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 any securities.

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)

(1) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS, (2) PROPOSED PAYMENT OF CASH DIVIDENDS, (3) PROPOSED ELECTION OF NEW DIRECTORS, AND (4) GENERAL MANDATE TO ISSUE H SHARES

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions

CERES

昱豐融資有限公司
CERES CAPITAL LIMITED

A letter from the Board is set out on pages 9 to 28 of this circular.

A letter from the Independent Board Committee to the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions is set out on page 29 of this circular.

A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions is set out on pages 30 to 57 of this circular.

A notice convening the AGM to be held at Section A, 197, Fu Shou East Street, High Technology Industrial Development Zone, Weifeng, Shandong Province, the PRC on 30 June 2014 at 10:00 a.m., was issued by the Company on 15 May 2014. A reply slip and form of proxy to be used at the AGM were despatched by the Company on 15 May 2014. Whether or not you intend to be present at the said meeting, you are requested to complete the said form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the registered office of the Company at Securities Department, 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the relevant meeting or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the relevant meeting or any adjournment thereof if you so wish.

22 May 2014

CONTENTS

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

"5% Threshold"	the thresholds referred to in Rule 14A.34 of the Listing Rules
"AGM"	the annual general meeting of the Company to be held on Monday, 30 June 2014, the notice convening the same was issued by the Company on 15 May 2014
"A Share(s)"	the A Share(s), being ordinary share(s) issued in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
"Articles of Association"	the articles of association of the Company
"associate"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"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
"Board"	the board of Directors
"Cash Dividends"	has the meaning ascribed thereto under the section headed "3. Proposed Payment of Cash Dividends" in the "Letter from the Board" contained in this circular
"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
"China" or "PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Company"	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Continuing Connected Transaction(s)"	the continuing connected transaction(s) of the Group set out in the section headed "2. Non-exempt Continuing Connected Transactions" in the "Letter from the Board" contained in this circular
"Deyin Business"	has the meaning ascribed to it under the section headed "2.(iii)(a) Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be)" in the "Letter from the Board" contained in this circular
"Deyin Finance"	德銀融資租賃有限公司 (Deyin Finance Lease Co., Ltd.), a company established in the PRC and a connected person of the Company
"Deyin Group"	Deyin Finance, Shanghai Yuanxing and Zhongfu Wulian
"Deyin Logistic"	陝西德銀物流有限公司 (Shaanxi Deyin Logistic Co., Ltd.), a company established in the PRC and a connected person of the Company
"Director(s)"	the director(s) of the Company
"Dongfeng Axle"	陝西東風車橋傳動軸系統股份有限公司 (Shaanxi Dongfeng Axle Transmission Axle System Co., Ltd.), a company established in the PRC and a connected person of the Company
"Existing Cap(s)"	the existing cap(s) for the Continuing Connected Transactions set out in the section headed "2. Non-exempt Continuing Connected Transactions" in the "Letter from the Board" contained in this circular
"General Mandate"	the general mandate to issue H Share(s) to be granted to the Board at the AGM

"Group"	the Company and its subsidiaries (as defined in the Listing Rules) and "Group Company" means any of the same
"H Share(s)"	the H Share(s), being the overseas listed foreign share(s) issued in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the main board of the Hong Kong Stock Exchange
"Hande Axle"	陝西漢德車橋有限公司 (Shaanxi Hande Axle Co., Ltd.), a company established in the PRC and is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 Transactions
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the AGM in respect of the Non-exempt Continuing Connected Transactions
"Jinding"	陝西金鼎鑄造有限公司 (Shaanxi Jinding Foundry Co., Ltd.), a company established in the PRC and is held as to approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle

"Latest Practicable Date"	19 May 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before its despatch
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"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 the assets and liabilities of TAGC, were absorbed by the Company
"New Cap(s)"	has the meaning as ascribed to it under the section headed "2. Non-exempt Continuing connected transactions" in the "Letter from the Board" contained in this circular
"Non-exempt Continuing Connected Transactions"	being the Continuing Connected Transactions, the proposed New Caps for which exceed the 5% Threshold, and, accordingly, they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 of the Listing Rules, the announcement requirement in Rule 14A.47 of the Listing Rules and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules and approval of the Independent Shareholders at the AGM will be required
"PRC"	the People's Republic of China
"Record Date"	means the record date to be determined by the Board by reference to which entitlements to the payment of the Cash Dividends be determined
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"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 Vehicle Import and Export Company Limited), a company established in the PRC and a wholly-owned subsidiary of Shaanxi Zhongqi
"Shaanxi Lantong"	陝西藍通傳動軸有限公司 (Shaanxi Lantong Transmission Axle Co. Ltd.), a company established in the PRC and a connected person of the Company
"Shaanxi Tongchuang"	陝西同創華亨汽散熱有限責任公司 (Shaanxi Tongchuang Huaheng Vehicle Radiator Co. Ltd.), a company established in the PRC and a connected person of the Company
"Shaanxi 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
"Shanghai Yuanxing"	上海遠行供應鏈管理有限公司 (Shanghai Yuanxing Supply Chain Management Co., Ltd.), a company established in the PRC and a connected person 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
"Share(s)"	share(s) of RMB1.00 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Supplemental Agreement(s)"	the supplemental agreement(s) relating to the Continuing Connected Transactions entered into between the Group and the relevant connected persons as more particularly set out in the section headed "2. Non-exempt Continuing Connected Transactions" in the "Letter from the Board" contained in this circular and "Supplemental Agreement" means any of them
"TAGC"	湘火炬汽車集團股份有限公司 (Torch Automotive Group Co., Ltd.), a company established in the PRC and has ceased to exist
"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 wholly owned subsidiary of Shaanxi Zhongqi

"Tonghui Logistic"	陝西通匯物流有限公司 (Shaanxi Tonghui Logistic Co., Ltd.), a company established in the PRC and a connected person of the Company
"Weichai Freshen Air"	濰柴動力空氣淨化科技有限公司 (Weichai Power Freshen Air Technology Co., Ltd.), a company established in the PRC and a wholly owned subsidiary 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 and a substantial shareholder 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 Energy Technology 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
"Zhongfu Wulian"	陝西中富物聯科技服務有限公司 (Shaanxi Zhongfu Wulian Technology Service Co., Ltd.), a company established in the PRC and a connected person of the Company

"Zhongjiao Tianjian"	陝西中交天健車聯網信息技術有限公司 (Shaanxi Zhongjiao Tianjian Vehicle Net Information Technology Co., Ltd.), a company established in the PRC and a connected person of the Company
"%"	per cent

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

Principal place of business in Hong Kong:
Room 3407–3408
34/F, Gloucester Tower
Landmark
15 Queen's Road Central
Hong Kong

22 May 2014

To: Holders of H Shares
Holders of A Shares

Dear Sir or Madam,

(1) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS, (2) PROPOSED PAYMENT OF CASH DIVIDENDS, (3) PROPOSED ELECTION OF NEW DIRECTORS, AND (4) GENERAL MANDATE TO ISSUE H SHARES

1. INTRODUCTION

Reference is made to (i) the announcement of the Company dated 29 April 2014 in relation to the Non-exempt Continuing Connected Transactions; (ii) the announcement of the Company dated 28 March 2014 in relation to the annual results for the year ended 31 December 2013 and the proposed payment of Cash Dividends; and (iii) the announcement of the Company dated 7 May 2014 in relation to, amongst others, the proposed election of new Directors subject to the approval of the Shareholders by way of ordinary resolution at the AGM. Reference is also made to the notice convening the AGM issued by the Company on 15 May 2014, which sets out details of the resolutions to be considered at the AGM.

The purpose of this circular is to provide you with, among other things, (i) further details of the Non-exempt Continuing Connected Transactions; (ii) further details of the proposed payment of Cash Dividends; (iii) details of the election of the new Directors; and (iv) information in relation to the General Mandate to issue H Shares.

2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(i) THE BACKGROUND

Reference is made to the announcement of the Company dated 29 April 2014 which announces that on 29 April 2014, the Group has entered into the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions. This circular gives you further information in relation to the Non-exempt Continuing Connected Transactions and contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions.

(ii) SUMMARY OF THE CONTINUING CONNECTED TRANSACTIONS AND THE NEW CAPS

The Continuing Connected Transactions include the following:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
1. Shaanxi Automotive (and its associates) *(note 1)*	Shaanxi Zhongqi *(note 2)*, Hande Axle *(note 3)*, Jinding *(note 4)*, Shaanxi Import and Export *(note 5)*, Tiangua *(note 6)* and Weichai Freshen Air *(note 7)*	Holder of 49% of the equity of Shaanxi Zhongqi	Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be)

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
2. Shaanxi Automotive (and its associates) *(note 8)*	Shaanxi Zhongqi *(note 2)*, Hande Axle *(note 3)*, Jinding *(note 4)*, Shaanxi Import and Export *(note 5)* and Tiangua *(note 6)*	Holder of 49% of the equity of Shaanxi Zhongqi	Purchase of parts and components of vehicles, scrap steel and related products and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)

Notes:

1. These are more particularly described in the section headed "2.(iii)(a) Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be)" in the "Letter from the Board" contained in this circular.

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

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

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

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

6. Tiangua is a wholly owned subsidiary of Shaanxi Zhongqi.

7. Weichai Freshen Air is a wholly owned subsidiary of the Company.

8. As more particularly described in the section headed "2.(iii)(b) Purchase of parts and components of vehicles, scrap steel and related products and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)" in the "Letter from the Board" contained in this circular.

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

Connected person and details of the relevant Continuing Connected Transaction	**New Caps** **2014** *RMB*	**2015** *RMB*	**2016** *RMB*
1. Shaanxi Automotive (and its associates)			
Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air (as the case may be) to Shaanxi Automotive (and its associates) (as the case may be)	4,800,000,000#	6,500,000,000#	8,100,000,000#
2. Shaanxi Automotive (and its associates)			
Purchase of parts and components of vehicles, scrap steel and related products and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)	5,800,000,000#	7,200,000,000#	8,600,000,000#

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.

(iii) DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS AND THE RELEVANT SUPPLEMENTAL AGREEMENTS

Continuing connected transaction between Shaanxi Zhongqi (and its subsidiaries), Weichai Freshen Air and Shaanxi Automotive (and its associates)

Shaanxi Zhongqi and its subsidiaries and Weichai Freshen Air

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 a wholly owned subsidiary of Shaanxi Zhongqi and is principally engaged in the conversion of vehicles and the sale of vehicles and their parts and components.

Weichai Freshen Air is a wholly owned subsidiary of the Company and is principally engaged in the research, design, sale and repair of air purification products, consultation in respect of transfer of air purification technology, import and export trade of goods and technology permitted by the State.

Shaanxi Automotive and its associates

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

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

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

Shaanxi Lantong is held as to approximately 59.99% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Lantong is principally engaged in the sale of parts and components of vehicles.

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

Shaanxi Tongli is held as to approximately 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 sale of special purpose vehicles and parts and components 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 research and development, manufacture, sale and services of parts and components of vehicles.

Changsha Huantong is held as to approximately 51% by Shaanxi Automotive and is 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.

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.

Shaanxi Fangyuan is a wholly owned subsidiary of 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 parts and components of vehicles.

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.

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.

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

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 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.

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.

Deyin Finance is wholly owned by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Deyin Finance is principally engaged in finance leasing, leasing of mechanical and electronic equipment, acquisition of leased assets within the PRC and from abroad, treatment of residue value of leased assets, repair and reconstruction, consultation and guarantee for leasing transactions, sale of vehicles (other than small sedans) and automobile components, consultation for leasing business, technical services, project investment (limited to internal fund).

Shanghai Yuanxing is held as to approximately 60% by Deyin Finance and is accordingly an associate of Shaanxi Automotive and a connected person of the

Company. Shanghai Yuanxing is principally engaged in general goods and transportation agency within the PRC, warehousing (other than hazardous items), sale of commercial vehicles and passenger vehicles of more than 9 seats, automobile accessories, lubricating oil, construction materials, metal materials, chemical products (other than hazardous chemical products, controlled chemical products, chemicals easily convertible to poison, fireworks and firecrackers, explosive materials for civil use) and hardware and electric products; leasing of self-owned equipment; and international trade.

Zhongfu Wulian is held as to approximately 51% by Deyin Finance and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Zhongfu Wulian is principally engaged in transportation of general goods; sale of vehicles and accessories, smart terminal equipment, lubricating oil, construction materials, metal materials, chemical products (other than those which are easily convertible into poison, dangerous chemical products and controlled chemical products) and hardware and electrochemical products; transportation agency within the PRC; information service for logistics arrangements; warehousing, leasing of machinery equipment, houses and land; and exchange of second-hand vehicles.

Zhongjiao Tianjian is held as to approximately 65% by Deyin Finance and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Zhongjiao Tianjian is principally engaged in development, transfer and consultation of and for networking technology for vehicles; information service for road traffic and transportation; logistics information service; sale of electronic products and communication equipment; computer system integration; development of software; development of scientific research projects and transfer of technological results.

Deyin Logistic is held wholly owned by Shanghai Yuanxing and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Deyin Logistic is principally engaged in transportation of general goods, (container) transportation, transportation agency within the PRC; sale of commercial vehicles and passenger vehicles of less than 9 seats, automobile accessories, lubricating oil, construction materials, metal materials, chemical products (other than inflammable and explosive hazardous chemical products) and hardware and electric products; leasing of vehicles, construction machinery and self-owned equipment.

Tonghui Logistic is held as to approximately 52% by Shanghai Yuanxing and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Tonghui Logistic is principally engaged in distribution and warehousing of goods (other than hazardous items), transportation of general goods; transportation agency; consultation for logistics information; logistics and packaging; sale of automobile accessories; processing, assembling and repairing of machinery (other than special equipment).

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

Agreement:	Supplemental Agreement to vehicles, parts and components and raw materials sale and heat processing services agreement ("**Shaanxi Zhongqi Sale Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008, 23 August 2010 and 30 August 2012, respectively)
Date:	29 April 2014
Parties:	1. (a) Shaanxi Zhongqi (b) Hande Axle (c) Jinding (d) Shaanxi Import and Export (e) Tiangua (f) Weichai Freshen Air 2. (a) Shaanxi Automotive (b) Shaanxi Wanfang (c) Shaanxi Huazhen (d) Shaanxi Lantong (e) Shaanxi Tongchuang (f) Shaanxi Tongli (g) Baoji Huashan (h) Wenzhou Yunding (i) Changsha Huantong (j) Xunyang Baotong (k) Dongfeng Axle (l) Yanan Vehicle (m) Shaanxi Fangyuan (n) Huazhen Trading (o) Shaanxi Dongming (p) Tonghui Logistic (q) Deyin Finance (r) Shanghai Yuanxing (s) Zhongfu Wulian
Term:	1 January 2014 to 31 December 2016

Other terms and details:

Pursuant to the Shaanxi Zhongqi Sale Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), Shaanxi Zhongqi and its subsidiaries (as set out above) (and/or other subsidiaries of Shaanxi Zhongqi) (as the case may be) has sold certain vehicles, parts and components of vehicles, raw materials and related products and provided the relevant services (as the case may be) to Shaanxi Automotive and certain of its associates (as set out in the announcement of the Company dated 30 August 2012) (and/or other associates of Shaanxi Automotive) (as the case may be), at market prices and settled by the relevant parties generally every one to three months, for a term ending 31 December 2015, upon the expiry of the same, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, Shaanxi Zhongqi and its subsidiaries (as set out above) (and/or other subsidiaries of Shaanxi Zhongqi) and Weichai Freshen Air (as the case may be) shall sell certain vehicles, parts and components of vehicles, raw materials and related products and to provide the relevant services (as the case may be) to Shaanxi Automotive and its associates (as set out above) (and/or other associates of Shaanxi Automotive) (as the case may be) on the same terms for a term of three years ending 31 December 2016, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. In addition, Shaanxi Zhongqi shall sell certain vehicles at market price to the Deyin Group (i) through certain third party agents and settled within three months; or (ii) directly, with an upfront payment of 30% of the sale price of the vehicles and the remainder settled on a quarterly basis within two years. The sale price of the said products is determined according to the following mechanism: through market analysis of the products (including conducting research in the market at least once every quarter and reviewing the prices of two to three major products of the same category and in the same geographical region in general) by the specific departments of the relevant seller, a proposal on the sale price of the relevant products, which is formulated taking into account an analysis of the cost of production of such products, shall be submitted to the price management department of such company for approval. After commercial negotiations between such company and the purchaser on the basis of the said proposal, the sale price shall be determined based on arm’s length negotiations between the parties. The said price management department shall review the reasonableness of the sale price on a regular basis and make adjustments (where necessary). Save as set out herein, all other terms of the Shaanxi Zhongqi Sale Agreement remain unchanged.

The table below summarises the Existing Caps for the three years ending 31 December 2015 for the Continuing Connected Transaction set out in this sub-section (a):

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

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2013 (audited) and the three months ended 31 March 2014 (unaudited) for the Continuing Connected Transaction set out in this sub-section (a):

	Year ended 31 December 2012	**Year ended 31 December 2013**	**Three months ended 31 March 2014**
	RMB	*RMB*	*RMB*
Actual transaction amount	584,284,063	736,853,267	572,487,616

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

Since Shaanxi Zhongqi and its subsidiaries set out above are engaged in the business of the production of heavy-duty vehicles and related products, the Directors believe that the demand for high-speed, heavy-duty vehicles, vehicle parts and components and heat processing services produced and provided by these Group companies will increase and the volume of such products to be purchased by Shaanxi Automotive and/or its associates (as the case may be) for onward sale to third parties will increase correspondingly. In addition to direct sales of vehicles to third party buyers by Shaanxi Automotive and/or its associates (as the case may be), the Deyin Group also arranges for lease financing of vehicles for the third party buyers ("**Deyin Business**") for the purpose of promoting the sales of Shaanxi Zhongqi's vehicles and enhancing its market share in the PRC.

The Company estimates that the transaction amount in respect of the Continuing Connected Transaction set out in this sub-section (a) will not exceed RMB4,800,000,000, RMB6,500,000,000 and RMB8,100,000,000, 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 estimate of the volume and amount of the said vehicles and parts and components of vehicles to be sold and the amount of the relevant services to be provided by Shaanxi Zhongqi and its subsidiaries and Weichai Freshen Air (as the case may be), with an estimated increase of approximately 17% and 14% in the volume of vehicles to be sold by Shaanxi Zhongqi for each of the years ending 31 December 2015 and 31 December 2016, respectively; (iii) the estimated average unit price of the said vehicles, with an expected shifting of Shaanxi Zhongqi's products mix toward natural gas heavy-duty trucks (with a sale price approximately 27% higher than that of diesel heavy-duty trucks in general); (iv) the expected introduction of new products in the market; and (v) the expected growth in the overall transaction amount as a result of the Deyin Business, which is expected to account for about 60% of the overall annual sales by the Group to Shaanqi Automotive (and its associates) under this subsection (a) for each of the three years ending 31 December 2016. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said sale and provision of service will increase by approximately 35% and 25% for each of the years ending 31 December 2015 and 31 December 2016, respectively.

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

	2014	**2015**	**2016**
	RMB	*RMB*	*RMB*
New Cap	4,800,000,000	6,500,000,000	8,100,000,000

As all the New Caps for this Continuing Connected Transaction for the year 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 are 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 set out in 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 AGM in relation to the resolution to be proposed in respect of these New Caps.

Since this Continuing Connected Transaction is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the Independent Shareholders' approval as aforesaid, this Supplemental Agreement is conditional upon the said resolution being passed at the AGM.

(b) *Purchase of parts and components of vehicles, scrap steel and related products and labour services 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, 23 August 2010 and 29 August 2013, respectively)

Date: 29 April 2014

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
   (t) Deyin Logistic
   (u) Tonghui Logistic
   (v) Zhongjiao Tianjian

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 (as set out above) (and/or other subsidiaries of Shaanxi Zhongqi) (as the case may be) has purchased 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 in the announcement of the Company dated 29 August 2013 (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 2016, upon the expiry of the same, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of Shaanxi Zhongqi and its subsidiaries (as set out above) (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 and labour services (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) on the same terms 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. The purchase price of the said products is determined according to the following mechanism: through market analysis of the products (including reviewing the prices of not less than three products of the same category in the market in general) by the specific departments of the purchaser, a proposal on the purchase price, after an analysis regarding the reasonableness of the sale price taking into account the cost of materials, labour cost and processing cost (the Company shall conduct an analysis on such costs in respect of the products and compare the same against the quote from the relevant seller), shall be submitted to the price management department of the purchaser for approval. After commercial negotiations between the purchaser and the seller on the basis of the said proposal, final sale price shall be determined based on arm's length negotiations between the purchaser and seller. The said price management department shall review the reasonableness of the sale price on a regular basis and make adjustments (where necessary) (such department shall review the prices of materials in the first quarter of a year during which new purchase orders are entered into, and thereafter, review such prices on a monthly basis). Save as set out herein, all other terms of the Shaanxi Zhongqi Purchase Agreement remain unchanged.

The table below summarises the Existing Caps for the three years ending 31 December 2016 for the Continuing Connected Transaction set out in this sub-section (b):

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

The table below summarises the actual aggregate transaction amounts involved for the two years ended 31 December 2013 (audited) and the three months ended 31 March 2014 (unaudited) for the Continuing Connected Transaction set out in this sub-section (b):

	Year ended 31 December 2012	**Year ended 31 December 2013**	**Three months ended 31 March 2014**
	RMB	*RMB*	*RMB*
	(audited)	(audited)	(unaudited)
Actual transaction amount	1,471,075,340	2,652,481,147	917,285,808

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 sub-section (b) will not exceed RMB5,800,000,000, RMB7,200,000,000 and RMB8,600,000,000, 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), which is in line with the estimated increase of approximately 17% and 14% in the volume of vehicles to be sold by Shaanxi Zhongqi for each of the years ending 31 December 2015 and 31 December 2016, respectively; (iii) the annual production and sales plan of Shaanxi Zhongqi of 120,000 units, 140,000 and 160,000 units of heavy-duty vehicles for 2014, 2015 and 2016, respectively; and (iv) the expected increase in the cost of production, with an expected shifting of Shaanxi Zhongqi's products mix toward natural gas heavy-duty trucks (with a production cost approximately 26% higher than that of diesel heavy-duty trucks in general). Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said purchase of parts and components of vehicles, scrap steel and related products and labour services will increase by approximately 24% and 19% for each of the years ending 31 December 2015 and 2016, respectively.

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

	2014	**2015**	**2016**
	RMB	*RMB*	*RMB*
New Cap	5,800,000,000	7,200,000,000	8,600,000,000

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 are 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 set out in the Listing Rules, and the approval of the Independent Shareholders. No Shareholder will be required to abstain from voting at the AGM in relation to the resolution to be proposed in respect of these New Caps and the said Supplemental Agreement.

Since this Continuing Connected Transaction is a Non-exempt Continuing Connected Transaction and the New Caps are subject to the Independent Shareholders' approval as aforesaid, this Supplemental Agreement is conditional upon the said resolution being passed at the AGM.

(iv) REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS AND LISTING RULES IMPLICATIONS

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

The Directors (including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser)) have confirmed that the Continuing Connected Transactions have been subject to arm's length negotiation between the Group and the relevant parties, and have been entered into by the Group in the ordinary and usual course of business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that the Non-exempt Continuing Connected Transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders.

At the meeting of the Board on 29 April 2014 approving, *inter alia*, the Continuing Connected Transactions, Mr. Fang Hongwei has abstained from voting on the resolutions in respect of certain Continuing Connected Transactions for the reasons of his position in the relevant connected persons (being the chairman of Shaanxi Automotive). Save as disclosed above, none of the Directors has a material interest in such transactions and is required to abstain from voting.

Since the New Caps of the Continuing Connected Transactions exceed the 5% Threshold, such Continuing Connected Transactions constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and their 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.

3. PROPOSED PAYMENT OF CASH DIVIDENDS

On 28 March 2014, the Board proposed that the cash dividends (the "**Cash Dividends**") of RMB1.50 (tax inclusive) per every ten Shares held by such Shareholders on the Record Date will be paid by way of cash in the amount of RMB299,896,445.85 of the Company's retained earnings as at 31 December 2013. The payment of the Cash Dividends is still subject to the approval by the

Shareholders at the AGM and the expected payment date for the Cash Dividends will be announced no later than two months from the date of obtaining the approvals by the Shareholders, the holders of A Shares and the holders of H Shares, respectively, of the payment of Cash Dividends.

4. PROPOSED ELECTION OF NEW DIRECTORS

As disclosed in the announcement of the Company dated 7 May 2014, the previous non-executive Director, Mr. Chen Xuejian (陳學儉先生), has tendered his resignation as a Director and a member of the strategic development and investment committee with effect from 7 May 2014 and the independent non-executive Directors, Mr. Liu Zheng (劉征先生), Mr. Li Shihao (李世豪先生) and Mr. Li Luwen (李錄溫先生) have tendered their resignation as Directors and members of the relevant committees of the Board with effect from the conclusion of the AGM. In order to fill up the vacancies of the resigning Directors, the Board has nominated Mr. Zhang Zhong (張忠先生), Mr. Wang Gongyong (王貢勇先生) and Mr. Ning Xiangdong (寧向東先生) as candidates for election as independent non-executive Directors of the Board and Mr. Wang Yuepu (王曰普先生) as a candidate for election as a non-executive Director of the Board, with effect from the date of approval by the shareholders of the Company at the AGM and until 28 June 2015, the expiration of the term of the current session of the Board.

The election of the new Directors referred to above is subject to the approval of the Shareholders by way of ordinary resolutions at the AGM. Pursuant to Article 122 of the Articles of Association of the Company, the election of the members of the Board will be conducted by way of cumulative voting at the AGM. Accordingly, in respect of the proposed appointments of Mr. Zhang Zhong, Mr. Wang Gongyong and Mr. Ning Xiangdong, the number of total votes that a Shareholder can exercise is the product of (i) the number of shares held by such Shareholder, and (ii) the number of Directors to be elected. A Shareholder can give all his votes to one Director candidate or divide his votes among several Director candidates. The Directors will be elected at the AGM based on the number of votes the Director candidates receive.

For the biographical details of each of the persons who stand for election as new Directors at the AGM, please refer to the announcement of the Company dated 7 May 2014.

5. GENERAL MANDATE TO ISSUE H SHARES

To ensure flexibility and discretion to the Board to issue new Shares when it becomes desirable, the Company proposes to grant the General Mandate to the Board to allot, issue and otherwise deal with additional H Shares of the Company up to the limit of 20% of the aggregate nominal values of the H Shares of the Company in issue on the date of passing such resolution.

As at the date of this circular, the issued share capital of the Company comprised of 1,513,549,639 A Shares and 485,760,000 H Shares. Subject to the approval of the grant of the General Mandate and on the basis that no further Shares are issued before the AGM, the Board will have the power to issue up to 97,152,000 H Shares.

The General Mandate shall be effective until the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or other applicable laws and regulations to be held; or (iii) the revocation or variation of the authority given under this resolution by passing of a special resolution of the Company in a general meeting.

Any exercise of the power by the Board under the General Mandate shall comply with the relevant requirements of the Listing Rules, the Articles of Association and the applicable laws and regulations of the PRC. The Board has no plan to issue new Shares pursuant to the General Mandate at present.

6. AGM

The AGM will be held at Section A, 197, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC on Monday, 30 June 2014 to consider and, if thought fit, approve, *inter alia*, the matters as set out in the notice convening the AGM, which has been issued by the Company on 15 May 2014.

The form of proxy for use at the AGM was despatched by the Company on 15 May 2014.

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

Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

7. CLOSURE OF REGISTER OF HOLDERS OF H SHARES

The register of holders of H Shares of the Company will be closed from 31 May 2014 to 30 June 2014, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the AGM, all transfer documents of H Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 30 May 2014.

Please refer to further announcement to be issued by the Company no later than two months from the date of obtaining the approvals by the Shareholders, the holders of A Shares and the holders of H Shares, respectively, of the payment of Cash Dividends for details of the Record Date and closure of register of members of the Company in determining the Shareholders' entitlement to the Cash Dividends.

8. RECOMMENDATION

Having considered the reasons set out in the section headed "2. Non-exempt Continuing connected transactions" in the "Letter from the Board" contained in this circular, the Directors, including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser), are of the opinion that the Non-exempt Continuing Connected Transactions are conducted on normal commercial terms and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and their terms and the New Caps are fair and reasonable. 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 terms of Non-exempt Continuing Connected Transactions and the 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 terms of Non-exempt Continuing Connected Transactions and the 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 terms of Non-exempt Continuing Connected Transactions and the relevant New Caps, which are set out in this circular.

Further, the Board considers that the proposed resolutions in respect of (i) the payment of Cash Dividends, (ii) the election of the new Directors, and (iii) the grant of the General Mandate to issue H Shares, are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolutions which will be proposed at the AGM.

9. FURTHER INFORMATION

Your attention is 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)

22 May 2014

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

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. to consider the Non-exempt Continuing Connected Transactions and the relevant proposed New Caps (as defined in the circular of the Company dated 22 May 2014) (the "**Circular**"), details of which are set out in the section headed "2. Non-exempt Continuing Connected Transactions" in the "Letter from the Board" contained in the Circular. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the "Letter from the Board", the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions as set out in the "Letter from the Independent Financial Adviser" 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 Non-exempt Continuing Connected Transactions are conducted on normal commercial terms and in the ordinary and normal course of business of the Group and are in the interest of the Company and its shareholders as a whole, and their terms and the New Caps are fair and reasonable. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the AGM to approve the terms of the Non-exempt Continuing Connected Transactions and the New Caps.

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 22 May 2014 from Ceres Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions and the respective New Caps, prepared for the purpose of incorporation in this circular.

昱豐融資有限公司
CERES CAPITAL LIMITED
CERES

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

22 May 2014

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND NEW CAPS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of Weichai Power Co., Ltd. (the "**Company**") in respect of the Supplemental Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps, details of which are set out in the circular to the Shareholders dated 22 May 2014 (the "**Circular**"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 29 April 2014, the Board announced, among other things, that the Group entered into the Supplemental Agreements with Shaanxi Automotive (and its associates) to revise the Existing Caps and/or apply for the New Caps for the Continuing Connected Transactions from 1 January 2014 to 31 December 2016. Since the New Caps for the Continuing Connected Transactions with Shaanxi Automotive (and its associates) exceed the 5% Threshold, these transactions constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules. Accordingly, the Supplemental Agreements and the respective New Caps are required to be subject to, among other things, the approval of the Independent Shareholders at a general meeting of the Company pursuant to Chapter 14A of the Listing Rules. The Independent Board Committee, comprising six independent non-executive Directors, has been formed to advise the Independent Shareholders in this regard.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Supplemental Agreements are in the interests of the Company and the Shareholders as a whole and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; (ii) whether the terms of the Supplemental Agreements 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 resolutions to approve the Supplemental Agreements and the New Caps at the AGM.

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 Transactions, or the prospects of the markets in which they respectively operate.

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

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

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Supplemental Agreements 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 2013 (the "**2013 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 powertrain 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 in the PRC. In 2013, the Group sold about 280,000 units of diesel truck engines, representing a market share of about 36% based on the total domestic sales of about 774,100 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 72,500 units of construction machinery engines in 2013 for wheel loaders with a load capacity of 5 tonnes, maintaining a leading position in the industry with a market share of about 65%.

During 2013, the Group also sold over 85,800 units of heavy-duty trucks and about 565,700 units of heavy-duty gear boxes. Based on such sales volume and the total domestic sales of about 774,100 units of heavy-duty trucks in the PRC in 2013, 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, and hydraulic controlling parts, etc. In 2013, the Group's sales of such parts and components amounted to approximately RMB3,970 million, representing a year-on-year increase of about 86.5% and about 6.8% of its total turnover.

The following is a summary of the annual audited financial results of the Group for the five years ended 31 December 2013, which are extracted from the Company's annual reports for the respective years.

	Year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(audited)	(audited)
Turnover	35,260,899	62,665,521	60,019,265	48,165,395	58,311,713
Profit attributable to the Shareholders	3,406,935	6,780,935	5,596,927	2,990,997	3,570,791

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 RMB62,666 million, representing a year-on-year increase of approximately 77.7%. 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 RMB6,781 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 4.2% 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 10.8% 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 2013, benefitting from the stability of the general economy, the rebound of fixed-asset investments and the swift development of the logistics industry in the PRC, the heavy-duty truck industry achieved recovery and favorable growth. For the same reasons, the Group's turnover for the year ended 31 December 2013 increased by approximately 21.1% year-on-year to approximately RMB58,312 million. Profit attributable to the Shareholders for the same period also increased by approximately 19.4% to approximately RMB3,571 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 Agreements are principally engaged in the manufacture and sale of heavy-duty vehicles, parts and components 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, which included large public sector investments as well as 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. Significant 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 economic imbalances which are reflected in escalating asset prices, over capacity, and cost inflation. In a series of moves in order 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, 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 economic growth eased to 7.7% in 2012. In 2013, China's economic performance stabilized and according to the National Bureau of Statistics, China's GDP grew 7.7% year on year, the same as 2012 and beating the government's official growth target of 7.5%. In the first quarter of 2014, China's economy grew 7.4% from a year earlier. According to the National Bureau of Statistics, the slowdown of China's economy is a reflection of an official policy to restructure and rebalance China's overall economy.

During the past decade, the thriving heavy-duty vehicles industry in the PRC had been driven by the country's high economic growth. The government's expansionary macroeconomic policies and the rapid growth of fixed-asset and infrastructure investments, such as those under 國家西北大開發戰略 (the State's North-West Great Development Strategy), as well as the Beijing 2008 Olympic Games and the World Expo 2010 in Shanghai, had stimulated the demand for 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 for 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 rate 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 sectors 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 2013, benefitting from the stability of the general economy, the rebound of fixed-asset investments and the swift development of the logistics industry in the PRC, the heavy-duty truck industry achieved recovery and attained a sales growth of about 21.7% to about 774,100 units of heavy-duty trucks.

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 takes 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.

At the Third Plenum of the 18th Central Committee of the Communist Party of China on 12 November 2013, a "Decision on Major Issues Concerning Comprehensively Deepening Reform" was adopted and released. Emphasis is placed on, among others, economic administrative reform to transform China's economic growth model away from exports and fixed investment to domestic consumption and services; moving up the manufacturing value chain; urbanization and social welfare to improve urban-rural relations and ensure equal participation of people living outside the cities; and environmental and ecological progress which is marked as vital to the people's well-being and under-pin China's sustainable development.

On 5 March 2014, Premier Li Keqiang announced in the National People's Congress that China keeps its 2014 full-year economic growth target unchanged at around 7.5% as the government looks to achieve stable growth while driving through reforms for a more balanced economic model. He also stated that the main targets for China's economic and social development in 2014 include accelerating the development of modern service industries, completing 4,800,000 government-subsidized housing units in urban areas and beginning the construction of an additional seven million-plus units. On 2 April 2014, Premier Li further announced stimulus measures under which social housing will be built to replace shantytowns and railway construction will be sped up to link underdeveloped regions to the booming coastal cities. Premier Li reiterated that China has allocated more than RMB1 trillion to redevelop shantytowns and also plans to put over 6,600 kilometers of new railway lines into operation in 2014, about 80% of which will be in China's less developed central and western regions. These measures serve not only as important parts of China's broader urbanization drive, but also as strong policy actions to shore up growth and create jobs while promoting a steady and healthy development of the property market. The government aims to achieve decisive results in major areas and key aspects of its reforms by 2020.

Given the PRC government's commitment to the continued development of transport systems aimed at the integrated development of central and western China, the construction of government-subsidized housing as part of the government's strategy to improve public welfare and to stabilize property prices, the continuous development of urban infrastructure as part of the urbanization process, 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 of strengthening technological innovation, enhancing product performance and competitiveness, especially in the areas of environmental protection, energy saving and reliability. In this regard, the Group has mentioned in its 2013 Annual Report, among other things, that it will focus on its products and build its core competence in terms of cost, technology and quality. The Group will expedite the implementation of new marketing strategies and the launch of strategic products, and enhance quality of service. The Group will also step up its efforts in research and development of new products and improvement of core technologies, and launch of new generation of products such as natural gas powered heavy-duty trucks. 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 a reversal of the improved economic conditions in the United States and Europe and the political instability in the Middle East and Eastern Europe, may affect the global macroeconomic environment, and consequently adversely impact China. China's economic growth may or may not be sustainable in a volatile global economic and geo-political 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 adverse impact on the Group's business.

(c) Relationship between the Group and the connected persons under the Supplemental Agreements

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 Agreements, the Non-exempt Continuing Connected Transactions are conducted between Shaanxi Zhongqi (and its subsidiaries, including Hande Axle, Jinding, Shaanxi Import and Export, and Tiangua) and Weichai Freshen Air (as the case may be) and Shaanxi Automotive and its associates (as the case may be), including:

– 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 59.99% by Shaanxi Automotive;

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

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

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

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

– 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;

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

– Dongfeng Axle which is held as to approximately 45.73% by Shaanqi Industry;

– Xian Lande which is wholly-owned 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;

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

– Deyin Finance which is wholly-owned by Shaanxi Automotive;

– Shanghai Yuanxing which is held as to approximately 60% by Deyin Finance;

– Zhongfu Wulian which is held as to approximately 51% by Deyin Finance;

– Zhongjiao Tianjian which is held as to approximately 65% by Deyin Finance;

– Deyin Logistic which is wholly-owned by Shanghai Yuanxing; and

– Tonghui Logistic which is held as to approximately 52% by Shanghai Yuanxing.

Most of the above associates of Shaanxi Automotive are principally engaged in the business related to the research and development, 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 Continuing Connected Transactions

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

As stated in the circular of the Company dated 12 November 2006 regarding, among other things, the Merger, the reason for implementation of the Merger was to form a larger consolidated business in the heavy-duty trucks market that would 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 3,140,000 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. Based on its sales volume in 2013, Shaanxi Automotive has a market share of about 40% 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 Continuing Connected Transactions with Shaanxi Automotive (and its associates) so long as the terms of the transactions are fair and reasonable.

3. Non-exempt Continuing Connected Transactions

(a) Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates)

(i) Principal terms of the Supplemental Agreement

Pursuant to the Shaanxi Zhongqi Sale Agreement (as supplemented by the supplemental agreements dated 27 November 2008, 23 August 2010 and 30 August 2012), Shaanxi Zhongqi and/or its subsidiaries have sold certain vehicles, parts and components of vehicles, raw materials and related products, and provided the relevant services (as the case may be) to Shaanxi Automotive and certain of its associates, at market prices and settled by the relevant parties generally every one to three months, for a term ending 31 December 2015, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Under the latest relevant Supplemental Agreement, Shaanxi Zhongqi and its subsidiaries (namely, Hande Axle, Jinding, Shaanxi Import and Export, and Tiangua) (and/or other subsidiaries of Shaanxi Zhongqi) and Weichai Freshen Air (as the case may be) shall sell certain vehicles, parts and components of vehicles, raw materials and related products and to provide the relevant services (as the case may be) to Shaanxi Automotive and its associates (namely, Shaanxi Wanfang, Shaanxi Huazhen, Shaanxi Lantong, Shaanxi Tongchuang, Shaanxi Tongli, Baoji Huashan, Wenzhou Yunding, Changsha Huantong, Xunyang Baotong, Dongfeng Axle, Yanan Vehicle, Shaanxi Fangyuan, Huazhen Trading, Shaanxi Dongming, Tonghui Logistic, Deyin Finance, Shanghai Yuanxing, and Zhongfu Wulian) (and/or other associates of Shaanxi Automotive) (as the case may be) on the same terms for a term of three years ending 31 December 2016, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. In addition, Shaanxi Zhongqi shall sell certain vehicles at market price to the Deyin Group (i) through certain third party agents and settled within three months; or (ii) directly, with an upfront payment of 30% of the sale price of the vehicles and the remainder settled on a quarterly basis within two years.

The sale price of the said products is determined according to the following mechanism: through market analysis of the products (including conducting research in the market at least once every quarter and reviewing the prices of two to three major products of the same category and in the same geographical region in general) by the sales management department together with the price management department of the relevant seller, a proposal on the sale price of the relevant products, which is formulated based on the aforesaid market analysis taking into account an analysis of the cost of production of such products, shall be submitted to the price management department of such company for approval. After commercial negotiations between such company and the purchaser on the basis of the said proposal, the sale price shall be determined based on arm's length negotiations between the parties. The said price management department shall review the reasonableness of the sale price on a regular basis and make adjustments (where necessary). The price management department usually reviews the prices of the products around the first quarter of a year during which new sales orders are entered into, and thereafter, review such prices on a monthly basis. Save as aforesaid and the New Caps described below, all other terms of the Shaanxi Zhongqi Sale Agreement remain unchanged.

We understand from the Group that in determining the sale price under a sales transaction, the Group generally adopts the same pricing mechanism as described above regardless whether the customer is a connected party or an independent third party. On this basis and the fact that there are periodic reviews and adjustments, where necessary, on the prices of the products, we consider that the 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 20 randomly selected samples of sales invoices for vehicles, parts and components between Shaanxi Zhongqi and its customers, including Shaanxi Automotive (and its associates) and independent third party customers. We have noted that the sale prices of vehicles, parts and components payable by Shaanxi Automotive (and its associates) to Shaanxi Zhongqi under the sampled transactions were generally no less favourable to Shaanxi Zhongqi than those offered by Shaanxi Zhongqi to independent third party customers having regard to the quantity and product type under the transactions.

We have noted from the 2013 Annual Report that the Group traded with its customers primarily on credit terms, and generally required payment in advance or cash on delivery for new customers. The credit period granted by the Group to its customers was generally one month, extending up to six months for major customers, and the accounts receivable were non-interest bearing. As indicated in the 2013 Annual Report, the Group had audited accounts receivable of approximately RMB5,169 million as at 31 December 2013, of which about 58% aged within three months and about 11% aged between three to six months. Based on such accounts receivable aging analysis, we consider that the settlement terms of one to three months granted by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) are normal commercial terms and are in line with those granted by the Group to its customers in general.

Pursuant to the Supplemental Agreement, Shaanxi Zhongqi shall also sell certain vehicles at market price to the Deyin Group (i) through certain third party agents and settled within three months; or (ii) directly, with an upfront payment of 30% of the sale price of the vehicles and the remainder settled on a quarterly basis within two years. We have discussed with the Group and understand that the primary purpose of the sale transactions with the Deyin Group is to provide lease financing to the end-user buyers of Shaanxi Zhongqi's vehicles. Such arrangement is part of the sales and marketing strategy of Shaanxi Zhongqi with a view to promoting the sales of its vehicles and enhancing its market share in the PRC by offering auxiliary sales services, such as financing arrangements, insurance coverage, and transportation of vehicles, etc., through the Deyin Group. According to the website of Deyin Finance, the Deyin Group provides a wide range of automotive financing and aftermarket services to both vehicle distributors and end-user purchasers of vehicles, including vehicles financing at flexible terms, automotive transportation, insurance and claims management, automotive supply chain solutions and logistics services, etc. For sales to the Deyin Group through third party agents, the payment term is within three months which is largely the same as the one-to-three months' credit term offered to other connected parties under the Non-exempt Continuing Connected Transactions. For direct sales to the Deyin Group, the transactions will be settled with an upfront payment of 30% of the sale price of the vehicles and the remainder on a quarterly basis within two years. As advised by the Group, the direct sales to the Deyin Group are expected to be bulk purchases by the Deyin Group for onward sale to its own customers. The Deyin Group usually offers vehicles lease financing to its customers who may settle the purchase price by way of partial down payment of around 15%–30% in general and the remainder within not more than 36 months, depending on market conditions.

As indicated in the 2013 Annual Report, about 17% of the Group's accounts receivable as at 31 December 2013 aged between six months and two years. We have reviewed sales contracts between Shaanxi Zhongqi and its independent third party customers with similar payment arrangements to that between Shaanxi Zhongqi and the Deyin Group under the Non-exempt Continuing Connected Transactions. We have noted that the payment terms offered by Shaanxi Zhongqi to the Deyin Group (i.e. an upfront payment of 30% of the sale price and the remainder to be settled on a quarterly basis within two years) are broadly in line with those offered by Shaanxi Zhongqi to independent third party customers having regard to the fact that: (i) the Deyin Group will make bulk purchases; (ii) the Deyin Group will offer competitive financing terms to the end-purchasers of the vehicles and bear the risks associated with the financing; (iii) Deyin Finance is wholly-owned by Shaanxi Automotive which, pursuant to the Shaanxi Zhongqi Sale Agreement, will procure its relevant associates including the Deyin Group to perform their obligations under the Non-exempt Continuing Connected Transactions.

In summary, (i) the sale of vehicles, parts and components, raw materials and related products and the provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) are conducted in the ordinary and usual course of business of the Group; (ii) the prices of the goods or services to be transacted under the Supplemental Agreement shall be market prices and the Group shall adopt the same pricing mechanism for both independent third party customers and connected parties; and (iii) the credit terms granted by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) and to the Deyin Group are normal commercial terms and are in line with those granted by the Group to its customers in general having regard to the nature of the transactions. On this basis, we are of the opinion that the Supplemental Agreement governing the sale of vehicles, parts and components of vehicles, raw materials, and related products and the provision of the relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) is in the interest of the Company and the Shareholders as a whole, and its terms are normal commercial terms and are fair and reasonable.

(ii) Rationale for determining the New Caps

The table below sets out (i) the actual transaction amounts involved in the sale of vehicles, parts and components of vehicles, raw materials and related products and the provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) for the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014; and (ii) the proposed New Caps for such Non-exempt Continuing Connected Transaction for each of the three years ending 31 December 2014, 2015 and 2016:

	Total transaction amounts in relation to the sale of goods and the provision of services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) *(RMB'000)*	**Increase as compared to the preceding financial year** *(%)*
Actual transaction amounts:		
2012	584,284	N/A
2013	736,853	26.1
Three months ended 31 March 2014 *(Note 1)*	572,488	210.8
New Caps:		
2014 *(Note 2)*	4,800,000	109.6
2015	6,500,000	35.4
2016	8,100,000	24.6

Notes:

1. The percentage increase has been calculated on an annualized basis.
2. The percentage increase has been calculated by comparison with the actual transaction amount in the first quarter of 2014 on an annualized basis.

The proposed New Caps for the above Non-exempt Continuing Connected Transactions are RMB4,800 million, RMB6,500 million and RMB8,100 million for the three years ending 31 December 2014, 2015 and 2016, respectively. As stated in the Letter from the Board, the proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical transaction amounts; (ii) the estimate of the volume and amount of the said vehicles and parts and components of vehicles to be sold and the amount of the relevant services to provided by Shaanxi Zhongqi and its subsidiaries and Weichai Freshen Air, with an estimated increase of approximately 17% and 14% in the volume of vehicles to be sold by Shaanxi Zhongqi for each of the years ending 31 December 2015 and 31 December 2016, respectively; (iii) the estimated average unit price of the said vehicles, with an expected shifting of Shaanxi Zhongqi's product mix toward natural gas heavy-duty trucks (with a sale price approximately 27% higher than that of diesel heavy-duty trucks in general); (iv) the expected introduction of new products in the market; and (v) the expected growth in the overall transaction amount as a result of the Deyin Business, which is expected to account for about 60% of the overall annual sales by the Group to Shaanxi Automotive (and its associates) under this sub-section for each of the three years ending 31 December 2016. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said sale and provision of service will increase by approximately 35% and 25% for each of the years ending 31 December 2015 and 31 December 2016, respectively.

As indicated in the table above, the transaction amount in relation to the sale of goods and provision of services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) in 2012 and 2013 was approximately RMB584 million and RMB737 million, respectively, which represented a utilization rate of approximately 17% and 29%, respectively, of the annual caps set by the Group for the relevant years. As advised by the Group, the relatively low utilization rate was due to the downturn of the heavy-duty vehicles market in the past two years during which Shaanxi Zhongqi's sales plan could not be fully materialized. In this regard, we have noted that the annual cap for 2012 for the transaction in this sub-section was determined by the Group in 2010 when China recorded double-digit economic growth rate and record high domestic sales of over one million units of heavy-duty vehicles. Given the volatility of the general economic conditions as well as the heavy-duty vehicles market in China in the past few years as discussed in the paragraph headed "Overview of China's economy and the heavy-duty trucks market in China" above, we consider it understandable that the annual caps were not fully utilized. In the first quarter of 2014, the transaction amount in relation to the sale of goods and provision of services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) was approximately RMB572 million, representing an increase of more than two times the transaction amount in 2013 on an annualized basis and a utilization of approximately 21% of the Existing Cap for 2014.

The respective proposed New Caps of RMB6,500 million and RMB8,100 million for 2015 and 2016 represent an annual growth of approximately 35% and 25%, respectively, 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 2013, such domestic sales rose to about 774,100 units, representing a year-on-year growth of about 21.7%. 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's total sales of heavy-duty trucks dropped by about 19.7% to about 80,500 units. In 2013, such sales volume was about 85,800, representing a year-on-year increase of about 6.6%. The downturn in the 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. In 2013, the heavy-duty trucks market regained the growth momentum benefitting from the stability of the general economy, the rebound of fixed-asset investments and the swift development of the logistics industry in China.

According to information published on the website www.zhongka.com (中國重卡網), Shaanxi Automotive has been ranked between fourth and fifth in the heavy-duty trucks market in China in terms of domestic sales volume over the last few years. As Shaanxi Automotive is one of the top five largest manufacturers in the heavy-duty vehicles market in China, the demand for Shaanxi Automotive's products is expected to grow in line with the overall market and, therefore, the amount of transactions between Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air and Shaanxi Automotive (and its associates) is expected to increase at least along with the expected improvement in the overall market.

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

– The purchase requirements of Shaanxi Automotive (and its associates) have been estimated based on Shaanxi Zhongqi's annual sales and production plan of 120,000 units, 140,000 and 160,000 units of heavy-duty vehicles for 2014, 2015 and 2016, respectively. As advised by the Group, such sales and production plan has been set by Shaanxi Zhongqi as one of the leading manufacturers of heavy-duty vehicles in China in accordance with the guidelines and objectives under the National 12th Five-Year Plan as well as in anticipation of the growth in construction activities and infrastructural investments under China's urbanization development plan. We have discussed with the Group and reviewed its bases and assumptions and the factors considered in devising the sales and production plan of Shaanxi Zhongqi for 2014, 2015 and 2016 which include the economic conditions in China, the 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 National 12th Five-Year Plan and the major targets and policies for China's economic and social development published by the National Development and Reform Commission. We have noted in particular that significant commitments have been made by the government to expanding China's transportation infrastructure for the 2011–2015 period and beyond which include the extension of the national expressway network and high-speed railway network, development and expansion of airports including a new one in Beijing, and improving the nation's goods distribution channels by constructing loading ports, transit bases and goods handling terminals, and deep berths, the construction of social housing and renovation of related infrastructure under the urbanization development plan, 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 to make its annual sales and production 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 and production plan of Shaanxi Zhongqi, and hence estimating the purchase requirements of Shaanxi Automotive (and its associates) for 2014 to 2016.

– The proposed New Cap of RMB4,800 million for 2014 represents an increase of close to 1.1 time over the actual transaction amount for the first quarter of 2014 on an annualized basis. In determining the New Cap for 2014, the Group expects that Shaanxi Zhongqi will not only capture the growth opportunity in the heavy-duty trucks market in China, but also enhance its market share by promoting the sales of its vehicles through the Deyin Group. In this regard, we have noted that the actual transaction amount of sales by Shaanxi Zhongqi (and its subsidiaries) to Deyin Finance in the first quarter of 2014 alone was over 8 times the full-year transaction amount in 2013. As advised by the Group, such significant increase was due to the sales promotion strategy under which vehicle lease financing is provided to the vehicle buyers by Deyin Finance. As Shaanxi Zhongqi has adopted this new marketing strategy since early 2014, the growth in the overall transaction amount of sales by Shaanxi Zhongqi to the Deyin Group is expected to continue throughout the year as a result of the Deyin Business, which is expected to account for about 60% of the overall annual sales by the Group to Shaanxi Automotive (and its associates).

– Another reason for the increase in the estimated sale transaction amount is the additional production requirements of certain subsidiaries of Shaanxi Automotive. In particular, Baoji Huashan has been sourcing steel products and axles from Shaanxi Zhongqi and Hande Axle since late 2013. During the first quarter of 2014, the amount of such sales to Baoji Huashan represented an increase of about 170% compared to the full-year transaction amount in 2013. Such growth in the sale transaction amount is expected to continue along with the increase in production capacity and capabilities of Baoji Huashan in the years to come.

– In determining the New Caps for 2015 and 2016, it is estimated that the sale of heavy-duty vehicles by Shaanxi Zhongqi to Shaanxi Automotive (and its associates) will increase by about 17% and 14%, respectively, based on its sales and production plan of 140,000 units and 160,000 units of heavy-duty vehicles for 2015 and 2016 as discussed above.

  We consider such growth estimates reasonable for the purpose of capturing the expected increase in demand for heavy-duty trucks which will be driven by (i) the stable growth of the general economy; (ii) the growth in construction activities and infrastructural investments under China's urbanization development plan; (iii) the implementation of the China IV Emission Standards for trucks and policies on control over high-emission vehicles; and (iv) the replacement cycle of a significant quantity of heavy-duty trucks which were sold during the high-growth period from 2006 to 2010.

– The increase in the value of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) is also attributable to the estimated increase in the average unit price of Shaanxi Zhongqi's heavy-duty vehicles due to the fact that it is the strategy of both Shaanxi Zhongqi and Shaanxi Automotive to continue shifting its product mix 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, diesel emission control technology, and natural gas powered engine, etc. It is estimated that following the shift in product mix the unit price of the higher-end heavy-duty vehicles is expected to increase by about 7% compared to those with standard features, and the sale price of natural gas powered heavy-duty trucks is about 27% higher than that of diesel heavy-duty trucks in general.

– It is expected that the business cooperation between Shaanxi Zhongqi and the Deyin Group will have been tested and operationally enhanced during 2014 and thus more sales of Shaanxi Zhongqi's vehicles will be sold through the Deyin Group in 2015 and 2016. Accordingly the amount of sale transactions by Shaanxi Zhongqi to the Deyin Group will continue to increase in 2015 and 2016.

– Having said that, we also notice that the growth rates as represented by the proposed New Caps for 2014 to 2016 are on a slowing trend. We consider it reasonable given the growth rate is achieved against an enlarged market base.

In summary, (i) the economic conditions and the heavy-duty vehicles market in China are expected to improve along with the new construction and infrastructure activities spurred by the government's fiscal and monetary policies; (ii) the sales and production plan and estimates in transaction amounts adopted by the Group in determining the New Caps are substantially in line with the guidelines and objectives under the National 12th Five-Year Plan and the major targets and policies adopted by the National Development and Reform Commission; (iii) the substantial growth in the actual transaction amounts under this sub-section in the first quarter of 2014 indicates an increase of more than 2.1 times on an annualized basis compared to the full-year transaction amount in 2013; (iv) the sales and market share of Shaanxi Zhongqi's vehicles in the PRC are expected to increase as a result of the marketing strategy through the Deyin Group; and (v) the shift in product mix toward higher-end heavy-duty vehicles and products will lead to an increase in the value of the goods under the transactions. On this basis, we are of the view that the proposed New Caps for the sale of vehicles, parts and components of vehicles, raw materials and related products and the provision of relevant services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air to Shaanxi Automotive (and its associates) for the three years ending 31 December 2014, 2015 and 2016 of RMB4,800 million, RMB6,500 million and RMB8,100 million, respectively, are fair and reasonable.

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

(i) Principal terms of the Supplemental Agreement

Pursuant to the Shaanxi Zhongqi Purchase Agreement (as supplemented by the supplemental agreements dated 27 November 2008, 23 August 2010 and 29 August 2013), 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 Shaanxi Automotive and its associates (as set out in the announcement of the Company dated 23 August 2013), 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 and labour services (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, Huazhen Trading, Deyin Logistic, Tonghui Logistic and Zhongjiao Tianjian) (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.

The purchase price of the said products is determined according to the following mechanism: through market analysis of the products (including reviewing the prices of not less than three products of the same category in the market in general) by the sales management department together with the price management department of the purchaser, a proposal on the purchase price, after an analysis regarding the reasonableness of the sale price taking into account the cost of materials, labour cost and processing cost (the Company shall conduct an analysis on such costs in respect of the products and compare the same against the quote from the relevant seller), shall be submitted to the price management department of the purchaser for approval. After commercial negotiations between the purchaser and the seller on the basis of the said proposal, the final sale price shall be determined based on arm's length negotiations between the purchaser and seller. The said price management department shall review the reasonableness of the sale price on a regular basis and make adjustments (where necessary). The price management department usually reviews the prices of materials around the first quarter of a year during which new purchase orders are entered into, and thereafter, review such prices on a monthly basis. Save as aforesaid and the New Caps described below, all other terms of the Shaanxi Zhongqi Purchase Agreement remain unchanged.

We understand from the Group that in determining the purchase price under a purchase transaction, the Group generally adopts the same pricing mechanism as described above regardless whether the supplier is a connected party or an independent third party. On this basis and the fact that there are periodic reviews and adjustments, where necessary, on the prices of the products, we consider that the 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 20 randomly selected samples of purchase invoice 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 2013 Annual Report that the Group's accounts payable were generally settled within three to four months. As indicated in the 2013 Annual Report, the Group had audited accounts payable of approximately RMB13,473 million as at 31 December 2013, of which about 82% aged within three months. Based on such accounts payable aging analysis, we consider that the settlement terms of one to three months obtained by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) under the Shaanxi Zhongqi Purchase Agreement are normal commercial terms and are in line with those offered to the Group by its suppliers in general.

In summary, (i) the purchase of parts and components of vehicles, scrap steel and related products and labour services 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 and the Group shall adopt the same pricing mechanism for both independent third party suppliers and connected parties; 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 term 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 and labour services 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.

(ii) 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 and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014; 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 and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) *(RMB' 000)*	**Increase as compared to the preceding financial year/period** *(%)*
Actual transaction amounts:		
2012	1,471,075	N/A
2013	2,652,481	80.3
3 months up to 31 March 2014 *(Note 1)*	917,286	38.3
New Caps		
2014 *(Note 2)*	5,800,000	58.1
2015	7,200,000	24.1
2016	8,600,000	19.4

Notes:

1. The percentage change is calculated on an annualized basis.
2. The percentage change is calculated by comparison with the transaction amount in the first quarter of 2014 on an annualized basis.

The proposed New Caps for the above Non-exempt Continuing Connected Transaction are RMB5,800 million, RMB7,200 million and RMB8,600 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), which is in line with the estimated increase of approximately 17% and 14% in the volume of vehicles to be sold by Shaanxi Zhongqi for each of the years ending 31 December 2015 and 31 December 2016, respectively; (iii) the annual production and sales plan of Shaanxi Zhongqi of 120,000 units, 140,000 units and 160,000 units of heavy-duty vehicles for 2014, 2105 and 2016, respectively; and (iv) the expected increase in the cost of production, with an expected shifting of Shaanxi

Zhongqi's products mix toward natural gas heavy-duty trucks (with a production cost approximately 26% higher than that of diesel heavy-duty trucks in general). Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said purchase of parts and components of vehicles, scrap steel and related products and labour services will increase by approximately 24% and 19% 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 and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) in 2012 and 2013 was approximately RMB1,471 million and RMB2,652 million, respectively, which represented a utilization rate of approximately 32% and 55%, respectively, of the annual caps determined for the relevant years. As advised by the Group, the relatively low utilization rate was due to the downturn of the heavy-duty vehicles market in the past two years during which Shaanxi Zhongqi's sales plan could not be fully materialized. In this regard, we have noted that the annual caps for 2012 and 2013 for the transaction in this sub-section was determined by the Group in 2010 when China recorded double-digit economic growth rate and record high domestic sales of over one million units of heavy-duty vehicles. Given the volatility of the general economic conditions as well as the heavy-duty vehicles market in China in the past few years as discussed in the paragraph headed "Overview of China's economy and the heavy-duty trucks market in China" above, we consider it understandable that the annual caps were not fully utilized. In the first quarter of 2014, the transaction amount in relation to the purchase of parts and components of vehicles, scrap steel and related products and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) was approximately RMB917 million, representing an increase of approximately 38% on an annualized basis from the full-year transaction amount in 2013 and a utilization of approximately 29% of the Existing Cap for 2014.

The respective proposed New Caps of RMB7,200 million and RMB8,600 million for 2015 and 2016 represent an annual growth of approximately 24% and 19% 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 2013, such domestic sales rose to about 774,100 units, representing a year-on-year growth of about 21.7%. 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's total sales of heavy-duty trucks dropped by about 19.7% to about 80,500 units. In 2013, such sales volume was about 85,800, representing a year-on-year increase of about 6.6%. The downturn of the 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. In 2013, the heavy-duty trucks market regained the growth momentum benefitting from the stability of the general economy, the rebound of fixed-asset investments and the swift development of the logistics industry in China.

As Shaanxi Zhongqi is one of the major manufacturers in the heavy-duty vehicles market in China with a significant 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 Automotive (and its associates) have been estimated based on Shaanxi Zhongqi's annual sales and production plan of 120,000 units, 140,000 and 160,000 units of heavy-duty vehicles for 2014, 2015 and 2016, respectively. As advised by the Group, such sales and production 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 and production plan of Shaanxi Zhongqi for 2014, 2015 and 2016 which include the economic conditions in China, the 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 the major targets and policies for China's economic and social development published by the National Development and Reform Commission. We have noted in particular that significant commitments have been made by the government to expanding China's transportation infrastructure for the 2011–2015 period and beyond which include the extension of the national expressway network and high-speed railway network, development and expansion of airports including a new one in Beijing, and improving the nation's goods distribution channels by constructing loading ports, transit bases and goods handling terminals, and deep berths, the construction of social housing and renovation of related infrastructure under the urbanization development plan, etc. 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 to make its annual sales and production 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 and production 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 2013, such market share dropped to 11.1%. As a major manufacturer of heavy-duty trucks having a significant market share in China, the demand for Shaanxi Zhongqi's heavy-duty trucks is expected to increase at a rate broadly in line with the industry. In 2013, the domestic sales of heavy-duty trucks rose to about 774,100 units, representing a year-on-year increase of about 21.7%.

– The increase in the value of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) in 2014 to 2016 is also attributable to the estimated increase in the price of the parts and components of vehicles to be purchased due to the fact that it is the strategy of both Shaanxi Zhongqi and Shaanxi Automotive to continue shifting its product mix 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. It is estimated that following the shift in product mix, the value of the higher-end heavy-duty vehicles and their parts and components is expected to increase by about 7% compared to those with standard features, and the cost of production of natural gas powered heavy-duty trucks is about 26% higher than that of diesel heavy-duty trucks in general.

– 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 2013, Shaanxi Automotive has a market share of about 40% 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.

– 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 and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) in the first quarter of 2014 increased by approximately 38% from that in 2013 on an annualized basis. The proposed New Cap of RMB5,800 million for 2014 represents an increase of approximately 58% over the actual transaction amount for the first quarter of 2014 on an annualized basis. As advised by the Group, the growth momentum of the purchase requirements of Shaanxi Zhongqi (and its subsidiaries) has not been fully reflected in the actual transaction amount in the first quarter of 2014 due to the New Year holidays. Also, a new procurement model has been adopted since late 2013 under which Tonghui Logistic, a subsidiary of Shaanxi Automotive, provides one-stop services and manages the purchase requirements of Shaanxi Zhongqi (and its associates) through a supply chain management system. In the first quarter of 2014, the amount of purchase transactions by Shaanxi Zhongqi (and its subsidiaries) from Tonghui Logistic represented an increase of approximately 173% on an annualized basis over the full-year transaction amount in 2013. Given the increasing amount of purchase transaction amount from Shaanxi Automotive (and its associates), and in particular from Tonghui Logistic, by Shaanxi Zhongqi (and its subsidiaries), we consider that the growth rate as represented by the proposed New Cap of RMB5,800 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 17% and 14% respectively from that of the preceding year based on its sales and production plan of 140,000 units and 160,000 units of heavy-duty vehicles for 2015 and 2016 as discussed above. 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 Automotive (and its associates), the proposed New Caps of RMB7,200 million for 2015 and RMB8,600 million for 2016 represents an increase of approximately 24% and 19% 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) in 2013 increased by approximately 80% from that in the preceding year, and by a further 38% on an annualized basis in the first quarter of 2014. 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 maintains a significant market share in heavy-duty trucks, we consider that the estimated growth rates as represented by the proposed New Caps for 2015 and 2016 are reasonable. Having said that, we also notice that the growth rates as represented by the proposed New Caps for 2014 to 2016 are on a slowing trend. We consider it reasonable given the growth rate is achieved against an enlarged market base.

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 and production 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 and the major targets and policies adopted by the National Development and Reform Commission; (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 as well as the expected rise in the cost of production will lead to further increase in the transaction amount; and (v) the actual amount of purchase transactions by the Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) increased by approximately 80% in 2013 and a further 38% on an annualized basis in the first quarter of 2014, 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 and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates) for the three years ending 31 December 2014, 2015 and 2016 of RMB5,800 million, RMB7,200 million and RMB8,600 million, respectively, are fair and reasonable.

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

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

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

(i) have received the approval of the Board;

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

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

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

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

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

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

RECOMMENDATION

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

– The Non-exempt Continuing Connected Transactions are ongoing transactions originated from TAGC after completion of the Merger. It is in the interests of the Company and the Shareholders as a whole to continue such transactions as the principal purpose of the Merger is to form a larger consolidated business in the heavy-duty trucks market that will create new business opportunities and result in positive synergistic effects. The continuation of the Non-exempt Continuing Connected Transactions is important to ensure and maximize operating efficiency and stability of the operations of the Group after completion of the Merger.

– The Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms or terms or on terms no less favorable to the Group than those available to or from (as appropriate) independent third parties.

– 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 Transactions are conducted in the ordinary and usual course of business of the Group, the Supplemental Agreements are in the interests of the Company and the Shareholders as a whole, the terms of the Supplemental Agreements 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 Agreements and the New Caps at the AGM.

Yours faithfully,
For and on behalf of
Ceres Capital Limited

Frank Moy
Managing Director

Jinny Mok
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

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

Name of Director	Capacity	Number of A Shares held	Number of H Shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	16,512,000 *(Note 1)*	–	0.83%
Xu Xinyu	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Sun Shaojun	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Zhang Quan	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
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	41,260,000 *(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 41,260,000 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	–	–	35,313,030	7.27%	1.77%
JPMorgan Chase & Co.	Beneficial owner	Long	–	–	2,193,933	0.45%	0.11%
	Investment manager	Long	–	–	19,748,068	4.07%	0.99%
	Trustee (other than bare trustee)	Long	–	–	720	0.00%	0.00%
	Custodian – Corporation/approved lending agent	Long	–	–	55,711,079	11.46%	2.78%
					77,653,800	15.98%	3.88%
	Beneficial owner	Short	–	–	384,000	0.07%	0.02%
The Capital Group Companies, Inc. *(Note 2)*	Interest of corporation controlled by the substantial shareholder	Long	–	–	27,669,400	6.84%	1.66%
Lazard Emerging Markets Equity Portfolio *(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%
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	Long	–	–	24,629,674	5.07%	1.23%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	2,418,200	0.49%	0.12%

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
The Bank of New York Mellon Corporation	Interest of corporation controlled by the substantial shareholder	Long	–	–	7,653,012	1.58%	0.38%
	Custodian – Corporation/approved leading agent	Long	–	–	21,523,616	4.43%	1.08%
					29,176,628	6.01%	1.46%

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, none of the Directors was interested, directly or indirectly, in any assets which had since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) As at the Latest Practicable Date, save for Mr. Gordon Riske's interest in KION Group AG as disclosed in the section headed "2. Disclosure of interests — Interest in the shares of associated corporations of the Company" in this appendix, being interest in contracts for the sale of commodities, provision of product testing, casting, catering and leasing services by Linde Hydraulics GmbH & Co. KG, a subsidiary of the Company, to KION Group AG and its subsidiaries, and in contracts for the provision of information technology services, accounting, human resources, logistics services etc. by KION Group AG and its subsidiaries to Linde Hydraulics GmbH & Co. KG, 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 2013, 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. QUALIFICATION AND CONSENT OF THE EXPERT

(a) The following is the qualification of the expert which has given opinion or advice which is 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 22 May 2014 and was made by the Independent Financial Adviser for incorporation in this circular.

5. MATERIAL ADVERSE CHANGE

The Directors confirmed that, as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. GENERAL

In the event of any 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 at the Company's principal place of business in Hong Kong at Room 3407–3408, 34/F, Gloucester Tower, Landmark, 15 Queen's Road Central, Hong Kong, from the date of this circular to 5 June 2014 (both days inclusive):

(a) the Supplemental Agreements;

(b) the letter from the Independent Financial Adviser as set out in this circular;

(c) the written consent of the Independent Financial Adviser as referred to in the paragraph headed "4. Qualification and consent of the expert" in this appendix; and

(d) the letter from the Independent Board Committee as set out in this circular.