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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Dragon Hill Wuling Automobile Holdings Limited (the “Company”), you should at once hand this circular, together with the accompanying form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular and makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board (as defined herein) is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee (as defined herein) to the Independent Shareholders (as defined herein) is set out on pages 16 to 17 of this circular. A letter from Guangdong Securities (as defined herein), containing its advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 30 of this circular.

A notice convening the SGM (as defined herein) to be held at Unit 505, 5/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong on Thursday, 7 August 2008 at 11:00 a.m. is set out on pages 37 to 38 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and deposit with the Company's Hong Kong branch share registrar and transfer office at Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

22 July 2008

\* For identification purpose only

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## DEFINITIONS

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*In this circular, the following terms shall have the following meanings unless the context requires otherwise:*

“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
“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 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 respect of the terms of the GL Trading Agreement (together with the transactions contemplated

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## DEFINITIONS

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	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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas, which is 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
“Latest Practicable Date”	18 July 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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)

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## DEFINITIONS

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“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 on Thursday, 7 August 2008 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

*In this circular, unless otherwise specified, amounts in RMB are converted to HK\$ at the conversion rate at HK\$1.00 = RMB0.8831 for illustration only. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at such rate or any other rates.*

*Certain English translation of Chinese names or words in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Lee Shing (Chairman and Chief Executive Officer)

Mr. He Shiji (Vice-Chairman)

Mr. Sun Shaoli

Mr. Wei Hongwen

Ms. Liu Yaling

Mr. Wong Shaohua

Mr. Pei Qingrong

*Independent non-executive Directors:*

Mr. Yu Xiumin

Mr. Zuo Duofu

Mr. Cheng Kin Wah, Thomas

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Head office and principal place*

*of business in Hong Kong:*

Unit 505, 5th Floor

China Insurance Group Building

141 Des Voeux Road Central

Hong Kong

22 July 2008

*To the Shareholders*

Dear Sir or Madam,

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

#### **1. INTRODUCTION**

The SGM is proposed to be held on Thursday, 7 August 2008 at 11:00 a.m. at Unit 505, 5/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong. The purposes of this circular are to provide the Shareholders with further information in respect of certain resolutions regarding the following matters to be proposed at the SGM to enable the Shareholders to make their informed decisions:

- (i) the terms of the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions; and
- (ii) the terms of the Undertaking Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### 2. THE GL TRADING AGREEMENT

The Directors announced 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,

- (i) 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
- (ii) 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.

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## LETTER FROM THE BOARD

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### 3. 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		Proposed annual cap		
	31 December		for the year ending		
	2006	2007	2008	2009	2010
	<i>(Note 1)</i>	<i>(Note 1)</i>			
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		Proposed annual cap		
	31 December		for the year ending		
	2006	2007	2008	2009	2010
	<i>(Note 1)</i>	<i>(Note 1)</i>			
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:*

- 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



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## LETTER FROM THE BOARD

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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 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 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

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## LETTER FROM THE BOARD

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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.

#### **4. 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.

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## LETTER FROM THE BOARD

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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 which is included in this 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 or will be conducted on normal commercial terms and 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 which is included in this 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.

### **5. 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

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## LETTER FROM THE BOARD

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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 Master 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;

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## LETTER FROM THE BOARD

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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).

## **6. 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

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## LETTER FROM THE BOARD

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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; and (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 which is included in this 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 are fair and reasonable so far as the Shareholders are concerned.

### **7. EFFECT OF THE UNDERTAKING AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY**

The Directors confirmed that the execution of the Undertaking Agreement will have no material effect on the earnings, assets and liabilities of the Company.

### **8. 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.

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## LETTER FROM THE BOARD

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### **Undertaking Agreement and the provision of the 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 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 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.

### **9. THE SGM**

The SGM will be convened at Unit 505, 5/F China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong on Thursday, 7 August 2008 at 11:00 a.m. to approve 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 Independent Board Committee comprising all of the independent non-executive Directors had been established to consider and advise the Independent Shareholders as to the fairness and reasonableness of the respective terms of the GL Trading Agreement and the Undertaking Agreement, as well as the transactions contemplated thereunder respectively.

Guangdong Securities has been appointed to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders as regards to the respective terms of the GL Trading Agreement and the Undertaking Agreement, as well as the transactions contemplated thereunder respectively. The appointment of Guangdong Securities as the independent financial adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee.

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## LETTER FROM THE BOARD

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A form of proxy is enclosed with this circular for use at the SGM. Whether or not you intended to be present at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to Tricor Tengis Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not less than 48 hours before the time required for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### **10. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS**

Pursuant to Bye-law 69 of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands or by a count of votes received in the form of electronic record, unless a poll is (before or on the declaration of the result of the show of hands or count of votes as electronic records) demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three members present in person or by proxy or by a duly authorized corporate representative for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or by proxy or by a duly authorized corporate representative and representing not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or
- (iv) any member or members present in person or by proxy or by a duly authorized corporate representative and representing and holding shares conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### **11. RECOMMENDATION**

The Directors consider that (i) the terms of the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions; and (ii) the terms of the Undertaking Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution in relation to the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions and the Undertaking Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling to be proposed at the SGM.



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## LETTER FROM THE BOARD

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Your attention is drawn to the letter from the Independent Board Committee set out on pages 16 to 17 of this circular and the letter from Guangdong Securities set out on pages 18 to 30 of this circular containing their respective recommendations and advice in relation to the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions and the Undertaking Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling.

### **12. FURTHER INFORMATION**

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

Yours faithfully,  
For and on behalf of the Board of  
**Dragon Hill Wuling Automobile Holdings Limited**  
**Lee Shing**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

22 July 2008

*To the Independent Shareholders*

Dear Sir or Madam,

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

We refer to the circular of the Company dated 22 July 2008 (the “Circular”) to the Shareholders of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you on (i) the terms of the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions; and (ii) the terms of the Undertaking Agreement, the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling, details of which are set out in the letter from the Board contained in the Circular. Guangdong Securities has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation thereto. Details of the advice and recommendation of Guangdong Securities, together with the principal factors taken into consideration by Guangdong Securities in arriving its advice and recommendation, are set out in the letter from Guangdong Securities on pages 18 to 30 of the Circular.

Having considered the respective terms of (i) the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions; and that of (ii) the Undertaking Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling, and the relevant advice and recommendation of Guangdong Securities, we are of the view that (a) the terms of the GL Trading Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (b) the Undertaking Agreement, the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

\* For identification purpose only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the SGM to approve (i) the GL Trading Agreement, the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions and (ii) the Undertaking Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Yu Xiumin**                      **Zuo Duofu**                      **Cheng Kin Wah, Thomas**

*Independent non-executive Directors*

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## LETTER FROM GUANGDONG SECURITIES

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*Set out below is the text of a letter received from Guangdong Securities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the GL Trading Agreement (together with the GL Annual Caps, as being defined in this letter), the Undertaking Agreement and the Guarantee Agreement (together with the UA Annual Caps, as being defined in this letter), and the respective transactions contemplated thereunder for the purpose of inclusion in this circular.*



Units 2505-06, 25/F.  
Low Block of Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

22 July 2008

*To: The independent board committee and the independent shareholders  
of Dragon Hill Wuling Automobile Holdings Limited*

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS –  
TRADING TRANSACTIONS  
AND  
(2) CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the GL Trading Agreement (together with its annual caps, the “GL Annual Caps”), the Undertaking Agreement and the Guarantee Agreement (together with its annual caps, the “UA Annual Caps”), and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular dated 22 July 2008 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

### **The GL Trading Agreement**

On 2 July 2008, Wuling Industrial (a non wholly-owned subsidiary of the Company) entered into the GL Trading Agreement with Guangling (an associate of Liuzhou Wuling which is a substantial Shareholder) pursuant to which Wuling Industrial Group conditionally agreed (i) the purchase of automotive components and related accessories from Guangling; and (ii) the sales of raw materials to Guangling; while Guangling also conditionally agreed (i) the sales of automotive components and related accessories to Wuling Industrial Group; and (ii) the purchases of raw materials from Guangling, for a period of three years ending 31 December 2010.

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## LETTER FROM GUANGDONG SECURITIES

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Since Guangling is an associate of Liuzhou Wuling, which is a substantial Shareholder and is therefore regarded as a connected person of the Company, the entering into of the GL Trading Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, as the relevant percentage ratios applicable to the GL Annual Caps exceed 2.5% and the aggregate consideration exceeds HK\$10 million, the GL Trading Agreement (together with the GL Annual Caps), and the transactions contemplated thereunder are subject to approval of the Independent Shareholders at the SGM by way of poll whereby Liuzhou Wuling and its associates shall be required to abstain from voting on the relevant resolution(s) in respect of the GL Trading Agreement (together with the GL Annual Caps) and the transactions contemplated thereunder.

### **The Undertaking Agreement and the Guarantee Agreement**

On 2 July 2008, Wuling Industrial also entered into the Undertaking Agreement with Liuzhou Wuling regarding the provision of the Financial Assistance to Liuzhou Wuling, being a corporate guarantee from Wuling Industrial in respect of the Liuzhou Wuling Banking Facilities of a maximum amount of RMB200 million for each of the years ending 31 December 2013.

Since Liuzhou Wuling is a substantial Shareholder and is therefore regarded as a connected person of the Company, the entering into of the Undertaking Agreement and the transactions contemplated thereunder (i.e. the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, as the relevant percentage ratios applicable to the UA Annual Caps exceed 2.5% and the aggregate consideration exceeds HK\$10 million, the Undertaking Agreement (together with the UA Annual Caps), and the transactions contemplated thereunder (i.e. the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling) are subject to approval of the Independent Shareholders at the SGM by way of poll whereby Liuzhou Wuling and its associates shall be required to abstain from voting on the relevant resolution(s) in respect of the Undertaking Agreement (together with the UA Annual Caps), and the transactions contemplated thereunder (i.e. the execution of the Guarantee Agreement and the provision of the Financial Assistance to Liuzhou Wuling).

An Independent Board Committee comprising Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the GL Trading Agreement (together with the GL Annual Caps), the Undertaking Agreement and the Guarantee Agreement (together with the UA Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the GL Trading Transactions are conducted in the ordinary and usual course of business of the Company and if both the GL Trading Transactions and the provision of the Financial Assistance to Liuzhou Wuling are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant ordinary resolution(s) to approve the GL Trading Agreement (together with the GL Annual Caps), the Undertaking Agreement and the Guarantee Agreement (together with the UA Annual Caps), and the respective transactions contemplated thereunder at the SGM. We, Guangdong Securities Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in all these respects.

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## LETTER FROM GUANGDONG SECURITIES

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### **BASIS OF OUR OPINION**

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the date of the despatch of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Wuling Industrial Group, Guangling, Liuzhou Wuling, Hirotec Corporation or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the GL Trading Agreement (together with the GL Annual Caps), the Undertaking Agreement and the Guarantee Agreement (together with the UA Annual Caps). In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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## LETTER FROM GUANGDONG SECURITIES

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### (A) THE GL TRADING AGREEMENT

In arriving at our opinion in respect of the GL Trading Agreement and the GL Annual Caps, we have taken into consideration the following principal factors and reasons:

##### (1) Background of the GL Trading Transactions

On 2 July 2008, Wuling Industrial (a non wholly-owned subsidiary of the Company) entered into the GL Trading Agreement with Guangling (an associate of Liuzhou Wuling which is a substantial Shareholder) pursuant to which Wuling Industrial Group conditionally agreed (i) the purchase of automotive components and related accessories from Guangling; and (ii) the sales of raw materials to Guangling; while Guangling conditionally agreed to (i) the sales of automotive components and related accessories to Wuling Industrial Group; and (ii) the purchases of raw materials from Guangling, for a period of three years ending 31 December 2010.

##### *Information on Wuling Industrial Group*

As referred to in the Board Letter, Wuling Industrial is a company established in the PRC with principal activities being the manufacturing and trading of engines, automotive components and specialized vehicles in the PRC.

##### *Information on Guangling*

As referred to in the Board Letter, Guangling is a sino-foreign joint venture established in June 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 manufacturing of metal mould tools and parts. The principal activities of Guangling are (i) the trading and manufacturing and sale of mould tools and parts, including pressing moulds and pressing parts for automotive components and other related products; and (ii) the provision of maintenance service on related equipment and facilities.

##### *Information on Liuzhou Wuling*

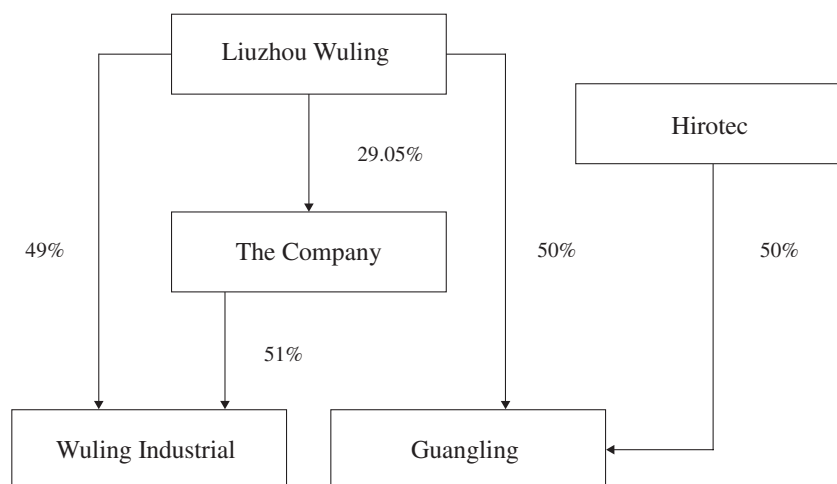
As referred to in the Board Letter, Liuzhou Wuling is a wholly state-owned limited enterprise established in the PRC. Liuzhou Wuling (together with Wuling Industrial Group) (the “Liuzhou Wuling Group”) is principally engaged in the manufacturing of motor vehicle engines, parts and specialized vehicles.

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## LETTER FROM GUANGDONG SECURITIES

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Below is a chart illustrating the shareholding relationship among the Company, Wuling Industrial, Guangling and Liuzhou Wuling as at the Latest Practicable Date:



### (2) Reasons for the GL Trading Transactions

As advised by the Directors, the business relationship between Wuling Industrial Group and Guangling commenced in May 2007 before Wuling Industrial becoming a subsidiary of the Company. Prior to May 2007, the GL Trading Transactions (consisting of both the GL Purchase Transactions and the GL Sale Transactions) were carried out by Liuzhou Wuling with Guangling.

As stated in the Board Letter, the GL Trading Transactions are virtually a kind of subcontracting services provided by Guangling for Wuling Industrial Group's automotive components manufacturing activities given that the raw materials sourced by Guangling from Wuling Industrial Group under the GL Sale Transactions are used by Guangling for its production of automotive components which are subsequently sold to Wuling Industrial Group after processing under the GL Purchase Transactions.

We have further enquired into the Directors about the reasons for entering into the GL Purchase Transactions and in this respect, the Directors advised us that Guangling has been a key supplier of Wuling Industrial Group due to the fact that Guangling possesses technology and know-how originated from Hirotec which, in terms of effectiveness and efficiencies, are comparatively superior to most of the other automotive components and related accessories manufacturers in the PRC. For this reason, the Directors considered that the GL Purchase Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

Regarding the GL Sale Transactions, the Directors advised us that the production of mould tools and parts requires substantial amount of raw materials (mainly steel) and most of the mould tools and parts produced by Guangling will be sold back to Wuling Industrial



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## LETTER FROM GUANGDONG SECURITIES

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Group. Having this being the case, the Directors considered that it is commercially sensible for Wuling Industrial Group to gather the orders for raw materials (mainly steel) from its other subsidiaries as well as Guangling in order to fully utilize the merchandising channel of Wuling Industrial Group. Furthermore, the Directors also confirmed that, after taking into account the potential benefits of bulk purchases of raw materials, the Group and Guangling were of the view that it would be in the interests of both groups to consolidate their purchase orders, and it is expected that the cost of production of Wuling Industrial Group could thereby be lowered. Accordingly, the Directors considered that the GL Sale Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

Based on the above reasons for the GL Trading Transactions, we are of the opinion that the GL Trading Transactions (consisting of both the GL Purchase Transactions and the GL Sale Transactions) are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

### (3) Principal terms of the GL Trading Agreement

The table below summarizes the major terms of the GL Trading Agreement:

#### *The GL Trading Transactions*

	<b>The GL Purchase Transactions</b>	<b>The GL Sale Transactions</b>
<b>Date:</b>	2 July 2008	2 July 2008
<b>Effective period:</b>	From 1 January 2008 to 31 December 2010 (both days inclusive)	From 1 January 2008 to 31 December 2010 (both days inclusive)
<b>Seller:</b>	Guangling	Wuling Industrial Group
<b>Purchaser:</b>	Wuling Industrial Group	Guangling
<b>Nature of transaction:</b>	Automotive components and related accessories	Raw materials (mainly steel)

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## LETTER FROM GUANGDONG SECURITIES

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Besides the terms of the GL Trading Agreement as outlined above, we have also reviewed the other terms of the GL Trading Agreement and are not aware of any major terms which are unusual. Moreover, for our due diligence purpose, we have also requested for copies of other trading agreements which were entered into between Wuling Industrial Group and the Independent Third Parties and we noted that the terms and conditions of the GL Trading Agreement are similar to those contained in the other trading agreements. From the GL Trading Agreement and as also confirmed by the Directors, the transaction price of (i) the automotive components and related accessories; and (ii) the raw materials (mainly steel) shall be set with reference to the relevant market price and be no less favourable than those offered to the Independent Third Parties. In light of all the foregoing, we concur with the Directors that the terms of the GL Trading Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

#### (4) The GL Annual Caps

The table below shows the GL Annual Caps for the three years ending 31 December 2010:

	Year ending 31 December		
	2008	2009	2010
	RMB	RMB	RMB
<b>The GL Purchase Transactions</b>	33 million	57 million	76 million
Approximate % of increment	116.8% ( <i>Note</i> )	72.7%	33.3%
<b>The GL Sale Transactions</b>	33 million	54 million	70 million
Approximate % of increment	90.0% ( <i>Note</i> )	63.6%	29.6%

*Note:* As compared to the respective actual transaction amounts for the year ended 31 December 2007.

In assessing the fairness and reasonableness of the GL Annual Caps, we have discussed with the Directors regarding the basis and assumptions underlying the projections of the GL Annual Caps. The Directors confirmed that the annual caps were determined with reference to the following factors:

- 1) 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 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;

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## LETTER FROM GUANGDONG SECURITIES

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- 2) the historical amounts of the GL Purchase Transactions and the GL Sale Transactions during the four months ended 30 April 2008;
- 3) the business plan of the Group to launch new products in addition to the existing products of the Group;
- 4) the continuous increase in the price of raw materials (mainly steel); and
- 5) Guangling has become the sole supplier of the automotive components consumed by Wuling Industrial Group during its production course starting from June 2008.

As confirmed by the Directors, the cap amounts for the year ending 31 December 2008 under the GL Purchase Transactions and the GL Sale Transactions are based on the historical transaction amounts of the GL Trading Transactions and/or transactions between Liuzhou Wuling and Guangling for the two years ended 31 December 2007 (as the case may be) and we noted that such 2008 annual caps almost double the historical transaction amounts under the GL Trading Transactions and/or transactions between Liuzhou Wuling and Guangling (as the case may be) for the year ended 31 December 2007. The Directors explained that Guangling has become the sole supplier of the automotive components consumed by Wuling Industrial Group during its production course starting from June 2008 for the purpose of increasing effectiveness and efficiencies in the production process. Besides that, there has been a rapid jump in the price of steel in recent years. In this context, we noted from Bloomberg that the Bloomberg World Iron/Steel Index had risen from approximately 133.5 basic points in 2003 to 499.01 basic points in 2007. On the assumption that the market demands for steel will not be substantially declining in the near future, the Directors expected that the increasing trend of the steel price will likely to continue. In light of the chain effect and the inter-relationships between the GL Purchase Transactions and the GL Sale Transactions as detailed under the paragraph headed "Reasons for the GL Trading Transactions" above, the Directors forecasted that the growth of the cap amounts for the GL Purchase Transactions and the GL Sale Transactions would be simultaneous and in relatively direct proportion in the coming years.

Moreover, the Directors further confirmed that the upsurge of the GL Annual Caps for the three years ending 31 December 2010 was also estimated with reference to the business expansion plan of Wuling Industrial Group. According to the Board Letter, the Group intends to launch new products in the coming years and hence would require mounting amount of automotive components and related accessories from Guangling. To cater for such business expansion, the demand for raw materials by Guangling would also be enlarged correspondingly. For our due diligence purpose, we reviewed the purchase indications which Wuling Industrial Group has received from its major customer for the coming three years and we noted the said growing trend of demand for Wuling Industrial Group's products from those purchase indications which we were presented.

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## LETTER FROM GUANGDONG SECURITIES

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Having considered the above basis and assumptions for determining the GL Annual Caps, we consider that the GL Annual Caps for each of the three years ending 31 December 2010 are justifiable.

Shareholders should note that as the GL Annual Caps are relating to future events and are estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2010, and they do not represent forecasts of revenue to be generated from the transactions contemplated under the GL Trading Agreement. Consequently, we express no opinion as to how closely the actual revenue to be generated under the GL Trading Transactions will correspond with the GL Annual Caps.

### **(5) Listing Rules implication**

The Directors confirmed that the Company shall comply with the requirements of Rule 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the GL Trading Agreement must be restricted by the GL Annual Caps for the three years ending 31 December 2010; (ii) the terms of the transactions contemplated under the GL trading Agreement (including the GL Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the transactions contemplated under the GL Trading Agreement (including the GL Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among others, that the transactions contemplated under the GL Trading Agreement are carried out in accordance with the pricing policies of the Company and the GL Annual Caps are not being exceeded. In the event that the total amount of transactions contemplated under the GL Trading Agreement exceeds the respective cap amounts, or that there is any material amendment to the terms of the GL Trading Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for the continuing connected transaction pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the GL Trading Agreement (including the GL Annual Caps) and hence the interest of the Independent Shareholders would be safeguarded.

### **RECOMMENDATION ON THE GL TRADING AGREEMENT**

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the GL Trading Agreement (together with the GL Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the GL Trading Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the GL Trading Agreement (together with the GL Annual Caps), and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

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## LETTER FROM GUANGDONG SECURITIES

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### **(B) THE UNDERTAKING AGREEMENT AND THE GUARANTEE AGREEMENT**

In arriving at our opinion in respect of the Undertaking Agreement and the Guarantee Agreement, we have taken into consideration the following principal factors and reasons:

#### **(1) Background of the Financial Assistance to Liuzhou Wuling**

On 2 July 2008, Wuling Industrial (a non wholly-owned subsidiary of the Company) entered into the Undertaking Agreement with Liuzhou Wuling regarding the provision of the Financial Assistance to Liuzhou Wuling, being a corporate guarantee from Wuling Industrial in respect of the Liuzhou Wuling Banking Facilities of a maximum amount of RMB200 million for each of the years ending 31 December 2013.

Principal terms of the Undertaking Agreement as extracted from the Board Letter are set out as follows:

- i) the funds obtained from China Construction Bank under agreements to be entered into between Liuzhou Wuling and China Construction Bank regarding the Liuzhou Wuling Banking Facilities will only be used for the operations of Liuzhou Wuling Group;
- ii) the maximum guaranteed amount in aggregate under the Guarantee Agreement will not exceed RMB200 million (equivalent to approximately HK\$226.47 million);
- iii) the term of the Master Banking Facilities Agreements will not exceed three years from the date of the Guarantee Agreement;
- iv) written consent from Wuling Industrial should be obtained prior to the entering into of the Master Banking Facilities Agreements or any agreements 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
- v) 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.

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## LETTER FROM GUANGDONG SECURITIES

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In the event that the Undertaking Agreement is approved by the Independent Shareholders at the SGM, the Company will enter into the Guarantee Agreement with China Construction Bank for the provision of the Financial Assistance to Liuzhou Wuling. Set out below are the principal terms of the Guarantee Agreement as extracted from the Board Letter:

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

Pursuant to the Guarantee Agreement, no consent shall be required to be obtained from Wuling Industrial in the event of extension of the Master Banking Facilities Agreements or change of any terms thereof. However, in the event that such extension or change of terms of the Master Banking Facilities Agreements 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 of the relevant agreements with China Construction Bank (the "Restriction").

We noted that the principal terms of the Guarantee Agreement and the Undertaking Agreement as set out above are normal and usual. In addition, we are of the view that the stipulation of clause (iv) under the Undertaking Agreement and the Restriction may limit Wuling Industrial's future obligation under the Financial Assistance to Liuzhou Wuling.

### **(2) Reasons for the Undertaking Agreement and the Guarantee Agreement**

According to the Board Letter, with the tightening of the lending regulations of banks in the PRC, it is becoming a common practice for banks in the PRC to request for a corporate guarantee from a third party to secure banking facilities granted to a corporate borrower. In this relation, we noted from the Directors that Liuzhou Wuling received a written notice from China Construction Bank that the granting of the Liuzhou Wuling banking Facilities will require a corporate guarantee as a condition.

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## LETTER FROM GUANGDONG SECURITIES

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As stated in the Board Letter, Liuzhou Wuling has already provided the Financial Assistance to Wuling Industrial, which comprises a number of corporate guarantees issued by Liuzhou Wuling in favour of various banks in the PRC for a term ranged from six months to two and a half years to secure the Wuling Industrial Banking Facilities with an aggregate amount of approximately RMB1,108 million. The Directors further confirmed that the Wuling Industrial Banking Facilities would provide Wuling Industrial with the necessary financial resources and flexibility for its future business expansion and the launching of new products.

Having considered (i) the written notice from China Construction Bank that the granting of the Liuzhou Wuling banking Facilities will require a corporate guarantee as a condition; (ii) the Financial Assistance to Wuling Industrial provided by Liuzhou Wuling which are essential for the future business expansion and new product launch of Wuling Industrial; and (iii) the respective guaranteed amounts under the Financial Assistance to Liuzhou Wuling (being a maximum of RMB200 million) and the Financial Assistance to Wuling Industrial (in aggregate of RMB1,108 million), we consider that the entering into of the Undertaking Agreement and the Guarantee Agreement is in the interests of the Company and the Shareholders as a whole.

### **(3) The UA Annual Caps**

Pursuant to the Undertaking Agreement, the UA Annual Caps for each of the years ending 31 December 2013 is RMB200 million, which is the same as the maximum amount of the Financial Assistance to Liuzhou Wuling.

We noted that the duration of the UA Annual Caps is more than three years and we have thus enquired into the Directors regarding the reasons for such arrangement. The Directors explained to us that the duration of the UA Annual Caps was set in accordance with the term of the Master Banking Facilities Agreements to be entered into between Liuzhou Wuling and China Construction Bank regarding the Liuzhou Wuling Banking Facilities and the possible extension period of two years after the expiry date of fulfilment of the obligation of Liuzhou Wuling under the Master Banking Facilities Agreements. Following the aforementioned term and extension period of the Master Banking Facilities Agreements, the claims under the Liuzhou Wuling Banking Facilities will remain valid until mid/late 2013 (subject to the fulfilment of the conditions precedent under the Undertaking Agreement and Guarantee Agreement), i.e. the 2013 financial year of the Company. The Directors further confirmed that based on the advice from the Company's PRC legal adviser, Hills & Co., it is a common practice for banks in the PRC to require an extra 2-year period for any claims after expiry of a banking facilities agreement. Based on the legal opinion from the Company's PRC legal adviser as just mentioned, we consider that it is normal market practice for the Guarantee Agreement and the Undertaking Agreement to have a term of more than three years. Moreover, given that the UA Annual Caps equal to the maximum amount of the Financial Assistance to Liuzhou Wuling, we are of the view that the UA Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

In conclusion, in our opinion, the terms of the Undertaking Agreement and the Guarantee Agreement (including the UA Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM GUANGDONG SECURITIES

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### (4) Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rule 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the Undertaking Agreement and the Guarantee Agreement must be restricted by the UA Annual Caps for each of the years ending 31 December 2013; (ii) the terms of the transactions contemplated under the Undertaking Agreement and the Guarantee Agreement (including the UA Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the transactions contemplated under the Undertaking Agreement and the Guarantee Agreement (including the UA Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among others, that the transactions contemplated under the Undertaking Agreement and the Guarantee Agreement are carried out in accordance with the pricing policies of the Company (if applicable) and that the UA Annual Caps are not being exceeded. In the event that the total amount of transactions contemplated under the Undertaking Agreement and the Guarantee Agreement exceeds the UA Annual Caps, or that there is any material amendment to the terms of the Undertaking Agreement and the Guarantee Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for the continuing connected transaction pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the Undertaking Agreement and the Guarantee Agreement (including the UA Annual Caps) and hence the interest of the Independent Shareholders would be safeguarded.

### **RECOMMENDATION ON THE UNDERTAKING AGREEMENT AND THE GUARANTEE AGREEMENT**

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Undertaking Agreement and the Guarantee Agreement (together with the UA Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the provision of the Financial Assistance to Liuzhou Wuling is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the Undertaking Agreement and the Guarantee Agreement (including the UA Annual Caps), and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Guangdong Securities Limited**  
**Graham Lam**  
*Managing Director*



## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Directors and chief executive

Save as disclosed below, at as the Latest Practicable Date, none of the Directors or chief executive of the Company held any interests or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules:

In respect of the Shares of the Company

Name of Director	Capacity	Number of Shares held	Approximate % of the issued share capital
Mr. Lee Shing	Held by controlled corporation ( <i>Note</i> )	280,959,613	30.63

*Note:*

The 280,959,613 Shares are owned by Dragon Hill Development Limited (“Dragon Hill”), a company wholly-owned by Mr. Lee Shing. Reference is made to the circular of the Company issued on 25 June 2007 (the “Circular dated 25 June 2007”) and unless the context herewith otherwise requires, terms used in this note shall have the same meanings as in the Circular dated 25 June 2007. A share charge has been created on the 280,959,613 Shares held by Dragon Hill in favour of Liuzhou Wuling pursuant to the execution of the Share Charge Documents on 28 August 2007 in which Dragon Hill has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any of the new shares of the Company without the prior written consent of Liuzhou Wuling during the Guarantee Period (i.e., the 36 month-period from the date of the Share Charge). According to the Share Sale Agreement, the Share Charge Documents should be executed simultaneously with the completion of the Share Sale Agreement and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any of the new shares in breach of its undertaking, Liuzhou Wuling (or its wholly-owned subsidiary(ies) shall have the right to acquire the Charged Shares (i.e., the 280,959,613 Shares held by Dragon Hill, being all of the shares of the Company held by Dragon Hill upon completion of the Share Sale Agreement which are agreed to be charged to Liuzhou Wuling (or its wholly-owned subsidiary(ies) by Dragon Hill under the Share Charge) from Dragon Hill at the price of HK\$0.29 per Charged Shares during the Guaranteed Period.

In respect of the share options issued by the Company pursuant to the Company's share option scheme

Name of Director	Capacity	Number of options granted	Exercise period	Price of Grant	Subscription price per Share
Ms. Liu Yaling	Beneficial owner	350,000	From 21 January 2008 to 31 December 2009	HK\$1.00	HK\$2.318
Mr. Wang Shaohua	Beneficial owner	350,000	From 21 January 2008 to 31 December 2009	HK\$1.00	HK\$2.318
Mr. Pei Qingrong	Beneficial owner	350,000	From 21 January 2008 to 31 December 2009	HK\$1.00	HK\$2.318
Mr. Yu Xiumin	Beneficial owner	180,000	From 21 January 2008 to 31 December 2009	HK\$1.00	HK\$2.318
Mr. Zuo Duofu	Beneficial owner	180,000	From 21 January 2008 to 31 December 2009	HK\$1.00	HK\$2.318
Mr. Cheng Kin Wah, Thomas	Beneficial owner	180,000	From 21 January 2008 to 31 December 2009	HK\$1.00	HK\$2.318

#### Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, no other persons had an interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital:

Name of Shareholders	Capacity	Nature of interest	Number of Shares held	Approximate % of the issued share capital
Dragon Hill ( <i>notes 1 and 2</i> )	Beneficial owner	Corporate	280,959,613	30.63
五菱 (香港) 控股有限公司 (Wuling (Hong Kong) Holdings Limited) ("Wuling HK Holdings") ( <i>notes 1, 3 and 5</i> )	Beneficial owner	Corporate	266,500,000	29.05
五菱汽車 (香港) 有限公司 (Wuling Motors (Hong Kong) Company Limited*) ("Wuling HK") ( <i>notes 1, 3 and 5</i> )	Interest in controlled corporation	Corporate	266,500,000	29.05
Liuzhou Wuling ( <i>notes 1, 3 and 6</i> )	Interest in controlled corporation	Corporate	266,500,000	29.05
Zhou Sheji ("Mr. Zhou") ( <i>note 4</i> )	Beneficial owner/ Interest in controlled corporation	Individual/Corporate	91,530,000	9.98
Gao Bao Development Limited ("Gao Bao") ( <i>note 4</i> )	Beneficial owner	Corporate	90,280,000	9.84

*Notes:*

- (1) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee Shing, a Director and the controlling Shareholder of the Company. Accordingly, this parcel of Shares has also been disclosed as a long position of Mr. Lee Shing under the above section.

- (2) Reference is made to the Circular dated 25 June 2007 and unless the context herewith otherwise requires, terms used in this note shall have the same meanings as in the Circular dated 25 June 2007. A share charge has been created on the 280,959,613 Shares held by Dragon Hill in favour of Liuzhou Wuling pursuant to the execution of the Share Charge Documents on 28 August 2007 in which Dragon Hill has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any of the new shares of the Company without the prior written consent of Liuzhou Wuling during the Guarantee Period (i.e., the 36 month-period from the date of the Share Charge). According to the Share Sale Agreement, the Share Charge Documents should be executed simultaneously with the completion of the Share Sale Agreement and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any of the new shares in breach of its undertaking, Liuzhou Wuling (or its wholly-owned subsidiary(ies) shall have the right to acquire the Charged Shares (i.e., the 280,959,613 Shares held by Dragon Hill, being all of the shares of the Company held by Dragon Hill upon completion of the Share Sale Agreement which are agreed to be charged to Liuzhou Wuling (or its wholly-owned subsidiary(ies) by Dragon Hill under the Share Charge) from Dragon Hill at the price of HK\$0.29 per Charged Shares during the Guaranteed Period.
- (3) The entire issued share capital of Wuling HK Holdings is held by Wuling HK, whereas the entire issued share capital of Wuling HK is held by Liuzhou Wuling. Accordingly, Wuling HK and Liuzhou Wuling are deemed to have an interests in the Shares in which Wuling HK Holdings is interested.
- (4) The Company also noted from the website of the Stock Exchange that each of Mr. Zhou and Gao Bao has filed disclosure form in respect his/its interest in the issued share capital of the Company pursuant to Section 324 of Part XV of the SFO. The long positions reported by Gao Bao was aggregated in the long positions of Mr. Zhou as Gao Bao was reported as wholly owned by Mr. Zhou.
- (5) Two Directors, namely, Messrs. He Shiji and Wei Hongwen, are directors of Wuling HK Holdings and Wuling HK.
- (6) Three Directors, namely, Messrs. He Shiji, Sun Shaoli and Wei Hongwen, are executive directors of Liuzhou Wuling.

### **3. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Company.

### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there is no material adverse change in the financial or trading prospect of the Group since 31 December 2007, the date to which the latest published audited consolidated accounts of the Group were made up.

### **5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group, which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

**6. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors had any interest in any assets which had been since 31 December 2007 (being the date to which the latest published accounts of the Company were made up) acquired or disposed of by or leased to, any member of the Group, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**7. LITIGATION**

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

**8. QUALIFICATION, CONSENT AND INTEREST OF EXPERTS**

The followings are the qualifications of the experts who have given opinions or advices which are included in this circular.

<b>Name</b>	<b>Qualification</b>
Guangdong Securities	a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Hills & Co.	PRC legal advisers to the Company

Guangdong Securities and Hills & Co. have given and have not withdrawn their written consents respectively to the issue of this circular with the inclusion of their letters and the references to their names included in this circular in the form and context in which they respectively included.

As at the Latest Practicable Date, Guangdong Securities and Hills & Co. did not have any shareholding interest in any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Guangdong Securities and Hills & Co. did not have any direct or indirect interest in any asset which has been, since 31 December 2007 being the date to which the latest audited accounts of the Company were made up, 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.

**9. GENERAL**

- (i) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The head office and principal place of business of the Company in Hong Kong is situated at Unit 505, 5th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.
- (ii) The company secretary and qualified accountant of the Company, Mr. Lai Shi Hong, Edward, is a member of the Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.
- (iii) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text thereof.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the office of the Company at Unit 505, 5th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong during normal business hours on any weekdays other than public holidays between the period from 22 July 2008 to 7 August 2008 (both days inclusive):

- (i) GL Trading Agreement;
- (ii) Undertaking Agreement;
- (iii) the written consents of Guangdong Securities and Hills & Co. referred to under the section headed "Qualification, consent and interest of experts" in this appendix;
- (iv) the letter from the Independent Board Committee, the text of which is set out on pages 16 to 17 of this circular;
- (v) the PRC legal opinion dated 22 July 2008 issued by Hills & Co.; and
- (vi) the letter from Guangdong Securities, the text of which is set out on pages 18 to 30 of this circular.

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## NOTICE OF SGM

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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)

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Special General Meeting of Dragon Hill Wuling Automobile Holdings Limited (“the Company”) will be held at Unit 505, 5/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong on Thursday, 7 August 2008, at 11:00 a.m. for the following purposes:

To consider, and if thought fit, passing with or without modification the following resolutions as an **ORDINARY RESOLUTIONS**:

1. **“THAT**

- (1) the GL Trading Agreement (copy of which has been produced to this meeting marked “A” and signed by the Chairman hereof for the purpose of identification) and the transactions contemplated thereunder and the proposed annual caps of the GL Trading Transactions be and are hereby confirmed, ratified and approved; and
- (2) the Board be and is hereby authorized to take all such actions as it considers necessary or desirable to implement and give effect to the GL Trading Agreement and the transactions contemplated thereunder.

For the purposes of this resolution, the terms “GL Trading Agreement” and “GL Trading Transactions” shall have the same definition as defined in the circular to the shareholders of the Company dated 22 July 2008.”

2. **“THAT**

- (1) the Undertaking Agreement (copy of which has been produced to this meeting marked “B” and signed by the Chairman hereof for the purpose of identification) and the transactions contemplated thereunder (including the execution of the Guarantee Agreement and the provision of and the proposed annual caps for the Financial Assistance to Liuzhou Wuling) be and are hereby confirmed, ratified and approved; and
- (2) the Board be and is hereby authorized to take all such actions as it considers necessary or desirable to implement and give effect to the Undertaking Agreement and the transactions contemplated thereunder.

\* For identification purpose only

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## NOTICE OF SGM

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For the purposes of this resolution, the terms “Undertaking Agreement”, “Guarantee Agreement” and “Financial Assistance to Liuzhou Wuling” shall have the same definitions as defined in the circular to the shareholders of the Company dated 22 July 2008.”

By Order of the Board

**Lee Shing**  
*Chairman*

*As at the date of this notice, 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. Pei Qingrong and Mr. Wang Shaohua as executive directors and Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas as independent non-executive directors.*

Hong Kong, 22 July 2008

*Notes:*

1. Any member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote, on a poll, on his behalf. A proxy need not be a member of the Company.
2. A form of proxy for use in connection with the above meeting is enclosed and such form is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).
3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of authority must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the above meeting (or at any adjournment thereof). Completion and return of the forms of proxy will not preclude a member from attending the meeting and voting in person if he so wishes. In this event that a member attends the meeting after having lodged his form of proxy, his form of proxy will be deemed to have been revoked.
4. Shareholders are advised to read the circular to the shareholders of the Company dated 22 July 2008 which contains information concerning the resolutions to be proposed in this notice.
5. The Resolutions to be proposed at the meeting shall be decided by way of poll.