THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

NON-EXEMPT CONTINUING CONNECTED TRANSACTION
PRC CONTINUING CONNECTED TRANSACTIONS

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

昱豐融資有限公司
CERES CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 19 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 Transaction (as defined in this circular) is set out on pages 21 to 42 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, inter alia, the Supplemental Agreement (as defined in this circular) in respect of the Non-exempt Continuing Connected Transaction (as defined in this circular) and the relevant New Caps (as defined in this circular) and the PRC Continuing Connected Transactions (as defined in this circular) will be issued by the Company on or before 30 September 2013.

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

17 September 2013

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

"0.1% Threshold"	the thresholds referred to in Rule 14A.33(3)(a) of the Listing Rules
"1% Threshold"	the thresholds referred to in Rule 14A.33(3)(b) of the Listing Rules
"5% Threshold"	the thresholds referred to in Rule 14A.34 of the Listing Rules
"Baoji Huashan"	寶雞華山工程車輛有限責任公司 (Baoji Huashan Engineering Vehicles Co. Ltd.), a company established in the PRC and a connected person of the Company
"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"	the continuing connected transaction of the Group set out in the section headed "II. Continuing Connected Transaction" in this circular
"Director(s)"	the director(s) of the Company
"Dongfeng Axle"	陝西東風車橋傳動系統股份有限公司 (Shaanxi Dongfeng Axle Transmission Axle System Co., Ltd.), a company established in the PRC and a connected person of the Company
"EGM"	the extraordinary general meeting of the Company to be held on 15 November 2013 to consider and, if thought fit, approve, *inter-alia*, the New Caps and the Supplemental Agreement, and the PRC Continuing Connected Transactions

"Exempt Continuing Connected Transactions"	being those continuing connected transactions as set out in the announcement of the Company dated 29 August 2013, the proposed New Caps for which do not exceed the 5% Threshold and, accordingly, and are not subject to the approval by the Independent Shareholders under the Listing Rules and, where such New Caps exceed the 0.1% Threshold or the 1% Threshold (as the case may be), are only subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules
"Existing Cap(s)"	the existing cap(s) for the Continuing Connected Transaction set out in the section headed "II. Continuing Connected Transaction" in this circular
"Group"	the Company and its subsidiaries
"Hande Axle"	陝西漢德車橋有限公司 (Shaanxi Hande Axle Co., Ltd.), a company established in the PRC and is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi
"Huazhen Trading"	陝西華臻工貿服務有限責任公司 (Shaanxi Huazhen Industry and Trading Services Co., Ltd.), a company established in the PRC and a connected person of the Company
"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 Transaction
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM in respect of the Non-exempt Continuing Connected Transaction
"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"	13 September 2013
"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 Transaction" in this circular
"Non-exempt Continuing Connected Transaction"	being the Continuing Connected Transaction, the proposed New Caps for which exceed the 5% Threshold, and, accordingly, they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 of the Listing Rules, the announcement requirement in Rule 14A.47 of the Listing Rules and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules and approval of the Independent Shareholders at the EGM will be required
"PRC"	the People's Republic of China
"PRC Continuing Connected Transactions"	the Continuing Connected Transactions set out in the section headed "IV. PRC Continuing Connected Transactions" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Shaanqi Holdings"	陝西汽車控股集團有限公司 (Shaanxi Automobile Holding Group Co., Ltd.), a company established in the PRC and a connected person of the Company
"Shaanqi Industry"	陝西汽車實業有限公司 (Shaanxi Automobile Industry Co., Ltd.), a company established in the PRC and a connected person 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 Dongming"	陝西東銘車輛系統股份有限公司 (Shaanxi Dongming Vehicle System 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 Automotive Import and Export Co., Ltd.), 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"	陝西同創華亨汽車散熱裝置有限責任公司 (Shaanxi Tongchuang Huaheng Vehicle Radiator Co. Ltd.), a company established in the PRC and a connected person of the Company
"Shaanxi Tongjia"	陝西通家汽車有限責任公司 (Shaanxi Tongjia Vehicle 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
"Shandong Heavy Industry"	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.), a substantial shareholder and connected person of the Company, the entire capital of which is held by the State-owned Assets Supervision and Administration Commission of Shandong Province
"Shareholder(s)"	holder(s) of the shares of the Company
"Shenzhen Listing Rules"	《股票上市規則》("listing rules") of the Shenzhen Stock Exchange

"Supplemental Agreement"	the supplemental agreement relating to the Continuing Connected Transaction entered into between the Group and the relevant connected persons as more particularly set out in the section headed "II. Continuing Connected Transaction" in this circular
"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
"Tiangua"	天津市天掛車輛有限公司 (Tianjin City Tiangua Vehicles Company Limited), a company established in the PRC and is a held as to approximately 51% by Shaanxi Zhongqi
"Weichai Heavy Machinery"	濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.) (formerly known as 山東巨力股份有限公司 (Shandong Juli Company Limited)), a company established in the PRC and a connected person of the Company
"Weichai Holdings"	濰柴控股集團有限公司 (Weichai Group Holdings Limited) (formerly known as 濰坊柴油機廠 (Weifang Diesel Engine Works)), a legal person established in the PRC, a substantial shareholder of the Company and a connected person of the Company
"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
"Xian Lande"	西安蘭德新能源汽車技術開發有限公司 (Xian Lande New Engergy Techonology Development Co., Ltd.), a company established in the PRC and a connected person of the Company
"Xunyang Baotong"	陝西汽車集團旬陽寶通專用車有限公司 (Shaanxi Vehicle Group Xunyang Baotong Special Purpose Vehicle Co., Ltd.), a company established in the PRC and a connected person of the Company
"Yanan Vehicle"	陝西汽車集團延安專用車有限公司 (Shaanxi Vehicle Group Yanan Special Purpose Vehicle 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
Gordon Riske

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:
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Shandong Province
The People's Republic of China

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Room 3407–3408
34/F, Gloucester Tower
Landmark
15 Queen's Road Central
Hong Kong

17 September 2013

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

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION
PRC CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to the announcement of the Company dated 29 August 2013 which announces that , *inter alia,* on 29 August 2013, the Group has entered into the Supplemental Agreement.

This circular gives you further information in relation to the Non-exempt Continuing Connected Transaction 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 Transaction.

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

II. CONTINUING CONNECTED TRANSACTION

The Non-exempt Continuing Connected Transaction is the following Continuing Connected Transaction.

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
Shaanxi Automotive (and its associates) *(note 6)*	Shaanxi Zhongqi *(note 1)*, Hande Axle *(note 2)*, Jinding *(note 3)*, Shaanxi Import and Export *(note 4)* and Tiangua *(note 5)*	Holder of 49% of the equity of Shaanxi Zhongqi	Purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)

Notes:

1. Shaanxi Zhongqi is a 51% subsidiary of the Company.

2. Hande Axle is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi.

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

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

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

6. As more particularly described in the section headed "II. Continuing Connected Transaction — Continuing Connected Transaction between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)" in this circular.

A summary of the proposed New Caps for the Non-exempt Continuing Connected Transaction is set out below:

Connected person and details of the relevant Continuing Connected Transaction	New Caps 2014 *RMB*	2015 *RMB*	2016 *RMB*
Shaanxi Automotive (and its associates)			
Purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)	3,200,000,000#	3,800,000,000#	4,600,000,000#

Note:

Where a New Cap is marked "#", that means the relevant Continuing Connected Transaction is a Non-exempt Continuing Connected Transaction, because it exceeds the 5% Threshold and is subject to the approval by the Independent Shareholders.

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.

Shaanqi Holdings holds approximately 55.71% of the equity interest in Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanqi Holdings is principally engaged in vehicle industry, business investment, investment management and consultancy.

Shaanqi Industry is held as to approximately 60.09% by Shaanqi Holdings and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanqi Industry is principally engaged in project investment, asset management, logistic service and management, venue rental, investment management and consultancy.

Shaanxi Wanfang is wholly-owned 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 vehicles and 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 vehicles and parts and components of vehicles.

Shaanxi Lantong is held as to approximately 59% 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.

Baoji Huashan is held as to approximately 58.42% by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Baoji Huashan is principally engaged in the manufacture and sale of special purpose vehicles and their parts and components.

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

Wenzhou Yunding is held as to approximately 30% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Wenzhou Yunding is principally engaged in the production and sale of special-purpose vehicles and parts and components.

Changsha Huantong is held as to approximately 51% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Changsha Huantong 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 accordingly an associate of Shaanxi Automotive and a connected person of the Company. Xunyang Baotong is principally engaged in the manufacture and sale of parts and components of vehicles.

Dongfeng Axle is held as to approximately 45.73% by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Dongfeng Axle is principally engaged in the production and sale of vehicle parts and components.

Xian Lande is wholly-owned by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Xian Lande is principally engaged in the development of new energy vehicle technology, technical consultation, technical service, technology transfer, production and sale of vehicle parts, and sale of vehicles (excluding cars).

Shaanxi Tongli is held as to approximately 99% 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 export of vehicles (excluding cars), vehicle parts and components and engineering machines, and vehicle maintenance.

Shaanxi Tongjia is held as to approximately 57.92% by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Tongjia is principally engaged in the research and development, production and sale of micro cars, multi-purpose trucks and sport utility vehicles.

Shaanxi Dongming is held as to approximately 73.48% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Dongming is principally engaged in the research and development, production and sale of vehicle parts and components, electric axles, low-speed electric vehicles and sale of heavy-duty vehicles.

Yanan Vehicle is held as to approximately 51% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Yanan Vehicle is principally engaged in the manufacture, research and development, and sale of special purpose vehicles.

Huazhen Trading is wholly-owned by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Huazhen Trading is principally engaged in logistic management and service, and the sale of scrap metals and non-metal recycle resources.

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

Agreement:	Supplemental agreement to the parts and components and scrap steel purchase agreement ("**Shaanxi Zhongqi Purchase Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008 and 23 August 2010, respectively)
Date:	29 August 2013
Parties:	1. (a) Shaanxi Zhongqi (b) Hande Axle (c) Jinding (d) Shaanxi Import and Export (e) Tiangua 2. (a) Shaanxi Automotive (b) Shaanqi Holdings (c) Shaanqi Industry (d) Shaanxi Wanfang (e) Shaanxi Huazhen (f) Shaanxi Lantong (g) Shaanxi Tongchuang (h) Baoji Huashan (i) Shaanxi Fangyuan (j) Wenzhou Yunding (k) Changsha Huantong (l) Xunyang Baotong (m) Dongfeng Axle (n) Xian Lande (o) Shaanxi Tongli (p) Shaanxi Tongjia (q) Shaanxi Dongming (r) Yanan Vehicle (s) Huazhen Trading
Term:	1 January 2014 to 31 December 2016

Other terms and details:

Pursuant to the Shaanxi Zhongqi Purchase Agreement dated 1 August 2007 (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua) has purchased certain parts and components of vehicles, scrap steel and related products (as the case may be) from certain associates of Shaanxi Automotive (as set out in the 2010 announcement of the Company dated 23 August 2010) (and/or other associates of Shaanxi Automotive) (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2013, upon the expiry of the same, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of Shaanxi Zhongqi, Hande Axle, Jinding, Shaanxi Import and Export and Tiangua (and/or other subsidiaries of Shaanxi Zhongqi) (as the case may be) shall purchase certain parts and components of vehicles, scrap steel and related products (as the case may be) from Shaanxi Automotive and its associates (as set out above) (and/or other associates of Shaanxi Automotive) (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term of three years ending 31 December 2016. In determining the market or purchase prices of the goods under the Shaanxi Zhongqi Purchase Agreement, Shaanxi Zhongqi (and its subsidiaries) will consider the overall market condition, the costs of materials and production or any processing fees to be involved, and the value or price that can be realised by the Group from the onward sale of the finished products to its customers.

The table below summaries the Existing Caps for the three years ending 31 December 2013 for the Continuing Connected Transaction set out in this section:

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

The table below summarises the actual aggregate transaction amounts involved for the two years ended 31 December 2012 (audited) and the six months ended 30 June 2013 (unaudited) for the Continuing Connected Transaction set out in this sub-section:

	Year ended 31 December		**Six months ended 30 June**
	2011	**2012**	**2013**
	RMB	*RMB*	*RMB*
	(audited)	(audited)	(unaudited)
Actual transaction amount	1,556,202,000	1,471,075,000	1,005,780,000

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

Since Shaanxi Zhongqi and its subsidiaries set out above are principally engaged in the manufacture and sale of heavy-duty vehicles and related products, the Directors believe that such businesses will be benefited by the above. The Directors believe that the demand for the products of Shaanxi Zhongqi and its subsidiaries and, accordingly, the volume of parts and components required from Shaanxi Automotive and/or its associates for the production of such products, will increase substantially for the three years ending 31 December 2016 as compared to the transaction amounts for the last two years.

The Company estimates that the transaction amounts in respect of the Continuing Connected Transaction set out in this section will not exceed RMB3,200,000,000, RMB3,800,000,000 and RMB4,600,000,000, respectively, for each of the three years ending 31 December 2016 and such amounts have accordingly been set as the New Caps for this Continuing Connected Transaction.

The proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical transaction amounts; (ii) the estimated increase in the volume and price of the parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries (as the case may be); and (iii) the sales plan of Shaanxi Zhongqi and its subsidiaries, pursuant to which the sales of natural gas heavy-duty trucks and export products are expected to increase. The Group has estimated an annual increase of about 4% to 5.5% in the volume and price of the parts and components of vehicles and related products to be purchased from Shaanxi Automotive (and its associates) due primarily to the increase in the value of the relevant goods as a result of the Group shifting its product mix toward higher-end heavy-duty vehicles and natural gas heavy-duty trucks. The Group has also estimated under the said sales plan an annual growth in its sales volume of about 17.9%, 14.5% and 16% for 2014, 2015 and 2016, respectively, based on its analysis of the economic conditions in China, the size, structure and development of the overall heavy-duty trucks market in China, and the business opportunities presented under the National 12th Five-year Plan and the PRC government's economic development and reform policies. The proposed New Caps, which have been set after taking into account all the aforesaid factors, represent an overall increase of approximately 18.75% and 21.05% for each of the years ending 31 December 2015 and 2016, respectively. As indicated in the table above, the actual transaction amount of this Continuing Connected Transaction in the first six months of 2013 increased by approximately 36.7% from that in 2012 on an annualised basis. The proposed New Cap of RMB3,200 million for the year ending 31 December 2014 represents an increase of approximately 59.1% over the actual transaction amount for the first six months of 2013 on an annualised basis. Substantial growth in the transaction amount has been recorded in the second quarter of 2013, which represented an increase of approximately 49.5% over the transaction amount for the first quarter of 2013. Such increase was due to the additional purchase requirements of Shaanxi Zhongqi (and its subsidiaries) to cope with the increase in demand for its heavy-duty trucks, which was driven by (i) the recovery of the overall market condition; (ii) the advance purchases ahead of the anticipated implementation of the China IV Emission Standards for trucks; and (iii) the replacement cycle of a significant quantity of heavy-duty trucks which were sold during the high-growth period from 2006 to 2010. In view of the upward trend in the transaction amount as indicated by the actual transaction amount in the second quarter of 2013 and the expected improvement in the overall heavy-duty trucks market in the second half of 2013 and onwards, the proposed New Cap of RMB3,200 million has been set for the year ending 31 December 2014.

The table below summarises the proposed New Caps for the Continuing Connected Transaction set out in this section for the three years ending 31 December 2016:

	2014	**2015**	**2016**
	RMB	*RMB*	*RMB*
New Cap	3,200,000,000	3,800,000,000	4,600,000,000

As all the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2016 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 2016 is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the approval of the Independent Shareholders, this Supplemental Agreement is conditional upon the said resolution being passed at the EGM.

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

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

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

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

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

IV. PRC CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 29 August 2013 which announces that the Company has entered into certain Exempt Continuing Connected Transactions which constitute PRC Continuing Connected Transactions. A summary of the PRC Continuing Connected Transactions and the relevant new caps are set out below:

PRC Continuing Connected Transactions

	Connected person and details of relevant PRC Continuing Connected Transactions	**New Caps 2014** *RMB*	**2015** *RMB*	**2016** *RMB*
1.	**Weichai Holdings (and its associates)**			
(a)	Provision of general services and labour services by Weichai Holdings (and its associates) to the Company (and its subsidiaries)	110,000,000	135,000,000	160,000,000
(b)	Supply and/or connection of utilities by Weichai Holdings (and its associates) to the Company (and its subsidiaries)	150,000,000	180,000,000	220,000,000
(c)	Purchase of diesel engine parts and components, gas, scrap metals, materials, diesel engines and related products and processing services by the Company (and its subsidiaries) from Weichai Holdings (and its associates)	300,000,000	360,000,000	432,000,000
(d)	Sale of diesel engines, diesel engine parts and components, materials, semi-finished products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)	350,000,000	420,000,000	510,000,000

Connected person and details of relevant PRC Continuing Connected Transactions	New Caps 2013 RMB	2014 RMB	2015 RMB	2016 RMB
2. Weichai Heavy Machinery (and its subsidiaries)				
(a) Purchase of diesel engine parts and components, materials, steel and scrap metal, diesel engines and related products and processing and labour services by the Company (and its subsidiaries) from Weichai Heavy Machinery (and its subsidiaries)	–	790,000,000	950,000,000	1,140,000,000
(b) Sale of diesel engines and related products by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)	420,000,000	620,000,000	750,000,000	–
(c) Supply of semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provision of labour services by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)	320,000,000	410,000,000	500,000,000	–

The Company confirms that, as set out in the announcement of the Company dated 29 August 2013, the PRC Continuing Connected Transactions constitute Exempt Continuing Connected Transactions and are, accordingly, not subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, the PRC Continuing Connected Transactions are subject to the approval by the Shareholders at the EGM.

For details, please refer to (i) the announcement of the Company entitled《濰柴動力股份有限公司日常持續性關聯交易公告》(“Announcement of Weichai Power Co., Ltd. in respect of its Continuing Connected Transactions in the Ordinary Course of Business”) dated 29 August 2013 on the Shenzhen Stock Exchange and (ii) the section headed “II.A. Weichai Continuing Connected Transactions” in the announcement of the Company dated 29 August 2013 in respect of the continuing connected transactions of the Company.

V. EGM

It is proposed that, the New Caps and the Supplemental Agreement in respect of the Non-exempt Continuing Connected Transaction, and the PRC Continuing Connected Transactions, shall be considered and, if thought fit, approved at the EGM.

A notice setting out, inter alia, the resolutions in respect of the New Caps and the Supplemental Agreement in respect of the Non-exempt Continuing Connected Transaction, and the PRC Continuing Connected Transactions, will be issued by the Company on or before 30 September 2013. No Shareholder is required to abstain from voting in respect of the resolutions for approval of the New Caps and the Supplemental Agreement, and no Shareholders (save as set out in the notice of the EGM) is required to abstain from voting in respect of the resolution in respect of the PRC Continuing Connected Transactions, and it is a requirement of the Listing Rules that such voting must be taken by poll. At the meeting of the Board on 29 August 2013 approving, *inter alia*, the Non-exempt Continuing Connected Transaction, Mr. Fang Hongwei has abstained from voting on the resolution in respect of the Non-exempt Continuing Connected Transaction. Save as disclosed herein, none of the Directors has any material interest in the Non-exempt Continuing Connected Transaction.

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

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 Agreement in respect of the Non-exempt Continuing Connected Transaction 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 Transaction 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 Agreement in respect of the Non-exempt Continuing Connected Transaction 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 Agreement in respect of the Non-exempt Continuing Connected Transaction, which are set out in this circular.

VII. FURTHER INFORMATION

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

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

WEICHAI
濰柴動力股份有限公司
WEICHAI POWER CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2338)

17 September 2013

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

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. to consider the New Caps (as defined in the circular of the Company dated 17 September 2013) (the "**Circular**") in relation to the Non-exempt Continuing Connected Transaction, details of which are set out in the section headed "II. Continuing Connected Transaction" 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 Transaction as set out in the "Letter from the Independent Financial Adviser on the Non-exempt Continuing Connected Transaction" 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 Transaction and the New Caps are fair and reasonable and the Non-exempt Continuing Connected Transaction is in the interest of the Company and its shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement and the New Caps for the Non-exempt Continuing Connected Transaction.

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 17 September 2013 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 Transaction 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

17 September 2013

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION 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 Agreement governing the Non-exempt Continuing Connected Transaction and the relevant New Caps, details of which are set out in the circular to the Shareholders dated 17 September 2013 (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 Agreement governing the Non-exempt Continuing Connected Transaction and the relevant New Caps. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 29 August 2013, the Board announced, among other things, that the Group entered into the Supplemental Agreement with Shaanxi Automotive (and its associates) to govern the conduct of the Continuing Connected Transaction from 1 January 2014 to 31 December 2016. Since the New Caps for the Continuing Connected Transaction with Shaanxi Automotive (and its associates) exceed the 5% Threshold, this transaction constitutes a Non-exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Supplemental Agreement 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 Agreement is 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 Agreement are normal commercial terms and are fair and reasonable; (iii) whether the New Caps are fair and reasonable; and (iv) whether the Independent Shareholders should vote in favour of the ordinary resolution to approve the Supplemental Agreement and the 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 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 as 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 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 Transaction, 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 Hong Kong Listing Rules.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Supplemental Agreement and the New Caps for the three years ending 31 December 2016, 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 2012 (the "**2012 Annual Report**"), the Company is one of the largest manufacturers of high-power and 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 15 tonnes (and above) and for construction machinery (mainly wheel loaders) with a load capacity of 5 tonnes (and above) in the PRC. In 2012, the Group sold about 207,500 units of diesel truck engines, representing a market share of about 32.6% based on the total domestic sales of about 636,000 units of heavy-duty trucks with a gross weight of above 14 tonnes in the PRC for the same period. The Group also sold about 62,600 units of construction machinery engines in 2012 for wheel loaders with a load capacity of 5 tonnes (and above), maintaining a leading position in the industry with a market share over 60%.

During 2012, the Group also sold over 80,500 units of heavy-duty trucks, and about 452,000 units of heavy-duty gear boxes. Based on such sales volume and the total domestic sales of about 636,000 units of heavy-duty trucks in the PRC in 2012, the Group had also maintained a dominant 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 2012, the Group's sales of such parts and components amounted to approximately RMB2,129 million, representing about 4.4% of its total turnover.

The following is a summary of the audited financial results of the Group for each of the four years ended 31 December 2009, 2010, 2011 and 2012, which are extracted from the Company's annual reports for 2010, 2011 and 2012, and the unaudited interim results of the Group for the six months ended 30 June 2013.

					Six months ended 30 June
		Year ended 31 December			
	2009	**2010**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(audited)	(unaudited)
Turnover	35,260,899	63,279,564	60,019,265	48,165,395	30,921,619
Profit attributable to the Shareholders	3,406,935	6,782,145	5,596,927	2,990,997	2,084,967

Following the business expansion from the research, production and sale of engines and related products, to include heavy-duty vehicles, gear boxes and other parts and components of vehicles by way of the Merger which was completed in 2007, the Group had recorded substantial growth in both its turnover and net profit. 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 Chinese 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, as the Chinese government continued to implement its proactive fiscal and monetary policies, 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 Company's 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 2012, amidst the complexity and recessionary pressure of the world economy, 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 year ended 31 December 2012, the Group recorded a turnover of approximately RMB48,165 million, representing a drop of approximately 19.8% compared with that for 2011. Profit attributable to the Shareholders for the same period also declined by approximately 46.6% to approximately RMB2,991 million due primarily to the drop in revenue as well as the decrease in profit margin as a result of the adjustment to product structure.

In the first half of 2013, the Group recorded a turnover of approximately RMB30,922 million, representing an increase of approximately 14.3% compared to that for the corresponding period in 2012. Profit attributable to the Shareholders for the same period also increased by approximately 9.9% to approximately RMB2,085 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"), Shaanxi Zhongqi and its subsidiaries which are parties to the Supplemental Agreement are principally engaged in the manufacture and sale of heavy-duty vehicles and related products.

The economic development in China has a significant impact on the heavy-duty vehicles industry as economic growth would generally result in increased demand for bulk commodities. 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 the United States and Europe. According to statistics issued by the National Bureau of Statistics of China, China's GDP reached RMB34.09 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 by 10.4% to hit RMB40.15 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 investments. 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 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 9.3%, 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 full-year growth rate eased to 7.8% in 2012. According to the National Bureau of Statistics, in the first half of 2013 China's GDP growth slowed to 7.6%, just ahead of the government's official full-year growth target of 7.5%.

During the past few years, the thriving heavy-duty vehicles 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 vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles 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 Chinese 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. However, beginning in 2011, the growth momentum of the heavy-duty vehicles sector began to slow 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 636,000 units in 2012, representing a drop of about 27.8%. In the first half of 2013, the heavy-duty trucks market showed signs of recovery and the domestic sales volume of heavy-duty trucks increased by about 8.4% year-on-year to about 402,700 units.

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 economic reform towards a market-oriented economy, its economic development remains largely planned and managed through the implementation of the National Five-Year Plan which largely involved 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. The 12th Five-Year Plan also sets out seven major new strategic industries, for which favorable policies will be implemented to nurture their development over the five–year period. The strategic industries include new energy, biotechnology, new-generation information technology, high-end equipment manufacturing, advanced materials, alternative-fuel cars, and energy-saving and environmental protection.

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, present Premier Li Keqiang has reiterated that the Chinese government should focus on stable and real growth in order to drive economic and social development. Premier Li has expounded the importance of urbanization as the driver of development for China as the world's second largest economy. He has also emphasized that urbanization is about a complete change from rural to urban style in terms of industry structure, employment, living environment and social security, and has the greatest potential for boosting domestic demand. On 18 May 2013, the National Development and Reform Commission ("NDRC") released the guidelines to deepen economic reform in a further step to seek stable growth and promote economic transformation. Priorities have been set in, among others, fiscal and financial reforms to stimulate the real economy and to promote an energy-saving and environmentally friendly development. The guidelines have also called for reforms in urbanization strategy and a coordinated urban-rural development. According to the NDRC, a medium- to long-term urbanization development plan will emerge within 2013 as planned.

As reported by Xinhua News, President Xi Jinping said during a study session with members of the Political Bureau of the Communist Party of China Central Committee on 24 May 2013 that China will not sacrifice the environment for temporary economic growth, and will have to carefully balance economic development and environmental protection. According to a statement released after the meeting of the Political Bureau presided over by President Xi Jinping on 30 July 2013, China's economy will maintain steady growth in the second half of 2013 amid extremely complicated domestic and international conditions. It was also stated that the Chinese government has pledged to maintain reasonable investment growth, push forward with urbanization and promote a steady and healthy development of the property market.

Driven by the government's commitment to the continued construction of transport system aimed for the integrated development of central and western China, the construction of affordable, government-subsidized housing 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 sustainable development, it is expected that China will see reasonable and stable investment growth in the years to come. Along with the expected increase in construction activities, the demand for heavy-duty vehicles and related parts and components in China is also expected to grow steadily in the coming few years.

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 2012 Annual Report, among other things, that it will step up its efforts in developing the technological reserve in areas including new energy sources, hybrid systems and automobile electronics, and proactively push forward upgrading industrial-related technologies. Research of the new generation of heavy-duty trucks will also be expedited to enhance the technological contents of such products. 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 as well as the plans for economic reform and industrial transformation under the new administration since early 2013. It is therefore expected that the heavy-duty vehicles and related parts and components businesses 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 possibility of continuous or deepening economic downturn particularly in the United States and Europe and the political instability in the Middle East, may further affect the macroeconomic environment in China. China's economic growth may or may not be sustainable in a worsening global economic environment and in the absence of new stimulus measures by the government. In particular, the fiscal and monetary policies adopted by the government are key factors 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 Agreement

As stated in the Letter from the Board, 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. Pursuant to the Supplemental Agreement, the Non-exempt Continuing Connected Transaction is conducted between Shaanxi Zhongqi (and its subsidiaries, including Hande Axle, Jinding, Shaanxi Import and Export, and Tiangua) and Shaanxi Automotive and its associates, including:

– Shaanqi Holdings which holds approximately 55.71% of the equity interest in Shaanxi Automotive;

– Shaanqi Industry which is held as to approximately 60.09% by Shaanqi Holdings;

– Shaanxi Wanfang which is wholly-owned by Shaanxi Automotive;

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

– Shaanxi Lantong which is held as to approximately 59% by Shaanxi Automotive;

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

– Baoji Huashan which is held as to approximately 58.42% by Shaanqi Industry;

– Shaanxi Fangyuan which is wholly-owned by Shaanxi Automotive;

– Wenzhou Yunding which is held as to approximately 30% 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 45.73% by Shaanqi Industry;

– Xian Lande which is wholly-owned by Shaanxi Automotive;

– Shaanxi Tongli which is held as to approximately 99% by Shaanxi Automotive;

– Shaanxi Tongjia which is held as to approximately 57.92% by Shaanqi Industry;

– Shaanxi Dongming which is held as to approximately 73.48% by Shaanxi Automotive;

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

– Huazhen Trading which is wholly-owned by Shaanqi Industry.

Most of the above associates of Shaanxi Automotive are principally engaged in the business related to the manufacture and/or sale of vehicles, parts and components of vehicles, and/or related services. Details of the principal business of each of these associates of Shaanxi Automotive are set out in the Letter from the Board.

2. Reasons for the Non-exempt Continuing Connected Transaction

As stated in the Letter from the Board, prior to completion of the Merger, Shaanxi Zhongqi had conducted the relevant Continuing Connected Transaction with Shaanxi Automotive (and its associates) for many years. The Company has taken up such Continuing Connected Transaction after completion of the Merger and the Directors consider it to be beneficial to the Company to continue the Continuing Connected Transaction 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.

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 powertrain 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 640,000 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 present Premier Li Keqiang, former Premier Wen Jiabao, and Jia Qinglin, former 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, former 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. Based on the sales volume in 2012, Shaanxi Automotive has a market share close to 50% in natural gas powered heavy-duty vehicles in China.

With the implementation of China's policies on environmental protection and energy conservation, 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 Transaction with Shaanxi Automotive (and its associates) so long as the terms of the transactions are fair and reasonable.

3. Non-exempt Continuing Connected Transaction between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates) — Purchase of parts and components of vehicles, scrap steel and related products

(a) Principal terms of the Supplemental Agreement

Pursuant the Shaanxi Zhongqi Purchase Agreement (as supplemented by the supplemental agreements dated 27 November 2008 and 23 August 2010), each of Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export, and Tiangua) has purchased certain parts and components of vehicles, scrap steel and related products (as the case may be) from certain associates of Shaanxi Automotive (as set out in the announcement of the Company dated 23 August 2010), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2013, 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 Supplemental Agreement, each of Shaanxi Zhongqi, Hande Axle, Jinding, Shaanxi Import and Export, and Tiangua and/or other subsidiaries of Shaanxi Zhongqi (as the case may be) shall purchase certain parts and components of vehicles, scrap steel and related products (as the case may be) from Shaanxi Automotive and its associates (namely, Shaanqi Holdings, Shaanqi Industry, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Lantong, Shaanxi Tongchuang, Baoji Huashan, Shaanxi Fangyuan, Wenzhou Yunding, Changsha Huantong, Xunyang Baotong, Dongfeng Axle, Xian Lande, Shaanxi Tongli, Shaanxi Tongjia, Shaanxi Dongming, Yanan Vehicle and Huazhen Trading) (and/or other associates of Shaanxi Automotive) (as the case may be) for a term of three years ending 31 December 2016, 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 Purchase Agreement remain unchanged.

Pursuant to the Shaanxi Zhongqi Purchase 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 Purchase Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As stated in the Letter from the Board, in determining the market or purchase prices of the goods under the Shaanxi Zhongqi Purchase Agreement, Shaanxi Zhongqi (and its subsidiaries) will consider the overall market condition, the costs of materials and production or any processing fees to be involved, and the value or price that can be realized by the Group from the onward sale of the finished products to its customers. As advised by the Group, since Shaanxi Zhongqi (and its subsidiaries) may purchase parts and components of vehicles and related products from both Shaanxi Automotive (and its associates) and independent third parties, they will not purchase the relevant goods from Shaanxi Automotive (and its associates) if it is more commercially sensible to purchase the same goods from independent third party suppliers. We consider that such price determination process of the Group demonstrates a normal commercial approach and should result in market prices or fair and reasonable prices for the relevant transactions.

We have reviewed 10 sets of purchase invoice samples for parts and components of vehicles between Shaanxi Zhongqi and its suppliers, including Shaanxi Automotive (and its associates) and independent third party suppliers. We have noted that the purchase prices of parts and components payable by Shaanxi Zhongqi (and its subsidiaries) to Shaanxi Automotive (and its associates) under the sampled transactions were generally no less favourable to Shaanxi Zhongqi (and its subsidiaries) than those offered by independent third party suppliers having regard to the quantity and product type under the transactions.

We have noted from the 2012 Annual Report that the Group's trade payables were generally settled within three to four months. As indicated in the 2012 Annual Report, the Group had audited trade payables of approximately RMB9,962 million as at 31 December 2012, of which about 92% aged within three months. According to the Company's 2013 interim report, the Group had unaudited trade payables of approximately RMB15,312 million as at 30 June 2013, of which about 88% aged within three months. Based on such accounts payable aging analysis, we consider that the settlement term of one to three months obtained by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) under the Shaanxi Zhongqi Purchase Agreement is in line with the Group's normal commercial terms.

In summary, (i) the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is conducted in the ordinary and usual course of business of the Group; (ii) the prices of the goods under this Non-exempt Continuing Connected Transaction shall be market prices or prices determined according to the principle of fairness and reasonableness; and (iii) the credit term of one to three months obtained by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is in line with the credit terms obtained by the Group from its suppliers in general. On this basis, we are of the opinion that the Supplemental Agreement governing the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) 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.

(b) Rationale for determining the New Caps

The table below sets out (i) the actual transaction amounts involved in the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for the years ended 31 December 2011 and 31 December 2012, and the six months ended 30 June 2013; and (ii) the proposed New Caps for the Non-exempt Continuing Connected Transaction for the three years ending 31 December 2016.

	Purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) *(RMB'000)*	**Increase/ (Decrease) as compared to the preceding financial year/period** *(%)*
Actual transaction amounts:		
2011	1,556,202	N/A
2012	1,471,075	(5.5)
6 months up to 30 June 2013 *Note 1*	1,005,780	36.7
New Caps:		
2014 *Note 2*	3,200,000	59.1
2015	3,800,000	18.8
2016	4,600,000	21.1

Notes:

1. The percentage change is calculated on an annualized basis.

2. The percentage change is calculated by comparison with the transaction amount for the six months ended 30 June 2013 on an annualized basis.

The proposed New Caps for the above Non-exempt Continuing Connected Transaction are RMB3,200 million, RMB3,800 million and RMB4,600 million for the three years ending 31 December 2014, 2015 and 2016, respectively. As stated in the Letter from the Board, the New Caps have been prepared by the Group primarily based on (i) the relevant historical transaction amounts; (ii) the estimated increase in the volume and price of the parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries (as the case may be); and (iii) the sales plan of Shaanxi Zhongqi and its subsidiaries, pursuant to which the sales of natural gas heavy-duty trucks and export products are expected to increase. The Group has estimated an annual increase of about 4% to 5.5% in the volume and price of the parts and components of vehicles and related products to be purchased from Shaanxi Automotive (and its associates) due primarily to the increase in the value of the relevant goods as a result of the Group shifting its product mix toward higher-end heavy-duty vehicles and natural gas heavy-duty trucks. The Group has also estimated under the said sales plan an annual growth in its sales volume of about 17.9%, 14.5% and 16% for 2014, 2015 and 2016, respectively, based on its analysis of the economic conditions in China, the size, structure and development of the overall heavy-duty trucks market in China, and the business opportunities presented under the National 12th Five-year Plan and the PRC government's economic development and reform policies. The proposed New Caps, which have been set after taking into account all the aforesaid factors, represent an overall increase of approximately 18.75% and 21.05% for each of the years ending 31 December 2015 and 2016, respectively.

As indicated in the table above, the transaction amount in relation to the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) during the first half of 2013 was approximately RMB1,005.8 million, representing an increase of approximately 36.7% from 2012 on an annualized basis. The proposed New Cap of RMB3,200 million for 2014 represents an increase of approximately 59.1% over the actual transaction amount for the first half of 2013 on an annualized basis.

The respective proposed New Caps of RMB3,800 million and RMB4,600 million for 2015 and 2016 represent an annual growth of approximately 18.8% and 21.1% 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%, and dropped further by 27.8% to 636,000 units in 2012. In the first half of 2013, such domestic sales was about 402,700 units, representing an increase of about 8.4% compared to the corresponding period in 2012. Meanwhile, the Group recorded a slight increase in its aggregate sales volume of heavy-duty trucks in 2011 to about 100,300 units. In 2012, the Group' total sales of heavy-duty trucks dropped by about 19.7% to about 80,500 units. In the first half of 2013, such sales volume was about 47,000, representing a year-on-year increase of about 0.5%. 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. Despite a lackluster market, the Group's operating result in the heavy-duty trucks business has outperformed the industry average in recent years. Based on the statistics of China Association of Automobile Manufacturers on the domestic sales of heavy-duty trucks in China, the Group's market share in heavy-duty trucks has been increasing from about 9.8% in 2010, to about 11.4% in 2011, and further to about 12.7% in 2012.

As Shaanxi Zhongqi is one of the major manufacturers in the heavy-duty vehicles market in China with an increasing market share, the demand for its products is expected to grow at least along with the expected improvement in the overall market. On this basis, it is expected that the amount of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) will also increase in order to meet the expected growth in the production requirements of Shaanxi Zhongqi and its subsidiaries.

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 Transaction, and have noted the following in particular:

– In line with the expected stable economic and investment growth in China as discussed in our analysis in the section headed "Overview of China's economy and the heavy-duty trucks market in China" above, it is expected that the demand for heavy-duty vehicles and related parts and components in China will increase steadily in the coming years.

– The purchase requirements of Shaanxi Zhongqi (and its subsidiaries) have been estimated based on Shaanxi Zhongqi's sales plan for its heavy-duty trucks with annual growth in the sales volume of about 17.9%, 14.5% and 16% for 2014, 2015 and 2016, respectively. As advised by the Group, such sales plan has been set by Shaanxi Zhongqi (and its subsidiaries) 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 as well as in anticipation of the growth in construction activities and infrastructural investments under China's urbanization development plan. We have reviewed the Group's bases and assumptions and the factors considered in devising the sales plan of Shaanxi Zhongqi for 2014, 2015 and 2016 which include the economic conditions in China, the size, structure and development of the heavy-duty trucks market in China, the government's policy on environmental protection and energy conservation, and the objectives of the National 12th Five-Year Plan. We have also reviewed the tasks under 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 airport 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. A large-scale low-income housing project has also been launched with a goal to build a total of 36 million housing units by the end of 2015 under the plan to improve public welfare. We consider that all these infrastructural developments will have a significant positive impact on the heavy-duty trucks market.

As one of the major manufacturers of heavy-duty vehicles in China, we consider it reasonable for Shaanxi Zhongqi (and its subsidiaries) to make its annual sales plan of heavy-duty vehicles for 2014 to 2016 in accordance with the objectives of the 12th Five-Year Plan and the government's urbanization strategy. 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 for the purposes of devising the annual sales plan, and hence estimating the purchase requirements of Shaanxi Zhongqi (and its subsidiaries) for 2014 to 2016.

– Based on the statistics of China Association of Automobile Manufacturers on the domestic sales of heavy-duty trucks in China, Shaanxi Zhongqi's market share in heavy-duty trucks has been increasing from about 9.8% in 2010, to about 11.4% in 2011, and further to about 12.7% in 2012. In light of the increasing market share of Shaanxi Zhongqi in the heavy-duty trucks market in China in recent years, the demand for its heavy-duty trucks is expected to increase at a rate no less than the industry average.

– The increase in the value of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automobile (and its associates) in 2014 to 2016 is also attributable to the fact that it is the strategy of both Shaanxi Zhongqi and Shaanxi Automobile to continue shifting its product mix from the relatively low-end heavy-duty vehicles with standard features toward higher-end heavy-duty vehicles with higher technological contents, which are equipped with superior technology and features, such as higher horse-power, low fuel consumption, and diesel emission control technology, etc. As the production costs of the higher-end heavy-duty vehicles are higher, the value of the parts and components to be purchased by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) will also be higher.

– Another reason for the estimated increase in the purchase requirements by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is that the Group expects its sales volume of natural gas heavy-duty trucks to increase along with the implementation of government's policy on environmental protection and energy conservation.

The Chinese government has demonstrated its determination to promote low-carbon development and address climate change. Before the Copenhagen Climate Change Conference in 2009, the Chinese government had announced the objective of reducing greenhouse gas emissions per unit of GDP by 40% to 50% by 2020 as compared to that in 2005. In its "Work Plan for Greenhouse Gas Emission Control during the 12th Five-Year Plan Period" issued by the State Council in January 2012, the Chinese government has set its new goals of reducing carbon emissions in the next few years and called for programs that aim to promote a low-carbon economy. Among other things, the plan aims to reduce China's carbon dioxide emission per unit of GDP by 17% by 2015 compared with 2010 levels, and reduce energy consumption per unit of GDP by 16% during the same period. According to the "2012 Forum on the Development of Natural Gas Automobiles in China", the number of natural gas vehicles in China has increased from less than 10,000 units in 2000 to about one million units by the end of 2011, representing an annual compound growth of over 50%. It is expected that the annual compound growth in the ownership of natural gas vehicles in China will reach 27% in the next five years, with more significant growth to be seen in the heavy-duty vehicles sector.

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. Based on the sales volume in 2012, Shaanxi Automotive has a market share close to 50% in natural gas powered heavy-duty trucks in China. On this basis, we consider it reasonable for the Group to estimate an increase in the purchase of parts and components of vehicles and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) in order to meet the expected increase in the demand for natural gas heavy-duty trucks.

– Furthermore, the sales of export products are expected to increase under the sales plan of Shaanxi Zhongqi and its subsidiaries. In this regard, we have noted from the 2012 Annual Report that the Group's revenue from other countries and regions amounted to approximately RMB214 million for 2012, or approximately 0.44% of the Group's total revenue. In the first half of 2013, the Group's revenue from other countries and regions has increased significantly to approximately RMB1,213 million, or approximately 4.1% of the Group's total revenue. Such export sales revenue represented a growth rate of over 10 times on an annualized basis.

– As indicated in the table above, the actual transaction amount involved in the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) in the first six months of 2013 increased by approximately 36.7% from that in 2012 on an annualized basis. The proposed New Cap of RMB3,200 million for 2014 represents an increase of approximately 59.1% over the actual transaction amount for the first six months of 2013 on an annualized basis. We have noted in our review of the quarterly transaction amount of the Non-exempt Continuing Connected Transaction that substantial growth in the transaction amount has been recorded in the second quarter of 2013 which represented an increase of approximately 49.5% over the transaction amount for the first quarter of 2013. As advised by the Group, such increase was due to the additional purchase requirements of Shaanxi Zhongqi (and its subsidiaries) to cope with the increase in demand for its heavy-duty trucks which was driven by (i) the recovery of the overall market condition; (ii) the advance purchases ahead of the anticipated implementation of the China IV Emission Standards for trucks; and (iii) the replacement cycle of a significant quantity of heavy-duty trucks which were sold during the high-growth period from 2006 to 2010. In view of the upward trend in the transaction amount as indicated by the actual transaction amount in the second quarter of 2013 and the expected improvement in the overall heavy-duty trucks market in the second half of 2013 and onwards as discussed above, we consider that the proposed New Cap of RMB3,200 million for 2014 is reasonable.

– In determining the New Caps for 2015 and 2016, it is estimated by the Group that the sales volume of heavy-duty vehicles by Shaanxi Zhongqi (and its subsidiaries) will increase by about 14.5% and 16% respectively from that of the preceding year. Coupled with the estimated increase in the volume and price of the parts and components of vehicles and related products to be purchased by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automobile (and its associates), the proposed New Caps of RMB3,800 million for 2015 and RMB4,600 million for 2016 represents an increase of approximately 18.8% and 21.1% respectively over that of the preceding year.

As indicated in the table above, the actual transaction amount involved in the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for the two years ended 31 December 2012 and the first six months of 2013 represent an average annual increase of approximately 15.6% despite the setback in the heavy-duty trucks market in China since 2011. On the basis of the expected improvement in the heavy-duty trucks market driven by the Chinese government's commitment to the steady growth in construction activities and infrastructural developments as discussed above and the fact that Shaanxi Zhongqi's market share in heavy-duty trucks has been increasing, we consider that the estimated growth rates as represented by the proposed New Caps for 2015 and 2016 are reasonable.

We have also reviewed the Group's estimated increase in the volume and price of the parts and components of vehicles to be purchased by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for 2015 and 2016 and consider such estimates to be consistent with the sales plan of heavy-duty vehicles of Shaanxi Zhongqi and its subsidiaries for the corresponding years.

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 steady growth in construction activities and infrastructural development under the National 12th Five-year Plan and urbanization development plan; (ii) the sales plan and estimates of the purchase 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) the demand for natural gas heavy-duty trucks in China is expected to increase with the implementation of China's environmental protection and energy conservation policies; (iv) the shift in product mix toward higher-end heavy-duty vehicles and natural gas heavy-duty trucks will lead to an increase in the transaction amount; and (v) there has been significant increase in the amount of the Non-exempt Continuing Connected Transaction in the first half of 2013 and the historical amounts of the Non-exempt Continuing Connected Transaction for the two years ended 31 December 2012 and the first six months of 2013 represent an average annual increase of approximately 15.6%, we are of the view that the bases and assumptions adopted by the Company in determining the New Caps as discussed above are reasonable. We also consider that the proposed New Caps for the purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for the three years ending 31 December 2014, 2015 and 2016 of RMB3,200 million, RMB3,800 million and RMB4,600 million, respectively, are fair and reasonable.

4. Annual review of the Non-exempt Continuing Connected Transaction

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

(i) has received the approval of the Board;

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

(iii) has been entered into in accordance with the relevant agreement governing the Non-exempt Continuing Connected Transaction; and

(iv) has 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 Transaction, 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 Transaction 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 Agreement governing the Non-exempt Continuing Connected Transaction and the relevant New Caps, we have considered the above principal factors and reasons, in particular, the following:

– The Non-exempt Continuing Connected Transaction is ongoing transaction 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 transaction 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 the Non-exempt Continuing Connected Transaction 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 Transaction is conducted in the ordinary and usual course of business of the Group and on normal commercial terms or terms which are determined according to the principle of fairness and reasonableness.

– The bases and assumptions adopted by the Group for determining the relevant New Caps are reasonable.

Based on the above consideration, we are of the opinion that the Non-exempt Continuing Connected Transaction is conducted in the ordinary and usual course of business of the Group, the Supplemental Agreement in the interests of the Company and the Shareholders as a whole, the terms of the Supplemental Agreement are normal commercial terms and are fair and reasonable, and the New Caps for the three years ending 31 December 2016 are fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Supplemental Agreement 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:

Interests in the shares of the Company

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%
Yeung Sai Hong *(Note 3)*	Held by controlled corporation	63,168,000 *(Note 2)*	–	3.16%
Julius G. Kiss *(Note 4)*	Held by controlled corporation	41,280,000 *(Note 2)*	–	2.06%
Zhang Zhenhua *(Note 5)*	Interest held by spouse	25,300	–	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.

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 25,300 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.

Interests in the shares of associated corporations of the Company

Name of Director	Name of associated Corporation	Nature of interest	Class and number of securities interested or deemed to be interested	Approximate percentage interest in the entire issued share capital of associated corporations as at the Latest Practicable Date
Gordon Riske *(Note)*	KION Group AG	Beneficial owner	365,250 ordinary shares	0.37%
		Interest held by spouse	3,000 ordinary shares	0.003%

Note: Gordon Riske, a non-executive Director, was the beneficial owner of 365,250 shares in KION Group AG and he was also deemed to be interested in 3,000 shares in KION Group AG which were beneficially held by his wife, Ms. Benita Riske.

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	Beneficial owner	Long	336,476,400	22.23%	–	–	16.83%
Shandong Heavy Industry Group Co., Ltd. *(Note 1)*	Held by controlled corporation	Long	336,476,400	22.23%	–	–	16.83%
State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC") *(Note 1)*	Held by controlled corporation	Long	336,476,400	22.23%	–	–	16.83%
Brandes Investment Partners, LP	Investment manager	Long	–	–	78,578,612	18.99%	3.93%
Lazard Asset Management LLC	Investment manager	Long	–	–	62,668,076	12.90%	3.13%
Schroders Plc	Investment manager	Long	–	–	38,748,997	7.97%	1.94%
JPMorgan Chase & Co.	Beneficial owner	Long	–	–	1,377,067	0.28%	0.07%
	Custodian – Corporation/ approved lending agent	Long	–	–	45,757,363	9.42%	2.29%
	Investment manager	Long			1,901,000	0.39%	0.09%
					49,035,430	10.09%	2.45%
	Beneficial owner	Short	–	–	82,709	0.02%	0.01%
Schroder Investment Management Limited	Investment manager	Long	–	–	38,851,199	7.99%	1.94%
The Capital Group Companies, Inc. *(Note 2)*	Interest of corporation controlled by the substantial shareholders	Long	–	–	27,669,400	6.84%	1.66%
Deutsche Bank Aktiengesellschaft	Beneficial owner	Long	–	–	19,793,964	4.08%	0.99%
	Person having a security interest in shares	Long	–	–	4,019,412	0.83%	0.20%
	Interest of corporation controlled by the substantial shareholders	Long	–	–	4,804,600	0.99%	0.24%
	Custodian – Corporation/ approved lending agent	Long	–	–	1,766,680	0.36%	0.09%
					30,384,656	6.26%	1.52%

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
Lazard Emerging Markets Equity Portifolio *(Note 2)*	Investment manager	Long	–	–	23,707,500	5.86%	1.42%
Barclays PLC	Person having a security interest in shares	Long	–	–	525,552	0.11%	0.03%
	Interest of corporation controlled by the substantial shareholder	Long	–	–	25,453,050	5.24%	1.27%
					25,978,602	5.35%	1.30%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	24,102,475	4.96%	1.21%

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 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.

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.

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
Tan Xuguang	Chairman	Chairman
Jiang Kui	Vice president	Director, general manager
Xu Xinyu	Director	–
Sun Shaojun	Director	–
Zhang Quan	Director	–

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, save for Mr. Gordon Riske's interests in KION Group AG ("**KION**", formerly known as KION Holding 1 GmbH) as disclosed in the section headed "2. Disclosure of interests — Interests in the shares of associated corporations of the Company" of this Appendix, none of the Directors was interested, directly or indirectly, in any assets which had since 31 December 2012, 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. As disclosed in the Company's announcements dated 27 June 2013, the Company (through its wholly-owned subsidiary, Weichai Power (Luxembourg) Holding S.à r.l.) subscribed for 13,682,500 shares in KION for a consideration of EUR328,380,000.

(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 2012, 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.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 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 17 September 2013 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 3407–3408, 34/F, Gloucester Tower, Landmark, 15 Queen's Road Central, Hong Kong, from 17 September 2013 to 1 October 2013 (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 Agreement in respect of the Non-exempt Continuing Connected Transaction and the relevant agreements (if any) previously entered into in respect of the Non-exempt Continuing Connected Transaction.