sales of heavy-duty trucks in China continued to decline to about 371,600 units in the first half of 2012, representing a drop of about 31.6% compared to the corresponding period in 2011.

Historical data have indicated that there is significant positive correlation between the development of the heavy-duty vehicles market and economic growth in China. While China has been undergoing an economic reform toward a market-oriented economy, its economic development remains largely planned and managed through the implementation of the National Five-Year Plan and a proactive fiscal policy and a prudent monetary policy.

The National 12th Five-Year Plan (2011-2015), approved in March 2011, seeks to rebalance the pattern of growth in China. The key objectives under the 12th Five-Year Plan are, among others, to achieve an average GDP growth target of 7%, putting emphasis on sustainable growth, to encourage innovation, and to restructure the industrial sector. China no longer makes the growth rate its top priority in its industrial development plan, focusing instead on the quality and the sustainability of industrial growth. The Chinese government encourages research and development. It plans to restructure its industrial sector to improve productivity by upgrading its manufacturing industry with technology, and to focus on industries that emphasize added value.

The targets under the 12th Five-Year Plan indicate that the Chinese authorities are willing to forgo some speed of GDP growth in order to make it more inclusive and environmentally sustainable. As in previous years, though, it is expected that actual growth will exceed the target. The stance of the Chinese government is expected to remain supportive of growth as evidenced by the PBOC's proactive move to reduce banks' reserve ratio requirement three times since December 2011 and to cut the benchmark interest rates twice in June and July of 2012 respectively in a bid to boost lending. In an article published on the fourth issue of 2012 of Qiushi Journal (求是) which publicizes the governing philosophy of the Communist Party of China, Li Keqiang, Vice Premier of the State Council, has reiterated that the Chinese government should focus on stable and relatively rapid growth in order to drive economic and social development. As reported by Xinhua News on 15 August 2012, Premier Wen Jiabao had emphasized during an inspection tour of Zhejiang Province that the country had adopted a raft of pro-growth measures to shore up growth which included more aggressive tax reduction, issuing subsidies to support enterprises' technology upgrades, and opening state-run sectors to private investors. Premier Wen also cited a stable job market in China, which saw 8.12 million new urban jobs created in the first seven months of 2012, and easing price gains, which would provide more room for monetary loosening. With Chinese leaders having openly expressed concern about China's weakening growth, it is therefore generally expected that the government is planning to expedite infrastructure spending and boost economic growth. In fact, on 11 July 2012, the State Council has indicated that it will boost the development of the nation's distribution industry with the goal of establishing a modern goods distribution system that is efficient, competitive and open. The distribution industry includes multiple sub-sectors, including wholesale, retail and logistics, and the government will construct major distribution networks, optimize the structure of the sector in urban regions and increase the number of service branches in rural areas so that farm produce and industrial goods can move smoothly between cities and the countryside. The government will also support the construction and transformation of related infrastructure. On 10 August 2012, Xinhua News reported a statement by the Ministry of Housing and Urban-Rural Development that construction of 5.8 million low-income housing units had been started in the first seven months of 2012, of which 3.6 million units had been basically completed. The large-scale low-income housing project under the 12th Five-Year Plan with a goal of building 36 million units by the end of 2015 is not only meant to provide affordable housing to low-income workers and pensioners, but is also expected to boost industrial and economic growth as construction activities slow in the private real estate market. On 5 September 2012 and 6 September 2012, the National Development and Reform Commission, the top central planning agency of China, announced the approvals of a series of infrastructural construction projects, including 25 urban rail projects, 13 highway construction projects, seven waterway projects and nine waste water treatment plants. The total cost of the projects is estimated to be about RMB1 trillion, or about 2 per cent of China's GDP of approximately RMB47.16 trillion in 2011. The move marks the government's latest effort to boost economic growth when external demand remains weak. It is expected that implementation of these projects will begin in the coming months, which will cause investment growth in China to rise.

Driven by the continued construction of highways under the "Go West" policy aimed for the integrated development of central and western China, the launch of large-scale low-income housing construction as part of the government's strategy to stabilize property prices and to improve public welfare, the strengthening of agricultural and rural infrastructure, the continuous development of urban infrastructure as part of the urbanization process, and the development of modern logistics industry, the demand for heavy-duty vehicles is expected to increase.

Going forward, it is therefore essential for the Group to continue its strategy in strengthening its technological innovation, enhancing its product performance and competitiveness, especially in environmental protection, energy saving and reliability. In this regard, the Group has mentioned in its 2011 Annual Report, among other things, that it will expedite the research and development of its third-generation heavy-duty trucks and will keep enhancing the technological contents of such products. For its gearbox products, the Group will leverage upon the joint venture in collaboration with Caterpillar Inc. ("Caterpillar") to intensify its efforts in research and development of automatic transmissions and gear boxes for passenger vehicles. Leveraging on its advanced technology, fully-integrated production, and the capability of mass production of high-quality products, the Group is in an advantageous position to capture the development opportunities presented in the National 12th Five-Year Plan. It is therefore expected that the heavy-duty vehicle business will continue to provide significant contribution and positive growth to the Group's overall development in the coming few years.

Notwithstanding the aforesaid, Independent Shareholders should also note that factors such as the continuous or deepening economic downturn particularly in the United States and Europe, may further affect the macroeconomic 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 manufacture and sale of transmission products and 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, including Hande Axle, Jinding, Shaanxi Import and Export, and Tiangua) and Shaanxi Automotive and its associates, including:

– Shaanxi Wanfang which is held as to approximately 49% by Shaanxi Automotive,

– Shaanxi Huazhen which is wholly-owned by Shaanxi Automotive,

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

– Shaanxi Tongchuang which is held as to approximately 50% by Shaanxi Automotive,

– Shaanxi Tongli which is held as to approximately 51% by Shaanxi Automotive,

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

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

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

– Xunyang Baotong which is held as to approximately 51% by Shaanxi Automotive,

– Dongfeng Axle which is held as to approximately 45.24% by Shaanxi Automotive,

– Yanan Vehicle which is held as to approximately 51% by Shaanxi Automotive, and

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

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

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, Fast Transmission, together with its subsidiaries, is the largest manufacturer of heavy-duty vehicle transmissions, automotive gears and related forgings and castings in the PRC. Fast Transmission's transmission products have a market share of about 80% for heavy-duty vehicles. Fast Transmission 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 one million units of transmissions for different kinds of vehicles, 50 million pieces of automotive gears, and 100,000 tonnes of automotive forgings and castings. By transacting with Fast Transmission, SFGC can capitalize on the research and development capabilities, advanced production and processing techniques and production facilities of Fast Transmission 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 a 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 6,200,000 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. Shaanxi Automotive has also successfully developed new-energy vehicles, such as heavy-duty trucks powered by compressed natural gas ("CNG") or liquefied natural gas ("LNG"), as well as new-energy automobile products such as CNG and LNG bus chassis, and all-electric terminal tractors, etc. The development of new-energy high-powered trucks and related automobile products is in line with the development of strategic industries under the National 12th Five-Year Plan to accelerate the development of alternative-fuel cars, and the promotion of energy-saving and environmental protection. According to the website of The Industry and Information Technology Department of Shaanxi Province (陝西省工業和信息化廳), various Chinese leaders including Premier Wen Jiabao, Vice Premier Li Keqiang and Jia Qinglin, Chairman of the National Committee of the People's Political Consultative Conference, have respectively inspected the operation and production facilities of Shaanxi Automotive. It was reported that in his inspection tour in July 2010, Premier Wen Jiabao had expressed high hopes for Shaanxi Automotive for its active development of energy-saving and new-energy vehicles which would open up new market opportunities. According to its website, Shaanxi Automotive has a market share of over 50% of natural gas powered heavy-duty vehicles in China.

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 trucks market. By constructing a united emergency service centre and forming alliance with thousands of service stations including those of the Company, SFGC and Hande Axle, Shaanxi Automotive has established a heavy-duty truck service system with large-scale network, high service efficiency and high customer satisfaction. As a result, Shaanxi Automotive has achieved favorable sales records in the heavy-duty trucks market in China even during times of market adjustment according to the statistics of China Association of Automobile Manufacturers. It is expected that the favorable business performance of Shaanxi Automotive will continue given its 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 market of heavy-duty trucks and related new products.

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 Connected 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, 9 November 2009 and 23 August 2010, SFGC has sold to Fast Transmission certain parts and components of transmissions, namely, gearboxes, at market prices settled generally every two to three months, for a term ending 31 December 2012, 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 2015, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as aforesaid 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, as appropriate, 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. Under the Fast Transmission Sale Agreement, the prices of the goods are determined at the then prevailing market prices, and/or based on the principle of fairness and reasonableness. 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. As advised by the Group, it is generally more economical, efficient and effective for SFGC to engage processing service with Fast Transmission under the Fast Transmission Sale Agreement than with independent third party suppliers for the following reasons:

– Fast Transmission has committed significant investments and resources to product design and development, production technology and facilities and quality assurance, and possesses comprehensive production capacity and capabilities and advanced production and processing techniques to handle the different production requirements of SFGC for its transmission products and parts and components for various kinds of vehicles at competitive prices.

– SFGC and Fast Transmission adopt similar quality standards and, as a 49% equity holder of SFGC, Fast Transmission is in a better position than independent third party suppliers to understand the production and quality requirements of SFGC.

– Some of SFGC's products involve original and innovative designs, and therefore, it is important to work with trustworthy suppliers for better protection of intellectual property rights and commercial interests. By selling the parts and components to Fast Transmission for processing, SFGC can minimize the need to disclose sensitive trade or product information to independent third party suppliers and hence facilitate intellectual property protection.

We concur with the Group's view that the above benefits are of vital importance to SFGC in maintaining a competitive cost structure and coping with the keen competition in the automobile components industry.

We have noted from the 2011 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 one month, extending up to six months for major customers. As indicated in the 2011 Annual Report, the Group had audited accounts receivable of approximately RMB4,738 million as at 31 December 2011, of which about 71% aged within three months and about 12% aged between three to six months. According to the Company's 2012 interim report, the Group had audited accounts receivable of approximately RMB5,573 million as at 30 June 2012, of which about 66% aged within three months and about 19% 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 transmissions 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 in the sale of parts and components of transmissions and related products by SFGC to Fast Transmission for each of the five years ended 31 December 2011 and the six months ended 30 June 2012; and (ii) 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 2013, 2014 and 2015.

	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/(Decrease) as compared to the preceding financial year** *(%)*
Audited actual transaction amounts:		
2007 *Note 1*	308,721	N/A
2008	599,380	33.5
2009	775,485	29.4
2010	1,235,452	59.3
2011	1,084,282	(12.2)
6 months up to 30 June 2012 *Note 2*	585,762	8.0
New Caps:		
2013 *Note 3*	3,000,000	156.1
2014	4,100,000	36.7
2015	4,800,000	17.1

Notes:

1. This represents the actual transaction amount since the completion of the Merger on 24 April 2007 and the percentage change has been calculated on an annualized basis.

2. The percentage change has been calculated on an annualized basis.

3. The percentage change has been calculated by comparison with the actual transaction amount for the first six months of 2012 on an annualized basis.

As stated in the Letter from the Board, during 2011 and the first half of 2012, in line with the global economy and adjustments in the market, the demand for parts and components of transmission products and parts and components of vehicles from SFGC has decreased. With the expected improvement in the market, the Company expects that the sales of SFGC will increase by approximately 30% for the year ending 31 December 2013, and approximately 15% for each of the years ending 31 December 2014 and 31 December 2015. It is also expected that following the enhancement in the capacity and capabilities of Fast Transmission's production facilities, Fast Transmission will increase its production of synchronizers in 2013. With the expected commencement of operation of the joint venture between SFGC and Caterpillar in 2014 and to cope with the production requirements of heavy-duty hydraulic automatic transmissions to be developed by the joint venture, the sale of parts and components by SFGC to Fast Transmission for processing is expected to increase. Accordingly, it is expected that the volume of parts and components to be sold by SFGC to Fast Transmission for its processing will substantially increase in 2013 compared to the transaction amounts in 2011 and the first half of 2012, with a relatively moderate increase thereafter. The growth rates of 30% for 2013 and 15% for 2014 and 2015 have been determined by the Group after considering various factors, including the macroeconomic policies of the Chinese government and the launch of large-scale infrastructural construction projects, which are expected to have significant positive impact on the heavy-duty trucks market in the coming few years.

The Company has proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB3,000 million, RMB4,100 million and RMB4,800 million, respectively, for each of the three years ending 31 December 2013, 2014 and 2015. As stated in the Letter from the Board, such New Caps have been prepared by the Company primarily based on the relevant historical transaction amounts, the estimate of the volume and amount of parts and components of transmissions to be sold by SFGC to Fast Transmission, and the assumption that the overall transaction amount of the sale of the said parts and components will increase by approximately 37% and 17% for each of the years ending 31 December 2014 and 31 December 2015, 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 2012 was approximately RMB585.8 million, representing an increase of approximately 8.0% from 2011 on an annualized basis. The proposed New Cap of RMB3,000 million for 2013 represents an increase of about 1.5 times over the actual transaction amount for the first half of 2012 on an annualized basis.

The respective proposed New Caps of RMB4,100 million and RMB4,800 million for 2014 and 2015 represent an annual growth of approximately 37% and 17% over the proposed New Cap for the preceding year.

According to the statistics of China Association of Automobile Manufacturers, the domestic sales of heavy-duty trucks in China in the first half of 2012 declined to about 371,600 units, representing a drop of about 31.6% compared to the corresponding period in 2011. The stagnant heavy-duty trucks market since 2011 was mainly due to slowing economic growth, cooling investment and the restrained property development sector as a result of the Chinese government's macroeconomic policies to curb lending during 2011. As discussed in the sub-section headed "Overview of China's economy and the heavy-duty trucks market in China" above, the Chinese government is expected to remain supportive of growth and has already taken measures and began to ease macroeconomic policies. The PBOC has made a proactive move to reduce banks' reserve ratio requirement three times since December 2011 and to cut the benchmark interest rates twice in June and July of 2012 respectively in a bid to boost lending. As reported by the state-backed China Securities Journal on 1 August 2012, Pan Jiancheng, the deputy director of the China Economic Monitoring and Analysis Centre of the National Bureau of Statistics has suggested that China's economy may bottom out in the third quarter of 2012 and growth could improve in the second half of the year. He has also indicated that, according to the survey by the National Bureau of Statistics, enterprises have received large number of orders for the second half of the year which is a positive signal to the domestic economy.

On 10 August 2012, Xinhua News reported a statement by the Ministry of Housing and Urban-Rural Development that construction of 5.8 million low-income housing units had been started in the first seven months of 2012, of which 3.6 million units had been basically completed. The large-scale low-income housing project under the 12th Five-Year Plan with a goal of building 36 million units by the end of 2015 is not only meant to provide affordable housing to low-income workers and pensioners, but is also expected to boost industrial and economic growth as construction activities slow in the private real estate market.

As advised by the Group, the overall market conditions and business environment in China are expected to improve and therefore the business of SFGC for the second half of 2012 is expected to be better than the first half of the year. The proposed New Cap of RMB3,000 million for 2013 represents a substantial increase due primarily to the comparison with the relatively low actual transaction amount for the first half of 2012. If we consider the expected growth in the transaction amount by SFGC to Fast Transmission for the second half of 2012 and the estimated growth in additional parts and components of transmission products to be transacted between SFGC and Fast Transmission, the growth rate as represented by the New Cap for 2013 would be more moderate. As indicated in our analysis of the China economy as summarized in the section headed "Overview of China's economy and the heavy-duty trucks market in China" above, there is significant positive correlation between the development of the heavy-duty vehicles market and economic growth in China. We have noted the recent macroeconomic policies of the Chinese government to encourage investments and to boost economic growth. During the period from July to early September 2012, the Chinese government has also announced various large-scale infrastructural development plans, including the establishment of a modern distribution industry, the implementation of the large-scale low-income housing project, and the approval of infrastructural construction projects with estimated costs amounting to about RMB1 trillion. We consider that all these moves of the Chinese government will have positive impact on both the market sentiment and the actual market conditions. On this basis, we consider it reasonable for the Group to expect the business of SFGC in the second half of 2012 to be better than the first half of the year.

We have reviewed and discussed with the Group 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:

– In line with the expected improvement in the market conditions, it is expected that the sales of SFGC will increase gradually in the second half of 2012. Coupled with the enhancement in the capacity and capabilities of Fast Transmission's production facilities following the completion of a technological transformation, SFGC will increase its procurement of processing services from Fast Transmission. Therefore the total amount of sale of parts and components and related products to Fast Transmission for processing is expected to increase and reach RMB1,500 million for 2012. Compared with the actual transaction amount under the Fast Transmission Sale Agreement (as supplemented) of approximately RMB1,084 million for 2011, such estimated amount of RMB1,500 million for the whole year in 2012 represents an increase of approximately 38%. In determining the New Cap for 2013, it is estimated that the sales of SFGC will increase by approximately 30% from that in 2012 and in order to meet such growth in its production requirements, the sale of parts and components by SFGC to Fast Transmission for processing will increase by the same magnitude.

  As indicated in the table above, the actual transaction amount involved in the sale of parts and components by SFGC to Fast Transmission increased by approximately 34% in 2008 from that in 2007, and a further 29% in 2009. Such substantial growth was recorded following the Chinese government's adoption of a series of stimulus measures under a RMB4 trillion stimulus package in November 2008. As mentioned above, the Chinese government has taken various measures, including the reduction of banks' reserve ratio requirement and the benchmark interest rates in a bid to boost lending and the implementation of various large-scale infrastructural construction projects, all of which are intended to encourage investments and economic growth as in the previous RMB4 trillion stimulus policy. Based on the historical growth rates in such transaction amounts which reflected the past market response to the government's stimulus policy, we consider that the Group's estimate of the total amount of sale of parts and components by SFGC to Fast Transmission in 2012 and the estimated growth rate of 30% in the sales of SFGC in 2013 are reasonable.

In addition, it is estimated that following the enhancement in the capacity and capabilities of Fast Transmission's production facilities, Fast Transmission will increase its production of synchronizers to one million units. Accordingly, SFGC will increase its sale of parts and components of synchronizers to Fast Transmission and the procurement of processing services from Fast Transmission, especially in relation to aluminum alloy die casting. Such increase in transactions is expected to amount to approximately RMB1,000 million in 2013. Accordingly, the New Cap for 2013 is proposed at RMB3,000 million.

We have reviewed the information provided by the Group on the production capacity and transaction amounts with regard to synchronizers between SFGC and Fast Transmission in 2011 and the first half of 2012. We have noted in particular that the transaction amount of sale of parts and components of synchronizers by SFGC to Fast Transmission in the first half of 2012 has slightly exceeded that recorded for the whole year in 2011, i.e. an increase of 100% on an annualized basis. Such substantial growth was due to the enhancement of Fast Transmission's production capacity of synchronizers since 2011 following which, SFGC no longer relies on outsourcing of synchronizers and their related parts and components. On this basis, we consider that the Group's estimated increase in the sale of parts and components of synchronizers by SFGC to Fast Transmission for processing is reasonable.

– In determining the New Caps for 2014 and 2015, it is estimated that before considering the transactions generated by its joint venture with Caterpillar, the sales of SFGC will increase by approximately 15% annually from that in 2013. In order to meet such growth in its production requirements, the sale of parts and components (including those of synchronizers and the aluminum alloy die casting products) by SFGC to Fast Transmission for processing will increase by the same magnitude annually.

In addition, it is estimated that the joint venture between SFGC and Caterpillar in the development and manufacture of heavy-duty automatic transmissions and complex components for machinery will commence operation in 2014. Caterpillar is a world renowned manufacturer of heavy-duty machinery. According to its website, Caterpillar has a history of more than 85 years and is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. It serves customers in more than 180 countries around the globe with more than 300 products. Its manufacturing, marketing, logistics, service, research and development and related facilities along with its dealer locations total more than 500 locations worldwide. In 2011, Caterpillar recorded consolidated sales and revenues of about US$60.14 billion, and consolidated operating profit of about US$7.15 billion. Its total assets amounted to US$81.45 billion as at 31 December 2011. On 25 July 2012, Caterpillar announced an all-time record sales and revenues of about US$17.37 billion, and profit of about US$1.70 billion for the second quarter of 2012. Caterpillar also expects a record year in 2012 despite the depressed state of the US construction industry, the problems facing the Eurozone economies, and the economic slowdown in China.

The joint venture, in which SFGC has 51% interest, is expected to have an annual production capacity of 120,000 units of automatic transmissions and 1,500,000 units of complex machinery components upon full operation, generating an annual revenue of over RMB10 billion. To cope with the production requirements of heavy-duty hydraulic automatic transmissions to be developed by the joint venture, the sale of additional parts and components by SFGC to Fast Transmission is expected to amount to approximately RMB600 million in 2014 and approximately RMB800 million in 2015. Accordingly, the New Caps for 2014 and 2015 are proposed at RMB4,100 million and RMB4,800 million, respectively. Such New Caps represent an increase of approximately 37% and 17% from the respective New Cap for the preceding year, or an average of about 27% annually. The growth in the said transaction amount in 2014 is expected to be relatively higher than that for 2015 due to the expected commencement of operation in 2014 of SFGC's joint venture with Caterpillar. Given the fact that Caterpillar is the world's leading manufacturer of heavy-duty machinery and SFGC is the largest manufacturer of transmissions for heavy-duty vehicles in China, we have no reason to doubt the business viability or the estimated production capacity of their joint venture.

As indicated in the table above, the actual transaction amounts of sale of parts and components and related products by SFGC to Fast Transmission during the period from 2007 to 2011 represent an annual compound growth rate of about 25% despite the setback in 2011. On this basis and taking into account the significant growth expected in 2013, we consider that the Group's estimates discussed above, including the relatively moderate annual growth rate of 15% in the sales of SFGC, in determining the New Caps for 2014 and 2015 are reasonable.

In summary, on the basis that (i) the economic conditions and the heavy-duty vehicles market in China are expected to improve along with the construction and infrastructure activities spurred by the government's fiscal and monetary policies; (ii) the estimated growth rates adopted by the Group in determining the New Caps are substantially in line with the average growth rates in the historical transaction amounts of sale of parts and components and related products by SFGC to Fast Transmission over the past few years; and (iii) SFGC will increase its procurement of processing services from Fast Transmission in respect of synchronizers, aluminum alloy die casting products, and other parts and components to meet the production requirements for heavy-duty hydraulic automatic transmissions to be developed by its joint venture with Caterpillar, 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 2013, 2014 and 2015 of RMB3,000 million, RMB4,100 million and RMB4,800 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, 9 November 2009 and 23 August 2010, 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 generally every two to three months, for a term ending 31 December 2012, 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 2015, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as aforesaid 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, as appropriate, 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, sale, design and development of transmissions and other motor vehicle parts and components such as gears, and is the largest manufacturer of transmissions for heavy-duty trucks in the PRC. Fast Transmission is principally engaged in the manufacture and sale of transmission products and parts and components of vehicles. 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. Fast Transmission has comprehensive production facilities and possesses advanced production capabilities and techniques, in particular in metal die casting and forging. As advised by the Group, due to the enhancement in production capacity and capabilities of Fast Transmission in recent years and coupled with the slowdown in the business of SFGC since 2011, Fast Transmission can satisfy the purchase requirements of SFGC for its production and therefore, there are no transactions between SFGC and independent third parties for parts and components that are comparable to those under the Fast Transmission Purchase Agreement. Under the Fast Transmission Purchase Agreement, the prices of the goods are determined at the then prevailing market prices, and/or based on the principle of fairness and reasonableness. We have discussed with the Group which has confirmed that in determining the purchase prices under the Fast Transmission Purchase Agreement, SFGC will consider the costs of materials and production involved, the processing fees, and the prices of the finished products to be obtained by SFGC, etc. As advised by the Group, it is generally more economical, efficient and effective for SFGC to source from Fast Transmission under the Fast Transmission Purchase Agreement than from independent third party suppliers for the following reasons:

– Fast Transmission has committed significant investments and resources to product design and development, production technology and facilities and quality assurance, and possesses comprehensive production capacity and capabilities and advanced production and processing techniques to handle the different production requirements of SFGC for its transmission products and parts and components for various kinds of vehicles at competitive prices.

– SFGC and Fast Transmission adopt similar quality standards and, as a 49% equity holder of SFGC, Fast Transmission is in a better position than independent third party suppliers to understand the production and quality requirements of SFGC.

– Some of SFGC's products involve original and innovative designs, and therefore, it is important to work with trustworthy suppliers for better protection of intellectual property rights and commercial interests. By sourcing from Fast Transmission, SFGC can minimize the need to disclose sensitive trade or product information to independent third party suppliers and hence facilitate intellectual property protection.

We concur with the Group's view that the above benefits are of crucial importance to SFGC in maintaining a competitive cost structure and coping with the keen competition in the automobile components industry.

We have noted from the 2011 Annual Report that the Group's trade payables had an average term of three months. As indicated in the 2011 Annual Report, the Group had audited trade payables of approximately RMB13,079 million as at 31 December 2011, of which about 93% aged within three months. According to the Company's 2012 interim report, the Group had audited trade payables of approximately RMB11,353 million as at 30 June 2012, of which about 90% 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 five years ended 31 December 2011 and the six months ended 30 June 2012; and (ii) 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 2013, 2014 and 2015.

	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/(Decrease) as compared to the preceding financial year *(%)*
Audited actual transaction amounts:		
2007 *Note 1*	444,961	N/A
2008	819,180	26.6
2009	1,141,571	39.4
2010	1,798,621	57.6
2011	1,545,089	(14.1)
6 months up to 30 June 2012 *Note 2*	637,926	(17.4)
New Caps:		
2013 *Note 3*	3,200,000	150.8
2014	4,300,000	34.4
2015	5,000,000	16.3

Notes:

1. This represents the actual transaction amount since the completion of the Merger on 24 April 2007 and the percentage change has been calculated on an annualized basis.

2. The percentage change has been calculated on an annualized basis.

3. The percentage change has been calculated by comparison with the actual transaction amount for the first half of 2012 on an annualized basis.

As stated in the Letter from the Board, during 2011 and the first half of 2012, in line with the global economy and adjustments in the market, the demand for parts and components of transmissions and gears by SFGC from Fast Transmission has decreased. With the expected improvement in the market, the Company expects that the sales of SFGC will increase by approximately 30% for the year ending 31 December 2013, and approximately 15% for each of the years ending 31 December 2014 and 31 December 2015. It is also expected that following the enhancement in the capacity and capabilities of Fast Transmission's production facilities, Fast Transmission will increase its production of synchronizers in 2013. With the expected commencement of operation of the joint venture between SFGC and Caterpillar in 2014 and to cope with the production requirements of heavy-duty hydraulic automatic transmissions to be developed by the joint venture, the purchase of parts and components by SFGC from Fast Transmission is expected to increase. Accordingly, it is expected that the volume of parts and components to be purchased by SFGC from Fast Transmission for its production will substantially increase in 2013 compared with the transaction amounts in 2011 and the first half of 2012, with a relatively moderate increase thereafter. The growth rates of 30% for 2013 and 15% for 2014 and 2015 have been determined the Group after considering various factors, including the macroeconomic policies of the Chinese government and the launch of large-scale infrastructural construction projects, which are expected to have significant positive impact on the heavy-duty trucks market in the coming few years.

The Company has proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB3,200 million, RMB4,300 million and RMB5,000 million, respectively, for each of the three years ending 31 December 2013, 2014 and 2015. As stated in the Letter from the Board, such New Caps have been prepared by the Company primarily based on the relevant historical transaction amounts, the estimate of the volume and amount of parts and components of transmissions to be purchased by SFGC from Fast Transmission, and the assumption that the overall transaction amount of the purchase of the said parts and components by SFGC from Fast Transmission will increase by approximately 34% and 16% for each of the years ending 31 December 2014 and 31 December 2015, respectively, 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 2012 was approximately RMB637.9 million, representing a decrease of approximately 17% from 2011 on an annualized basis. The proposed New Cap of RMB3,200 million for 2013 represents an increase of about 1.5 times over the actual transaction amount for the first half of 2012 on an annualized basis.

The respective proposed New Caps of RMB4,300 million and RMB5,000 million for 2014 and 2015 represent an annual growth of approximately 34% and 16% over the proposed New Cap for the preceding year.

As discussed above, the Chinese government is expected to remain supportive of growth and has already taken measures and began to ease macroeconomic policies, including the easing of lending by cutting the banks' reserve ratio requirement and the benchmark interest rates. The government has also launched a large-scale low-income housing project with a goal to build 36 million housing units by the end of 2015. All these policies have the effect of boosting industrial and economic growth in China. Therefore, it is expected that the overall market conditions and business environment in China will improve and the business of SFGC in the second half of 2012 is expected to be better than the first half of the year. The proposed New Cap of RMB3,200 million for 2013 represents a substantial increase due primarily to the comparison with the relatively low actual transaction amount for the first half of 2012. If we consider the expected growth in the transaction amount by SFGC to Fast Transmission for the second half of 2012 and the estimated growth in additional parts and components of transmission products to be purchased by SFGC from Fast Transmission, the growth rate as represented by the New Cap for 2013 would be more moderate. We have reviewed and discussed with the Group 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:

– In line with the expected improvement in the market conditions, it is expected that the sales of SFGC will increase gradually in the second half of 2012. Coupled with the enhancement in the capacity and capabilities of Fast Transmission's production facilities following the completion of a technological transformation, SFGC will increase its purchase of parts and components of transmissions and related products from Fast Transmission to a total of approximately RMB1,600 million for 2012. Compared with the actual transaction amount under the Fast Transmission Purchase Agreement (as supplemented) of approximately RMB1,545 million for 2011, such estimated amount of RMB1,600 million for the whole year in 2012 represents a mere increase of approximately 3.6%. In determining the New Cap for 2013, it is estimated that the sales of SFGC will increase by approximately 30% from that in 2012 and in order to meet such growth in its production requirements, the purchase of parts and components by SFGC from Fast Transmission will increase by the same magnitude.

  As indicated in the table above, the actual transaction amount involved in the purchase of parts and components by SFGC from Fast Transmission increased by approximately 27% in 2008 from that in 2007, and a further 39% in 2009. Such substantial growth was recorded following the Chinese government's adoption of a series of stimulus measures under a RMB4 trillion stimulus package in November 2008. As mentioned above, the Chinese government has taken various measures, including the reduction of banks' reserve ratio requirement and the benchmark interest rates in a bid to boost lending and the implementation of various large-scale infrastructural construction projects, all of which are intended to encourage investments and economic growth as in the previous RMB4 trillion stimulus policy. Based on the historical growth rates in such transaction amounts which reflected the past market response to the government's stimulus policy, we consider that the Group's estimated amount of purchase of parts and components of transmissions and related products by SFGC from Fast Transmission in 2012 and the estimated growth rate of 30% in the sales of SFGC in 2013 are reasonable.

  In addition, it is estimated that following the enhancement in the capacity and capabilities of Fast Transmission's production facilities, Fast Transmission will increase its production of synchronizers to one million units. Accordingly, SFGC will increase its purchase of synchronizers and related components, especially aluminum alloy die casting products, from Fast Transmission. Such increase in transactions is expected to amount to approximately RMB1,000 million in 2013. Accordingly, the New Cap for 2013 is proposed at RMB3,200 million.

We have reviewed the information provided by the Group on the production capacity and transaction amounts with regard to synchronizers between SFGC and Fast Transmission in 2011 and the first half of 2012. We have noted in particular that the transaction amount of purchase of synchronizers and related components by SFGC from Fast Transmission in the first half of 2012 has exceeded that recorded for the whole year in 2011 by about 3.8%, i.e. an increase of about 108% on an annualized basis. Such substantial growth was due to the enhancement of Fast Transmission's production capacity of synchronizers since 2011 following which, SFGC no longer relies on outsourcing of synchronizers and related components. On this basis, we consider that the Group's estimated increase in the purchase of synchronizers and related components by SFGC from Fast Transmission is reasonable.

– In determining the New Caps for 2014 and 2015, it is estimated that before considering the transactions generated by its joint venture with Caterpillar, the sales of SFGC will increase by approximately 15% annually from that in 2013. In order to meet such growth in its production requirements, the purchase of parts and components of transmissions and related products (including synchronizers and aluminum alloy die casting products) by SFGC from Fast Transmission for processing will increase by the same magnitude annually.

In addition, to cope with the production requirements of heavy-duty hydraulic automatic transmissions to be developed by SFGC's joint venture with Caterpillar as mentioned above, the purchase of additional parts and components by SFGC from Fast Transmission is expected to amount to approximately RMB600 million in 2014 and approximately RMB800 million in 2015. Accordingly, the New Caps for 2014 and 2015 are proposed at RMB4,300 million and RMB5,000 million, respectively. Such New Caps represent an increase of approximately 34% and 16% from the respective New Cap for the preceding year, or an average of about 25% annually. The growth in the said transaction amount in 2014 is expected to be relatively higher than that for 2015 due to the expected commencement of operation in 2014 of SFGC's joint venture with Caterpillar. Given the fact that Caterpillar is the world's leading manufacturer of heavy-duty machinery and SFGC is the largest manufacturer of transmissions for heavy-duty trucks in China, we have no reason to doubt the business viability or the estimated production capacity of their joint venture.

As indicated in the table above, the actual transaction amounts of purchase of parts and components of transmissions and related products by SFGC from Fast Transmission during the period from 2007 to 2011 represent an annual compound growth rate of about 24% despite the setback in 2011. On this basis and taking into account the significant growth expected in 2013, we consider that the Group's estimates discussed above, including the relatively moderate annual growth rate of 15% in the sales of SFGC, in determining the New Caps for 2014 and 2015 are reasonable.

In summary, on the basis that (i) the economic conditions and the heavy-duty vehicles market in China are expected to improve along with the construction and infrastructure activities spurred by the government's fiscal and monetary policies; (ii) the estimated growth rates adopted by the Group in determining the New Caps are substantially in line with the average growth rates in the historical transaction amounts of purchase of parts and components of transmissions and related products by SFGC from Fast Transmission over the past few years; and (iii) SFGC will increase its purchase of synchronizers, aluminum alloy die casting products, and other parts and components to meet the production requirements for heavy-duty hydraulic automatic transmissions to be developed by its joint venture with Caterpillar, 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 2013, 2014 and 2015 of RMB3,000 million, RMB4,300 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 and 23 August 2010), each of Shaanxi Zhongqi and its subsidiaries 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 certain of its associates, at market prices and settled by the relevant parties generally every one to three months, for a term ending 31 December 2012, 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 Lantong, Shaanxi Tongchuang, Shaanxi Tongli, Baoji Huashan, Wenzhou Yunding, Changsha Huantong, Xunyang Baotong, Dongfeng Axle, Yanan Vehicle and Shaanxi Fangyuan) (and/or other associates of Shaanxi Automotive) (as the case may be) for a term of three years ending 31 December 2015, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as aforesaid and the New Caps described below, all other terms of the Shaanxi Zhongqi Sale Agreement remain unchanged.

Pursuant to the Shaanxi Zhongqi Sale Agreement, Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates) shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including, as appropriate, 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 Shaanxi Zhongqi Sale Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

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 generally 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 2011 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 one month, extending up to six months for major customers. As indicated in the 2011 Annual Report, the Group had audited accounts receivable of approximately RMB4,738 million as at 31 December 2011, of which about 71% aged within three months and about 12% aged between three to six months. According to the Company's 2012 interim report, the Group had audited accounts receivable of approximately RMB5,573 million as at 30 June 2012, of which about 66% aged within three months and about 19% 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 Shaanxi 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 in 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 four years ended 31 December 2011 and the six months ended 30 June 2012; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2013, 2014 and 2015:

	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** *(%)*
Audited actual transaction amounts:		
2008	401,657	N/A
2009	366,105	(8.9)
2010	1,117,793	205.3
2011	1,011,066	(9.5)
Six months ended 30 June 2012 *Note 1*	340,939	(32.6)
New Caps:		
2013 *Note 2*	2,530,000	271.0
2014	2,783,000	10.0
2015	3,162,500	13.6

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 the first half of 2012 on an annualized basis.

The proposed New Caps for the above Non-exempt Continuing Connected Transactions are RMB2,530 million, RMB2,783 million and RMB3,162.5 million for the three years ending 31 December 2013, 2014 and 2015, 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 transaction amounts, the estimate of the volume and amount 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, the expected growth in production capacity of Shaanxi Zhongqi and its subsidiaries, and the assumption that the overall transaction amount of the said sale and provision of service will increase by approximately 10% and 14% for each of the years ending 31 December 2014 and 31 December 2015, respectively, taking into account all the aforesaid factors.

As indicated in the table above, the transaction amount in relation to the sale of goods and provision of services by Shaanxi Zhonqi (and its subsidiaries) to Shaanxi Automotive (and its associates) during the first half of 2012 was approximately RMB341 million, representing a decrease of approximately 33% from 2011 on an annualized basis. The proposed New Cap of RMB2,530 million for 2013 represents an increase of about 2.7 times over the actual transaction amount for the first half of 2012 on an annualized basis.

The respective proposed New Caps of RMB2,783 million and RMB3,162.5 million for 2014 and 2015 represent an annual growth of approximately 10% and 14% over the proposed New Cap for the preceding year.

According to the statistics of China Association of Automobile Manufacturers, the domestic sales of heavy-duty trucks in China in 2011 were about 880,600 units, representing a year-on-year decrease of about 13.4%. The stagnant heavy-duty trucks market since 2011 was mainly due to slowing economic growth, cooling investment and the restrained property development sector as a result of the Chinese government's macroeconomic policies to curb lending during 2011. Among different types of heavy-duty trucks, dump trucks have seen the sharpest fall which is believed to be due to the pullback in infrastructure and property construction activities. In the first half of 2012, such domestic sales declined to about 371,600 units, representing a drop of about 31.6% compared to the corresponding period in 2011. During the same period, Shaanxi Zhongqi recorded an aggregate sales volume of about 49,200 units of heavy-duty trucks, representing a year-on-year decrease of about 22% which is better than the industry average. Based on the statistics of China Association of Automobile Manufacturers on the domestic sales of heavy-duty trucks in China, Shaanxi Automotive's market share has increased from about 9.8% in 2010, to about 11.4% in 2011, and further to about 13.2% in the first half of 2012.

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 since the first half of 2010. As Shaanxi Automotive is one of the top five largest manufacturers in the heavy-duty vehicles market in China with an increasing market share, 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 at least along with the expected improvement in the overall market.

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 purchase requirements of Shaanxi Automotive (and its associates) have been estimated based on Shaanxi Zhongqi's annual production plan of 200,000 units, 220,000 and 250,000 units of heavy-duty vehicles, including semi-trailer tractors and heavy-duty truck chassis, for 2013, 2014 and 2015, respectively. As advised by the Group, such production plan has been set by Shaanxi Zhongqi as one of the leading manufacturers of heavy-duty vehicles in China in accordance with the guidelines and objectives under the National 12th Five-Year Plan. We have discussed with the Group and reviewed its bases and assumptions and the factors considered in devising the production plan of Shaanxi Zhongqi for 2013, 2014 and 2015 which include the economic conditions in China, the government's policy on the automobile industry, the structure and development of the heavy-duty trucks market in China, and the objectives of the National 12th Five-Year Plan. We have also reviewed the National 12th Five-Year Plan and have noted in particular that significant commitments have been made to expanding China's transportation infrastructure for the 2011-2015 period which include the extension of the national expressway network and high-speed railway network, development and expansion of airports including a new one in Beijing, and improving the coal transport channels by constructing coal loading ports, transit bases, large crude oil and iron ore handling terminals, and deep berths, etc. We consider that all these infrastructural developments will have a significant positive impact on the heavy-duty trucks market.

  As mentioned above, there is significant positive correlation between the development of the heavy-duty vehicles market and economic growth in China. The Chinese government is expected to remain supportive of growth and has already taken measures and began to ease macroeconomic policies, including the easing of lending by cutting the banks' reserve ratio requirement and the benchmark interest rates. The government has also started the construction of 5.8 million low-income housing units in the first seven months of 2012. The large-scale low-income housing project with a goal to build a total of 36 million housing units by the end of 2015 under the 12th Five-Year Plan is expected to boost industrial and economic growth in China. On 11 July 2012, the State Council has indicated that it will boost the development of the nation's distribution industry with the goal of establishing a modern goods distribution system that is efficient, competitive and open. The government will construct major distribution networks, optimize the structure of the sector in urban regions and increase the number of service branches in rural areas so that farm produce and industrial goods can move smoothly between cities and the countryside. The government will also support the construction and transformation of related infrastructure. In early September 2012, the National Development and Reform Commission announced the approvals of a series of infrastructural construction projects, including 25 urban rail projects, 13 highway construction projects, seven waterway projects and nine waste water treatment plants. The total cost of the projects is estimated to be about RMB1 trillion, or about 2 per cent of China's GDP of approximately RMB47.16 trillion in 2011. The move marks the government's latest effort to boost economic growth when external demand remains weak. It is expected that implementation of these projects will begin in the coming months, which will cause investment growth in China to rise.

In summary, driven by the continued construction of highways under the "Go West" policy for the integrated development of central and western China, the strengthening of agricultural and rural infrastructure, the continuous development of urban infrastructure in the urbanization process, and the development of modern logistics industry, the demand for heavy-duty vehicles is expected to increase. As one of the top five manufacturers of heavy-duty vehicles in China with an increasing market share, we consider it reasonable for Shaanxi Zhongqi to make its annual production plan of heavy-duty vehicles for 2013 to 2015 in accordance with the objectives of the 12th Five-Year Plan. Based on our review and analysis of the information above-mentioned, we are of the opinion that the factors considered and the bases and assumptions adopted by the Group are fair and reasonable and complete for the purposes of devising the annual production plan of Shaanxi Zhongqi for 2013 to 2015.

We have reviewed the Group's estimates of the quantity and unit prices of heavy-duty vehicles to be sold by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) for each of the three years from 2013 to 2015 and consider such estimates to be consistent with the Group's overall production plan of heavy-duty vehicles for the corresponding years.

– In addition to complete units of heavy-duty vehicles, Shaanxi Zhongqi and its subsidiaries have also agreed to sell to Shaanxi Automotive and its associates certain parts and components of vehicles. In determining the New Cap for 2013, the Group has estimated that there will be 100% growth in the amount of sale of parts and components of vehicles by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) in 2013 compared with the transaction amount in 2012. The substantial growth rate as represented by the estimated transaction amount of parts and components in 2013 is due primarily to the relatively low transaction amount recorded in the first half of 2012 as a result of the economic and market slowdown. The Group expects that the heavy-duty vehicles market will improve in the second half of 2012 along with the government's proactive moves to expedite infrastructure and affordable housing construction activities, and more significant growth is expected in 2013 due to time lag effect of the earlier government's stimulus policy.

As indicated in the table above, the actual transaction amount involved in the sale of heavy-duty vehicles and parts and components by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) in 2010 increased more than 2.3 times as more infrastructure and construction projects under the government's RMB4 trillion stimulus package started in late 2009. As mentioned above, the Chinese government has taken various measures, including the reduction of banks' reserve ratio requirement and the benchmark interest rates in a bid to boost lending and the implementation of various large-scale infrastructural construction projects, all of which are intended to encourage investments and economic growth as in the previous RMB4 trillion stimulus policy. Considering a longer period from 2008 to 2011, the actual amounts of the transactions in this sub-section represent an impressive annual compound growth rate of about 36% despite the setback in 2011. Based on the historical growth rates of such transaction amounts which reflected the past market response to the government's stimulus policy, we consider that the Group's estimated growth in the amount of sale of parts and components of vehicles by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) in 2013 is reasonable.

– The increase in the value of sale transactions by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) in 2013 to 2015 are also attributable to the fact that it has been the strategy of both Shaanxi Zhongqi and Shaanxi Automotive 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 sold by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) will also be higher.

– Another reason for the increase in the estimated sale transaction amount is the enhancement in the production facilities and capacity of certain subsidiaries of Shaanxi Automotive, such as Shaanxi Wanfang and Changsha Huantong. In particular, Changsha Huantong has completed the expansion of certain of its production facilities in 2011 and will continue enhancement and transformation of its production technology in order to increase the production capacity and capability so that it will become a local industrial base processing a full range of parts and components for production of vehicles. Changsha Huantong has 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. In line with the increase in production capacity and capabilities, the amount of sale transactions by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) in the next few years is expected to increase.

– In determining the New Cap for 2014, it is estimated that the sale of heavy-duty vehicles by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) will increase by about 10% and the estimated unit prices of heavy-duty vehicles for 2014 are expected to increase by about 6%, both compared with the levels in 2013. As advised by the Group, the expected price increase in 2013 is due primarily to the higher costs involved in the upgrade of engines in anticipation of the implementation of the China IV emission standards for heavy-duty vehicles with effect from 1 July 2013. The overall amount of sale of parts and components by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) in 2014 is expected to remain at about the same level as in 2013.

– In determining the New Cap for 2015, it is estimated that the sale of heavy-duty vehicles by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) will increase by about 10% and that of parts and components will increase by about 14% from that in 2014. The estimated unit prices of heavy-duty vehicles in 2015 are expected to remain stable.

– Furthermore, Shaanxi Automotive has successfully developed new-energy vehicles, such as heavy-duty trucks powered by CNG or LNG, as well as new-energy automobile products such as CNG and LNG bus chassis, and all-electric terminal tractors, etc. The development of new-energy high-powered trucks and related automobile products is in line with the development of seven strategic industries under the National 12th Five-Year Plan to accelerate the development of, among others, alternative-fuel cars, and the promotion of energy-saving and environmental protection. As reported by China Securities Journal on 23 July 2012, the Chinese government has released a plan for the development of the seven new strategic industries with a goal that these industries will maintain an average growth rate of more than 20% during the 2011-2015 period, and the total value-added output of the industries will account for around 8% in China's GDP by 2015.

In summary, (i) the economic conditions and the heavy-duty vehicles market in China are expected to improve along with the new construction and infrastructure activities spurred by the government's fiscal and monetary policies; (ii) the production plan and estimates in transaction amounts adopted by the Group in determining the New Caps are substantially in line with the guidelines and objectives under the National 12th Five-Year Plan; (iii) historical transaction amounts under this sub-section indicate an increase of more than 2.3 times in 2010 under the government's stimulus policy and an impressive annual compound growth rate of about 36% during the period from 2008 to 2011; (iv) the shift in product mix toward higher-end heavy-duty vehicles and products will lead to an increase in the transaction amount; and (v) the enhancement and increase in production capacity and capabilities of Shaanxi Automotive (and its associates) will lead to an increase in its purchase requirements from Shaanxi Zhongqi (and its subsidiaries). On this basis, 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) to Shaanxi Automotive (and its associates) for the three years ending 31 December 2013, 2014 and 2015 of RMB2,530 million, RMB2,783 million and RMB3,162.5 million, respectively, 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 and reporting 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 trucks market that will create new business opportunities and result in positive synergistic effects. The continuation of these transactions is important to ensure and maximize operating efficiency and stability of the operations of the Group after completion of the Merger.

– 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 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	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	16,512,000 *(Note 1)*	–	0.83%
Xu Xinyu	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Sun Shaojun	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Zhang Quan	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Liu Huisheng	Beneficial owner	2,304,000 *(Note 1)*	–	0.12%
Yeung Sai Hong *(Note 3)*	Held by controlled corporation	63,168,000 *(Note 2)*	490,812	3.18%
Julius G. Kiss *(Note 4)*	Held by controlled corporation	41,280,000 *(Note 2)*	–	2.06%
Zhang Zhenhua *(Note 5)*	Interest held by spouse	23,520	–	0.001%

Notes:

1. These shares were derived from the previous domestic shares of the Company. The domestic shares were ordinary shares issued by the Company, with a Renminbi denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi or credited as fully paid up. These shares became "A" shares of the Company upon the "A" share listing of the Company on the Shenzhen Stock Exchange.

2. These were previously foreign shares of the Company. The foreign shares were ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in a currency other than Renminbi. These shares became "A" shares of the Company upon the "A" share listing of the Company on the Shenzhen Stock Exchange.

3. Yeung Sai Hong, a non-executive Director, was directly and indirectly interested in the issued share capital of Peterson Holdings Company Limited ("Peterson"), which in turn held 63,168,000 "A" shares in the Company. Yeung Sai Hong was also indirectly interested in the issued share capital of Master Hand Investments Limited, which in turn held 490,812 "H" shares in the Company.

4. Julius G. Kiss, a non-executive Director, was indirectly interested in the entire issued share capital of IVM Technical Consultants Wien Gesellschaft m.b.H. ("IVM"), which in turn held 41,280,000 "A" shares in the Company.

5. Zhang Zhenhua, an independent non-executive Director, was deemed to be interested in 23,520 "A" shares in the Company which were beneficially held by his wife, Ms. Wu Miaodi.

6. All the shareholding interests listed in the above table are "long" position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive nor the supervisors had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO (including interests filed with The Stock Exchange of Hong Kong Limited) shows that as at the Latest Practicable Date, the following persons (other than the Directors, the chief executive and the supervisors) had the following interests and short positions (if any) in the shares and underlying shares of the Company:

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Weichai Group Holdings Limited *(Note 2)*	Beneficial owner	Long	140,198,500	22.23%	–	–	16.83%
Shandong Heavy Industry Group Co., Ltd. *(Note 1) (Note 2)*	Held by controlled corporation	Long	140,198,500	22.23%	–	–	16.83%
State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC") *(Note 1) (Note 2)*	Held by controlled corporation	Long	140,198,500	22.23%	–	–	16.83%
Lazard Asset Management LLC	Investment manager	Long	–	–	63,120,156	12.99%	3.16%
JPMorgan Chase & Co.	Beneficial owner	Long	–	–	9,993,079	2.06%	0.50%
	Custodian – Corporation/ approved lending agent	Long	–	–	28,900,109	5.95%	1.45%
					38,893,188	8.01%	1.95%
	Beneficial owner	Short	–	–	6,020,249	1.24%	0.30%
Schroder Investment Management Limited	Investment manager	Long	–	–	36,396,599	7.49%	1.82%
The Capital Group Companies, Inc. *(Note 3)*	Interest of corporation controlled by the substantial shareholders	Long	–	–	27,669,400	6.84%	1.66%
Lazard Emerging Markets Equity Portfolio *(Note 3)*	Investment manager	Long	–	–	23,707,500	5.86%	1.42%

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Barclays PLC *(Note 3)*	Person having a security interest in shares	Long	–	–	2,271,152	0.56%	0.13%
	Interest of corporation controlled by the substantial shareholder	Long	–	–	19,277,391	4.76%	1.16%
					21,548,543	5.32%	1.29%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	18,619,411	4.60%	1.12%
Morgan Stanley	Interest of corporation controlled by the substantial shareholder	Long	–	–	25,121,724	5.17%	1.26%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	23,150,772	4.77%	1.16%
Earnest Partners, LLC *(Note 3)*	Investment manager	Long	–	–	20,396,980	5.04%	1.22%

Notes:

1. State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC") held the entire share capital of Shandong Heavy Industry Group Co., Ltd., which in turn held the entire share capital of Weichai Group Holding Limited (formerly known as Weifang Diesel Engine Works).

2. The number of A shares held by Weichai Group Holdings Limited (and hence the deemed interest by Shandong Heavy Industry Group Co., Ltd. and Shandong SASAC) as shown above does not take into consideration the Company's two bonus issues of A shares on 6 December 2010 and 17 August 2012 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

3. The number of H shares reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 17 August 2012 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors held offices in the substantial Shareholders set out above:

Name of Director	Positions held in Weichai Holdings	Positions held in Shandong Heavy Industry Group
Tan Xuguang	Chairman	Chairman
Jiang Kui	Vice president	Director, general manager
Xu Xinyu	Director	–
Sun Shaojun	Director	–
Zhang Quan	Director	–
Liu Huisheng	Director	Deputy general manager

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

(a) 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 2011, 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 2011, 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 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) ("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 1.42% interest in the shares of 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 Shaanxi Automotive (and its associates) are also engaged in the manufacture and sale of, inter alia, heavy-duty vehicles/trucks and parts and components.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2012, the date to which the latest audited consolidated financial statements of the Group were made up.

5. 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 24 September 2012 and was made by the Independent Financial Adviser for incorporation in this circular.

6. GENERAL

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

7. 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 24 September 2012 to 8 October 2012 (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 5 of this appendix;

(c) the letter from the Independent Board Committee as set out in this circular; and

(d) 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.

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)

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 197, Section A, Fu Shou East Street, High Technology Development Zone, Weifang, Shandong Province, the People's Republic of China (the "**PRC**") on 30 November 2012 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the matters set out below. Unless the context requires otherwise, terms defined in the circular to the shareholders of the Company (the "**Shareholders**") dated 24 September 2012, 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 supplemental agreement dated 30 August 2012 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."

2. "**THAT** the supplemental agreement dated 30 August 2012 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."

3. "**THAT** the supplemental agreement dated 30 August 2012 referred to in the section headed "II. Continuing connected transactions – 2. Continuing Connected Transaction between Shaanxi Zhongqi (and its subsidiaries) (as the case may be) and Shaanxi Automotive (and its associates) (as the case may be) – 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."

SPECIAL RESOLUTION

4. To consider and, if thought fit, pass the following resolution as a special resolution:

   "**THAT** the following amendments to the articles of association of the Company be and are hereby approved, and any Director be and is hereby authorised to modify such amendments as appropriate (such amendments will not be required to be approved by the shareholders of the Company) and to do all such things as necessary in respect of the amendments to the articles of association of the Company, pursuant to and the requirements (if any) of the relevant authorities of the People's Republic of China (including but not limited to all applications, filings and registrations with the relevant authorities):

   1. In the first paragraph of Article 7 of the Articles of Association, the words "amended at the Company's 2012 first extraordinary general meeting held on 30 November 2012," be added after the words "...... amended at the Company's 2011 annual general meeting held on 29 June 2012,";

   2. The fifth paragraph of Article 195 of the original Articles of Association be deleted in its entirety;

   3. The following two paragraphs be added to Article 199 of the original Articles of Association in front of the original paragraph such that the original paragraph becomes the third paragraph:

      "Profit distribution plan of the Company shall be drafted by the Board of Directors and submitted to the general meeting for consideration and approval. The independent directors shall give their opinions on the profit distribution plan. Opinions of the independent directors shall be disclosed when the Company makes an announcement on board resolutions or a notice convening the relevant general meeting. When the profit distribution plan is considered at the general meeting, a variety of channels shall be provided for communications and exchanges with shareholders (in particular, the minority shareholders), whose opinions and demands shall be fully heard.

Notwithstanding the aforesaid provisions, pursuant to the authorisation given by the shareholders of the Company to the Board of Directors at the general meeting of each year, the Board of Directors may, prior to the next annual general meeting, distribute the interim dividend, in the amount as they may think fit in view of the Company's earnings, to shareholders of the Company from time to time without prior approval from the general meeting.";

4. Article 200 of the original Articles of Association be deleted in its entirety;

5. In Article 201 of the original Articles of Association, the words: "The Company may distribute dividend in cash or in specie (or both).

Dividends or other distributions for ordinary shares shall be denominated in Renminbi. The profit distribution policy of the Company should focus on the reasonable investment return of the investors while ensuring the sustainability and stability. The dividend distribution in cash shall be made in due time, when the cash flow of the Company satisfied the needs for normal production, operation and development.

Dividends or other cash distributions for A shares shall be paid in Renminbi.

Dividends or other cash distributions for overseas listed foreign shares shall be paid in Hong Kong dollar in accordance with the requirements of the state administration of foreign exchange of the PRC. The exchange rate to be used for the conversion shall be the average closing exchange rate of Hong Kong dollars against Renminbi for each of the business days during the week prior to the declaration date as quoted by the People's Bank of China or other exchange rates required or permitted by others laws or regulations decided by the Board of Directors."

be deleted in its entirety and replaced by the words:

"The Company may distribute dividend in cash or in specie (or both), and, provided that the conditions of distribution of dividend in cash as required under this provision are met, priority shall be given to distribution of dividend in cash.

The conditions of distribution of dividend in cash are: (1) the Company recording a profit for the year and the distributable profit (i.e. the after-tax profit of the Company after making up for losses, allocation to the common reserve fund) for the year is positive in value; (2) the Company having no major investment plan or significant cash expenditure (excluding fund-raising activities). Such major investment plan or significant cash expenditure refers to the proposed external investment by the Company with accumulated expenditure within the next twelve months amounting to or exceeding 50% of the latest audited net assets of the Company, or the proposed asset acquisition or facilities procurement by the Company with accumulated expenditure within the next twelve months amounting to or exceeding 30% of the latest audited total assets of the Company; and (3) the Company's funding needs for normal production and operation having been satisfied.

The conditions of distribution of dividend in specie are: provided that reasonable scale of share capital of the Company is ensured, the Company may distribute dividend in specie according to its accumulated distributable profit, common reserve fund and cash flow position.

The Company shall distribute profit at least once a year, and the accumulated profit distribution made in cash by the Company in the latest three years shall not be less than 30% of the average annual distributable profit realised in the latest three years.

Dividends or other distributions for ordinary shares shall be denominated in Renminbi. The profit distribution policy of the Company should focus on the reasonable investment return of the investors while ensuring the Company's sustainable development and maintaining sustainability and stability.

Dividends or other cash distributions for A shares shall be paid in Renminbi.

Dividends or other cash distributions for overseas listed foreign shares shall be paid in Hong Kong dollar in accordance with the requirements of the state administration of foreign exchange of the PRC. The exchange rate to be used for the conversion shall be the average closing exchange rate of Hong Kong dollars against Renminbi for each of the business days during the week prior to the declaration date as quoted by the People's Bank of China or other exchange rates required or permitted by others laws or regulations decided by the Board of Directors.";

6. In Article 202 of the original Articles of Association, the words: "Subject to the authorisation of the general meeting, the Board of Directors may distribute interim dividends or bonuses."

be deleted in its entirety and replaced by the words:

"If, due to significant changes in the Company's operating conditions, investment planning and needs for long-term development, it is necessary to adjust the profit distribution policy as set out in these Articles, the Board of Directors of the Company shall submit a proposal for adjustment to the profit distribution policy based on actual circumstances. The adjusted profit distribution policy shall focus on protecting the interests of the shareholders and shall not violate the relevant requirements of the China Securities Regulatory Commission and the Stock Exchange. The independent directors shall give audit opinions on the adjusted profit distribution policy. Such adjustment is subject to consideration and approval by more than two-thirds of the voting rights represented by the shareholders present at the general meeting.";

7. The numbering of the chapters and provisions of the original Articles of Association be amended accordingly pursuant to the above amendments to the Articles of Association *(Note J)*."

By Order of the Board of Directors
Weichai Power Co., Ltd.
Hoe York Joo
Company Secretary

Hong Kong, 24 September 2012

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 30 October 2012 to 30 November 2012 (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 close of business on Monday, 29 October 2012 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 29 October 2012. 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 10 November 2012). 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) Since the Company is a PRC incorporated company and the official articles of association of the Company are in the Chinese language, the above proposed amendments are an unofficial English language translation (the "**English Translation**") of the official proposed amendments in the Chinese language (the "**Official Amendments**"), which are set out in the Chinese language version of this notice. Accordingly, in the event of any inconsistency between the English Translation and the Official Amendments, the Official Amendments shall prevail.