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**Dragon Hill Wuling Automobile Holdings Limited**  
**(俊山五菱汽車集團有限公司\*)**

*(Incorporated in Bermuda with limited liability) (Stock Code: 305)*

**CONTINUING CONNECTED TRANSACTIONS –  
TRADING TRANSACTIONS  
AND  
CONTINUING CONNECTED AND DISCLOSEABLE TRANSACTION –  
PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON**

**GL TRADING TRANSACTIONS**

On 2 July 2008, Wuling Industrial and Guangling entered into the GL Trading Agreement, which governs the GL Trading Transactions (the sales of raw materials to and purchases of automotive components and related accessories from Guangling by the Wuling Industrial Group) for the three years ending 31 December 2010.

As two of the applicable percentage ratios for the GL Trading Agreement on an annual basis exceed 2.5% and each of the annual caps of the GL Purchase Transactions and the GL Sale Transactions under the GL Trading Agreement is more than HK\$10 million, accordingly the GL Trading Transactions contemplated under the GL Trading Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval requirements under Rules 14A.48 to 14A.54 of the Listing Rules and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules.

**GB TRADING TRANSACTIONS**

On 2 July 2008, Wuling Industrial and Guilin Bus entered into the GB Trading Agreement, which governs the GB Trading Transactions (the sales of parts and raw materials to and purchases of passenger mini-buses from Guilin Bus by the Wuling Industrial Group) for the year ending 31 December 2008.

As all of the applicable percentage ratios for the GB Trading Agreement on an annual basis exceed 0.1% but are less than 2.5% and each of the annual caps of the GB Purchase Transactions and the GB Sale Transactions is more than HK\$10 million, accordingly the GB Trading Transactions contemplated under the GB Trading Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules which are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the Independent Shareholders' approval requirements pursuant to Rule 14A.34 of the Listing Rules.

\* For identification purpose only

## **UNDERTAKING AGREEMENT AND THE PROVISION OF THE FINANCIAL ASSISTANCE TO LIUZHOU WULING**

Wuling Industrial has proposed to enter into the Guarantee Agreement with China Construction Bank for the provision of the Financial Assistance to Liuzhou Wuling, being a corporate guarantee in respect of the Liuzhou Wuling Banking Facilities in a maximum amount of RMB200 million (equivalent to approximately HK\$226.47 million). Accordingly, on 2 July 2008, Wuling Industrial and Liuzhou Wuling entered into the Undertaking Agreement in relation to the proposed execution by Wuling Industrial of the Guarantee Agreement.

As all of the applicable percentage ratios for the Undertaking Agreement, together with the transactions contemplated thereunder (including the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling), exceed 2.5% and the maximum guaranteed amount under the Financial Assistance to Liuzhou Wuling in aggregate is more than HK\$10 million, the execution of the Undertaking Agreement by Wuling Industrial, together with the transactions contemplated thereunder, constitutes a non-exempt continuing connected transaction for the Company under Rules 14A.13(2)(a)(i) and 14A.14 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules, and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. As all of the applicable percentage ratios for the transactions contemplated under the Undertaking Agreement are more than 5% but less than 25% the execution of the Undertaking Agreement, together with the transactions contemplated thereunder, also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

### **GENERAL**

The approval of the Independent Shareholders will be sought at the SGM by way of poll in respect of the GL Trading Agreement, the Undertaking Agreement and the respective transactions contemplated thereunder. Liuzhou Wuling and its associates will abstain from voting at the SGM.

The Board has appointed Guangdong Securities as the independent financial adviser to the Independent Board Committee (which will be formed and will comprise all independent non-executive Directors) and the Independent Shareholders to consider the terms of the GL Trading Agreement and the Undertaking Agreement, as well as the transactions contemplated thereunder respectively. A circular (the "Circular") containing, inter alia, details of the GL Trading Agreement, the Undertaking Agreement, and the recommendation of the Independent Board Committee as well as the advice of Guangdong Securities in relation to the GL Trading Agreement and the Undertaking Agreement will be despatched to the Shareholders as soon as possible.

## THE GL TRADING AGREEMENT

The Directors announce that on 2 July 2008, Wuling Industrial (a subsidiary of the Company) and Guangling (an associate of Liuzhou Wuling which is a substantial Shareholder and a connected person of the Company) entered into the GL Trading Agreement in relation to the GL Trading Transactions (the sales of raw materials to and purchases of automotive components and related accessories from Guangling by the Wuling Industrial Group) for the three years ending 31 December 2010. Pursuant to the GL Trading Agreement, the parties thereto have conditionally agreed that during each of the three years ending 31 December 2010,

- (1) the maximum aggregate value of the GL Purchase Transactions shall be RMB33 million (equivalent to approximately HK\$37.37 million), RMB57 million (equivalent to approximately HK\$64.55 million) and RMB76 million (equivalent to approximately HK\$86.06 million) respectively; and
- (2) the maximum aggregate value of the GL Sale Transactions shall be RMB33 million (equivalent to approximately HK\$37.37 million), RMB54 million (equivalent to approximately HK\$61.15 million) and RMB70 million (equivalent to approximately HK\$79.27 million) respectively.

It was also set out in the GL Trading Agreement that Wuling Industrial and Guangling have agreed that:

- a. each GL Trading Transaction will be conducted (i) in the ordinary and usual course of the business of the Group; (ii) on an arm's length basis; and (iii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favourable than terms available to or from (as appropriate) Independent Third Parties;
- b. the GL Trading Transactions will be reviewed by the independent non-executive Directors and the auditors of the Company annually, and their respective relevant reports, together with information on the GL Trading Transactions, will be set out in the Company's next annual report following the occurrence of the relevant GL Trading Transactions; and
- c. Guangling will provide its relevant records for the auditors of the Company and Wuling Industrial during their course of review of the GL Trading Transactions.

The GL Trading Agreement, together with the transactions contemplated thereunder (including the GL Trading Transactions), is subject to approval by the Independent Shareholders at the SGM.

## Annual Caps

Set out below is a summary of the GL Trading Transactions which took place during each of the years ended 31 December 2006 and 2007 between the Group (through Wuling Industrial Group) and Guangling and the proposed annual caps in respect of the GL Trading Agreement for each of the years ending 31 December 2008, 2009 and 2010:

### GL Purchase Transactions

	Year ended 31 December		Proposed annual cap for the year ending 31 December		
	2006 (Note 1)	2007 (Note 1)	2008	2009	2010
RMB'000	10,242	15,225	33,000	57,000	76,000
(equivalent to HK\$'000)	11,598	17,240	37,370	64,550	86,060
% of increment	–	–	116.7%	72.7%	33.3%

### GL Sale Transactions

	Year ended 31 December		Proposed annual cap for the year ending 31 December		
	2006 (Note 1)	2007 (Note 1)	2008	2009	2010
RMB'000	11,812	17,366	33,000	54,000	70,000
(equivalent to HK\$'000)	13,376	19,665	37,370	61,150	79,270
% of increment	–	–	90.0%	63.6%	29.6%

Note:

1. The above transaction amounts for the years ended 31 December 2006 and 2007 represented the aggregate amounts of sales or purchases to or from Guangling by Liuzhou Wuling (in respect of the period immediately before the establishment of Wuling Industrial) and Wuling Industrial Group for the years ended 31 December 2006 and 2007. Prior to May 2007, all of the trading transactions were carried out by Liuzhou Wuling. Following the establishment of Wuling Industrial and with effect from 1 May 2007, the GL Trading Transactions were carried out by Wuling Industrial Group.

Wuling Industrial has become a subsidiary of the Company since 1 September 2007. Since then and during the year ended 31 December 2007, the GL Purchase Transactions and the GL Sale Transactions between the Group (through Wuling Industrial Group) and Guangling amounted to approximately RMB3.0

million (equivalent to approximately HK\$3.4 million) and RMB6.3 million (equivalent to approximately HK\$7.1 million) respectively. During the four months ended 30 April 2008, the amounts for the GL Purchase Transactions and the GL Sale Transactions were approximately RMB7.3 million (equivalent to approximately HK\$8.3 million) and RMB7.9 million (equivalent to approximately HK\$8.9 million) respectively. These previous GL Purchase Transactions and GL Sale Transactions have resulted in the relevant consideration ratio being higher than 0.1% but lower than 2.5% (the thresholds under Rules 14A.33(3)(a) and 14A.34(1) of the Listing Rules respectively and is computed with reference to the then total market capitalization of the Company) in December 2007 and October 2007 respectively for the year ended 31 December 2007, and in January 2008 for the four months ended 30 April 2008, therefore the Company was subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules. The Company admitted that it had overlooked its obligations of these reporting and announcement requirements to timely publish an announcement pursuant to Rule 14A.47 of the Listing Rules and disclose the information in the 2007 annual report of the Company pursuant to Rules 14A.45 and 14A.46 of the Listing Rules regarding the previous GL Trading Transactions. The information on the previous GL Trading Transactions were only disclosed in the 2007 annual report of the Company in Note 44 – Related party transactions to the financial statements. In addition, Wuling Industrial did not enter into a written agreement with Guangling on the previous GL Trading Transactions pursuant to Rule 14A.35(1) of the Listing Rules in a timely manner.

Nevertheless, the Directors are of the view that the GL Trading Transactions are virtually a kind of subcontracting services provided by Guangling for the Group's automotive components manufacturing activities as the raw materials sourced by Guangling from the Group under the GL Sale Transactions have been used by Guangling for its production of automotive components which have been subsequently sold back to the Wuling Industrial Group after processing under the GL Purchase Transactions.

The basis of the above annual caps are determined with reference to (a) the respective historical annual amounts of the GL Purchase Transactions and/or transactions between Liuzhou Wuling and Guangling with the same nature as the GL Purchase Transactions (which were carried out before the establishment of Wuling Industrial) during the two years ended 31 December 2007 (as set out in the above table, amounted to approximately RMB10.24 million (equivalent to approximately HK\$11.60 million) and RMB15.23 million (equivalent to approximately HK\$17.24 million) in aggregate for the years ended 31 December 2006 and 2007 respectively) and the GL Sale Transactions and/or transactions between Liuzhou Wuling and Guangling with the same nature as the GL Sale Transactions (which were carried out before the establishment of Wuling Industrial) during the two years ended 31 December 2007 (as set out in the above table, amounted to approximately RMB11.81 million (equivalent to approximately HK\$13.38 million) and RMB17.37 million (equivalent to approximately HK\$19.67 million) in aggregate for the years ended 31 December 2006 and 2007 respectively); (b) the historical amounts of the GL Purchase Transactions and the GL Sale Transactions during the four months ended 30 April 2008 (as mentioned above, amounted to approximately RMB7.3 million (equivalent to approximately HK\$8.3 million) and RMB7.9 million (equivalent to approximately HK\$8.9 million) respectively); (c) the business plan of the Group to launch new products in addition to the existing products of the Group, which in turn will result in (1) an increase of the Group's supply of its products, including raw materials for manufacturing of automotive components and motor vehicles, to customers of the Group, which include Guangling; (2) an increase of the Group's demand of materials, including automotive components and related accessories, for manufacturing of its

products from the Group's suppliers, which include Guangling; (d) the continuous increase in the price of raw materials in the three years ending 31 December 2010; and (e) the factor that, for the purpose of increasing effectiveness and efficiencies, Guangling has become the sole supplier of a main automotive component consumed by the Wuling Industrial Group during its production course starting from June 2008. It is currently estimated that the appointment of Guangling as the sole supplier of the said automotive component consumed by the Wuling Industrial Group will alone result in an increase of the GL Purchase Transactions by approximately 70% for the year ending 31 December 2008. In addition, the Company expects that there will be business growth for the Wuling Industrial Group's customers, the Wuling Industrial Group will therefore increase its purchase of automotive components from suppliers, including Guangling, for its production and supply of products to customers, and it is estimated that purchase made by the Wuling Industrial Group from Guangling will increase by 25% annually (in addition to the abovementioned 70% increase expected to be happened during the year ending 31 December 2008) for the three years ending 31 December 2010. As mentioned above, Guangling has sourced raw materials from the Wuling Industrial Group under the GL Sale Transactions for its production of automotive components, it is therefore estimated that the GL Sale Transactions will also increase in a trend similar to that of the GL Purchase Transactions during the three years ending 31 December 2010.

### **Reasons for the GL Trading Agreement**

Wuling Industrial Group, the principal subsidiaries of the Group, are principally engaged in the business of manufacturing and trading of engines, automotive components and specialized vehicles in the PRC.

Guangling is principally engaged in (i) trading and manufacturing and sale of mould tools and parts, including the pressing moulds and pressing parts for automotive components and other related products; and (ii) provision of maintenance service on related equipment and facilities. Liuzhou Wuling, a substantial Shareholder, is beneficially interested in 50% of the equity interest of Guangling.

The Group, in its ordinary and usual course of business, purchases raw materials, including steel, from its suppliers for the production of engines, automotive components and specialized vehicles through Wuling Industrial Group. In addition, as ancillary services provided to its client and suppliers throughout the course of provision of its ordinary and usual course of business for the purposes of strengthening the Group's business relationship with them and to enrich the source of income, the Group, through Wuling Industrial Group, also engages in the trading of raw materials and provision of a centralized procurement service in the supply chain. Guangling, in its ordinary and usual course of business, needs to purchase raw materials for the production of the mould tools and parts. In consideration of the income generated from the trading activities, the Group considers it will be in the best interests for the Group in entering into the GL Sale Transactions. Furthermore, having taken into account the effect and benefit of bulk purchases, the Group and Guangling consider that it will also be in the interests of both groups to consolidate their purchase orders. The Directors consider that by capitalizing on Wuling Industrial Group's merchandising channel and aggregating the purchase orders of the Group and Guangling, the Group's bargaining power with its suppliers will be enhanced and it is expected that the purchase price of the raw materials will be lowered. Besides, as mentioned below, part of the raw materials purchased by Guangling from the Group will be processed into automotive components and related accessories which will be sold to Wuling Industrial



Group. The Directors consider that the price of such automotive components and related accessories may be lowered if Guangling is able to source its raw materials at a lower price, in which case it will be in the interests of the Group.

Guangling purchases the raw materials, mainly steel, from the Group for processing into mould tools and parts. Part of these products, being the automotive components and related accessories, are sold to the Group for assembling into the motor vehicles and other automotive components. Guangling is a sino-foreign joint venture established in January 2006 by Liuzhou Wuling and Hirotec Corporation (日本廣島技術有限公司) (“Hirotec”), a company incorporated in Japan and specializes in the businesses of the manufacturing of metal mould tools and parts. As certain parts and components of the manufacturing businesses of the Wuling Industrial Group requires the technology, know-how originated from Hirotec, the Group has to purchase such components from Guangling.

In addition to the above, the Group, through Wuling Industrial Group, also provides the services of water and power supply to Guangling. The values of such transactions for the year ended 31 December 2007 and four months ended 30 April 2008 were approximately RMB352,000 (equivalent to approximately HK\$399,000) and approximately RMB336,000 (equivalent to approximately HK\$380,000) respectively. The Directors confirm that the provision of water and power supply services to Guangling is and will be on normal commercial terms, and they will closely monitor these transactions and once these transactions in aggregate exceed the threshold for the de minimis transactions under Rule 14A.33, the Company will comply with all the relevant requirements under Chapter 14A of the Listing Rules.

The Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the Circular, consider that the GL Trading Transactions will be conducted in the ordinary and usual course of the business of the Group. In addition, each GL Trading Transaction will be negotiated on an arm’s length basis and will be conducted on normal commercial terms or on terms to the Group no less favorable than those available to or from (as appropriate) Independent Third Parties. Therefore, the Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the Circular, consider that the terms, including the annual caps, of the GL Trading Transactions are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

## **THE GB TRADING AGREEMENT**

The Directors further announced that on 2 July 2008, Wuling Industrial and Guilin Bus (an associate of Liuzhou Wuling) entered into the GB Trading Agreement in relation to the GB Trading Transactions (the sales of parts and raw materials to and purchases of passenger mini-buses from Guilin Bus by Wuling Industrial Group) for the year ending 31 December 2008. Pursuant to the GB Trading Agreement, the parties thereto have conditionally agreed that during the year ending 31 December 2008,

- (1) the maximum value for the GB Purchase Transactions shall be RMB22 million (equivalent to approximately HK\$24.91 million); and

- (2) the maximum value for the GB Sale Transactions shall be RMB22 million (equivalent to approximately HK\$24.91 million) respectively.

It was also set out in the GB Trading Agreement that Wuling Industrial and Guilin Bus have agreed that:

- a. each GB Trading Transactions will be conducted (i) in the ordinary and usual course of the business of the Group; (ii) on an arm's length basis; and (iii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favourable than terms available to or from (as appropriate) Independent Third Parties;
- b. the GB Trading Transactions will be reviewed by the independent non-executive Directors and the auditors of the Company annually, and their respective relevant reports, together with information on the GB Trading Transactions, will be set out in the Company's next annual report following the occurrence of the relevant GB Trading Transactions; and
- c. Guilin Bus will provide its relevant records for the auditors of the Company and Wuling Industrial during their course of review of the GB Trading Transactions.

### **Annual Caps**

The Company would now like to enter into the GB Trading Transactions for the year ending 31 December 2008 with an annual cap of RMB22 million (equivalent to approximately HK\$24.91 million) for each of the GB Purchase Transactions and the GB Sale Transactions.

During the years ended 31 December 2006 and 2007, there were no GB Purchase Transactions, whereas the GB Sale Transactions amounted to approximately RMB0.2 million (equivalent to approximately HK\$0.23 million) and RMB1.4 million (equivalent to approximately HK\$1.59 million) respectively. During the four months ended 30 April 2008, there were no GB Trading Transactions.

The basis of the above annual caps are determined with reference to an initial business plan formulated between Wuling Industrial and Guilin Bus in relation to a new model passenger mini-bus recently launched in the market, whereby Guilin Bus would like to source key components from the Wuling Industrial Group for its production of this new model passenger mini-bus, while the Wuling Industrial Group would also like to act as a sale agent of such new model passenger mini-bus of Guilin Bus. The amounts of the above annual caps are calculated based on the estimated number of vehicles planned to be produced and/or sold by Guilin Bus in the current financial year. The Directors consider that such specific business plan has matched with the Group's overall business plan to launch new products in addition to its existing products as mentioned above.



## **Reasons for GB Trading Agreement**

Guilin Bus is principally engaged in manufacturing and trading of vehicles, primarily passenger coaches and buses. Liuzhou Wuling is beneficially interested in 50% of the equity interest of Guilin Bus.

The Group, including Wuling Industrial Group, is principally engaged in the business of manufacturing and trading of engines, automotive components and specialized vehicles in the PRC. In order to enrich its product portfolio for the purpose of further developing and expanding its business, the Group, through Wuling Industrial Group, would like to supply the parts and raw materials to Guilin Bus for its production of a new model passenger mini-bus, and to further act as a sale agent of such new model passenger mini-bus of Guilin Bus.

The Directors, including the independent non-executive Directors, consider that the GB Trading Transactions will be conducted in the ordinary and usual course of the business of the Group. In addition, each GB Trading Transactions will be negotiated on an arm's length basis and will be conducted on normal commercial terms or on terms to the Group no less favorable than those available to or from (as appropriate) Independent Third Parties. Therefore, the Directors, including the independent non-executive Directors, consider that the terms, including the annual caps, of the GB Trading Transactions are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

## **UNDERTAKING AGREEMENT AND THE PROVISION OF FINANCIAL ASSISTANCE TO LIUZHOU WULING**

Wuling Industrial has proposed to enter into the Guarantee Agreement with China Construction Bank for the provision of the Financial Assistance to Liuzhou Wuling, being a corporate guarantee from Wuling Industrial in respect of the Liuzhou Wuling Banking Facilities in a maximum amount of RMB200 million (equivalent to approximately HK\$226.47 million) for certain revolving banking facilities, including bank loans, bills payable, letters of credit, corporate guarantees and any other indemnities, granted by China Construction Bank to Liuzhou Wuling. Accordingly, on 2 July 2008, Wuling Industrial and Liuzhou Wuling entered into the Undertaking Agreement in relation to the proposed execution by Wuling Industrial of the Guarantee Agreement.

As all of the applicable percentage ratios for the Undertaking Agreement, together with the transactions contemplated thereunder (including the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling), exceed 2.5% and the maximum guaranteed amount under the Financial Assistance to Liuzhou Wuling in aggregate is more than HK\$10 million, the execution of the Undertaking Agreement by Wuling Industrial, together with the transactions contemplated thereunder, constitutes a non-exempt continuing connected transaction for the Company under Rules 14A.13(2)(a)(i) and 14A.14 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules, and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of

the Listing Rules. As all of the applicable percentage ratios for the transactions contemplated under the Undertaking Agreement are more than 5% but less than 25%, the execution of the Undertaking Agreement, together with the transactions contemplated thereunder, also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

### **Undertakings from Liuzhou Wuling**

Under the Undertaking Agreement, Liuzhou Wuling has undertaken to Wuling Industrial that:

1. the funds obtained from China Construction Bank under agreements to be entered into between Liuzhou Wuling and China Construction Bank regarding Liuzhou Wuling Banking Facilities (“Master Banking Facilities Agreements”) will only be used for the operations of Liuzhou Wuling Group;
2. the maximum guaranteed amount in aggregate under the Guarantee Agreement will not exceed RMB200 million (equivalent to approximately HK\$226.47 million);
3. the term of the Master Banking Facilities Agreements will not exceed 3 years from the date of the Guarantee Agreement;
4. written consent from Wuling Industrial should be obtained prior to entering into of the Master Banking Facilities Agreements or any agreement by Liuzhou Wuling with China Construction Bank for the purposes of extending the term of the Master Banking Facilities Agreements or alteration of any terms thereof; and
5. the Undertaking Agreement shall remain effective and binding on Liuzhou Wuling until expiry of the Guarantee Agreement and release of all obligation of Wuling Industrial thereunder.

### **Principal terms of the Guarantee Agreement**

Sets out below are the principal terms of the Guarantee Agreement:

1. The corporate guarantee shall be joint and several;
2. The corporate guarantee will have a term from the date of execution of the Maser Banking Facilities Agreements to be entered into between Liuzhou Wuling and China Construction Bank regarding Liuzhou Wuling Banking Facilities up to the date of the expiry of a 2-year period after the expiry date of fulfillment of the obligation of Liuzhou Wuling under the Master Banking Facilities Agreements;
3. Wuling Industrial will not claim for repayment of any amount due from Liuzhou Wuling if any amount due by Liuzhou Wuling to China Construction Bank is still outstanding; and;

4. No consent shall be required to obtain from Wuling Industrial in the event of extension of the Master Banking Facilities Agreements or change of any terms thereof.

In the event of any proposed extension of the Master Banking Facilities Agreements or alternation to the terms thereof by Liuzhou Wuling and China Construction Bank, which in turn will affect the Group's obligation under the Guarantee Agreement as well as the Financial Assistance to Liuzhou Wuling, Liuzhou Wuling has to obtain written consent from Wuling Industrial before entering into any relevant agreement with China Construction Bank pursuant to the undertakings given by it under the Undertaking Agreement. The Company will comply with all the relevant requirements under the Listing Rules in any such case.

The execution of the Guarantee Agreement by Wuling Industrial is subject to the Independent Shareholders' approval at the SGM. The Company will make an announcement upon execution of the Guarantee Agreement by Wuling Industrial in due course.

### **Annual Caps**

The annual caps for the Financial Assistance to Liuzhou Wuling, as well as under the Guarantee Agreement, for each of the years ending 31 December 2008 to 2013 is RMB200 million, including but not limited to the principal amounts, interest charges, overdue payments, indemnities, any other amounts payable by Liuzhou Wuling to China Construction Bank and the costs incurred by Liuzhou Wuling relating to the Guarantee Agreement (equivalent to approximately HK\$226.47 million).

### **Reasons for the Undertaking Agreement and the provision of Financial Assistance to Liuzhou Wuling**

Liuzhou Wuling is a wholly state-owned limited enterprise established in the PRC with the State-owned Assets Supervision and Administration Commission of the Peoples' Government of Guangxi Zhuang Autonomous Region being the registered shareholder empowered by the People's Government of Guangxi Zhuang Autonomous Region. Liuzhou Wuling Group (together with Wuling Industrial Group) is principally engaged in the manufacturing of motor vehicle engines, parts and specialized vehicles. With the tightening of the lending regulations of the banks in the PRC, it is becoming a common practice for the banks in the PRC to request for a corporate guarantee from a third party to secure banking facilities granted to a corporate borrower. Liuzhou Wuling has already provided the Financial Assistance to Wuling Industrial, which comprises a number of corporate guarantees issued by Liuzhou Wuling in favor of various banks in the PRC for a term ranged from 6 months to 2 and a half years to secure Wuling Industrial Banking Facilities with an aggregate amount of approximately RMB1,108 million (equivalent to approximately HK\$1,255 million). Amongst these banking facilities, certain banking facilities, and the corresponding corporate guarantees from Liuzhou Wuling, with an aggregate amount of approximately RMB508 million (equivalent to approximately HK\$575 million) will expire within 2008, the extension of which will be subject to negotiations between the banks, Liuzhou Wuling and Wuling Industrial. The Financial Assistance to Wuling Industrial constituted a connected transaction for the Group exempt from reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules as it has been a financial assistance provided by Liuzhou Wuling, a substantial Shareholder and a connected

person of the Company, for the benefit of the Group on normal commercial terms (or better to the Group) where no security over the assets of the Group is granted in respect thereof. The Directors are of the opinion that without the Financial Assistance to Wuling Industrial granted by Liuzhou Wuling, it would be difficult for the Group to obtain the Wuling Industrial Banking Facilities, in which case the Group's business would be adversely affected.

Having considered (i) the practice of the banks in the PRC in obtaining corporate guarantees from third parties to secure banking facilities granted to their clients; (ii) the Financial Assistance to Wuling Industrial provided by Liuzhou Wuling; (iii) the respective guaranteed amounts under the Financial Assistance to Liuzhou Wuling (being a maximum of RMB200 million (equivalent to approximately HK\$226.47 million)) and the Financial Assistance to Wuling Industrial (in aggregate, approximately RMB1,108 million (equivalent to approximately HK\$1,255 million)), the Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the Circular, consider that the Undertaking Agreement and the transactions contemplated thereunder, including the proposed execution of the Guarantee Agreement and the provision of Financial Assistance to Liuzhou Wuling, including its annual caps, will be in the interests of the Group and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned.

## **LISTING RULES IMPLICATIONS**

### **The GL Trading Agreement**

As two of the applicable percentage ratios for the GL Trading Agreement on an annual basis exceed 2.5% and each of the annual caps of the GL Purchase Transactions and the GL Sale Transactions under the GL Trading Agreement is more than HK\$10 million, accordingly the GL Trading Transactions contemplated under the GL Trading Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules.

### **The GB Trading Agreement**

As all of the applicable percentage ratios for the GB Trading Agreement on an annual basis exceed 0.1% but are less than 2.5% and each of the annual caps of the GB Purchase Transactions and the GB Sale Transactions is more than HK\$10 million, accordingly the GB Trading Transactions contemplated under the GB Trading Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will only be subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the Independent Shareholders' approval requirements pursuant to Rule 14A.34 of the Listing Rules.

## **Undertaking Agreement and the provision of Financial Assistance to Liuzhou Wuling**

As all of the applicable percentage ratios for the Undertaking Agreement, together with the transactions contemplated thereunder exceed 2.5% and the maximum guaranteed amount in aggregate is more than HK\$10 million, the execution of the Undertaking Agreement by Wuling Industrial, together with the transactions contemplated thereunder, constitutes a non-exempt continuing connected transaction under Rules 14A.13(2)(a)(i) and 14A.14 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules, and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. As all of the percentage ratios for the transactions contemplated under the Undertaking Agreement are more than 5% but less than 25%, the execution of the Undertaking Agreement, together with the transactions contemplated thereunder, also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The GL Trading Agreement, the GB Trading Agreement and the Undertaking Agreement are not conditional upon each other.

In the event that any of the respective annual caps applicable to the GL Purchase Transactions, the GL Sale Transactions, the GB Purchase Transactions, the GB Sale Transactions and transactions contemplated under the Undertaking Agreement (including the proposed execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling) as stated above is exceeded or if the Group enters into any new agreement relating to any continuing connected transactions with any connected persons in the future, the Company must re-comply with Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions.

## **GENERAL**

The approval of the Independent Shareholders will be sought at the SGM by way of poll in respect of the GL Trading Agreement, the Undertaking Agreement and the respective transactions contemplated thereunder. Liuzhou Wuling and its associates will abstain from voting at the SGM. All of the independent non-executive Directors do not have any material interests in the GL Trading Transactions and Financial Assistance to Liuzhou Wuling.

The Board has appointed Guangdong Securities as the independent financial adviser to the Independent Board Committee, (which will be formed and will comprise all independent non-executive Directors) and the Independent Shareholders to consider the terms of the GL Trading Agreement and the Undertaking Agreement, as well as the transactions contemplated thereunder respectively. The Circular containing, inter alia, details of the GL Trading Agreement, the Undertaking Agreement, and the recommendation of the Independent Board Committee as well as the advice of Guangdong Securities in relation to the GL Trading Agreement and the Undertaking Agreement will be despatched to the Shareholders as soon as possible.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of the Directors
“Company”	Dragon Hill Wuling Automobile Holdings Limited (俊山五菱汽車集團有限公司), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Financial Assistance to Liuzhou Wuling”	the corporate guarantee proposed to be provided by Wuling Industrial to China Construction Bank for the Liuzhou Wuling Banking Facilities
“Financial Assistance to Wuling Industrial”	the corporate guarantees provided by Liuzhou Wuling to a number of banks in the PRC, including China Construction Bank, as security to the Wuling Industrial Banking Facilities
“GB Purchase Transactions”	purchases of passenger mini-buses by the Wuling Industrial Group from Guilin Bus which are regarded as continuing connected transactions under the Listing Rules
“GB Sale Transactions”	sale of parts and raw materials by the Wuling Industrial Group to Guilin Bus which are regarded as continuing connected transactions under the Listing Rules
“GB Trading Agreement”	the agreement dated 2 July 2008 entered into between Wuling Industrial and Guilin Bus in relation to the GB Trading Transactions
“GB Trading Transactions”	the GB Purchase Transactions and the GB Sale Transactions
“GL Purchase Transactions”	purchases of automotive components and related accessories by the Wuling Industrial Group from Guangling which are regarded as continuing connected transactions under the Listing Rules
“GL Sale Transactions”	sales of raw materials by the Wuling Industrial Group to Guangling which are regarded as continuing connected transactions under the Listing Rules



“GL Trading Agreement”	the agreement dated 2 July 2008 entered into by the Wuling Industrial and Guangling in relation to the GL Trading Transactions
“GL Trading Transactions”	the GL Purchase Transactions and the GL Sale Transactions
“Group”	the Company and its subsidiaries
“Guangdong Securities”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities); type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respects of the terms of the GL Trading Agreement (together with the transactions contemplated thereunder) and the Undertaking Agreement (together with the transactions contemplated thereunder, including the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling)
“Guangling”	柳州廣菱模具技術有限公司 (Liuzhou Guangling Moulds & Tools Technology Limited), a company established in the PRC of which Liuzhou Wuling is beneficially interested in approximately 50%
“Guarantee Agreement”	the agreement proposed to be entered into by Wuling Industrial and China Construction Bank in relation to the Financial Assistance to Liuzhou Wuling
“Guilin Bus”	桂林客車發展有限公司 (Guilin Bus Development Co., Ltd.), a company established in the PRC of which Liuzhou Wuling is beneficially interested in approximately 50%
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company to be formed to consider the terms of the GL Trading Agreement (together with the transactions contemplated thereunder) and the Undertaking Agreement (together with the transactions contemplated thereunder, including the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling)
“Independent Shareholders”	Shareholders other than Liuzhou Wuling and its associates
“Independent Third Party (ies)”	a person(s) or entity(ies) who/which is(are) not a connected person(s) (as defined under the Listing Rules) of the Company

“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Liuzhou Wuling”	柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited), a wholly state-owned limited enterprise established in the PRC and the substantial Shareholder which is beneficially interested in approximately 29.05% of the Company
“Liuzhou Wuling Banking Facilities”	the revolving banking facilities to be granted to Liuzhou Wuling by China Construction Bank in a maximum amount of RMB200 million (equivalent to approximately HK\$226.47 million)
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	special general meeting of the Company to be held to approve the GL Trading Agreement, the Undertaking Agreement and the transactions contemplated thereunder
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.004 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Undertaking Agreement”	the agreement entered into by Liuzhou Wuling and Wuling Industrial on 2 July 2008 in respect of the proposed execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling by Wuling Industrial
“Wuling Industrial”	柳州五菱汽車工業有限公司 (Liuzhou Wuling Motors Industrial Company Limited), a company established in the PRC and a subsidiary of the Company
“Wuling Industrial Group”	Wuling Industrial and its subsidiaries

“Wuling Industrial  
Banking Facilities”

a number of banking facilities, including secured bank loans and secured bills payable, granted to Wuling Industrial and its subsidiaries by various banks in the PRC with an aggregate amount of RMB1,108 million (equivalent to approximately HK\$1,255 million) for a term ranged from 6 months to 2 and a half years

“%”

per cent

*Translations of RMB into Hong Kong dollars are, based on the exchange rate of HK\$1 to RMB0.8831, for information purpose only. Such translations should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.*

By order of the Board

**Lee Shing**

*Chairman and Chief Executive Officer*

Hong Kong, 2 July 2008

*As at the date of this announcement, the Board comprises Mr Lee Shing (Chairman and Chief Executive Officer), Mr He Shiji (Vice Chairman), Mr Sun Shaoli, Mr Wei Hongwen, Ms Liu Yaling, Mr Wang Shaohua and Mr Pei Qingrong as executive Directors, and Mr Yu Xiumin, Mr Zuo Duofu and Mr Cheng Kin Wah, Thomas as independent non-executive Directors.*