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

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

*If you have sold or transferred all your shares in Sinotruk (Hong Kong) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.*

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**SINOTRUK (HONG KONG) LIMITED**

**中國重汽(香港)有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 3808)**

**(1) RE-ELECTION OF DIRECTORS  
(2) NEW CONTINUING CONNECTED TRANSACTIONS  
(3) REVISION OF ANNUAL CAPS OF EXISTING CONTINUING  
CONNECTED TRANSACTIONS  
AND  
(4) NOTICE OF ANNUAL GENERAL MEETING**

**Independent Financial Adviser  
to the Independent Board Committee and Independent Shareholders**



**Guotai Junan Capital Limited**

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A letter from the Board is set out on pages 5 to 33 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on pages 34 to 35 of this circular. A letter from Guotai Junan Capital Limited containing its advice to the Independent Board Committee and Independent Shareholders is set out on pages 36 to 81 of this circular.

A notice of annual general meeting of Sinotruk (Hong Kong) Limited to be held at 10:00a.m. on Monday, 27 June 2016 at Gloucester Rooms, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong, is set out on pages 94 to 96 of this circular. Whether or not you are able to attend the meeting in person, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

26 May 2016

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## DEFINITIONS

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*In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:*

“2015 AGM”	the annual general meeting of the Company held on 29 June 2015
“2015 AGM Circular”	the Shareholders’ circular of the Company dated 29 May 2015
“2015 Products Sales Agreement”	the sales agreement entered into between the Company (for itself and on behalf of its subsidiaries) as supplier and CNHTC (for itself and on behalf of the members of the CNHTC Group) as purchaser on 27 March 2012, under which the Group agreed to supply the Relevant Products to the CNHTC Group
“2018 HOWO Loan Agreement”	the loan agreement entered into between Sinotruk Finance Company and HOWO Auto Finance Company on 31 March 2016, under which Sinotruk Finance Company agreed to provide a loan facility to HOWO Auto Finance Company
“2018 Products Sales Agreement”	the sales agreement entered into between the Company (for itself and on behalf of its subsidiaries) as supplier and CNHTC (for itself and on behalf of the members of the CNHTC Group) as purchaser on 26 March 2015, under which the Group agreed to supply the Relevant Products to the CNHTC Group
“2018 Sinotruk Deposit Agreement”	the fixed-term deposit services agreement entered into between HOWO Auto Finance Company and the Company (for itself and on behalf of its subsidiaries but excluding HOWO Auto Finance Company) on 31 March 2016, under which HOWO Auto Finance Company agreed to provide fixed-term deposit services to the Group (excluding HOWO Auto Finance Company)
“AGM”	the annual general meeting of the Company to be held at 10:00a.m. on Monday, 27 June 2016 at Gloucester Rooms, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong or any adjournment thereof
“Articles”	the articles of association of the Company
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

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## DEFINITIONS

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“CNHTC”	中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Company Limited*), a state-owned enterprise organised under the laws of the PRC with limited liability, being the substantial shareholder (as defined in the Listing Rules) of the Company and therefore a connected person of the Company for the purpose of the Listing Rules
“CNHTC Group”	CNHTC and its associates but excluding the Group
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Existing Products Sales Annual Caps”	the existing annual caps applicable to the Existing Products Sales Continuing Connected Transactions under the 2018 Products Sales Agreement for the applicable period ending on 31 December 2018, which were approved by the Independent Shareholders in the 2015 AGM
“Existing Products Sales Continuing Connected Transactions”	the existing transactions between the Group and the CNHTC Group under or pursuant to the 2018 Products Sales Agreement
“Ferdinand Porsche”	Ferdinand Porsche Familien-Privatstiftung, a corporation incorporated under the laws of Austria, being the beneficiary owner of 25% of the entire issued share capital of the Company plus 1 Share
“Ferdinand Porsche Group”	Ferdinand Porsche and its subsidiaries
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HOWO Auto Finance Company”	山東豪沃汽車金融有限公司 (ShanDong HOWO Auto Finance Co., Ltd.), a company established in the PRC with limited liability and a non-wholly owned subsidiary of the Company

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## DEFINITIONS

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“Independent Board Committee”	the independent board committee of the Company comprising Mr. Chen Zheng, Dr. Lin Zhijun, Mr. Yang Weicheng, Dr. Wang Dengfeng and Mr. Zhao Hang
“Independent Financial Adviser”	Guotai Junan Capital Limited, the independent financial adviser advising the Independent Board Committee and the Independent Shareholders in relation to (i) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder, (ii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and (iii) the Revised Products Sales Annual Caps Confirmation
“Independent Shareholders”	Shareholders other than CNHTC and its associates
“Interested Director”	Mr. Ma Chunji, an executive Director and chairman of the Board, who is also a director of CNHTC
“Latest Practicable Date”	23 May 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Relevant Products”	products supplied by the Group to CNHTC Group pursuant to the 2015 Products Sales Agreement and the 2018 Products Sales Agreement including trucks, chassis, semi-tractor trucks and other products
“Revised Products Sales Annual Caps”	the revised annual caps proposed for the 2018 Products Sales Agreement for the three years ending 31 December 2018 in respect of which Independent Shareholders’ approval will be sought at the AGM, details of which are set out in the paragraph headed “Revision of annual caps of existing continuing connected transactions” in “Letter from the Board” of this circular

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## DEFINITIONS

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“Revised Products Sales Annual Caps Confirmation”	the confirmation agreement dated 31 March 2016 between the Company and CNHTC in relation to the upward revision of the Existing Products Sales Annual Caps to the Revised Products Sales Annual Caps, details of which are set out in the paragraph headed “Revision of annual caps of existing continuing connected transactions” in “Letter from the Board” of this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong International Equity Trust”	山東省國際信託股份有限公司 (formerly known as “山東省國際信託有限公司”, Shandong International Equity Trust Corporation*), a limited liability company established in the PRC and an independent third party
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Stock Exchange”	Shenzhen Stock Exchange in the PRC
“Sinotruk Finance Company”	中國重汽財務有限公司 (Sinotruk Finance Co., Ltd.*), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	a subsidiary for the time being of the Company within the meaning of the Companies Ordinance whether incorporated in Hong Kong or elsewhere and “subsidiaries” shall be construed accordingly
“substantial shareholder”	has the same meaning as ascribed to it under the Listing Rules
“%”	per cent

\* *For identification purpose only.*

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LETTER FROM THE BOARD

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**SINOTRUK (HONG KONG) LIMITED**

**中國重汽(香港)有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 3808)**

***Executive Directors:***

Mr. Ma Chunji (*Chairman of the Board*)  
Mr. Cai Dong (*President*)  
Mr. Tong Jingen  
Mr. Wang Shanpo  
Mr. Kong Xiangquan  
Mr. Liu Wei  
Mr. Liu Peimin  
Mr. Franz Neundlinger

***Non-executive Directors:***

Mr. Andreas Hermann Renschler  
Mr. Joachim Gerhard Drees

***Independent non-executive Directors:***

Dr. Lin Zhijun  
Mr. Chen Zheng  
Mr. Yang Weicheng  
Dr. Wang Dengfeng  
Mr. Zhao Hang

***Headquarter:***

Sinotruk Science and  
Technology Building  
777 Huaao Road  
Gaoxin District  
Ji'nan City, Shandong Province  
PRC 250101

***Registered office:***

Units 2102-2103  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

26 May 2016

*To the Shareholders*

Dear Sir/Madam

**(1) RE-ELECTION OF DIRECTORS**  
**(2) NEW CONTINUING CONNECTED TRANSACTIONS**  
**(3) REVISION OF ANNUAL CAPS OF EXISTING CONTINUING**  
**CONNECTED TRANSACTIONS**  
**AND**  
**(4) NOTICE OF ANNUAL GENERAL MEETING**

**INTRODUCTION**

The purpose of this circular is to provide you with (i) information relating to the re-election of the retiring Directors; (ii) information in respect of the transactions under the 2018 HOWO Loan

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## LETTER FROM THE BOARD

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Agreement, the 2018 Sinotruk Deposit Agreement and the Revised Products Sales Annual Caps Confirmation; (iii) the recommendation of the Independent Board Committee in relation to the matters identified in paragraph (ii); and (iv) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the matters identified in paragraph (ii). A notice convening the AGM is set out on pages 94 to 96 to this circular.

### PROPOSED RE-ELECTION OF DIRECTORS

As at the Latest Practicable Date, the executive Directors are Mr. Ma Chunji, Mr. Cai Dong, Mr. Tong Jingen, Mr. Wang Shanpo, Mr. Kong Xiangquan, Mr. Liu Wei, Mr. Liu Peimin and Mr. Franz Neundlinger; the non-executive Directors are Mr. Andreas Hermann Renschler and Mr. Joachim Gerhard Drees; and the independent non-executive Directors are Dr. Lin Zhijun, Mr. Chen Zheng, Mr. Yang Weicheng, Dr. Wang Dengfeng and Mr. Zhao Hang.

According to article 82 of the Articles, any Director appointed by the Board to fill a casual vacancy or by way of addition to their number shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for re-appointment. According to article 83(1) of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

References are made to the announcements of the Company dated 30 September 2015, 9 March 2016 and 11 April 2016 with respect to the appointment of Mr. Andreas Hermann Renschler and Mr. Joachim Gerhard Drees as non-executive Directors, Dr. Wang Dengfeng as independent non-executive Director and Mr. Zhao Hang as independent non-executive Director respectively. Accordingly, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Dr. Wang Dengfeng and Mr. Zhao Hang shall retire at the AGM and be eligible for re-appointment. In addition, Mr. Cai Dong and Dr. Lin Zhijun shall retire by rotation and, being eligible, offer themselves for re-election at the AGM.

Biographical details of the retiring Directors who are proposed to be re-elected at the AGM are set out in Appendix I to this circular.

Save as disclosed herein, as at the Latest Practicable Date, and to the best knowledge and belief of the Board, the Directors confirmed that:

- (a) each of Mr. Cai Dong, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Dr. Lin Zhijun, Dr. Wang Dengfeng and Mr. Zhao Hang is not connected with any Director, senior management, substantial shareholder or controlling shareholder of the Company;
- (b) each of Mr. Cai Dong, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Dr. Lin Zhijun, Dr. Wang Dengfeng and Mr. Zhao Hang has no other interests in the Shares which are required to be disclosed under Part XV of the SFO;



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## LETTER FROM THE BOARD

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- (c) each of Mr. Cai Dong, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Dr. Lin Zhijun, Dr. Wang Dengfeng and Mr. Zhao Hang does not hold any directorships in listed public companies in the last three years;
- (d) there is no other information that needs to be disclosed pursuant to any of the requirements as set out in paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules; and
- (e) the Company is not aware of any other matter that needs to be brought to the attention of the Shareholders and the Stock Exchange in relation to the aforesaid retiring Directors.

### NEW CONTINUING CONNECTED TRANSACTIONS

#### Background of HOWO Auto Finance Company

As announced by the Company in its announcements on 9 June 2015 and 10 December 2015, HOWO Auto Finance Company was established by the Company, CNHTC and Shandong International Equity Trust and they respectively hold 50%, 20% and 30% of the registered capital of HOWO Auto Finance Company.

The establishment of HOWO Auto Finance Company was primarily an effort of the Group to create a platform to specifically focus on the provision of consumer automobile financing in the PRC, which is a regulated business and requires specific licences granted by the relevant authorities in the PRC. It was also a result of the local government's encouragement to the Group as a leader of the truck industry in Shandong to establish the first licensed consumer automobile finance company in the region to set a role model for other industry players to create a more systematic environment for the consumer automobile finance business in Shandong, particularly because a number of other major truck manufacturers have already set up consumer automobile finance companies in other regions in the PRC in recent years. Prior to the establishment of HOWO Auto Finance Company, the Group has, primarily through Sinotruk Finance Company, provided consumer automobile financing services only for consumers who purchased the Group's products. With the establishment of HOWO Auto Finance Company, the Group now has a distinct platform to provide consumer automobile financing in the PRC which may serve consumers purchasing the Group and other third-party manufacturer's products; although as a business strategy, the Group's current plan is to only have HOWO Auto Finance Company provide automobile financing to customers who purchase the Group's products. Sinotruk Finance Company may also then focus on its principal business of engaging in facilitating the internal financing transactions of and providing financial services to the Group and CNHTC Group. Further, the Company believes the distinct consumer automobile financing platform brought by HOWO Auto Finance Company allows the Group to more efficiently adjust and implement its business strategies over the Group's consumer automobile financing business to augment the Group's core truck manufacturing business.

As a licensed consumer automobile finance company in the PRC, HOWO Auto Finance Company is subject to the supervision of the China Banking Regulatory Commission, which conducts regular examination of the audited financial statements of HOWO Auto Finance Company and requires HOWO Auto Finance Company to submit other relevant materials for review. Further, HOWO Auto Finance Company is governed by the Administrative Measures for Auto Finance Companies (《汽車

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## LETTER FROM THE BOARD

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金融公司管理辦法》) (the “**Administrative Measures**”), pursuant to which it is required to comply with certain financial ratio and other financial requirements prescribed in the Administrative Measures (the “**Financial Requirements**”) from time to time, and HOWO Auto Finance Company is required to submit a compliance report to the Shandong Office of the China Banking Regulatory Commission within 15 days after the end of every quarter. The table below sets out the current Financial Requirements for PRC licensed automobile finance companies:

<b>Financial Requirements</b>	<b>Requirement on PRC licensed automobile finance companies</b>
Minimum registered capital	RMB500 million
Capital adequacy ratio	Not less than 8%
Core capital adequacy ratio	Not less than 4%
Outstanding loan balances to any individual borrower	Not more than 15% of the net capital
Outstanding loan balances to any group of companies	Not more than 50% of the net capital
Outstanding loan balances to any shareholder and its related parties	Shall not exceed the amount of capital contributed by that shareholder
Self-occupied fixed assets to net capital ratio	Not more than 40%

Save for the Financial Requirements, as of the Latest Practicable Date, there are no other loan limits imposed by the relevant PRC laws, rules and regulations to which HOWO Auto Finance Company is subject.

As set out in the “Approval of the Formation of HOWO Auto Finance Company” (《中國銀監會山東監管局關於山東豪沃汽車金融有限公司開業的批覆》(魯銀監准[2015]330號)) from the Shandong Office of the China Banking Regulatory Commission dated 28 August 2015, the allowed business scopes of HOWO Auto Finance Company include the following, which permit the diversification of the Group’s business:

- (i) it may provide consumer automobile financing whether such customers are purchasing the products of the Group or of other third party manufacturer;
- (ii) it may also provide fixed-term (minimum 3 months) deposit services but only to its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders’ wholly-owned subsidiaries in the PRC; and
- (iii) it may borrow or lend money from or to other financial institutions in the PRC.

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## LETTER FROM THE BOARD

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In light of the increasing competition in the automobile industry in the PRC, the Group has to offer more value-added services to its customers and the provision of consumer automobile financing is one of such kind, as such service can create convenience for those customers who require financing to support their purchase. Customers valuing such convenience may choose to purchase from the Group instead of those competitors who do not offer such convenience, and this will further increase the competitiveness and sales of the Group. Accordingly, the Company believes the establishment of HOWO Auto Finance Company can facilitate the sales of the Group's products which will further reinforce the Group's leading position in the automobile manufacturing industry in the PRC. HOWO Auto Finance Company has in fact launched its automobile financing services at the end of 2015, and 2016 is its first year of full-year operation.

To the best of the Directors' knowledge, (i) since the establishment of HOWO Auto Finance Company and up to the Latest Practicable Date, all the applicable Financial Requirements have been complied with by HOWO Auto Finance Company, (ii) since the establishment of HOWO Auto Finance Company and up to the Latest Practicable Date, there is no record of non-compliance with relevant laws, rules and regulations of the PRC by HOWO Auto Finance Company, and (iii) the proposed borrowing to be made from Sinotruk Finance Company by HOWO Auto Finance Company and the proposed provision of deposit taking services by HOWO Auto Finance Company to the Group (excluding HOWO Auto Finance Company) in the manner contemplated under the 2018 HOWO Loan Agreement and the 2018 Sinotruk Deposit Agreement as more particularly described below, as well as the provision of consumer loans by HOWO Auto Finance Company to automobile purchasers, comply with the relevant laws, rules and regulations of the PRC in all material respects.

### **Analysis on the funding requirements for the new loans to be granted by HOWO Auto Finance Company in its consumer automobile financing business**

As explained above, HOWO Auto Finance Company is the platform established by the Group to specifically focus on the provision of consumer financing services and hence, the Group is committed to provide sufficient working capital for the business of HOWO Auto Finance Company which is a part of the Group. As a reference, during 2015, the Group has provided consumer automobile financing services in the total value of RMB1,296 million (in respect of sales of 4,699 units of trucks) for consumers who purchased the Group's products. However, the registered capital of HOWO Auto Finance Company, which has been fully paid-up by its shareholders, is only RMB500 million, and such amount represents approximately 38.6% of the aforementioned total financing amount of RMB1,296 million. Therefore, the registered capital of HOWO Auto Finance Company alone is not sufficient to even support the Group's existing consumer financing business, without taking into account the expected increase in the customers' demand for automobile financing services coupled with an increase in the sales of the Group's products. The Group expects that the market demand for its automobile financing services will continue to progressively increase in the upcoming few years. The Group believes that such growth is mainly contributed by the Group's effort to improve its products and service offerings and expand its markets, which the Group is committed to continuously pursue, and expects to benefit from the opportunities brought to the truck industry generally by the

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## LETTER FROM THE BOARD

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governmental policies including “One Belt, One Road” and urbanization. With an expected increase in sales of the Group’s products, the Group also expects that the demand for the automobile financing services associated with such sales will also increase, particularly because the Company believes that more customers are in search for automobile financing in order to leverage for a more efficient utilization of their own financial resources. As a reference, for the first three months of 2016, the Group recorded an increase in the number of trucks sold as financed by the Group of approximately 96.7% as compared to the same period in 2015.

On the other hand, the Group is committed to increase its consumer automobile financing service penetration rate, which the Group believes could help improve its competitiveness and also facilitate the sales of the Group’s products. According to the report published by the China Banking Association of Automobile Finance Professional Committee (中國銀行業協會汽車金融專業委員會) in June 2015, the overall automobile financing service penetration rate in China was over 20% in 2014. Further, according to a report regarding China automobile finance (the “**China Automobile Finance Report**”) issued by an independent international industry consultant in January 2016, the overall automobile financing service penetration rate in China is projected to grow to approximately 27% in 2015 and reach approximately 43% in 2018. Nonetheless, according to the data maintained by the Company, the consumer automobile financing service penetration rate in respect of the heavy duty trucks sold domestically by the Group was only approximately 7.9% (corresponded to the sales of 6,169 units of trucks with associated financing amount of approximately RMB1,749 million) in 2014, and 8.4% (corresponded to the sales of 4,644 units of trucks with associated financing amount of approximately RMB1,293 million) in 2015. In addition, in 2015, as a pilot run, the Group extended its automobile financing services to cover light duty trucks and achieved a penetration rate of approximately 0.1% (corresponded to the sales of approximately 55 units of trucks with associated financing amount of approximately RMB3 million). These figures achieved by the Group in 2014 and 2015 are much lower than the overall automobile financing service penetration rate achieved and projected to be achieved in China in 2014 and 2015. In light of such huge gap between the automobile financing service penetration rate achieved by the Group and that achieved and expected to be achieved by the automobile industry in general, the Group considers that there are considerable rooms for HOWO Auto Finance Company’s business to grow to reach at least a level more compatible with the overall automobile financing service penetration rate. Associated with such proposed increase in its consumer automobile financing service penetration rate, more funds will have to be made available to HOWO Auto Finance Company for lending to the automobile purchasers. Had HOWO Auto Finance Company attained a consumer automobile financing penetration rate of 27% (being the projected overall automobile financing penetration rate in China in 2015 according to the China Automobile Finance Report as mentioned above) of the Group’s sales in 2015, the fund which HOWO Auto Finance Company required to support its financing services to automobile purchasers would have been approximately RMB4,970 million.

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## LETTER FROM THE BOARD

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Based on the business plan of HOWO Auto Finance Company, it intends to increase its consumer automobile financing service penetration rate to reach a level more compatible with the overall automobile financing service penetration rate in China as follows:

- (i) in respect of its heavy duty trucks: assuming the total number of units of the Group's trucks sold domestically in each of years 2016, 2017 and 2018 remains the same as the number sold in 2015 (being 54,959 units), the Group targets to have the number sold under automobile financing to increase to 6,500 to 9,000 units in 2016, 8,500 to 11,000 units in 2017 and 10,000 to 12,500 units in 2018, representing a penetration rate of approximately 11.8% to 16.4% in 2016, 15.5% to 20.0% in 2017 and 18.2% to 22.7% in 2018; and
- (ii) in respect of its light duty trucks and other vehicles: assuming the total number of units of the Group's trucks sold domestically in each of years 2016, 2017 and 2018 remains the same as the number sold in 2015 (being 56,874 units), the Group targets to have the number sold under automobile financing to increase to 2,500 to 5,000 units in 2016, 5,000 to 7,500 units in 2017 and 7,500 to 10,000 units in 2018, representing a penetration rate of approximately 4.4% to 8.8% in 2016, 8.8% to 13.2% in 2017 and 13.2% to 17.6% in 2018.

Based on the above, it is estimated that the funds required by HOWO Auto Finance Company to support its lending to customers of heavy duty trucks and light duty trucks and other vehicles would range from RMB1,946 million to RMB2,779 million, RMB2,640 million to RMB3,472 million and RMB3,193 million to RMB4,025 million for 2016, 2017 and 2018, respectively and the corresponding estimated annual growth rates of the funds required are in the range of 50.2% to 114.4% (compared with actual new loans granted by the Group in the amount of RMB1,296 million in 2015), 24.9% to 35.7% and 15.9% to 20.9% for 2016, 2017 and 2018, respectively.

Further, in order to cope with the expansion of its business operation, HOWO Auto Finance Company plans to commit more resources such as to employ more staff force and consider the possibility of establishing more regional offices. HOWO Auto Finance Company has budgeted an additional RMB27 million between 2017 and 2018 for such business development purpose.

### **Sources of funding of HOWO Auto Finance Company**

As explained in the paragraph headed "Background of HOWO Auto Finance Company" above, HOWO Auto Finance Company, is regulated by the relevant authorities in the PRC and is required to operate in accordance with the regulations and licence requirements to which it is subject. Unlike general commercial banks, it is not allowed to provide deposit service to or borrow from the public. It is only allowed to provide fixed-term (minimum 3 months) deposit services to its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders' wholly-owned subsidiaries in the PRC. Further, it may not borrow money from an entity that is not a financial institution in the PRC. These limitations restrict the channels through which HOWO Auto Finance Company could obtain funding for its business operation.

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## LETTER FROM THE BOARD

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As Sinotruk Finance Company is not a wholly-owned subsidiary of the Company, it does not have access to the deposit services of HOWO Auto Finance Company. On the other hand, having reviewed the liquidity positions of the wholly-owned subsidiary of the Company and taking into account the need of these subsidiaries for deposit services for their idle capital, the Group is of the view that these subsidiaries may together, without affecting their daily operations and proposed expansions, provide cash for deposits with HOWO Auto Finance Company at maximum day-end deposit balances at RMB150 million, RMB400 million and RMB450 million for years 2016, 2017 and 2018, respectively. However, such deposits from the wholly-owned subsidiaries of the Company are still not sufficient to meet the working capital needs of HOWO Auto Finance Company as explained in the paragraph headed “Analysis on the funding requirements for the new loans to be granted by HOWO Auto Finance Company in its consumer automobile financing business” above. Accordingly, HOWO Auto Finance Company has to seek alternative sources of funding.

As a newly established entity, it is difficult for HOWO Auto Finance Company to borrow from third-party commercial financial institutions without incurring high interests. As disclosed in this circular, Sinotruk Finance Company, an authorized non-bank financial institution, is principally engaged in facilitating the internal financing transactions of and providing financial services to the Group and CNHTC Group, and it is also a last-resort lender within the Group which is obliged to provide financing to support the operational needs of the Group’s subsidiaries including HOWO Auto Finance Company. Therefore, the provision of loans by Sinotruk Finance Company to HOWO Auto Finance Company under the 2018 HOWO Loan Agreement is an alternative source of funding for HOWO Auto Finance Company. Such provision of loans is also an alternative channel of Sinotruk Finance Company to utilize its cash resources other than to placing deposits with other financial institutions. As at 31 December 2015, Sinotruk Finance Company has interbank deposits at RMB3,663 million.

At present, HOWO Auto Finance Company only has the fully paid-up registered capital of RMB500 million for its business operation of which RMB496 million remained unutilized as of 31 December 2015. For the reason mentioned above, in order to support its operation, HOWO Auto Finance Company has to obtain the necessary funds from the Group through (1) the 2018 HOWO Loan Agreement and (2) the 2018 Sinotruk Deposit Agreement as further described in this circular below. Taking into account the matters discussed in this circular regarding the 2018 HOWO Loan Agreement and the 2018 Sinotruk Deposit Agreement, the Board is of the view that the entering into of the 2018 HOWO Loan Agreement and the 2018 Sinotruk Deposit Agreement are fair and reasonable to the Company and in the interests of the Company and the Shareholders as a whole.

### **Intragroup transactions contemplated under the 2018 HOWO Loan Agreement and the 2018 Sinotruk Deposit Agreement**

HOWO Auto Finance Company and Sinotruk Finance Company are subsidiaries of the Group, and the Group directs the operations of these subsidiaries to follow the Group’s overall business and development strategy and direction. The transactions contemplated under the 2018 Loan Agreement

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## LETTER FROM THE BOARD

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and the 2018 Sinotruk Deposit Agreement are not only connected transactions but also intragroup transactions. The Company is of the view that these intragroup transactions do not have any financial impacts to the Group as a whole because all intragroup borrowings and lending, deposits placed and taken and their relevant interest income and expenses are fully eliminated in preparing the consolidated financial results of the Company.

### 1. 2018 HOWO Loan Agreement

On 31 March 2016, Sinotruk Finance Company and HOWO Auto Finance Company entered into the 2018 HOWO Loan Agreement, pursuant to which Sinotruk Finance Company agreed to provide to HOWO Auto Finance Company a loan facility with maximum day-end balance in respect of total outstanding principal amount up to RMB1,150,000,000, RMB2,350,000,000 and RMB2,850,000,000 for the years ending 31 December 2016, 2017 and 2018, respectively.

#### *Principal terms*

The principal terms of the 2018 HOWO Loan Agreement are as follows:

Date: 31 March 2016.

Parties: (a) Sinotruk Finance Company (as lender); and  
(b) HOWO Auto Finance Company (as borrower).

Duration: A term commencing from 1 July 2016 (or such later date as the 2018 HOWO Loan Agreement and the arrangements contemplated thereunder are approved by the Independent Shareholders (if required pursuant to the applicable requirements under the Listing Rules)) and ending on 31 December 2018.

Interest rate and payment: Applicable interest rate for each loan is to be determined with reference to the corresponding Shanghai interbank offered rate (SHIBOR) for loan of equivalent principal amount and term.

Interest on the loan is payable to Sinotruk Finance Company on the 20th day of each calendar month during the term of the relevant loan, provided the last interest payment shall be made with the repayment of the principal amount of the loan on the last day of the term of the relevant loan.

Default penalties: If HOWO Auto Finance Company fails to pay any sum payable under the 2018 HOWO Loan Agreement when due, a default interest of 30% on the amount due shall be payable to Sinotruk Finance Company.

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The 2018 HOWO Loan Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between Sinotruk Finance Company and HOWO Auto Finance Company. Pursuant to the 2018 HOWO Loan Agreement, Sinotruk Finance Company and HOWO Auto Finance Company will enter into separate and definitive agreements to provide for the detailed terms of each single loan in accordance with the principles in the 2018 HOWO Loan Agreement such as the exact amount of the loan drawn down, the term of the relevant loan and the applicable interest rate.

### *Proposed annual caps*

As set out in the 2018 HOWO Loan Agreement, the maximum day-end balance of the total outstanding principal amount of the loans drawn down by HOWO Auto Finance Company and the annual caps of the interest income (for Sinotruk Finance Company) from loans drawn down by HOWO Auto Finance Company pursuant to the 2018 HOWO Loan Agreement shall not exceed the following amounts:

	<b>For the year ending 31 December</b>	<b>Maximum day-end balance (outstanding principal amount of loans)</b>	<b>Annual caps of interest income</b>
(i)	2016	RMB1,150,000,000*	RMB25,000,000*
(ii)	2017	RMB2,350,000,000	RMB102,000,000
(iii)	2018	RMB2,850,000,000	RMB124,000,000

\* the maximum day-end balance and the annual caps of the interest income are determined for the period from 1 July 2016 to 31 December 2016.

### *Basis for the proposed annual caps*

The proposed annual caps for the maximum day-end balance of the total outstanding principal amount of the loans drawn down by HOWO Auto Finance Company and the annual caps of the interest income (for Sinotruk Finance Company) from loans drawn down by HOWO Auto Finance Company pursuant to the 2018 HOWO Loan Agreement as set out in the immediately preceding sub-paragraph headed “Proposed annual caps” are determined in accordance with the following bases:

#### *Maximum day-end loan balance:*

- (a) the expected funding requirement of HOWO Auto Finance Company for its lending business which has taken into consideration factors such as (i) the expected demand for the automobile financing services of HOWO Auto Finance Company, which is based partly on the anticipated products sales to be made by the Group, and the anticipated demand of the customers of the Group for financing for their purchases of the Group’s products and (ii) the expected increase in the consumer automobile financing service penetration rate by HOWO Auto Finance Company to reach a level more compatible with the overall automobile financing service penetration rate in China;



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- (b) the expected working capital available to HOWO Auto Finance Company for its business operation which has taken into consideration factors such as (i) the cash-collection cycle of the loans lent to customers and the associated interest income, (ii) the cash security from guarantors of the automobile purchasers, (iii) capital contribution received from its shareholders, (iv) the committed cash deposits to be received from CNHTC under the deposit services available to CNHTC as its shareholder, (v) interest expense for HOWO Auto Finance Company in respect of loans borrowed and deposits taken, (vi) working capital required for its ordinary daily operation, and (vii) the minimum deposit reserve (the “**Minimum Deposit Reserve**”, which is currently at a rate of 7% of the total amount of deposit received) required to maintain in order to comply with the statutory requirement promulgated by the PBOC;
- (c) the deposits to be obtained from the 2018 Sinotruk Deposit Agreement as further described in this circular below and the relevant Minimum Deposit Reserve on such deposits to be obtained;
- (d) the liquid capital of RMB496 million of HOWO Auto Finance Company available as at 31 December 2015 (being the balance of the RMB500 million registered capital not yet utilized);
- (e) the financing request proposal submitted by HOWO Auto Finance Company to the Group setting out the amounts of the maximum day-end loan balances for each of years 2016, 2017 and 2018, which is prepared by HOWO Auto Finance Company based on its target financial budgets and working capital forecast; and
- (f) the expected cash resources available for lending by Sinotruk Finance Company.

*Interest income:*

- (a) the maximum day-end balance of loans to be granted; and
- (b) referencing to the interest rate levels pursuant to the Shanghai interbank offered rate (SHIBOR) for one-year-term loans in the recent three years.

As explained in the paragraph headed “Analysis on the funding requirements for the new loans to be granted by HOWO Auto Finance Company in its consumer automobile financing business” above, during 2015, the Group has provided consumer automobile financing services in the total value of RMB1,296 million (in respect of sales of 4,699 units of trucks) for consumers who purchased the Group’s products. In view of HOWO Auto Finance Company being established to specifically focus on the provision of consumer financing services by the Group, the Group believes that the registered capital of RMB500 million of HOWO Auto Finance Company alone is not sufficient to even support the Group’s existing consumer financing business. Even if the Group only achieves a minimal growth in its consumer automobile financing business in 2016 as compared to 2015, it would require no less than RMB1,296 million in 2016 to support the business operation of HOWO Auto Finance Company.

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In addition, as explained in that same paragraph, based on the anticipated expansion of the business scale of HOWO Auto Finance Company due to an increase in customers' demand for automobile financing services and an increase in HOWO Auto Finance Company's automobile financing services penetration rate, the Group estimates the funding required by HOWO Auto Finance Company to support its lending to customers would range from RMB1,946 million to RMB2,779 million, RMB2,640 million to RMB3,472 million and RMB3,193 million to RMB4,025 million for 2016, 2017 and 2018, respectively. The corresponding annual growth rates of the funds required are estimated to be in the range of 50.2% to 114.4% (compared with actual new loans granted by the Group in the amount of RMB1,296 million in 2015), 24.9% to 35.7% and 15.9% to 20.9% for 2016, 2017 and 2018, respectively. The estimated annual growth rate of the funds required for 2016 is higher compared to those for 2017 and 2018 because 2016 is the first year in which the Company (i) endeavours to increase the penetration rate of its consumer automobile financing business, and (ii) formally launches the automobile financing services for light duty trucks and other vehicles (such services for light duty trucks and other vehicles commenced in 2015 only as a pilot run).

As explained above, the Group estimates that the funds required for its lending services to automobile consumers for 2016 is in the range of RMB1,946 million to RMB2,779 million (representing an estimated growth rate at 50.2% to 114.4% as compared to 2015). Based on such range, the proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2016 at RMB1,150 million represents approximately 41.4% to 59.1% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2016. As mentioned above, HOWO Auto Finance Company has liquid capital of RMB496 million as at 31 December 2015 from its unutilized registered capital. Such liquid capital is expected to be fully utilized during 2016 to support the new lending business of HOWO Auto Finance Company which reduces its funding requirement in 2016. Assuming such RMB496 million has already been fully utilized and is not available for use in 2016, the proposed maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2016 would have to be increased by RMB496 million from RMB1,150 million to RMB1,646 million (the "**Adjusted 2016 Maximum Day-end Loan Balance**"), which would represent approximately 59.2% to 84.6% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2016, and which the Company believes is not excessive or unreasonable given the expected funding requirement of HOWO Auto Finance Company to support its lending business. On the other hand, the proposed maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2016 of RMB1,150 million accounts for approximately 31.4% of interbank deposits of Sinotruk Finance Company as at 31 December 2015.

The Group estimates that the funds required for its lending services to automobile consumers for 2017 is in the range of RMB2,640 million to RMB3,472 million (representing an estimated growth rate at 24.9% to 35.7% as compared to 2016). Based on such range, the proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2017 at RMB2,350 million represents approximately 67.7% to 89.0% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2017, and such percentage range is similar to the range in 2016 (assuming the liquid capital of RMB496 million

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is not available), and which the Company believes is not excessive or unreasonable given the expected funding requirement of HOWO Auto Finance Company to support its lending business. The annual growth rate of the estimated maximum day-end loan balance in 2017 at RMB2,350 million compared to 2016 at RMB1,150 million is 104.3%. However, if the liquid capital of RMB496 million from the unutilized portion of HOWO Auto Finance Company's registered capital has been fully utilized and is not available in 2016, as explained above, the proposed maximum day-end loan balance in 2016 would have to be increased to the Adjusted 2016 Maximum Day-end Loan Balance and the corresponding annual growth figure of the maximum day-end loan balance in 2017 at RMB2,350 million compared to the Adjusted 2016 Maximum Day-end Loan Balance will be adjusted to approximately 42.8%. On the other hand, the proposed additional maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2017 of RMB1,200 million (as compared to the maximum amount in 2016) accounts for approximately 32.8% of interbank deposits of Sinotruk Finance Company as at 31 December 2015.

The Group estimates that the funds required for its lending services to automobile consumers for 2018 is in the range of RMB3,193 million to RMB4,025 million (representing an estimated growth rate at 15.9% to 20.9% as compared to 2017). Based on such range, the proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2018 at RMB2,850 million (as compared to the maximum amount in 2017) represents approximately 70.8% to 89.3% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2018, and such percentage range is similar to the ranges in 2016 (assuming the liquid capital of RMB496 million is not available) and 2017, and which the Company believes is not excessive or unreasonable given the expected funding requirement of HOWO Auto Finance Company to support its lending business. The annual growth rate of the estimated maximum day-end loan balance in 2018 compared to 2017 is 21.3% which is similar to the growth rate of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers for 2018. On the other hand, the proposed additional maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2018 of RMB500 million (as compared to the maximum amount in 2017) accounts for approximately 13.7% of interbank deposits of Sinotruk Finance Company as at 31 December 2015.

### *Internal control procedures*

The Group has formulated a capital management manual (the "Manual") (《資金管理辦法》) and any borrowing request made by HOWO Auto Finance Company has to follow the procedures and parameters set out in the Manual. According to the Manual, whenever HOWO Auto Finance Company, based on its business needs, has a capital requirement, it shall make a financing request. The funds management team established by the Group's finance department will invite for bids or conduct market researches on the pricing for such financing and make resolutions as to the final borrowing arrangements including the terms of the loan (such as interest rate and duration of the loan) and identity of the lender. For a single loan which principal amount is RMB500 million or below, the resolutions made by the funds management team concerning the relevant financing request will have to be signed by the general manager of the Group's finance department, and approved by the Group's finance director. For a single loan which principal amount is beyond RMB500 million, the resolutions made by the funds management team concerning the relevant financing request has to be further approved by the president of the Company or the chairman of the Board.

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## LETTER FROM THE BOARD

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As regard the provision of loan by Sinotruk Finance Company to HOWO Auto Finance Company upon receiving a borrowing request from HOWO Auto Finance Company (such borrowing request having been made according to the parameters set out in the relevant resolutions as signed and approved pursuant to the requirements of the Manual explained above), the borrowing request will have to be signed by the general manager of the Group's finance department, and approved by the Group's finance director. In addition, for a single loan which principal amount is beyond RMB500 million, the borrowing request has to be further approved by the president of the Company or the chairman of the Board.

Where after complying with the procedures described above and it is decided that a particular borrowing is to be made between Sinotruk Finance Company and HOWO Auto Finance Company, the parties will enter into a specific loan agreement based on the agreed terms between the parties.

The Company has formulated procedures to monitor its continuing connected transactions, and various departments in the Group will be responsible for implementing, monitoring and approving such procedures. In particular, HOWO Auto Finance Company's finance department will inspect the balance of the total outstanding principal amount of all the loans borrowed from Sinotruk Finance Company on a daily basis in order to monitor the highest day-end balance amount. Similarly, Sinotruk Finance Company's finance department will also inspect the balance of the total outstanding principal amount of all the loans lent to HOWO Auto Finance Company on a daily basis to monitor the highest day-end balance amount. These daily reviews are to ensure the transactions between Sinotruk Finance Company and HOWO Auto Finance Company do not exceed the relevant annual caps set out in the 2018 HOWO Loan Agreement. The Group's chief auditor is responsible for managing the Group's continuing connected transactions and will hold monthly meetings with various departments to ensure that the transactions do not exceed the relevant caps. Further, both internal audit departments of Sinotruk Finance Company and HOWO Auto Finance Company will conduct quarterly audit to ensure the transactions between HOWO Auto Finance Company and Sinotruk Finance Company are implemented according to the prescribed procedures and requirements. In addition, the Company will also engage its external auditors to review its continuing connected transactions on an annual basis.

### ***Reasons for and benefits of the 2018 HOWO Loan Agreement***

Since Sinotruk Finance Company is not a wholly-owned subsidiary of the Company, it does not have access to the deposit services of HOWO Auto Finance Company. Nonetheless, Sinotruk Finance Company, as an authorized non-bank financial institution, is allowed to lend money to other financial institutions in the PRC, and HOWO Auto Finance Company, also being an authorized non-bank financial institution, is allowed to borrow money from other financial institutions in the PRC. Therefore, the proposed provision of loans by Sinotruk Finance Company to HOWO Auto Finance Company under the 2018 HOWO Loan Agreement is an alternative for Sinotruk Finance Company to utilize its cash resources other than to placing deposits with other financial institutions.

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## LETTER FROM THE BOARD

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As explained above, HOWO Auto Finance Company is the platform specifically established by the Group to focus on the provision of consumer financing services and hence, the Group is committed to provide sufficient working capital for the business of HOWO Auto Finance Company which is a part of the Group. During 2015, the Group has provided consumer automobile financing services in the total value of RMB1,296 million (in respect of sales of 4,699 units of trucks) for consumers who purchased the Group's products. However, the registered capital of HOWO Auto Finance Company is only RMB500 million and the Company believes this amount is not even sufficient to support the Group's existing customer financing operations. Therefore, the Company is of the view that it is necessary for HOWO Auto Finance Company to obtain additional financing to support its business operations which is also in the interest of HOWO Auto Finance Company and the Group, and the advances obtained by HOWO Auto Finance Company under the 2018 HOWO Loan Agreement provide additional sources of working capital for HOWO Auto Finance Company. Further, one of the major sources of revenue of Sinotruk Finance Company is the interest income generated from the loans it advances to its customers which may include the members of the Group. By entering into the 2018 HOWO Loan Agreement and providing loans thereunder, Sinotruk Finance Company can expect to receive a constant and stable flow of interest income. In addition, as mentioned above, the advances obtained by HOWO Auto Finance Company under the 2018 HOWO Loan Agreement provide additional sources of working capital for HOWO Auto Finance Company. As the working capital base of HOWO Auto Finance Company expands, it has more resources to support and expand its business operations. Since HOWO Auto Finance Company is a subsidiary of the Company, the Group will also benefit from this expansion of the business of HOWO Auto Finance Company. Further, as mentioned previously in this circular, among others, HOWO Auto Finance Company provides automobile financing to customers for their purchase of the Group's products. With additional working capital, HOWO Auto Finance Company can potentially expand its business scale to provide loans to more customers that have passed the relevant credit checks (such checks include requiring the relevant customers to provide income proof or financial statements to support the financial soundness, as well as conducting site visits to the borrower customers to understand and verify their business scale where necessary) and who wish to buy the Group's products. This will in turn facilitate the sales of the Group's products.

As disclosed in this circular, Sinotruk Finance Company is principally engaged in facilitating the internal financing transactions of and providing financial services to the Group and CNHTC Group. Therefore, the clientele of Sinotruk Finance Company, by its business scope and nature, is focused on the Group and CNHTC Group. Notwithstanding this, the Company believes the risk to Sinotruk Finance Company in its provision of loans to HOWO Auto Finance Company pursuant to the 2018 HOWO Loan Agreement is relatively low for the following reasons: (a) both Sinotruk Finance Company and HOWO Auto Finance Company have to go through various internal control procedures as set out in the paragraph headed "1. 2018 HOWO Loan Agreement — Internal Control Procedures" above before a loan is approved to be made to HOWO Auto Finance Company, and the interest rate applicable to each loan made available to HOWO Auto Finance Company is determined with reference to the corresponding Shanghai interbank offered rate (SHIBOR) for loans of equivalent principal amount and term, coupled with a default interest payable to Sinotruk Finance Company in case of any default by HOWO Auto Finance Company; and (b) whilst the loans provided by the 2018 HOWO Loan Agreement will be a major source of working capital to support the automobile financing operation of HOWO Auto Finance Company, such working capital is to support the consumer automobile financing business of HOWO Auto Finance Company and the Group believes the default risks of

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HOWO Auto Finance Company's customers are low because (i) all customers of HOWO Auto Finance Company who needs to obtain financing from HOWO Auto Finance Company have to pass the relevant credit checks implemented by HOWO Auto Finance Company as mentioned above and through these checks, HOWO Auto Finance Company is taking the role to effectively assess and monitor the creditworthiness of each of its customers, which are targeted to lower the default risks of such customers; (ii) in light of the nature of the business of HOWO Auto Finance Company, there is no customer concentration risk as it has numerous automobile customer borrowers and, as set out in Financial Requirements, there are statutory limits to the amounts of outstanding loan balances that could be made to any individual and any group of companies which regulate the concentration risk to any single entity; and (iii) all the loans granted are guaranteed by the guarantors of such customers. Such low default risks of HOWO Auto Finance Company in turn serve to lower the operational risk and financial exposure of Sinotruk Finance Company. By the nature of Sinotruk Finance Company being an authorized non-bank financial institution providing financing services, similar to all other business providing financing services, Sinotruk Finance Company would inevitably face certain operational risks and financial exposure where the end borrowers may fail to meet his/her/its payment obligations. Nonetheless, the Board believes the aforementioned measures have served to mitigate the risks and financial exposure faced by Sinotruk Finance Company, and hence by the Group, associated with its provision of finances to HOWO Auto Finance Company.

As mentioned in the paragraph headed "1. 2018 HOWO Loan Agreement — Internal control procedures" above, the Group will consider the actual working capital need before approving the financing request from HOWO Auto Finance Company. This is to avoid inefficient use of the Group's cash resources. On the other hand, HOWO Auto Finance Company is expected to maintain only a minimum idle cash level because excessive cash incurs unnecessary interest expenses which will affect its overall performance.

### *Listing Rules implications*

Whilst HOWO Auto Finance Company's equity interest is held directly by the Company as to 50%, the majority of the board of directors of HOWO Auto Finance Company is appointed and controlled by the Company, and therefore HOWO Auto Finance Company is a non-wholly owned subsidiary of the Company. On the other hand, CNHTC, a substantial shareholder of the Company, directly holds 20% of HOWO Auto Finance Company's equity interest. Therefore, HOWO Auto Finance Company is a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. Sinotruk Finance Company is a non-wholly owned subsidiary of the Company. Accordingly, the transactions contemplated under the 2018 HOWO Loan Agreement constitute continuing connected transaction under Chapter 14A of the Listing Rules on the part of the Company. As certain of the applicable percentage ratios (other than the profits ratio) in respect of the estimated maximum amount of the transactions contemplated under the 2018 HOWO Loan Agreement exceed 5%, the transactions contemplated under the 2018 HOWO Loan Agreement constitute non-exempt continuing connected transactions on the part of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### *General*

The terms of the 2018 HOWO Loan Agreement were made after arm's length negotiations between HOWO Auto Finance Company and Sinotruk Finance Company. Taking into accounts the matters discussed above, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) are of the view that the terms of the 2018 HOWO Loan Agreement and the transactions contemplated thereunder and the relevant annual caps are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the 2018 HOWO Loan Agreement has been entered into in the ordinary and usual course of business of the Group.

The 2018 HOWO Loan Agreement and the transactions contemplated thereunder and the relevant annual caps have been approved by the Board at the meeting of the Board held on 31 March 2016. Save for the Interested Director who has abstained from voting on the relevant Board resolutions approving the 2018 HOWO Loan Agreement and the transactions contemplated thereunder and the relevant annual caps, none of the Directors has abstained from voting at the relevant Board resolutions to approve the 2018 HOWO Loan Agreement and the transactions contemplated thereunder and the relevant annual caps.

### **2. 2018 Sinotruk Deposit Agreement**

On 31 March 2016, HOWO Auto Finance Company and the Company (for itself and on behalf of its subsidiaries (excluding HOWO Auto Finance Company)) entered into the 2018 Sinotruk Deposit Agreement, pursuant to which HOWO Auto Finance Company agreed to provide to the Group (excluding HOWO Auto Finance Company) fixed-term deposit services for deposits with maximum day-end balance of total outstanding principal amount up to RMB150,000,000, RMB400,000,000 and RMB450,000,000 for the years ending 31 December 2016, 2017 and 2018, respectively.

### *Principal terms*

The principal terms of the 2018 Sinotruk Deposit Agreement are as follows:

Date: 31 March 2016.

Parties: (a) the Company (for itself and on behalf of its subsidiaries but excluding HOWO Auto Finance Company) (as user of the deposit services); and  
(b) HOWO Auto Finance Company (as provider of the deposit service).

Duration: A term commencing from 1 July 2016 (or such later date as the 2018 Sinotruk Deposit Agreement and the arrangements contemplated thereunder are approved by the Independent Shareholders (if required pursuant to the applicable requirements under the Listing Rules)) and ending on 31 December 2018

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## LETTER FROM THE BOARD

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Interest rate and payment:

The interest rate for each sum deposited by the Group (excluding HOWO Auto Finance Company) with HOWO Auto Finance Company as fixed-term deposit under the 2018 Sinotruk Deposit Agreement shall be determined with reference to the base interest rate published by the PBOC on its website from time to time and within the maximum interest rate limit set by the relevant industry association or similar organization for similar deposit of compatible principal amount and term. The final interest rates shall be equivalent to or better than those offered by general commercial banks.

Interest on the fixed-term deposit is payable by HOWO Auto Finance Company on the maturity day of the relevant deposit.

The 2018 Sinotruk Deposit Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between the Group (excluding HOWO Auto Finance Company) and HOWO Auto Finance Company. Pursuant to the 2018 Sinotruk Deposit Agreement, the Group (excluding HOWO Auto Finance Company) and HOWO Auto Finance Company will enter into separate and definitive agreements to provide for the detailed terms of each single fixed-term deposit in accordance with the principles in the 2018 Sinotruk Deposit Agreement such as the exact amount of the fixed-term deposit, the term of the relevant deposit and the applicable interest rate.

### *Proposed annual caps*

As set out in the 2018 Sinotruk Deposit Agreement, the maximum day-end balance of the total outstanding principal amount of the fixed-term deposits placed with HOWO Auto Finance Company and the annual caps for the interest income from these deposits pursuant to the 2018 Sinotruk Deposit Agreement shall not exceed the following amounts:

	<b>For the year ending 31 December</b>	<b>Maximum day-end balance (outstanding principal amount of deposits)</b>	<b>Annual cap of interest income</b>
(i)	2016	RMB150,000,000*	RMB3,000,000*
(ii)	2017	RMB400,000,000	RMB12,000,000
(iii)	2018	RMB450,000,000	RMB14,000,000

\* the maximum day-end balance and the annual cap of the interest income are determined for the period from 1 July 2016 to 31 December 2016.

### *Basis for the proposed annual caps*

The proposed annual caps for the maximum day-end balance of the total outstanding principal amount of the fixed-term deposits placed with HOWO Auto Finance Company and the annual caps for the interest income (for the Group (excluding HOWO Auto Finance Company)) from these deposits pursuant to the 2018 Sinotruk Deposit Agreement as set out in the immediately preceding sub-paragraph headed “Proposed annual caps” are determined in accordance with the following bases:



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*Maximum day-end deposit balance:*

- (a) the historical deposits placed by the wholly-owned PRC subsidiaries of the Company with commercial banks and Sinotruk Finance Company, and expected idle cash available from these PRC subsidiaries for deposits;
- (b) the expected funding requirement of and expected working capital available to HOWO Auto Finance Company as explained in the paragraph headed “1. 2018 HOWO Loan Agreement — Basis for the proposed annual caps”;
- (c) the loans to be obtained from the 2018 HOWO Loan Agreement as described in this circular above;
- (d) the deposit proposal submitted by HOWO Auto Finance Company to the Group setting out the amounts of the maximum day-end deposit balances for each of years 2016, 2017 and 2018, which is prepared by HOWO Auto Finance Company based on its target financial budgets and working capital forecast; and
- (e) the liquid capital of RMB496 million of HOWO Auto Finance Company available as at 31 December 2015 (being the balance of the RMB500 million registered capital not yet utilized).

*Interest income:*

- (a) the expected maximum day-end balance of the fixed-term deposits to be placed by the Group with HOWO Auto Finance Company; and
- (b) referencing to the base interest rate published by the PBOC on its website from time to time, subject to the maximum interest rate limit set (currently at 35%) by the relevant industry association or similar organization (primarily, the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制)) applicable to the deposits.

As explained in the paragraph headed “1. 2018 HOWO Loan Agreement — Basis for the proposed annual caps” above, the sources of the anticipated working capital of HOWO Auto Finance Company for each of years 2016, 2017 and 2018 are to be coming from (i) the repayment of the loans principals to be granted in a particular year and/or the previous year(s), (ii) interest income to be received from the borrowers under those relevant loans granted, (iii) the cash security from guarantors of the automobile purchasers for the relevant loans granted, and (iv) committed deposits from CNHTC under the deposit services available to CNHTC as its shareholder; and the shortfall of the anticipated working capital of for each of years 2016, 2017 and 2018 would be satisfied by the loans to be borrowed under the 2018 HOWO Loan Agreement, and the deposits to be received under the 2018 Sinotruk Deposit Agreement.

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## LETTER FROM THE BOARD

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As at 31 December 2015, the total deposits placed by all the wholly-owned PRC subsidiaries of the Company with third party commercial banks amounted to approximately RMB739 million. Having reviewed the liquidity positions of these subsidiaries and taking into account the need of these subsidiaries for deposit services for their idle capital, the Group is of the view that these subsidiaries may together, without affecting their daily operations and proposed expansions, provide cash for deposits with HOWO Auto Finance Company at maximum day-end deposit balances at RMB150 million, RMB400 million and RMB450 million for years 2016, 2017 and 2018, respectively.

As mentioned previously in this circular, the Group estimates that the funds required for its lending services to automobile consumers for 2016 is in the range of RMB1,946 million to RMB2,779 million. As at 31 December 2015, HOWO Auto Finance Company has liquid capital available for its lending business at RMB496 million, which is the unutilized portion of the RMB500 million fully paid-up registered capital by its shareholders and which the Group expects will be fully utilized during 2016. In addition, CNHTC has committed to place deposits of RMB50 million under the deposit services available to CNHTC as HOWO Auto Finance Company's shareholder in 2016 and Sinotruk Finance Company proposes to lend loans up to a maximum day-end outstanding principal amount at RMB1,150 million under the 2018 HOWO Loan Agreement. Notwithstanding the foregoing, HOWO Auto Finance Company still requires additional funds in the amount of RMB250 million to RMB1,083 million (the "**2016 Shortfall**") which are proposed to be partly satisfied in the following manners: (i) the repayment of the loans principals to be granted in 2016 (with the repayment schedule normally ranging from 12 months to 36 months), (ii) interest income to be received from the borrowers under the loans to be granted in 2016, and (iii) the cash security from guarantors of the automobile purchasers for the loans to be granted in 2016 (which normally ranges from 5% to 10% of the loan amount). After taking into account the aforementioned sources of capital set out in (i), (ii) and (iii) of this paragraph, the 2016 Shortfall is proposed to be satisfied by the deposits to be received under the 2018 Sinotruk Deposit Agreement at the maximum amount of RMB150 million, which accounts for only 20.3% of the total deposits of RMB739 million placed by the wholly-owned PRC subsidiaries of the Company with third party commercial banks as at 31 December 2015. Given such maximum amount of RMB150 million proposed to be obtained under the 2018 Sinotruk Deposit Agreement only accounts for approximately 13.9% to 60.0% of the 2016 Shortfall, the Company believes such amount is not excessive or unreasonable.

The Group estimates that the funds required for its lending services to automobile consumers for 2017 is in the range of RMB2,640 million to RMB3,472 million. After considering the cash resources available from the additional committed deposits of RMB50 million from CNHTC (as compared to the committed amount in 2016) under the deposit services available to CNHTC as HOWO Auto Finance Company's shareholder and the additional loans proposed to be borrowed under the 2018 HOWO Loan Agreement at the maximum amount of RMB1,200 million (as compared to the maximum amount of RMB1,150 million in 2016), HOWO Auto Finance Company still requires additional funds in the amount of RMB1,390 million to RMB2,222 million (the "**2017 Shortfall**") which are proposed to be satisfied in the following manners: (i) the repayment of the loans principals to be granted in 2016 (which remain outstanding in 2017) and 2017, (ii) interest income to be received from the borrowers under the loans granted in 2016 (which remain outstanding in 2017) and 2017, and (iii) the cash security from guarantors of the automobile purchasers for the loans to be granted in 2017. Similar to the situation in 2016, after taking into account the aforementioned sources of capital set out in (i), (ii) and (iii) of this paragraph, the 2017 Shortfall is proposed to be satisfied by the deposits to be received

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## LETTER FROM THE BOARD

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under the 2018 Sinotruk Deposit Agreement at the additional maximum principal amount of RMB250 million (as compared to the maximum amount in 2016), bringing the proposed maximum day-end deposit balance in 2017 to RMB400 million. The additional deposit of RMB250 million accounts for approximately 33.8% of the total deposits of RMB739 million placed by the wholly-owned PRC subsidiaries of the Company with third party commercial banks as at 31 December 2015. Given such additional maximum amount of RMB250 million proposed to be obtained under the 2018 Sinotruk Deposit Agreement only accounts for approximately 11.3% to 18.0% of the 2017 Shortfall, the Company believes such amount is not excessive or unreasonable. The proposed maximum day-end deposit balance in 2017 of RMB400 million represents an increase of RMB250 million or 166.7% as compared to the proposed maximum day-end deposit balance of 2016. Such large increase in the proposed maximum day-end deposit balance is partly due to the increase in the anticipated funding required by HOWO Auto Finance Company in 2017 to support its lending business (from the range of RMB1,946 million to RMB2,779 million in 2016 to RMB2,640 million to RMB3,472 million in 2017) and partly because only a relatively small portion of cash is generated from the repayment of loan principals in the second year of operation of HOWO Auto Finance Company.

The Group estimates that the funds required for its lending services to automobile consumers for 2018 is in the range of RMB3,193 million to RMB4,025 million. After considering the cash resources available from the additional committed deposits of RMB50 million from CNHTC (as compared to the committed amount in 2017) under the deposit services available to CNHTC as HOWO Auto Finance Company's shareholder and the additional loans proposed to be borrowed under the 2018 HOWO Loan Agreement at the maximum amount of RMB500 million (as compared to the maximum amount of RMB2,350 in 2017), HOWO Auto Finance Company still requires additional funds in the amount of RMB2,643 million to RMB3,475 million (the "2018 Shortfall") which are proposed to be satisfied in the following manners: (i) the repayment of the loan principals to be granted in 2016 and 2017 (which remain outstanding in 2018) and 2018, (ii) interest income to be received from the borrowers under the loans granted in 2016 and 2017 (which remain outstanding in 2018) and 2018, and (iii) the cash security from guarantors of the automobile purchasers for loans to be granted in 2018. Similar to the situations in 2016 and 2017, after taking into account the aforementioned sources of capital set out in (i), (ii) and (iii) of this paragraph, the 2018 Shortfall is proposed to be satisfied by the deposits to be received under the 2018 Sinotruk Deposit Agreement at the additional maximum principal amount of RMB50 million (as compared to the maximum amount in 2017), bringing the proposed maximum day-end deposit balance in 2018 to RMB450 million. The additional deposit of RMB50 million accounts for approximately 6.8% of the total deposits of RMB739 million placed by the wholly-owned PRC subsidiaries of the Company with third party commercial banks as at 31 December 2015. Given such additional maximum amount of RMB50 million proposed to be obtained under the 2018 Sinotruk Deposit Agreement only accounts for approximately 1.4% to 1.9% of the 2018 Shortfall, the Company believes such amount is not excessive or unreasonable. The maximum day-end deposit balance in 2018 of RMB450 million represents an increase of RMB50 million or 12.5% as compared to the proposed maximum day-end deposit balance of 2017. Such increase is small compared to the increase in 2017 because a relatively large portion of cash is generated from the repayment of loan principals in the third year of operation of HOWO Auto Finance Company.

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## LETTER FROM THE BOARD

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### *Internal control procedures*

Based on the business and financial needs of HOWO Auto Finance Company, where necessary, HOWO Auto Finance Company will formulate a deposit proposal for the Group's consideration. The deposits received by HOWO Auto Finance Company will provide a source of working capital to support its operation as mentioned previously in this circular. The Group's funds management team will consider the deposit proposal and make resolutions as to the depositing entity, amount of deposit, term of deposit and interest rate. The resolutions will then be approved in accordance with the Group's capital management policy and issued to the relevant units for implementation. Each single deposit in the amount of RMB300 million or below will be resolved and approved by the Group's financing review and control unit, signed by the general manager of the Group's finance department, and approved by the Group's finance director. Each single deposit in the amount beyond RMB300 million has to be further approved by the president of the Company or the chairman of the Board.

HOWO Auto Finance Company has in place a pricing management policy (《山東豪沃汽車金融有限公司價格管理辦法》) under which its pricing committee will determine the interest rate for the deposits placed with it by making references to the base interest rates published by the PBOC on its website from time to time for similar deposits of compatible principal amounts and terms. Such interest rates as finally determined will not be higher than the maximum interest rate limit set by the relevant industry association or similar organization for similar types of deposits.

Upon receipt of each sum of deposit, HOWO Auto Finance Company's operation management staff will make a record of the relevant information concerning such deposit in accordance with the relevant procedures and requirements, including the name of the depositor, amount of deposit, term of deposit and interest rate. The operation manager in charge will then approve the deposit and issue a fixed deposit certificate to the depositor.

The Company has formulated procedures to monitor its continuing connected transactions, and various departments in the Group will be responsible for implementing, and monitoring and approving such procedures. In particular, HOWO Auto Finance Company will inspect the day-end balance of the total outstanding principal amount of all the deposits on a daily basis and make a report to the finance department of the Group on a monthly basis in order to monitor the highest day-end balance amounts. The Group's chief auditor is responsible for managing the Group's continuing connected transactions and will hold monthly meetings with various departments to ensure that the transactions do not exceed the relevant caps. Further, the internal audit department of HOWO Auto Finance Company will conduct a quarterly audit to ensure that the relevant transactions have been carried out in accordance with the prescribed procedures and requirements. In addition, the Company will also engage its external auditors to review its continuing connected transactions on an annual basis.

### *Reasons for and benefits of the 2018 Sinotruk Deposit Agreement*

As mentioned above, whilst HOWO Auto Finance Company is allowed to provide fixed-term deposit services, it is statutorily permitted to receive fixed-term deposits only from its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders' wholly-owned subsidiaries in the PRC, but is not allowed to provide deposit services to non

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## LETTER FROM THE BOARD

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wholly-owned subsidiaries of its shareholders. Since Sinotruk Finance Company is only a non-wholly owned subsidiary of the Company, it does not have access to the deposit services of HOWO Auto Finance Company. The deposits obtained by HOWO Auto Finance Company under the 2018 Sinotruk Deposit Agreement provide additional sources of working capital for HOWO Auto Finance Company. As the working capital base of HOWO Auto Finance Company expands, it has more resources to support and expand its business operations. Since HOWO Auto Finance Company is a subsidiary of the Company, the Group will also benefit from this expansion of the business of HOWO Auto Finance Company. Further, as mentioned previously in this circular, among others, HOWO Auto Finance Company provides automobile financing to customers for their purchases of the Group's products. With additional working capital, HOWO Auto Finance Company can potentially expand its business scale to provide loans to more customers that have passed the relevant credit checks and who wish to buy the Group's products. This will in turn facilitate the sales of the Group's products.

As mentioned in the paragraph headed "2. 2018 Sinotruk Deposit Agreement — Internal control procedures" above, the Group will consider the actual working capital need before approving the deposit proposal from HOWO Auto Finance Company. This is to avoid inefficient use of the Group's cash resources. On the other hand, HOWO Auto Finance Company is expected to maintain only a minimum idle cash level because excessive cash incurs unnecessary interest expenses which will affect its overall performance.

### *Listing Rules implications*

As mentioned above, HOWO Auto Finance Company is a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. Accordingly, the transactions contemplated under the 2018 Sinotruk Deposit Agreement constitute continuing connected transaction under Chapter 14A of the Listing Rules on the part of the Company. As certain of the applicable percentage ratios (other than the profits ratio) in respect of the estimated maximum amount of the transactions contemplated under the 2018 Sinotruk Deposit Agreement exceed 5%, the transactions contemplated under the 2018 Sinotruk Deposit Agreement constitute non-exempt continuing connected transactions on the part of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### *General*

The terms of the 2018 Sinotruk Deposit Agreement were made after arm's length negotiations between HOWO Auto Finance Company and the Company. Taking into accounts the matters discussed above, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) are of the view that the terms of the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and the relevant annual caps are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the 2018 Sinotruk Deposit Agreement has been entered into in the ordinary and usual course of business of the Group.

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## LETTER FROM THE BOARD

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The 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and the relevant annual caps have been approved by the Board at the meeting of the Board held on 31 March 2016. Save for the Interested Director who has abstained from voting on the relevant Board resolutions approving the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and the relevant annual caps, none of the Directors has abstained from voting at the relevant Board resolutions to approve the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and the relevant annual caps.

### **REVISION OF ANNUAL CAPS OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the 2015 AGM Circular relating to, among others, the Existing Products Sales Continuing Connected Transactions. As disclosed in the 2015 AGM Circular, the 2018 Products Sales Agreement has a current term due to expire on 31 December 2018. The Existing Products Sales Continuing Connected Transactions under the 2018 Products Sales Agreement are subject to the Existing Products Sales Annual Caps, all of which were approved by Independent Shareholders in the 2015 AGM.

Due to an increase in the demand for the Relevant Products by CNHTC Group, the Company expects that the Group will supply more Relevant Products to the CNHTC Group and hence, the Existing Products Sales Annual Caps under the 2018 Products Sales Agreement will not be sufficient for the expected sales of the Group for the financial year ending 31 December 2016, 2017 and 2018. The Company therefore proposes to revise the Existing Products Sales Annual Caps to the Revised Products Sales Annual Caps and accordingly, the Company and CNHTC entered into the Revised Products Sales Annual Caps Confirmation on 31 March 2016 in this regard.

As of the Latest Practicable Date, the Existing Products Sales Annual Caps for the year ending 31 December 2016 has not been exceeded.

#### ***Proposed Revised Products Sales Annual Caps***

The proposed Revised Products Sales Annual Caps are as follows:

- (i) For the year ending 31 December 2016: RMB810,000,000;
- (ii) For the year ending 31 December 2017: RMB980,000,000; and
- (iii) For the year ending 31 December 2018: RMB1,115,000,000.

#### ***Basis for the Revised Products Sales Annual Caps***

The Revised Products Sales Annual Caps as set out immediately sub-paragraph headed “Proposed Revised Products Sales Annual Caps” are determined in accordance with the following bases:

- (a) the historical sales made by the Group to CNHTC Group;
- (b) the Existing Products Sales Annual Caps;

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## LETTER FROM THE BOARD

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- (c) the revised anticipated demand for the Relevant Products;
- (d) the actual sales amount of the Relevant Products in 2015 and the first three months of 2016 sold by the Group to CNHTC Group; and
- (e) the 5% allowance for any unexpected increase in demand and selling prices during the term of the 2018 Products Sales Agreement.

As mentioned in the 2015 AGM Circular, in early 2015, the Company determined the Existing Products Sales Annual Caps with reference to the re-estimated sales amount at RMB452,000,000 of the Relevant Products by the Group to CNHTC Group for 2015, with annual growth of 17.3%, 15.3% and 13.7% for years 2016, 2017 and 2018, respectively. However, the actual amount of sales of the Relevant Products by the Group to CNHTC Group for the year ended 31 December 2015 was RMB651,736,000 which represents an increase of approximately 66.4% as compared to actual sales amount at RMB391,644,000 for 2014 and 44.2% as compared to the re-estimated sales amount for 2015. In addition, the actual amount already exceeds the caps of RMB530,000,000 and RMB611,000,000 previously approved for the years ending 31 December 2016 and 2017, respectively, under the Existing Products Sales Annual Caps.

Further, the actual products sales amount for the first three months of 2016 was approximately RMB118,008,000 and, comparing with the same period of 2015, the sales of the Relevant Products sold by the Group to CNHTC Group has increased by approximately 34.6%. The Group expects that the trend of the positive growth in the sales to CNHTC Group will maintain for the remainder of 2016, 2017 and 2018. The annual growth rate of the Revised Products Sales Annual Caps is 24.3% (compared with actual sales in 2015), 21.0% and 13.8%, respectively, which are all below the actual growth rate for the first three months of 2016. Same as the approach adopted by the Group before, the Revised Products Sales Annual Caps in 2017 and 2018 have included 5% allowance for the buffer for unexpected change in demand and selling prices during the term of the 2018 Products Sales Agreement.

The Group has also received the revised budgeted purchase plan from CNHTC Group under which the revised anticipated growth in demand for the Relevant Products for 2016, 2017 and 2018 exceeds the Existing Products Sales Annual Caps by over 50% each year. The CNHTC Group has advised that (i) it has achieved remarkable results in developing and expanding its sales to the Cuban market and its sales of trucks to the Cuban market has significantly increased and accounted for a significant proportion of the total sales of the Relevant Products by the Group to the CNHTC Group since 2013; (ii) the demand for truck and chassis used for the urban infrastructures, landscaping and environmental hygiene by local governments has also significantly increased in 2015; and (iii) its significant increase in sales to the Cuban market and the increase in demand for truck and chassis used for the urban infrastructures, landscaping and environmental hygiene by local governments are the key factors to increase the sales of Relevant Products in 2015.

The CNHTC Group has further advised that when comparing with the first three months in 2015, during the first three months in 2016, (i) its sales of trucks directly purchased from the Group to the Cuban market has been increased by 45.1%; and (ii) its sales of trucks used for the urban infrastructures, landscaping and environmental hygiene, which are also trucks and chassis directly purchased from the Group, has been increased by 77.4%.

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## LETTER FROM THE BOARD

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The Group believes the aforementioned factors will increase the demand for the Relevant Products and on that basis, the Company proposed to revise the Existing Products Sales Annual Caps to the Revised Products Sales Annual Caps.

### *Listing Rules implications*

Pursuant to Rule 14A.54(2) of the Listing Rules, if the Company proposes to revise the Existing Products Sales Annual Caps, the Company will have to re-comply with the relevant announcement and Independent Shareholders' requirements under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios (other than the profits ratio) of the Revised Products Sales Annual Caps, on an annual basis, exceed 5%, the Revised Products Sales Annual Caps is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### *General*

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) are of the view that the Existing Products Sales Continuing Connected Transactions have been entered into, and will be carried out, in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the Revised Products Sales Annual Caps are fair and reasonable.

The Revised Products Sales Annual Caps have been approved by the Board at the meeting of the Board held on 31 March 2016. Save for the Interested Director who has abstained from voting on the relevant Board resolutions approving the Revised Products Sales Annual Caps, none of the Directors has abstained from voting at the relevant Board resolutions to approve the Revised Products Sales Annual Caps.

### **APPROVAL BY INDEPENDENT SHAREHOLDERS**

According to Chapter 14A of the Listing Rules, the Company will seek approval from the Independent Shareholders for: (i) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder, (ii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and (iii) the Revised Products Sales Annual Caps Confirmation, at the AGM. CNHTC and its associates, which hold in aggregate approximately 51% of the issued Shares of the Company as at the Latest Practicable Date, will abstain from voting on the relevant resolutions.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to (i) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder, (ii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and (iii) the Revised Products Sales Annual Caps Confirmation. Guotai Junan Capital Limited has been appointed as the Independent Financial Adviser to advise and make recommendations to the Independent Board Committee and the Independent Shareholders regarding the same.



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## LETTER FROM THE BOARD

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### GENERAL INFORMATION RELATING TO THE PARTIES TO THE 2018 HOWO LOAN AGREEMENT, THE 2018 SINOTRUK DEPOSIT AGREEMENT AND THE 2018 PRODUCTS SALES AGREEMENT

#### *The Company and the Group*

The Company is principally engaged in investment holding and trading of trucks. The Group is principally engaged in the research, development and manufacturing of heavy duty trucks, medium-heavy duty trucks, light duty trucks, buses and related key parts and components including engines, cabins, axles, steel frames and gearbox, as well as the provision of financial services to those parties involved in the production and sales of the Group's products and to the CNHTC Group and the provision of auto financing services.

#### *CNHTC*

CNHTC is a heavy duty truck manufacturer. It is a state-owned enterprise organized under the laws of the PRC with limited liability. It is the controlling shareholder of the Company. As at the Latest Practicable Date, CNHTC holds the entire issued share capital of Sinotruk (BVI) Limited, which in turn is the holder of approximately 51% of the Company's issued shares.

#### *HOWO Auto Finance Company*

HOWO Auto Finance Company is an authorized non-bank financial institution in PRC and is principally engaged in the automobile financing business in the PRC. Please also refer to the paragraph headed "New Continuing Connected Transactions - Background of HOWO Auto Finance Company".

#### *Sinotruk Finance Company*

Sinotruk Finance Company is an authorized non-bank financial institution in PRC and is principally engaged in facilitating the internal financing transactions of and providing financial services to the Group and CNHTC Group. As at the Latest Practicable Date, the Group holds approximately 89.69% of Sinotruk Finance Company's registered capital.

### GENERAL INFORMATION

A notice of the AGM to be held at 10:00a.m. on Monday, 27 June 2016 at Gloucester Rooms, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 94 to 96 of this circular.

A form of proxy for the AGM is also enclosed herewith. Whether or not you intend to be present at the AGM, you are requested to complete the form of proxy and return it to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183

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## LETTER FROM THE BOARD

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Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the AGM. The completion of a form of proxy will not preclude you from attending and voting at the AGM in person should you so wish.

The AGM of the Company will be held on Monday, 27 June 2016 and the register of members of the Company will be closed from Thursday, 23 June 2016 to Monday, 27 June 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote in the AGM, holders of the Company's shares must lodge their share certificates together with the relevant share transfer documents with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 June 2016.

The final dividend of HK\$0.03 per Share for the year ended 31 December 2015, if approved at the AGM, will be distributed on or about Wednesday, 27 July 2016 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 8 July 2016. The period of closure of the register of members of the Company for the purpose of determining the entitlements to the proposed final dividend for the year ended 31 December 2015 is from Thursday, 7 July 2016 to Friday, 8 July 2016 (both days inclusive), during such period, no transfer of Shares will be registered. In order to qualify to receive the proposed final dividend to be approved at the AGM, holders of the Shares must lodge their share certificates together with the relevant share transfer documents with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 6 July 2016.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. At the AGM, the chairman of the AGM will therefore demand a poll for every resolution put to vote of the AGM pursuant to Article 61 of the Articles.

Save as disclosed, no Shareholder is required to abstain from voting in respect of any of the resolutions to be proposed at the AGM.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that (i) the re-election of the retiring Directors; (ii) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder; (iii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder; and (iv) the Revised Products Sales Annual Caps Confirmation, are in the interests of the Company and the Shareholders as a whole and, accordingly, recommend the Shareholders to vote in favour of the relevant resolutions in relation to the foregoing at the forthcoming AGM.

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## LETTER FROM THE BOARD

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Your attention is also drawn to the letter from the Independent Board Committee which is set out on pages 34 to 35 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of (i) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder, (ii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and (iii) the Revised Products Sales Annual Caps Confirmation are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the AGM.

Yours faithfully  
By order of the Board  
**Sinotruk (Hong Kong) Limited**  
**Ma Chunji**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**SINOTRUK (HONG KONG) LIMITED**

**中國重汽(香港)有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 3808)**

26 May 2016

*To the Independent Shareholders*

Dear Sir/Madam

We refer to the circular (the “**Circular**”) of the Company dated 26 May 2016 of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider (i) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder, (ii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and (iii) the Revised Products Sales Annual Caps Confirmation, and to advise the Independent Shareholders on whether the same are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Guotai Junan Capital Limited has been appointed as the Independent Financial Adviser to give recommendations to the Independent Board Committee and the Independent Shareholders in respect of the above matters.

We wish to draw your attention to the letter from the Board set out on pages 5 to 33 of the Circular and the letter from the Independent Financial Adviser set out on pages 36 to 81 of the Circular.

Having considered the information set out in the letter from the Board, the terms of (i) the 2018 HOWO Loan Agreement, (ii) the 2018 Sinotruk Deposit Agreement and (iii) the Revised Products Sales Annual Caps Confirmation and the advice of the Independent Financial Adviser in relation thereto, we are of the view that (i) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder, (ii) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder and (iii) the Revised Products Sales Annual Caps Confirmation are on normal commercial terms and have been entered into in the ordinary and usual course of business of the Group, and the terms of and the respective proposed annual caps under (i) the 2018 HOWO Loan Agreement, (ii) the 2018 Sinotruk Deposit Agreement and (iii) the Revised Products Sales Annual Caps Confirmation are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the AGM to approve (i) the 2018 HOWO Loan Agreement, (ii) the 2018 Sinotruk Deposit Agreement and (iii) the Revised Products Sales Annual Caps Confirmation.

Yours faithfully  
For and on behalf of the Independent Board Committee

**Chen Zheng**  
*Independent non-executive Director*

**Lin Zhijun**  
*Independent non-executive Director*

**Yang Weicheng**  
*Independent non-executive Director*

**Wang Dengfeng**  
*Independent non-executive Director*

**Zhao Hang**  
*Independent non-executive Director*

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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*The following is the full text of the letter from Guotai Junan Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



27th Floor, Lower Block,  
Grand Millennium Plaza,  
181 Queen's Road Central  
Hong Kong

26 May 2016

*To the Independent Board Committee and the Independent Shareholders of  
Sinotruk (Hong Kong) Limited*

Dear Sirs,

### NEW CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS OF EXISTING CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (A) the 2018 HOWO Loan Agreement and (B) the 2018 Sinotruk Deposit Agreement (collectively referred to the “**Proposed Non-exempt Continuing Connected Transactions Agreements**”) and the transactions contemplated thereunder (collectively referred to the “**Proposed Non-exempt Continuing Connected Transactions**”) and the respective proposed annual caps, and (C) the Revised Products Sales Annual Caps Confirmation and the Revised Products Sales Annual Caps, details of which are set out in the Letter from the Board contained in the circular of the Company to the Shareholders dated 26 May 2016 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined. The Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps are summarized as follows:

#### A. **Entering into of the 2018 HOWO Loan Agreement**

On 31 March 2016, Sinotruk Finance Company and HOWO Auto Finance Company entered into the 2018 HOWO Loan Agreement for a term commencing from 1 July 2016 (or such later date as the 2018 HOWO Loan Agreement and the arrangements contemplated thereunder are approved by the Independent Shareholders) and ending on 31 December 2018, pursuant to which Sinotruk Finance Company agreed to provide to HOWO Auto Finance Company a loan facility with maximum day-end

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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balance in respect of total outstanding principal amount up to RMB1,150 million, RMB2,350 million and RMB2,850 million for the years ending 31 December 2016, 2017 and 2018, respectively, with annual caps for the interest income from loans granted to HOWO Auto Finance Company in the amount of RMB25 million, RMB102 million and RMB124 million for the years ending 31 December 2016, 2017 and 2018, respectively. The transactions contemplated under the 2018 HOWO Loan Agreement constitute continuing connected transaction under Chapter 14A of the Listing Rules on the part of the Company.

### **B. Entering into of the 2018 Sinotruk Deposit Agreement**

On 31 March 2016, HOWO Auto Finance Company and the Company (for itself and on behalf of its subsidiaries (excluding HOWO Auto Finance Company)) entered into the 2018 Sinotruk Deposit Agreement for a term commencing from 1 July 2016 (or such later date as the 2018 Sinotruk Deposit Agreement and the arrangements contemplated thereunder are approved by the Independent Shareholders) and ending on 31 December 2018, pursuant to which HOWO Auto Finance Company agreed to provide to the Group (excluding HOWO Auto Finance Company) fixed-term deposit services for deposits with maximum day-end balance in respect of total outstanding principal amount up to RMB150 million, RMB400 million and RMB450 million for the years ending 31 December 2016, 2017 and 2018, respectively, with annual caps for the interest income from these deposits in the amount of RMB3 million, RMB12 million and RMB14 million for the years ending 31 December 2016, 2017 and 2018, respectively. The transactions contemplated under the 2018 Sinotruk Deposit Agreement constitute continuing connected transaction under Chapter 14A of the Listing Rules on the part of the Company.

### **C. Revised Products Sales Annual Caps under the 2018 Products Sales Agreement**

Reference is made to the 2015 AGM Circular in relation to the continuing connected transactions contemplated under the 2018 Products Sales Agreement. Due to an increase in the demand for the Relevant Products by CNHTC Group, the Company expects that the Group will supply more Relevant Products to the CNHTC Group and hence, the Existing Products Sales Annual Caps under the 2018 Products Sales Agreement will not be sufficient for the expected sales of the Group for the financial years ending 31 December 2016, 2017 and 2018. The Company therefore proposes to revise the Existing Products Sales Annual Caps to the Revised Products Sales Annual Caps and, accordingly, the Company and CNHTC entered into the Revised Products Sales Annual Caps Confirmation on 31 March 2016 (the “**Confirmation**”) in this regard. Pursuant to Rule 14A.54(2) of the Listing Rules, the Company will have to re-comply with the relevant announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, CNHTC is a substantial shareholder of the Company and Sinotruk Finance Company is a non-wholly-owned subsidiary of the Company, whilst HOWO Auto Finance Company’s equity interest is held directly by the Company as to 50%, the majority of the board of directors of HOWO Auto Finance Company is appointed and controlled by the Company, and therefore HOWO Auto Finance Company is a non wholly-owned subsidiary of the Company. On the other hand, CNHTC, directly holds 20% of HOWO Auto Finance Company’s equity interest as at the Latest Practicable Date. Therefore, HOWO Auto Finance Company is a connected subsidiary of the Company pursuant to Rule 14A.16 of the Listing Rules. The transactions contemplated under the 2018

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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HOWO Loan Agreement constitute continuing connected transaction under Chapter 14A of the Listing Rules on the part of the Company. As certain of the applicable percentage ratios (other than the profits ratio) in respect of the estimated maximum amount of the transactions contemplated under the 2018 HOWO Loan Agreement exceed 5%, the transactions contemplated under the 2018 HOWO Loan Agreement constitute non-exempt continuing connected transactions on the part of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated under the 2018 Sinotruk Deposit Agreement constitute continuing connected transaction under Chapter 14A of the Listing Rules on the part of the Company. As certain of the applicable percentage ratios (other than the profits ratio) in respect of the estimated maximum amount of the transactions contemplated under the 2018 Sinotruk Deposit Agreement exceed 5%, the transactions contemplated under the 2018 Sinotruk Deposit Agreement constitute non-exempt continuing connected transaction on the part of Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For Revised Products Sales Annual Caps under the 2018 Products Sales Agreement, as certain of the applicable percentage ratios (other than the profits ratio) of the Revised Products Sales Annual Caps, on an annual basis, exceed 5%, such revision of annual caps is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Accordingly, the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps are subject to the approval of the Independent Shareholders at the AGM. Mr. Ma Chunji (an executive Director and chairman of the Board, who is also a director of CNHTC) is considered to have a material interest in the continuing connected transactions between the Group and CNHTC Group as he is the director of CNHTC. As a result, Mr. Ma will be abstained from voting on the board resolutions for approving the 2018 HOWO Loan Agreement, 2018 Sinotruk Deposit Agreement and the Revised Products Sales Annual Caps Confirmation. As at the Latest Practicable Date, CNHTC holds the entire issued share capital of Sinotruk (BVI) Limited, which in turn is interested in 1,408,106,603 Shares, representing 51% of the total issued share capital of the Company. Therefore, CNHTC and its associates will be abstained from voting in relation to the relevant resolutions at the AGM. Save as set out above, there is no controlling Shareholder, Director, chief executive of the Company or their respective associates who shall abstain from voting in favour of the relevant resolution in respect of the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps to be proposed at the AGM.

### **THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chen Zheng, Dr. Lin Zhijun, Mr. Yang Weicheng, Dr. Wang Dengfeng and Mr. Zhao Hang, has been formed to advise the Independent Shareholders in relation to Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps. We, Guotai Junan Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the entering into of the Proposed Non-exempt Continuing Connected Transactions Agreements and the Revised Products Sales Annual Caps Confirmation are in the ordinary and usual course of business of the Group; (ii) the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps are on normal and commercial terms; (iii) the terms of the Proposed Non-exempt Continuing Connected



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Transactions Agreements and the Revised Products Sales Annual Caps Confirmation are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (iv) the Independent Shareholders should vote in favour of the resolutions to be proposed at the AGM to approve the Proposed Non-exempt Continuing Connected Transactions Agreements and the Revised Products Sales Annual Caps Confirmation and the transactions to be contemplated thereunder the Proposed Non-exempt Continuing Connected Transactions Agreements and the Revised Products Sales Annual Caps.

Apart from the normal professional fees for our services to the Company in connection with our appointment as described above, no arrangement exists whereby we shall receive any fees and benefits from the Group or where appropriate, any of their respective associates. We are independent from and not connected with the Group or where appropriate, any of its respective major Shareholders, Directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. In the past two years, there was no engagement between the Group and us. Therefore, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps.

### **BASIS AND ASSUMPTIONS OF OUR OPINION**

In formulating our advice and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and provided by the Group, the Directors, the management of the Group and/or their respective advisers. The Company has confirmed with us, and we have assumed that all such statements, information, opinions and representations were true, accurate and complete at the time they were made or given and will continue to be true, accurate and complete as at the date of the AGM. We have also assumed that all views, opinions, projections and representations as contained in the Circular or otherwise made or provided by the Group, the Directors, the management of the Group and/or their respective advisers were reasonably made after due and careful consideration. We have reviewed (i) the Circular; (ii) the 2018 HOWO Loan Agreement; (iii) the 2018 Sinotruk Deposit Agreement; (iv) the 2018 Products Sales Agreement; (v) the Confirmation; and (vi) the annual report of the Company for the year ended 31 December 2014, the interim report of the Company for the six months ended 30 June 2015 and the annual report of the Company for the year ended 31 December 2015 respectively (collectively the “**Audited Results**”). In addition, we have discussed with the management of the Company on the background, reasons and benefits for entering into the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps.

We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors, the management of the Group and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We consider that we have reviewed sufficient relevant information and documents which are currently available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our recommendations. We have not, however, carried out any independent

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospect of the Group, CNHTC, Sinotruk Finance Company, HOWO Auto Finance Company and/or their respective subsidiaries, associated companies and shareholders.

Our recommendations contained herein are made based on the financial, economic, market, regulatory and other conditions in effect, and the facts, information, opinions and representations made available to us as at the Latest Practicable Date. The Independent Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our recommendations and we do not have any obligation to update, revise or reaffirm our recommendations to take into account events occurring after the Latest Practicable Date.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE PROPOSED NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND REVISED PRODUCTS SALES ANNUAL CAPS**

In arriving at our opinion and recommendation in respect of each of (A) the 2018 HOWO Loan Agreement and the transactions contemplated thereunder; (B) the 2018 Sinotruk Deposit Agreement and the transactions contemplated thereunder; and (C) the Revised Products Sales Annual Caps Confirmation and the Revised Products Sales Annual Caps, we have considered the following principal factors and reasons:

#### **1. Background and general information of the Company, the Group, HOWO Auto Finance Company and Sinotruk Finance Company**

The Company is principally engaged in investment holding and trading of trucks. The Group is principally engaged in the research, development and manufacturing of heavy duty trucks, medium-heavy duty trucks, light duty trucks, buses and related key parts and components including engines, cabins, axles, steel frames and gearbox as well as the provision of financial services to those parties related to the production and sales of the Group's products and to the CNHTC Group. According to the Audited Results, the Group sells truck engines and engines for use in industrial and construction machineries to independent third parties in addition to their own use. The products are not only sold domestically but also exported to other countries and regions. The Group's businesses are classified into four operating segments according to the nature of products and services which are (i) heavy duty trucks segment, (ii) light duty trucks and buses segment, (iii) engines segment and (iv) finance segment which accounted for approximately 80%, 16%, 3% and 1% of total revenue of the Group for the year ended 31 December 2015 respectively, according to the Audited Results.

HOWO Auto Finance Company was established in June 2015 by the Company, CNHTC and Shandong International Trust Corporation (山東省國際信託股份有限公司) and they respectively hold 50%, 20% and 30% of the registered capital of HOWO Auto Finance Company as announced by the Company in its announcements on 9 June 2015 and 10 December 2015.

As advised by the management of the Company, the establishment of HOWO Auto Finance Company was (i) primarily an effort of the Group to create a platform to specifically provide consumer automobile financing in the PRC, which is a regulated business and requires specific licenses granted

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by the relevant authorities in the PRC; and (ii) attributed by the local government's encouragement to the Group as a leader of the truck industry in Shandong to establish the first licensed consumer automobile finance company in the region to set a role model for other industry players in Shandong. Also, there were precedent cases for other major truck manufacturers to set up consumer automobile finance companies in other regions in the PRC in recent years. Prior to the establishment of HOWO Auto Finance Company, the Group has, primarily through Sinotruk Finance Company, provided consumer automobile financing services only for consumers who purchased the Group's products. As discussed with the management of the Company, HOWO Auto Finance Company serves as a platform to provide consumer automobile financing in the PRC which may serve consumers purchasing the Group and other third-party manufacturer's products and the Group's current plan is to only have HOWO Auto Finance Company provide automobile financing to customers who purchase the Group's products. On the other hand, as advised by the management of the Company, Sinotruk Finance Company may then be able to focus on its principal business of engaging in facilitating the internal financing transactions of and providing financial services to the Group and CNHTC Group. Further, the Directors believe that the distinct consumer automobile financing platform brought by HOWO Auto Finance Company allows the Group to more efficiently adjust and implement its business strategies over the Group's consumer automobile financing business to augment the Group's core truck manufacturing business.

According to the allowed business scope of HOWO Auto Finance Company as set out in the approval of the formation of HOWO Auto Finance Company (《中國銀監會山東監管局關於山東豪沃汽車金融有限公司開業的批覆》(魯銀監准[2015]330號)) from China Banking Regulatory Commission ("CBRC") dated 28 August 2015 ("**Approval of the Formation**"), the allowed business scopes of HOWO Auto Finance Company include the following:

- (i) it may provide consumer automobile financing whether such customers are purchasing the products of the Group or of other third party manufacturer;
- (ii) it may also provide fixed-term (minimum 3 months) deposit services but only to its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders' wholly-owned subsidiaries in the PRC; and
- (iii) it may be allowed to borrow or lend money from or to other financial institutions in the PRC.

In light of the increasing competition in the automobile industry in the PRC, the Group has to offer more value-added services for its customers and the provision of consumer automobile financing is one of such kind, as such service can create convenience for those customers who require financing to support their purchase. The management of the Group believes that the customers valuing such convenience may choose to purchase from the Group instead of its competitors who do not offer such convenience, and this will further increase the sales of the Group. Accordingly, the Company believes the formation of HOWO Auto Finance Company can facilitate the sales of the Group's products which will further reinforce the Group's position in the automobile manufacturing industry in the PRC. As advised by the management of the Company, HOWO Auto Finance Company had launched its automobile financing services since December 2015.

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Sinotruk Finance Company is a non-wholly-owned subsidiary of the Company and has been established with the approval from CBRC to function as an authorized non-bank financial institution specifically to facilitate the internal financing transactions and provide financial services for the Group and CNHTC Group only.

### 2. Regulatory Environment of HOWO Auto Finance Company

As a licensed consumer automobile finance company in the PRC, HOWO Auto Finance Company is subject to supervisions by CBRC, which includes regular examination of the audited financial statements and other relevant materials required to be filed by HOWO Auto Finance Company. As advised by the management of the Company, HOWO Auto Finance Company is governed under the Administrative Measures for Auto Finance Companies (《汽車金融公司管理辦法》) (the “**Administrative Measures**”), pursuant to which it is required to comply with certain financial ratio and other financial requirements prescribed in the Administrative Measures (the “**Financial Requirements**”) from time to time, and HOWO Auto Finance Company is required to submit a compliance report to the Shandong Office of the China Banking Regulatory Commission with 15 days after the end of every quarter.

For assessing the compliance of the Financial Requirements of HOWO Auto Finance Company, the table below sets out the key Financial Requirements and the respective financial information of HOWO Auto Finance Company provided by the Company as at 31 December 2015 and 31 March 2016.

Financial Requirements	Requirement on PRC licensed automobile finance companies	HOWO Auto Finance Company	
		As of 31 December 2015	As of 31 March 2016
Minimum registered capital	RMB500 million	RMB500million	RMB500million
Capital adequacy ratio	Not less than 8%	394.68%	171.05%
The core capital adequacy ratio	Not less than 4%	394.61%	170.21%
Outstanding loan balances to any individual borrower	Not more than 15% of the net capital	0.31%	7.79%
Outstanding loan balances to any group of companies	Not more than 50% of the net capital	0.67%	7.86%
Outstanding loan balances to any shareholder and its related parties	Shall not exceed the amount of capital contributed by that shareholder	Nil	Nil
Self-owned fixed assets to net capital ratio	Not more than 40%	0.21%	0.21%

As shown in the table above, HOWO Auto Finance Company complied with all the Financial Requirements as at 31 December 2015 and 31 March 2016 respectively. We have been advised by the

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management of the Company that to their best knowledge, since the establishment of HOWO Auto Finance Company and up to the Latest Practicable Date, there is no record of non-compliance with relevant laws, rules and regulations of the PRC by HOWO Auto Finance Company. As advised by the management of the Company, save for the Financial Requirements, as at the Latest Practicable Date, there are no other loan limits governed by the relevant PRC laws, rules and regulations to which HOWO Auto Finance Company is subject.

In addition, in order to assess the impact of the Proposed Non-exempt Continuing Connected Transactions with respect to the compliance of the Financial Requirements of HOWO Auto Finance Company, the table below sets out the adjusted capital adequacy ratio and the core capital adequacy ratio of HOWO Auto Finance Company assuming the maximum loans amount being drawn under the 2018 HOWO Loan Agreement and the maximum deposits balances being obtained under 2018 Sinotruk Deposit Agreement (the “**Agreements**”) have been utilized for lending to its customers for automobile financing as at 31 December 2015.

	<b>HOWO Auto Finance Company</b>	
	<b>Adjusted capital adequacy ratio</b>	<b>Adjusted core capital adequacy ratio</b>
Assuming the proposed maximum loans and deposits balances has been drawn and obtained respectively and the maximum amount of these funds which are allowed to be lent are used for new lending to automobile customers ( <i>Note</i> )	18.06%	16.84%
Requirement on PRC licensed automobile finance companies	Not less than 8%	Not less than 4%

*Note:* The highest amount of proposed maximum day-end balances under the 2018 HOWO Loan Agreement and 2018 Sinotruk Deposit Agreement are RMB2,850 million and RMB450 million respectively.

As shown in the above table, should HOWO Auto Finance Company utilize the maximum amount of the proposed annual caps under the 2018 HOWO Loan Agreement and 2018 Sinotruk Deposit Agreement, the requirements of the capital adequacy ratio and the core capital adequacy ratio would still be met.

In addition, we have reviewed the Approval of the Formation for the business scope of HOWO Auto Finance Company, which is authorized to engage in, among other things, providing automobile purchasing loan, accepting fixed deposits for maturity period of at least 3 months from its shareholders and the offshore shareholders’ wholly-owned subsidiaries in the PRC, seeking loans from financial institutions or peer companies within the same industry.

Based on the above, and having considered that (i) it is the principal business of HOWO Auto Finance Company to provide automobile purchasing loan and it is eligible to accept fixed deposits from its shareholders and the offshore shareholders’ wholly-owned subsidiaries in the PRC and obtain

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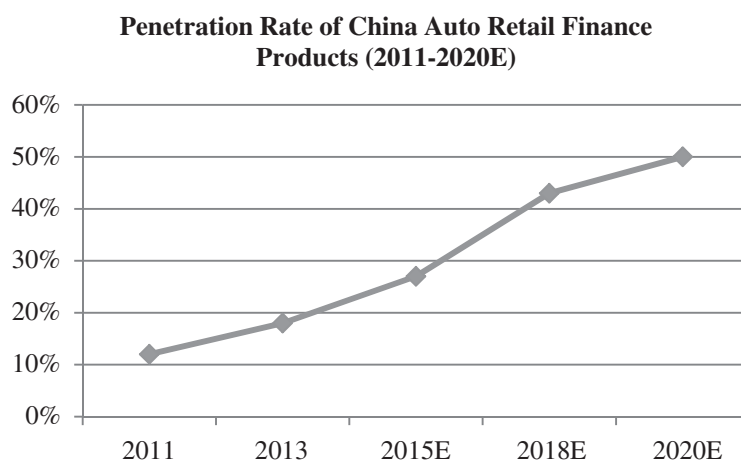
## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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loan financing from other financial institutions in the PRC; (ii) HOWO Auto Finance Company is a licensed automobile finance institution and governed by the CBRC under the Administrative Measures; and (iii) HOWO Auto Finance Company complied with relevant Financial Requirements of the Administrative Measures and had demonstrated healthy financial positions as at 31 December 2015 and 31 March 2016, we concur with the Directors' view that HOWO Auto Finance Company is one of the eligible and licensed automobile finance companies in the PRC for the provision of automobile financing services to the customer of the Group while accepting fixed deposits from its shareholders and subsidiaries and obtaining loan financing from the Group as source of funding.

### 3. Industry overview of automobile financing industry

In accordance with the "2014 China Auto Finance Industry Development Report" which was published by The China banking association of Automobile Finance Professional Committee (中國銀行業協會汽車金融專業委員會) in June 2015 (the "2014 Auto Report"), the automobile finance penetration in China was over 20% in 2014. We have reviewed the report stated in the Letter from the Board regarding China automobile finance (the "China Automobile Finance Report") issued by an independent international industry consultant in 2016, the overall automobile financing service penetration rate in China is projected to grow to approximately 27% in 2015 and reach approximately 43% in 2018. Below chart shows the penetration rate of China auto retail finance products from 2011 to 2020 (estimated) according the China Automobile Finance Report.



*Source: The 10th Anniversary of China's Auto Finance Summit, CAAM and an independent international industry consultant*

We have obtained and reviewed the data provided by the Company and noted that the consumer automobile financing service penetration rate in respect of the heavy duty trucks sold domestically by the Group was only approximately 7.9% (based on the calculation of the actual number of heavy duty trucks associated with automobile financing loans provided to the customers of the Group divided by the actual number of heavy duty trucks sold domestically by the Group) (corresponded to the sales of 6,169 units of trucks with associated financing amount of approximately RMB1,749 million) in 2014, and 8.4% (corresponded to the sales of 4,644 units of trucks with associated financing amount of approximately RMB1,293 million) in 2015. In addition, in 2015, the Group extended its automobile financing services to cover light duty trucks and achieved a penetration rate of approximately 0.1%

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(corresponded to the sales of 55 units of light duty trucks with associated financing amount of approximately RMB3 million). These figures achieved by the Group in 2014 and 2015 are much lower than the overall automobile financing service penetration rate achieved and projected to be achieved in China in 2014 and 2015. In light of such considerable differences between the automobile financing service penetration rate achieved by the Group and that achieved and expected to be achieved by the automobile industry in general, the Directors consider, and we concur, that there are considerable rooms for HOWO Auto Finance Company's business to grow to reach at least a level more compatible with the overall automobile financing service penetration rate in China.

#### 4. **Analysis on the funding requirements for the new loans to be granted by HOWO Auto Finance Company in its consumer automobile financing business**

As set out in the Letter from the Board, during 2015, the Group has provided consumer automobile financing services in the total amount of RMB1,296 million (in respect of sales of 4,699 units of trucks) for consumers who purchased the Group's products. However, the registered capital of HOWO Auto Finance Company, which has been fully paid-up by its shareholders, is only RMB500 million, and such amount represents approximately 38.6% of the aforementioned total financing amount of RMB1,296 million. As discussed with the management of the Company, since HOWO Auto Finance Company is the platform established by the Group with an aim to specifically focus on the provision of consumer financing services, the registered capital of HOWO Auto Finance Company alone is not sufficient to support the Group's existing consumer financing business, without taking into account the expected increase in the customers' demand for automobile financing services coupled with an increase in the sales of the Group's products. As such, the Group has the need to provide sufficient working capital for the business of HOWO Auto Finance Company which is a part of the Group. In assessing the working capital of HOWO Auto Finance Company, we have obtained and reviewed the financial information of HOWO Auto Finance Company as at 31 December 2015 and noted that its liquid capital was approximately RMB496 million, which is not sufficient to support the Group's existing consumer financing business.

As stated in the Letter from the Board, the Directors expect that the market demand for its automobile financing services will continue to progressively increase in the upcoming few years. The Directors believe that the expected increase in demand of automobile financing is mainly contributed by the Group's effort to improve its products and service offerings and expand its markets, which the Group is committed to continuously pursue and, expects to benefit from the opportunities brought to the truck industry generally by the governmental policies including "One Belt, One Road" and urbanization. We have assessed the automobile and automobile finance industry for the factors that may contribute to such growth, please refer to the sections headed **Industry overview of automobile financing industry** above and **"Industry overview of automobiles industry"** below.

In assessing the market trend of the automobile financing, we have reviewed the 2014 Auto Report and noted that the automobile financing service penetration rate in China was over 20% in 2014 and projected to grow according to the projection in the China Automobile Finance Report. On the other hand, we have reviewed that information provided by the Company and noted that the Group recorded an increase in the number of trucks sold which had been financed by the Group of approximately 96.7% for the first three months of 2016 as compared to the same period in 2015, which is in line with the increase in demand for the automobile financing services of the Group as expected by the management of the Company. As analysed in the section headed **"Industry overview of automobile financing industry"**, we noted that there is considerable difference between the automobile financing service penetration rates achieved by the Group and the existing overall

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automobile financing service penetration rates achieved and projected to be achieved in China in 2014 and 2015 and the management of the Company considers that there are considerable rooms for HOWO Auto Finance Company's business to grow to reach at least a level more compatible with the overall automobile financing service penetration rate.

As stated in the Letter from the Board, the Company intends to increase its consumer automobile financing service penetration rate to reach a level more compatible with the overall automobile financing service penetration rate in China. We have re-performed the calculation with data provided by the Company and compared against the expected penetration rate in the market according to the projection in the China Automobile Finance Report as follows:

Heavy duty trucks	Number of units sold domestically (units)	Number of units sold under automobile financing (units)		Automobile financing penetration rate		Funds required by HOWO Auto Finance Company to support its lending assuming the average financing loan per truck keep at the same level as 2015 (RMB million)	
		Low end	High end	Low end	High end	Low end	High end
		2015 (actual)	54,959		4,644		8.4%
2016 (Note)	54,959	6,500	9,000	11.8%	16.4%	1,810	2,506
2017 (Note)	54,959	8,500	11,000	15.5%	20.0%	2,367	3,063
2018 (Note)	54,959	10,000	12,500	18.2%	22.7%	2,784	3,480

Light duty trucks and other vehicles	Number of units sold domestically (units)	Number of units sold under automobile financing (units)		Automobile financing penetration rate		Funds required by HOWO Auto Finance Company to support its lending assuming the average financing loan per truck keep at the same level as 2015 (RMB million)	
		Low end	High end	Low end	High end	Low end	High end
		2015 (actual)	56,874		55		0.1%
2016 (Note)	56,874	2,500	5,000	4.4%	8.8%	136	273
2017 (Note)	56,874	5,000	7,500	8.8%	13.2%	273	409
2018 (Note)	56,874	7,500	10,000	13.2%	17.6%	409	545

Total funds required by HOWO Auto Finance Company to support its lending		Low end	High end
2015 (actual)			1,296
2016 (Note)		1,946	2,779
2017 (Note)		2,640	3,472
2018 (Note)		3,193	4,025

*Note:* Assuming the number of units of trucks expected to be sold in 2016, 2017 and 2018 are as same as the actual number of units of trucks sold in 2015 for illustration purpose



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Based on the above, the management of the Company estimated that the funds required by HOWO Auto Finance Company to support its lending to customers of heavy duty trucks and light duty trucks and other vehicles would range from RMB1,946 million to RMB2,779 million, RMB2,640 million to RMB3,472 million and RMB3,193 million to RMB4,025 million for 2016, 2017 and 2018, respectively and the corresponding estimated annual growth rates of the funds required are in the range of 50.2% to 114.4% (compared with actual new loans granted by the Group in the amount of RMB1,296 million in 2015), 24.9% to 35.7% and 15.9% to 20.9% for 2016, 2017 and 2018, respectively. As discussed with the management of the Company, the estimated annual growth rate of the funds required for 2016 is higher compared to those for 2017 and 2018 because 2016 is the first year in which the Company (i) endeavours to increase the penetration rate of its consumer automobile financing business, and (ii) formally launches the automobile financing services for light duty trucks and other vehicles (such services for light duty trucks and other vehicles only commenced in 2015 as a pilot run). In light of the expected high growth rate for 2016, we have reviewed the number of trucks sold as financed by the Group for the first three months of 2016 and noted the Group recorded an increase of approximately 96.7% as compared to the same period in 2015 which is in line with the estimation of growth rate of the funds required at range of 50.2% to 114.4%

As noted from the above analysis, the Group targets to reach a higher penetration rate level which is more compatible with the existing overall automobile industry financing service penetration rate in China. The expected penetration rates set by the Group for heavy duty trucks and light duty trucks and others for the years ending 31 December 2018 are ranged from 11.8% in 2016 to 22.7% in 2018 and 4.4% in 2016 to 17.6% in 2018 respectively, which are still fall short of the projected penetration rate of 27% for automobile industry in China in 2015 as projected in the China Automobile Finance Report. It is estimated that the funds required by HOWO Auto Finance Company to support its lending to customers of heavy duty trucks and light duty trucks and other vehicles would range from RMB1,946 million to RMB2,779 million, RMB2,640 million to RMB3,472 million and RMB3,193 million to RMB4,025 million for 2016, 2017 and 2018, respectively assuming the amount of automobile financing loan for each trucks sold associated with loans remains the same as the amount of such in 2015. However, the registered capital of HOWO Auto Finance of RMB500 million is not sufficient to support the estimated funds required for lending to customers as stated above.

Further, as stated in the Letter from the Board, in order to support the expansion of the business operation of HOWO Auto Finance Company, the Group plans to commit more resources to enhance the operating environment of HOWO Auto Finance Company such as to employ more staff and consider the possibility of establishing more regional offices. We have reviewed the current development plan of the HOWO Auto Finance Company and noted that an additional RMB27 million will be budgeted for such development between 2017 and 2018.

### 5. Sources of funding of HOWO Auto Finance Company

As explained in the section headed “**Background and general information of the Company, the Group, HOWO Auto Finance Company and Sinotruk Finance Company**” above, HOWO Auto Finance Company is regulated by the relevant authorities in the PRC and is required to operate in accordance with the regulations and licence requirements to which it is subject. Unlike general commercial banks, it is not allowed to provide deposit service to or borrow from the public. It is only

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allowed to provide fixed-term (minimum 3 months) deposit service to its shareholders and the offshore shareholders' wholly-owned subsidiaries in the PRC. Further, it may not borrow money from an entity that is not a financial institution in the PRC. These limitations restrict the channels through which HOWO Auto Finance Company could obtain funding for its business operation.

As Sinotruk Finance Company is not a wholly-owned subsidiary of the Company, it does not have access to the deposit services of HOWO Auto Finance Company. On the other hand, the Directors are of the view that the wholly-owned subsidiary of the Company may together, without affecting their daily operations and proposed expansions, provide cash for deposits with HOWO Auto Finance Company at maximum day-end deposit balances at RMB150 million, RMB400 million and RMB450 million for years 2016, 2017 and 2018, respectively after taking into account of the liquidity positions and the need for deposit services for the idle capital of these subsidiaries. However, such deposits from the wholly-owned subsidiaries of the Company are still not sufficient to meet the working capital needs of HOWO Auto Finance Company.

In assessing the amount of the cash reserves of the wholly-owned subsidiaries of the Company available for placing the deposits with HOWO Auto Finance Company, we have reviewed the Group's historical records of placing deposits and noted the outstanding balance of deposits placed by those wholly-owned subsidiaries with commercial banks in the PRC as at 31 December 2015 was approximately RMB739 million. Should such amount of deposits to be placed alternatively with HOWO Auto Finance Company, it would represent approximately 57% of the total amount of automobile financing services of RMB1,296 million provided by the Group in 2015. Therefore, the available cash reserves of the wholly-owned subsidiaries of the Company are not sufficient to support the Group's plan for developing consumer financing business. Accordingly, HOWO Auto Finance Company has to seek alternative sources of funding.

Also, as discussed with the management of the Company, it is difficult for HOWO Auto Finance Company to borrow from other third-party commercial financial institutions without incurring high interests as a newly established entity. On the other hand, as disclosed in above paragraphs, Sinotruk Finance Company, an authorized non-bank financial institution, is principally engaged in facilitating the internal financing transactions of and providing financial services to the Group and CNHTC Group, and it is also a last-resort lender within the Group which is obliged to provide financing to support the operational needs of the Group's subsidiaries including HOWO Auto Finance Company as advised by the Directors. Therefore, the provision of loans by Sinotruk Finance Company to HOWO Auto Finance Company under the 2018 HOWO Loan Agreement is an alternative source of funding for HOWO Auto Finance Company. Such provision of loans is also an alternative channel of Sinotruk Finance Company to utilize its cash resources other than to placing deposits with other financial institutions. We have reviewed the audited financial statements of Sinotruk Finance Company as at 31 December 2015 and noted Sinotruk Finance Company has interbank deposits at RMB3,663 million which are cash resources available for providing internal financing services to the Group.

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Based on the foregoing factors driven for expansion in the automobile financing business and given the fully paid-up registered capital of HOWO Auto Finance Company is only RMB500 million of which RMB496 million remained unutilized as at 31 December 2015 according to the audited financial statements of HOWO Auto Finance Company, we concur with the Directors that it is in the interest for HOWO Auto Finance Company to obtain additional financing to support its business operations, and it is proposed that HOWO Auto Finance Company is to obtain such financing through (A) the 2018 HOWO Loan Agreement, and (B) the 2018 Sinotruk Deposit Agreement as further described in this letter below.

### A. *Entering into of the 2018 HOWO Loan Agreement*

#### (i) *Reasons for entering into the 2018 HOWO Loan Agreement*

As set out in the Approval of the Formation, HOWO Auto Finance Company may only provide fixed-term (minimum 3 months) deposit services to its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders' wholly-owned subsidiaries in the PRC. Since Sinotruk Finance Company is not a wholly-owned subsidiary of the Company, it does not have access to the deposit services of HOWO Auto Finance Company. Nonetheless, Sinotruk Finance Company, as an authorized non-bank financial institution, is allowed to lend money to other financial institutions in the PRC as advised by the management of the Company, and HOWO Auto Finance Company, also being an authorized non-banking financial institution, is allowed to borrow money from other financial institutions in the PRC according to the Approval of formation. Therefore, the proposed provision of loans by Sinotruk Finance Company to HOWO Auto Finance Company under the 2018 HOWO Loan Agreement is an alternative for Sinotruk Finance Company to utilize its available cash resources other than to placing deposits with other financial institutions.

As discussed with the management of the Company, one of the major sources of revenue of Sinotruk Finance Company is the interest income generated from the loans it advances to its customers which may include the members of the Group. From the perspective of Sinotruk Finance Company, by entering into the 2018 HOWO Loan Agreement and providing loans thereunder, it can expect to receive a constant and stable flow of interest income which offers higher interest rate than from placing deposit with other financial institutions. In comparing the interest rate levels of providing loans to HOWO Auto Finance Company against placing deposits with commercial banks, we noted that the proposed annual caps of the maximum interest income under 2018 HOWO Loan Agreement represent an annual interest rate of 4.32%, which is higher than the benchmark deposits interest rate set by the PBOC for one-year-term deposit at 1.50%. For details of the proposed annual caps of the maximum interest income under 2018 HOWO Loan Agreement, please refer to subsection headed **“Entering into of the 2018 HOWO Loan Agreement — Proposed annual caps of the maximum interest income”**.

In addition, we have discussed with the management of the Company for the reasons of entering into the 2018 HOWO Loan Agreement given the same substance as the 2018 Sinotruk Deposit Agreement and we are given to understand that the amount of cash reserves of the PRC wholly-owned subsidiaries of the Company available for placing the deposits as at 31 December 2015 is not sufficient to support the maximum funding requirements for the provision of new loans by HOWO Auto Finance

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Company given that these PRC wholly-owned subsidiaries have their need for liquidity and funds for future expansion. For details of the assessment, please refer to section headed “**Sources of funding of HOWO Auto Finance Company**” above.

On the other hand, as discussed with the management of the Company, Sinotruk Finance Company serves to facilitate the internal financing transactions for the Group and CNHTC Group as a treasury function. We have reviewed the financial position of Sinotruk Finance Company and noted that the interbank deposits as at 31 December 2015 was approximately RMB3,663 million, the Directors are of the view that Sinotruk Finance Company shall lend the available cash to HOWO Auto Finance Company for contributing to its working capital as part of the internal planning and better utilization of the financial resources of the Group.

Moreover, as stated in above, the registered capital of HOWO Auto Finance Company alone is not sufficient to even support the Group’s existing consumer financing business, without taking into account the expected increase in the customers’ demand for automobile financing services coupled with an increase in the sales of the Group’s products. As such, the Group has the need to provide sufficient working capital for the business of HOWO Auto Finance Company which is a part of the Group.

In addition, the advances obtained by HOWO Auto Finance Company under the 2018 HOWO Loan Agreement provide additional sources of working capital for HOWO Auto Finance Company. As the working capital base of HOWO Auto Finance Company expands, it has more resources to support and expand its business operations. Since HOWO Auto Finance Company is a subsidiary of the Company, the Group will also benefit from this expansion of the business of HOWO Auto Finance Company.

Further, with additional working capital, HOWO Auto Finance Company can potentially expand its business scale to provide loans to more customers that have passed the relevant credit checks and who wish to buy the Group’s products. This will in turn facilitate the sales of the Group’s products.

Having considered the above factors in respect of the reasons of entering into of the 2018 HOWO Loan Agreement, we understand that (i) 2018 HOWO Loan Agreement is an alternative for Sinotruk Finance Company to utilize its available cash resources other than to placing deposits with other financial institutions in order to earn higher interest income; (ii) the amount of cash reserves of the wholly-owned subsidiaries of the Company available for placing deposits is not sufficient to support the funding requirements for the provision of new loans by HOWO Auto Finance Company while Sinotruk Finance Company can utilize its available cash resources as part of the internal planning of financial resources of the Group; (iii) the development of HOWO Auto Finance Company which is principally engaged in automobile financing business would benefit the expansion of the existing automobile business of the Group; (iv) the entering into of the 2018 HOWO Loan Agreement would provide additional sources of working capital for HOWO Auto Finance Company to expand its business operations to provide loans to more customers of the Group that have passed the relevant credit checks and who wish to buy the Group’s products; and (v) the expansion of HOWO Auto Finance Company’s automobile financing business, which is in line with the expansion of the existing automobile business of the Group, would contribute to the profit growth of the Group.

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Having considered the above, we concur with the view of the Directors that the entering into of the 2018 HOWO Loan Agreement is in the interest of the Company and the Shareholders as a whole.

(ii) *Associated risks for entering into of the 2018 HOWO Loan Agreement*

As stated in the Letter from the Board, Sinotruk Finance Company is an authorized non-banking financial institution in PRC principally engaged in facilitating the internal financing transactions of and providing financial services to the Group and the CNHTC Group. Therefore, the clientele of Sinotruk Finance Company, by its business scope and nature, is focused on the Group and CNHTC Group. The Directors believe the risk to Sinotruk Finance Company in its provision of loans to HOWO Auto Finance Company pursuant to the 2018 HOWO Loan Agreement is relatively low for the following reasons: (a) both Sinotruk Finance Company and HOWO Auto Finance Company have to go through various internal control procedures as set out in the paragraph headed “**Entering into of the 2018 HOWO Loan Agreement — Internal control procedures**” below before a loan is approved to be made to HOWO Auto Finance Company, and the interest rate applicable to each loan made available to HOWO Auto Finance Company is determined with reference to the corresponding Shanghai interbank offered rate (SHIBOR) for loans of equivalent principal amount and term, coupled with a default interest payable to Sinotruk Finance Company in case of any default by HOWO Auto Finance Company; and (b) whilst the loans provided by the 2018 HOWO Loan Agreement will be a major source of working capital to support the automobile financing operation of HOWO Auto Finance Company, such working capital is to support the consumer automobile financing business of HOWO Auto Finance Company and the Group believes the default risks of HOWO Auto Finance Company’s customers are low.

At individual company level, we noted that Sinotruk Finance Company faces a higher concentration risk in its loan portfolio in view of the increasing loan exposures to HOWO Auto Finance Company under the 2018 HOWO Loan Agreement. In assessing the concentration risk of Sinotruk Finance Company’s loans portfolio, we have measured the ratio of loans to HOWO Auto Finance Company at the maximum annual proposed caps under the 2018 HOWO Loan Agreement to its total amount of loan receivable as at 31 December 2015 plus the loans to HOWO Auto Finance Company aforesaid, which ranges from 13% to 27%. Nonetheless, such concentration risk existed only at the company level of Sinotruk Finance Company but not in the Group consolidation level as advised by the management of the Company. The Directors have confirmed that (i) both Sinotruk Finance Company and HOWO Auto Finance Company are non-wholly-owned subsidiaries to the Group, (ii) all intragroup transactions and balances of the Group (no matters they are wholly-owned subsidiaries or non-wholly-owned subsidiaries) including Sinotruk Finance Company and HOWO Auto Finance Company have been eliminated in full amount under Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and (iii) the independent auditor of the Company has issued unqualified audit opinion to the consolidated financial statements of the Company for the year ended 31 December 2015 where such financial statements are prepared, in all material aspects, in accordance with Hong Kong Financial Reporting Standards. As a result, when the Company prepares the consolidated financial statements, all the loans transactions under the 2018 HOWO Loan Agreement will be eliminated upon consolidation. Therefore, the Directors are of the view that the concentration risk in view of the increasing loans from Sinotruk Finance Company to

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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HOWO Auto Finance Company under 2018 HOWO Loan Agreement do not have any financial impact to the Group because all these intragroup borrowings and lending, deposits placed and taken and their relevant interest income and expenses are fully eliminated upon consolidation. We are also advised by the management of the Company that there is no customer concentration risk for HOWO Auto Finance Company as it relies on a broad customer base to expand its business. Furthermore, as set out in Financial Requirements, there are statutory requirement to limit the outstanding loan balances to any individual borrower and any group of companies to not more than 15% and 50% of the net capital respectively. For details of our analysis of the Financial Requirements of HOWO Auto Finance Company, please refer to section headed “**Regulatory Environment of HOWO Auto Finance Company**”. In addition, we are advised by the management that all the loans granted to the borrowers are guaranteed by dealers of the Group and we have checked and reviewed the credit approval forms against such guarantee details on sample basis.

Having said that, the Directors believe that Sinotruk Finance Company inevitably faces certain operational risks and financial exposure where the end borrowers who purchase the Group’s products may fail to meet his/her/its payment obligations. However, the Board believes that the risk to Sinotruk Finance Company in its increasing loans provision to HOWO Auto Finance Company pursuant to the 2018 HOWO Loan Agreement is low because of the following reasons:

- (a) all customers of HOWO Auto Finance Company who needs to obtain financing from HOWO Auto Finance Company have to pass the relevant credit checks implemented by HOWO Auto Finance Company and through these checks, HOWO Auto Finance Company is taking the role to effectively assess and monitor the creditworthiness of each of its customers, which are targeted to lower the default risks of such customers;
- (b) in light of the nature of the business of HOWO Auto Finance Company, there is no customer concentration risk as it has numerous automobile customer borrowers and, as set out in Financial Requirements, there are statutory limits to the amounts of outstanding loan balances that could be made to any individual and any group of companies which regulate the concentration risk to any single borrower; and
- (c) all the loans granted are guaranteed by the guarantors of such customers. Such low default risks of HOWO Auto Finance Company in turn serves to lower the risk and financial exposure of Sinotruk Finance Company.

In respect of the measures to mitigate the risk associated with loans to HOWO Auto Finance Company as stated in the Letter from the Board, we have performed the following works:

- (a) in assessing the concentration risk to HOWO Auto Finance Company, we have scrutinized the customer lists of automobile financing from 2013 to 2015 and noted that there was no single customer with loans amount exceeds 2% of the total amount of automobile financing loans;
- (b) we have discussed with the management of the Group in relation to the internal control procedures required for the approval of loan to be made to HOWO Auto Finance Company

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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and reviewed such procedures as set out in the Manual and a set of the historical sample and supporting documents of the Group. For details of our work, please refer to the subsection headed “**Entering into of the 2018 HOWO Loan Agreement — Internal control procedures**”;

- (c) we noted from the terms of the 2018 HOWO Loan Agreement that the applicable interest rate for each loan is to be determined in accordance with the corresponding Shanghai interbank offered rate (SHIBOR) for loan of equivalent principal amount and term coupled with a default interest of 30% on the amount due shall be payable to Sinotruk Finance Company in case of any default by HOWO Auto Finance Company. We have also reviewed pricing management policy under which the Group’s funds management team will review the interest rate for the loans by making references to the base interest rates published by the PBOC on its website from time to time; and
- (d) we have also reviewed the operation manual of the Group in respect of credit checks procedures on the borrowers and obtained on sample basis and reviewed the credit approval forms (貸款業務審批表), automobile financing credit reports (汽車消費貸款綜合授信業務考察報告) which attached detailed analysis of the borrower’s financial condition and credibility. We also noted that the approval forms were signed and approved by the department head, deputy general manager, general manager and financial controller of the Group.

Having considered that Group has internal procedures and credit checks in place for approval of loans to HOWO Auto Finance Company and automobile customers respectively, we concur with the Directors that the risk to Sinotruk Finance Company in its provision of loans to HOWO Auto Finance Company is relatively low and aforementioned measures have served to mitigate the risks and financial exposure faced by Sinotruk Finance Company, and hence the Group, associated with its provision of finances to HOWO Auto Finance Company.

(iii) *Principal terms of the 2018 HOWO Loan Agreement*

Date:	31 March 2016.
Parties:	(a) Sinotruk Finance Company (as lender); and (b) HOWO Auto Finance Company (as borrower).
Duration:	A term commencing from 1 July 2016 (or such later date as the 2018 HOWO Loan Agreement and the arrangements contemplated thereunder are approved by the Independent Shareholders (if required pursuant to the applicable requirements under the Listing Rules)) and ending on 31 December 2018.
Interest rate and payment:	Applicable interest rate for each loan is to be determined in accordance with the corresponding Shanghai interbank offered rate (SHIBOR) for loan of equivalent principal amount and term.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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Interest on the loan is payable to Sinotruk Finance Company on the 20th day of each calendar month during the term of the relevant loan, provided the last interest payment shall be made with the repayment of the principal amount of the loan on the last day of the term of the relevant loan.

Default penalties: If HOWO Auto Finance Company fails to pay any sum payable under the 2018 HOWO Loan Agreement when due, a default interest of 30% on the amount due shall be payable to Sinotruk Finance Company.

The 2018 HOWO Loan Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between Sinotruk Finance Company and HOWO Auto Finance Company. Pursuant to the 2018 HOWO Loan Agreement, Sinotruk Finance Company and HOWO Auto Finance Company will enter into separate and definitive agreements to provide for the detailed terms of each single loan in accordance with the principles in the 2018 HOWO Loan Agreement such as the exact amount of the loan drawn down, the term of the relevant loan and the applicable interest rate.

The day-end balance of the Company's borrowings (excluding any interest accrued therefrom) with HOWO Auto Finance Company for each of the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 shall not exceed an amount equivalent to RMB1,150 million, RMB2,350 million and RMB2,850 million respectively.

Pursuant to the terms of the loan services contemplated under the 2018 HOWO Loan Agreement, the interest rate for each loan to HOWO Auto Finance Company shall (i) be referenced to SHIBOR; (ii) not be less favourable than that of the Group in relation to other loans of the Group to independent third parties; and (iii) the transactions under the agreement should be made on normal commercial terms, including fair competition and quality and price comparison, as if the transactions are traded with independent third party; if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, from the aspects of Sinotruk Finance Company, on terms no less favourable to Sinotruk Finance Company than terms available from independent third parties.

Having considered the above, we concur with the view of the Directors that the loan services contemplated under the 2018 HOWO Loan Agreement are on normal commercial terms, the terms of the 2018 HOWO Loan Agreement are fair and reasonable so far as the Company and the independent Shareholders are concerned, and are in the interest of the Company and the Shareholder as a whole.



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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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(iv) *Basis of the proposed annual caps of the transactions under the 2018 HOWO Loan Agreement*

The table below sets out the proposed annual caps in respect of the 2018 HOWO Loan agreement for each period ending 31 December 2018:

<b>For the year ending 31 December</b>	<b>Maximum day-end balance (outstanding principal amount of loans)</b>	<b>Annual Caps of interest income</b>
2016 ( <i>Note</i> )	RMB1,150,000,000	RMB25,000,000
2017	RMB2,350,000,000	RMB102,000,000
2018	RMB2,850,000,000	RMB124,000,000

*Note:* The maximum day-end balance and the annual caps of the interest income are determined for the period from 1 July 2016 to 31 December 2016

(1) Proposed annual caps of the maximum day-end balance of loans

In arriving at the proposed annual caps of the maximum day-end balance of loans, the following factors have been considered by the Directors:

- (a) the expected funding requirement of HOWO Auto Finance Company for its lending business which has taken into consideration factors such as (i) the expected demand for the automobile financing services of HOWO Auto Finance Company, which is based partly on the anticipated products sales to be made by the Group, and the anticipated demand of the customers of the Group for financing for their purchases of the Group's products and (ii) the expected increase in the consumer automobile financing service penetration rate by HOWO Auto Finance Company to reach a level more compatible with the overall automobile financing service penetration rate in the PRC;
- (b) the expected working capital available to HOWO Auto Finance Company for its business operation which has taken into consideration factors such as (i) the cash-collection cycle of the loans lent to customers and the associated interest income, (ii) the cash security from guarantors of the automobile purchasers, (iii) capital contribution received from its shareholders, (iv) the committed cash deposits to be received from CNHTC under the deposit services available to CNHTC as its shareholder, (v) interest expense for HOWO Auto Finance Company in respect of loans borrowed and deposits taken, (vi) working capital required for its ordinary daily operation, and (vii) the minimum deposit reserve (the "**Minimum Deposit Reserve**", which is currently at the rate of 7% of the total amount of deposit received) required to maintain in order to comply with the statutory requirement promulgated by the PBOC;

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- (c) the deposits to be obtained from the 2018 Sinotruk Deposit Agreement as further described in this letter and the relevant Minimum Deposit Reserve on such deposits to be obtained;
- (d) the liquid capital of RMB496 million of HOWO Auto Finance Company available as at 31 December 2015 (being the balance of the RMB500 million registered capital not yet utilized);
- (e) the financing request proposal submitted by HOWO Auto Finance Company to the Group setting out the amounts of the maximum day-end loan balances for each of years 2016, 2017 and 2018, which is prepared by HOWO Auto Finance Company based on its target financial budgets and working capital forecast; and
- (f) the expected cash resources available for lending by Sinotruk Finance Company.

In respect of the expected funding requirement for the new loans to be granted by HOWO Auto Finance Company in its consumer automobile financing business for each of the three years ending 31 December 2018, we have performed the following independent works to assess its fairness and reasonableness in determining the proposed annual caps of the maximum day-end balance of loans:

- (i) We have reviewed the projection of the anticipated trucks sales of the Group from 2016 to 2018 (the “**Projection**”) prepared by the Company. According to the Projection, it was noted that the Group expected to increase its sales volume of trucks which were partly contributed by the opportunities brought to the truck industry by governmental policies including “One Belt, One Road” and urbanization;
- (ii) We have reviewed the number of trucks sold as financed by the Group for the first three months of 2016 and noted the Group recorded an increase of approximately 96.7% as compared to the same period in 2015; and
- (iii) In respect of the expected increase in the automobile financing service penetration rate by HOWO Auto Finance Company, we have reviewed the 2014 Auto Report and noted that there are considerable differences between the penetration rate in China and the existing penetration level of the Group as stated in the section headed “**Industry overview of automobile financing industry**”. In assessing the automobile finance penetration rate of the Group, we have obtained from the Company and reviewed the monthly breakdown of the actual automobile finance loans provided by the Group to the customers from 2013 to 2015 and the three months ended 31 March 2016. It was noted that the amount of provision of automobile finance loans to the customer was up by approximately 87.6% while the number of trucks sales associated with automobile financing loans was up by approximately 96.7% for the three months ended 31 March 2016 compared to the same period in 2015. Also, we have reviewed the penetration rate for the sales of heavy duty trucks and light duty trucks for the first three months of 2016, which were approximately 10.1% and 0.5% respectively as compared to 4.5% and 0% during the same period in 2015 respectively.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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In respect of the expected working capital available for HOWO Auto Finance Company to satisfy its new lending to automobile customers for each of the three years ending 31 December 2018, we have reviewed the financial budgets and working capital forecast and performed the following independent works to assess its fairness and reasonableness in determining the proposed annual caps of the maximum day-end balance of loans:

- (i) As advised by the management of the Company, the cash collection cycle normally ranged from 12 to 36 months according to the repayment schedule. We have reviewed the historical record of loans lent to customers by Sinotruk Finance Company from 2014 to 2015 and noted that over 99% of the loans were repaid by monthly installment ranging from 12 to 36 months. For the interest associated with the automobile financing loans, we have discussed with the management of the Company and noted that the interest rates were expected to be approximately 7.3% for the three years ending 2018. We have reviewed the historical record of loans of the past two years for the interest rates charged on the automobile finance loans (the “**Historical interest rates**”) and noted that the range of interests was approximately 5% to 8.5%. As such, the expected interest rate (7.3%) is within the range of the Historical interest rates ;
- (ii) As advised by the management of the Company, the Group normally charges 5% to 10% of the loan amount for every automobile financing loan as cash security. In assessing the fairness and reasonableness of the cash security ratio, we have checked to the credit management manual (the “**Credit Manual**”) (《授信業務管理辦法》) which explicitly stated that the Group requires 5 to 10% cash security from the guarantor for every automobile financing loan which is dependent the credit rating of the customer;
- (iii) In assessing the working capital required for HOWO Auto Finance Company’s ordinary daily operation, we have obtained and reviewed the breakdown of operating expenditure required for HOWO Auto Finance Company’s operation and noted that the increment was mainly attributable to the increase in staff cost and cost of setting up regional offices;
- (iv) As discussed with the management of the Company, the Group has adopted minimum deposit reserve ratio of 7% in accordance with the notice of minimum deposit reserve adjustment published by the PBOC in February 2016 (《中國人民銀行關於下調金融機構存款準備金率的通知》(濟銀發[2016]44號)) (the “**Notice**”); and
- (v) We have reviewed the deposit services agreement pursuant to the deposit services available to CNHTC Group and noted that the maximum day end balances of deposit for the three years ending 31 December 2018 is RMB50 million, RMB100 million and RMB150 million respectively. As a result, the additional committed deposits from CNHTC (as compared to the committed amounts in previous year) under the deposit services available to CNHTC as its shareholder is RMB50 million for each of the three years ending 31 December 2018.

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In respect of the expected cash resources available from Sinotruk Finance Company, we have reviewed the financial position of Sinotruk Finance Company and noted that the interbank deposits as at 31 December 2015 is RMB3,663 million, which are sufficient to support the funding need of HOWO Auto Finance Company under the 2018 HOWO Loan agreement for each period ending 31 December 2018. We have also discussed with the Company and noted that the Company had also taken into account the historical business operation and the financing capacity of Sinotruk Finance Company in providing loans to HOWO Auto Finance Company. We have obtained from the Company and reviewed the audited financial statements of Sinotruk Finance Company. Based on the financial information of Sinotruk Finance Company, the proposed annual caps constituted not more than 25% of the total assets of Sinotruk Finance Company as at 31 December 2015, which the Directors believe would not be set at an unreasonably high level.

Having considered the above factors for the expected funding requirement of HOWO Auto Finance Company, we concur with the Director's view that HOWO Auto Finance Company has the need to seek additional funding to support its expected new lending to automobile customers for the three years ending 31 December 2018. Having reviewed the financial budgets and the working capital forecast and considered the factors of determining the working capital available to HOWO Auto Finance Company as above, we concur with the Directors on the estimation of the shortfall of the estimated required working capital for each of the three years ending 31 December 2018. In respect of the annual growth of the proposed annual caps under the 2018 HOWO Loan Agreement, as stated in the Letter from the Board, the annual growth rate of the proposed maximum day-end loan balance of 2017 compared to 2016 is approximately 104.3% because (i) the lending to automobile customers is expected to increase significantly after the 2018 HOWO Loan Agreement become effective in the second half of 2016; and (ii) liquid capital of RMB496 million derived from registered capital of HOWO Auto Finance Company is being available to support the business operation of HOWO for 2016, and hence the requirement to obtain financing by HOWO Auto Finance Company under the 2018 Loan Agreement is lower for 2016, which translates to a lower proposed maximum day-end loan balance in 2016. In addition, we have reviewed the target financial budgets of HOWO Auto Finance Company and noted that the number of trucks sold with financing to be made by the Group are targeted to be approximately 8,000 units for the first half of 2017 as compared to 2,600 units for the same period during 2016. As discussed with the management of the Company, such increase is partly attributable to the expansion of the business operation of HOWO Auto Finance Company with additional funds committed by the Group. The annual growth rate of the maximum day-end loan balance of 2018 as compared to 2017 is 21.3%, which is similar to the range of the annual growth rates of the funds required for new loans in 2018 in the range of 15.9% to 20.9%.

As stated in the Letter from the Board, the Directors expect that the funds required for its new lending to automobile consumers for 2016, being in the range of RMB1,946 million to RMB2,779 million (representing an estimated growth rate at 50.2% to 114.4% as compared to 2016). Based on such range, the proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2016 at RMB1,150 million represents approximately 41.4% to 59.1% of the estimated funds required for HOWO

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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Auto Finance Company's lending services to automobile consumers in 2016. As mentioned above, HOWO Auto Finance Company has liquid capital of RMB496 million as at 31 December 2015 from its unutilized registered capital. Such liquid capital is expected to be fully utilized during 2016 to support the new lending business of HOWO Auto Finance Company which reduces its funding requirement. Assuming such RMB496 million has already been fully utilized and is not available for use in 2016, the proposed maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2016 would have to be increased by RMB496 million from RMB1,150 million to RMB1,646 million (the "**Adjusted 2016 Maximum Day-end Loan Balance**"), which would represent approximately 59.2% to 84.6% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2016, and which the Directors believe is not excessive or unreasonable given the expected funding requirement of HOWO Auto Finance Company to support its lending business. On the other hand, the proposed maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2016 of RMB1,150 million accounts for approximately 31.4% of interbank deposits of Sinotruk Finance Company as at 31 December 2015.

The Directors expect that the funds required for its lending services to automobile consumers for 2017 is in the range of RMB2,640 million to RMB3,472 million (representing an estimated growth rate at 24.9% to 35.7% as compared to 2016). Based on such range, the proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2017 at RMB2,350 million represents approximately 67.7% to 89.0% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2017, and such percentage range is similar to the range in 2016 (assuming the liquid capital of RMB496 million is not available), and which the Directors believe is not excessive or unreasonable given the expected funding requirement of HOWO Auto Finance Company to support its lending business. The annual growth rate of the estimated maximum day-end loan balance in 2017 at RMB2,350 million compared to 2016 at RMB1,150 million is 104.3%. However, if the liquid capital of RMB496 million from the unutilized portion of HOWO Auto Finance Company's registered capital has been utilized and is not available in 2016, as explained above, the proposed maximum day-end loan balance in 2016 would have to be increased to the Adjusted 2016 Maximum Day-end Loan Balance and the corresponding annual growth figure of the maximum day-end loan balance in 2017 at RMB2,350 million compared to the Adjusted 2016 Maximum Day-end Loan Balance will be adjusted to approximately 42.8%. We have discussed with the management of the Company about the basis of deriving the adjusted growth rate of 42.8% above, it is assuming that should the liquid capital of RMB496 million is not available in 2016, more funds has to be drawn down from the 2018 HOWO Loan Agreement which may lead to increase in the estimated maximum day-end balance in 2016. On the other hand, the proposed additional maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2017 of RMB1,200 million (as compared to the maximum amount in 2016) accounts for approximately 32.8% of interbank deposits of Sinotruk Finance Company as at 31 December 2015.

The Directors expect that the anticipated funds required for its new lending to automobile consumers for 2018 is in the range of RMB3,193 million to RMB4,025 million (representing an estimated growth rate at 15.9% to 20.9% as compared to 2017). Based on such range, the

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2018 at RMB2,850 million (as compared to the maximum amount in 2017) represents approximately 70.8% to 89.3% of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers in 2018, and such percentage range is similar to the ranges in 2016 (assuming the liquid capital of RMB496 million is not available) and 2017, and which the Directors believe is not excessive or unreasonable given the expected funding requirement of HOWO Auto Finance Company to support its lending business. The annual growth rate of the estimated maximum day-end loan balance in 2018 compared to 2017 is 21.3% which is similar to the growth rate of the estimated funds required for HOWO Auto Finance Company's lending services to automobile consumers for 2018. On the other hand, the proposed additional maximum day-end loan balance under the 2018 HOWO Loan Agreement in 2018 of RMB500 million (as compared to the maximum amount in 2017) accounts for approximately 13.7% of interbank deposits of Sinotruk Finance Company as at 31 December 2015.

As confirmed by the Directors, HOWO Auto Finance Company does not have any previous record of default of payment in relation to its previous borrowings from the Group.

Having considered the above analysis for the expecting funding requirement of HOWO Auto Finance Company for its lending to automobile financing customers, we concur with the Directors' view that the proposed maximum day-end balance of the principal amounts of the loans to be borrowed under the 2018 HOWO Loan Agreement in 2018 are not excessive. We concur with the Director's view that the proposed annual caps of the maximum day-end balances as well as its annual growth for each year ending 31 December 2018 are fair and reasonable, and are in the interest of the Company and Shareholders as a whole.

(2) Proposed annual caps of the maximum interest income

In arriving at the proposed annual caps of the maximum interest income, the following factors have been considered by the Directors:

- (a) the maximum day-end balance of loans to be granted; and
- (b) the interest rate levels pursuant to the Shanghai Interbank Offered Rate (SHIBOR) for one-year-term loans in the recent three years.

Assuming the proposed maximum day-end balances of 2018 HOWO Loan Agreement are fully utilized as at each of the three years ending 31 December 2018, the proposed annual caps of such interest income represent an annual interest rate of 4.32%.

We have assessed the actual historical loans services provided by Sinotruk Finance Company to the Company and the Group from 2013 to 2015 which the terms mostly set at one year. The historical interest rates for the RMB loans provided by Sinotruk Finance Company to the Company and the Group for the year ended 31 December 2015 and the three months ended 31 March 2016 were ranged from 3.00% to 4.15%.

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According to the SHIBOR website, SHIBOR is calculated, announced and named on the technological platform of the National Interbank Funding Center in Shanghai. It is a simple, no-guarantee, wholesale interest rate calculated by arithmetically averaging all the interbank RMB lending rates offered by the price quotation group of banks with a high credit rating. Currently, the SHIBOR consists of eight maturities: overnight, 1-week, 2-week, 1-month, 3-month, 6-month, 9-month and 1-year.

In light of this, we have checked the SHIBOR website and reviewed the average historical 1-year SHIBOR from 1 January 2014 to 31 March 2016, which was approximately 4.29%.

Having considered that (i) the proposed annual caps of the interest income were determined with reference to the historical and current interest rate of SHIBOR and existing loans provided by Sinotruk Finance Company; (ii) the actual interest income received by Sinotruk Finance Company will be based on the actual transaction conducted and the corresponding actual market interest rate which are on terms no less favourable to Sinotruk Finance Company than terms available to or from independent third parties, we concur with the view of the Directors that the proposed annual caps of the interest income are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(v) *Internal control procedures*

The Group has formulated a capital management manual (the “**Manual**”) (《資金管理辦法》) and any borrowing request made by HOWO Auto Finance Company has to follow the procedures and parameters set out in the Manual. According to the Manual, whenever HOWO Auto Finance Company, based on its business needs, has a capital requirement, it shall make a financing request. The funds management team established by the Group’s finance department will invite for bids or conduct market researches on the pricing for such financing and make resolutions as to the final borrowing arrangements including the terms of the loan (such as interest rate and duration of the loan) and identity of the lender. For a single loan which principal amount is RMB500 million or below, the resolutions made by the funds management team concerning the relevant financing request will have to be signed by the general manager of the Group’s finance department, and approved by the Group’s finance director. For a single loan which principal amount is beyond RMB500 million the resolutions made by the financing control and review unit concerning the relevant financing request has to be further approved by the president of the Company or the chairman of the Board.

As regard the provision of loan by Sinotruk Finance Company to HOWO Auto Finance Company Limited upon receiving a borrowing request from HOWO Auto Finance Company (such borrowing request having been made according to the parameters set out in the relevant resolutions as signed and approved pursuant to the requirements of the Manual explained above), the borrowing request will have to be signed by the general manager of the Group’s finance department, and approved by the Group’s finance Director. In addition, for a single loan which principal amount is beyond RMB500 million, the borrowing request has to be further approved by the president of the Company or the chairman of the Board.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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Where after complying with the procedures described above and it is decided that a particular borrowing is to be made between Sinotruk Finance Company and HOWO Auto Finance Company, the parties will enter into a specific loan agreement based on the agreed terms between the parties.

The Company has formulated procedures to monitor its continuing connected transactions, and various departments in the Group will be responsible for implementing, and monitoring and approving such procedures. In particular, HOWO Auto Finance Company's finance department will inspect the balance of the total outstanding principal amount of all the loans borrowed from Sinotruk Finance Company on a daily basis in order to monitor the highest daily balance amount. Similarly, Sinotruk Finance Company's finance department will also inspect the balance of the total outstanding principal amount of all the loans lent to HOWO Auto Finance Company on a daily basis to monitor the highest daily balance amount. These daily reviews are to ensure the transactions between Sinotruk Finance Company and HOWO Auto Finance Company do not exceed the relevant annual caps set out in the 2018 HOWO Loan Agreement. Further, both internal audit departments of Sinotruk Finance Company and HOWO Auto Finance Company will conduct quarterly audit to ensure the transactions between HOWO Auto Finance Company and Sinotruk Finance Company are implemented according to the prescribed procedures and requirements. In addition, the Company will also engage its external auditors to review its continuing connected transactions on an annual basis.

In reviewing the internal control procedures in place for the 2018 HOWO Loan Agreement, we have obtained and reviewed the Manual which set out the procedures and parameters for Group companies including HOWO Auto Finance Company to follow when they have any borrowing or deposit request. Since the Manual also applies to Sinotruk Finance Company which has been providing financing services transactions to the Group, we have obtained and reviewed, on sample basis, a set of the historical sample and supporting documents of Sinotruk Finance in relation to the following procedures: (i) financing request for loans with single amount below RMB500 million and above RMB500 million made by other Group companies; (ii) market researches on the interest and length of the borrowings prepared by the funds management team; and (iii) resolutions to approve the financing requests with signature of the general manager of the Group's finance department and the Group's finance director. Based on the above, we note that the documentations and controls in accordance with the Manual have been in place to monitor and safeguard the financing transactions.

In addition, we have obtained and reviewed the internal audit work plan which set out the internal audit planning for 2016. According to the internal audit work plan, quarterly audit will be conducted to assess (i) the internal compliance of the financing request with the prescribed procedures set out in the Manual; (ii) the sufficiency of the credit assessment on the customers; and (iii) the effectiveness of the procedures to mitigate the default risk of the automobile financing. We have obtained and reviewed the first quarter internal audit report of HOWO Auto Finance Company and Sinotruk Finance Company and have not noted any material irregularities findings throughout the internal audit process.

Besides, we are advised by the management of the Company that the Group's chief auditor and Sinotruk Finance Company's finance department will keep track of the day end balance of the total outstanding principal amount of all the loans lent to HOWO Auto Finance Company in order to ensure



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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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the transactions between Sinotruk Finance Company and HOWO Auto Finance Company do not exceed the relevant annual caps set out in the 2018 HOWO Loan Agreement. In addition, the Company will also engage its external auditors to review its continuing connected transactions on an annual basis.

In respect to the Financial Requirements of HOWO Auto Finance Company, we are advised by management of the Company that the risk management department is responsible for preparing and monitoring the compliance of such requirements from time to time. In particular, the risk management department will obtain the financial information of HOWO Auto Finance Company of each quarter and prepare for the Financial Requirements reporting. The officer of the risk management unit prepares the report for the head of risk management department review and approval before it is submitted to the CBRC on a quarterly basis. Once there is any ratio gets close to the requirement level, the risk management department will hold meeting with the business department and the credit management department to discuss about the measures to ensure the financial ratios do not exceed the Financial Requirements.

Having considered the above review works and based on condition that the internal procedures continue to be implemented effectively, we concur with the view of the Directors that the respective internal control procedures can ensure the transaction contemplated under the 2018 HOWO Loan Agreement to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

**(B) *Entering into of the 2018 Sinotruk Deposit Agreement***

**(i) *Reasons for entering into 2018 Sinotruk Deposit Agreement***

As set out in the Letter from the Board, whilst HOWO Auto Finance Company is allowed to provide fixed-term deposit services, it is statutorily permitted to receive fixed-term deposits only from its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders' wholly-owned subsidiaries in the PRC, but is not allowed to provide deposit services to non-wholly-owned subsidiaries of its shareholders which include Sinotruk Finance Company that is only a non-wholly-owned subsidiary of the Company.

The deposits obtained by HOWO Auto Finance Company under the 2018 Sinotruk Deposit Agreement provide additional sources of working capital for HOWO Auto Finance Company. As the working capital base of HOWO Auto Finance Company expands, it has more resources to support and expand its business operations. Since HOWO Auto Finance Company is a subsidiary of the Company, the Group will also benefit from this expansion of the business of HOWO Auto Finance Company.

Further, HOWO Auto Finance Company provides automobile financing to the customers of the Group (excluding HOWO Auto Finance Company) for their purchase of the Group's products. With additional working capital, HOWO Auto Finance Company can potentially expand its business scale to provide loans to more customers that have passed the relevant credit checks and who wish to buy the Group's products. This will in turn facilitate the sales of the Group's products.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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Having discussed with the Directors of the Company in respect of the reasons of entering into of the 2018 Sinotruk Deposit Agreement, we understand that (i) HOWO Auto Finance Company does not provide deposit services to Sinotruk Finance Company but only to its shareholders (whether such shareholder is an offshore or onshore shareholder) and the offshore shareholders' wholly-owned subsidiaries in the PRC; (ii) the development of HOWO Auto Finance Company which principally engaged in automobile financing business would benefit the expansion of the existing automobile business of the Group; (iii) HOWO Auto Finance Company is statutorily permitted to receive deposits only from its shareholders; (iv) the entering into of the 2018 Sinotruk Deposit Agreement would provide additional sources of working capital for HOWO Auto Finance Company to expand its business operations to provide loans to more customers of the Group that have passed the relevant credit checks and who wish to buy the Group's products; and (v) the expansion of HOWO Auto Finance Company's automobile financing business, which is in line with the expansion of the existing automobile business of the Group, would contribute to the profit growth of the Group. As considered the above, we concur with the view of the Directors that the entering into of the 2018 Sinotruk Deposit Agreement is in the ordinary and usual course of the Group.

(ii) *Principal terms of the 2018 Sinotruk Deposit Agreement*

The principal terms of the 2018 Sinotruk Deposit Agreement are as follows:

- Date: 31 March 2016.
- Parties: (a) the Company (for itself and on behalf of its subsidiaries but excluding HOWO Auto Finance Company) (as user of the deposit services); and  
(b) HOWO Auto Finance Company (as provider of the deposit service).
- Duration: A term commencing from 1 July 2016 (or such later date as the 2018 Sinotruk Deposit Agreement and the arrangements contemplated thereunder are approved by the Independent Shareholders (if required pursuant to the applicable requirements under the Listing Rules)) and ending on 31 December 2018.
- Interest rate and payment: The interest rate for each sum deposited by the Group (excluding HOWO Auto Finance Company) with HOWO Auto Finance Company as fixed-term deposit under the 2018 Sinotruk Deposit Agreement shall be determined with reference to the base interest rate published by the PBOC on its website from time to time and within the maximum interest rate limit set by the relevant industry association or similar organization for similar deposit of compatible principal amount and term. The final interest rates shall be equivalent to or better than those offered by general commercial banks.
- Interest on the fixed-term deposit is payable by HOWO Auto Finance Company on the maturity day of the relevant deposit.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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The 2018 Sinotruk Deposit Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between the Group (excluding HOWO Auto Finance Company) and HOWO Auto Finance Company. Pursuant to the 2018 Sinotruk Deposit Agreement, the Group (excluding HOWO Auto Finance Company) and HOWO Auto Finance Company will enter into separate and definitive agreements to provide for the detailed terms of each single fixed-term deposit in accordance with the principles in the 2018 Sinotruk Deposit Agreement such as the exact amount of the fixed-term deposit, the term of the relevant deposit and the applicable interest rate.

The daily balance of the Company's fixed deposits (excluding any interest accrued therefrom) with HOWO Auto Finance Company for each of the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 shall not exceed an amount equivalent to RMB150 million, RMB400 million and RMB450 million respectively.

Pursuant to the terms of the deposit services contemplated under the 2018 Sinotruk Deposit Agreement, the interest rate applicable to the Group's deposits placed with HOWO Auto Finance Company shall (i) be within the deposit rates of quoted and allowed by PBOC and based on the similar size of the deposits amount and tenor of deposits as quoted and allowed by PBOC; (ii) the final interest rates shall be equivalent to or better than those offered by general commercial banks; and (iii) the transactions under the 2018 Sinotruk Deposit Agreement should be made on normal commercial terms, including fair competition and quality and price comparison, as if the transactions are traded with independent third party; if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, from the aspects of the Company, on terms no less favourable to the Company than terms available from independent third parties.

Having considered the above, we concur with the view of the Directors that the Deposit Services contemplated under the 2018 Sinotruk Deposit Agreement are on normal commercial terms, the terms of the 2018 Sinotruk Deposit Agreement are fair and reasonable so far as the Company and the independent Shareholders are concerned, and are in the interest of the Company and the Shareholder as a whole.

(iii) *Basis of the proposed annual caps of the transactions under the 2018 Sinotruk Deposit Agreement*

The table below sets out the proposed annual caps in respect of the 2018 Sinotruk Deposit Agreement for each year ending 31 December 2018:

<b>For the year ending 31 December</b>	<b>Maximum day-end balance (outstanding principal amount of deposits)</b>	<b>Annual caps of interest income</b>
2016 ( <i>Note</i> )	RMB150,000,000	RMB3,000,000
2017	RMB400,000,000	RMB12,000,000
2018	RMB450,000,000	RMB14,000,000

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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*Note:* The maximum day-end balance and the annual cap of the interest income in relation to the 2018 Sinotruk Deposit Agreement is determined for the period from 1 July 2016 to 31 December 2016

- (1) Proposed annual caps of the maximum day-end balance under the 2018 Sinotruk Deposit Agreement

In arriving at the proposed annual caps of the maximum day-end deposit balance under the 2018 Sinotruk Deposit Agreement, the following factors have been considered by the Directors:

- (a) the historical deposits placed by the wholly-owned PRC subsidiaries of the Company with commercial banks and Sinotruk Finance Company, and expected idle cash available from these PRC subsidiaries for deposits;
- (b) the expected funding requirement of and expected working capital available to HOWO Auto Finance Company as explained in the paragraph headed “**Entering into of the 2018 HOWO Loan Agreement — Basis of the proposed annual caps of the transactions under the 2018 HOWO Loan Agreement**”;
- (c) the loans to be obtained from the 2018 HOWO Loan Agreement as described in the letter;
- (d) the deposit proposal submitted by HOWO Auto Finance Company to the Group setting out the amounts of the maximum day-end deposit balances for each of years 2016, 2017 and 2018, which is prepared by HOWO Auto Finance Company based on its target financial budgets and working capital forecast; and
- (e) the liquid capital of RMB496 million of HOWO Auto Finance Company available as at 31 December 2015 (being the balance of the RMB500 million registered capital not yet utilized).

We reviewed the historical deposit record made by the Group with other independent commercial banks in the PRC and Sinotruk Finance Company provided by the Company respectively and noticed that the aggregate amount of the deposit balances of the Company and its subsidiaries as at 31 December 2013, 2014, 2015 and 31 March 2016 respectively were above the proposed annual caps of the 2018 Sinotruk Deposit Agreement. In respect of the expected cash resources of those wholly-owned subsidiaries available for placing deposits, we noted the outstanding balance of deposits placed by those wholly-owned subsidiaries with commercial banks in the PRC as at 31 December 2015 was approximately RMB739 million, which is sufficient to support the maximum day end balance of the deposits under the 2018 Sinotruk Deposit Agreement.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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In respect of the expected funding requirement pursuant to the 2018 Sinotruk Deposit Agreement for each of the three years ending 31 December 2018, we have performed the following independent works to assess its fairness and reasonableness in determining the proposed annual caps of the maximum day-end balance of deposits:

- (i) reviewed and compared the historical and projected amount of deposits placed by each of the corresponding member of the Group;
- (ii) reviewed the business development and expansion plan of HOWO Auto Finance Company (“**Expansion plan**”) provided by the Company. According to the Expansion plan, HOWO Auto Finance Company has scheduled to expand its business scale by (i) hiring more staff in each of the business line as well as for administrative support; (ii) streamline the credit approval process by setting up credit team; and (iii) cooperate with the sales team to promote competitive financing proposal to the potential customers; and
- (iii) for details of other independent works in assessing the expected funding requirement of HOWO Auto Finance Company, please refer to the section headed “**Entering into of the 2018 HOWO Loan Agreement — Basis of the proposed annual caps of the transactions under the 2018 HOWO Loan Agreement**”;

As stated in the Letter from the Board, the sources of the anticipated working capital of HOWO Auto Finance Company for each of years 2016, 2017 and 2018 are to be coming from (i) the repayment of the loans principals to be granted in a particular year and/or the previous year(s), (ii) interest income to be received from the borrowers under those relevant loans granted, (iii) the cash security from guarantors of the automobile purchasers for the relevant loans granted, and (iv) committed deposits from CNHTC under the deposit services available to CNHTC as its shareholder; and the shortfall of the anticipated working capital of for each of years 2016, 2017 and 2018 would be satisfied by the loans to be borrowed under the 2018 HOWO Loan Agreement, and the deposits to be received under the 2018 Sinotruk Deposit Agreement.

As explained in the section headed “**Analysis on the funding requirements for the new loans to be granted by HOWO Auto Finance Company in its consumer automobile financing business**” above, based on the anticipated expansion of the business scale of HOWO Auto Finance Company due to the increase in customers’ demand for automobile financing services and the increase in HOWO Auto Finance Company’s automobile financing services penetration rate, the Group estimates the funding required by HOWO Auto Finance Company to support its lending to customers would range from RMB1,946 million to RMB2,779 million, RMB2,640 million to RMB3,472 million and RMB3,193 million to RMB4,025 million for 2016, 2017 and 2018, respectively. The corresponding new loans annual growth rates are estimated to be in the range of 50.2% to 114.4% (compared with actual new loans granted by the Group in the amount of RMB1,946 million in 2015), 24.9% to 35.7% and 15.9% to 20.9% for 2016, 2017 and 2018, respectively.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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On the other hand, as at 31 December 2015, we have reviewed the deposits record of the Company and noted that the total deposits placed to the third party commercial banks by PRC wholly-owned subsidiaries of the Company is RMB739 million. Having considered these PRC wholly-owned subsidiaries of the Company have their need for liquidity and funds for future expansion, the Directors have determined these subsidiaries may provide, without affecting their operations and expansion, maximum day-end deposit at RMB150 million, RMB400 million and RMB450 million in 2016, 2017 and 2018, respectively.

As stated in the Letter from the Board, the Directors expect that the funds required for its new lending to automobile consumers for 2016 being in the range of RMB1,946 million to RMB2,779 million. As at 31 December 2015, HOWO Auto Finance Company has liquid capital available for lending business at RMB496 million which is the unutilized portion of the RMB500 million fully paid-up registered capital by its shareholders and which the Directors expects will be fully utilized during 2016. In addition, CNHTC has committed to place deposits of RMB50 million under the deposit services available to CNHTC as HOWO Auto Finance Company's shareholder in 2016 and Sinotruk Finance Company proposes to lend loans up to a maximum day-end outstanding principal amount at RMB1,150 million under the 2018 HOWO Loan Agreement. Notwithstanding the foregoing, HOWO Auto Finance Company still requires additional funds in the amount of RMB250 million to RMB1,083 million (the "**2016 Shortfall**") which are proposed to be partly satisfied in the following manners: (i) the repayment of the loans principals to be granted in 2016 (with the repayment schedule normally ranging from 12 months to 36 months), (ii) interest income to be received from the borrowers under the loans to be granted in 2016, and (iii) the cash security from guarantors of the automobile purchasers for the loans to be granted in 2016 (which normally ranges from 5% to 10% of the loan amount). For analysis of the aforementioned sources of capital set out in (i), (ii) and (iii) of this paragraph, please refer to section headed "**Entering into of the 2018 HOWO Loan Agreement - Basis of the proposed annual caps of the transactions under the 2018 HOWO Loan Agreement**".

After taking into account the aforementioned sources of capital, the 2016 Shortfall is proposed to be satisfied by the deposits to be received under the 2018 Sinotruk Deposit Agreement at the maximum amount of RMB150 million, which accounts for only 20.3% of the total deposits of RMB739 million placed by the wholly-owned PRC subsidiaries of the Company with third party commercial banks as at 31 December 2015.

Given such maximum amount of RMB150 million proposed to be obtained under the 2018 Sinotruk Deposit Agreement only accounts for approximately 13.9% to 60% of the 2016 Shortfall, we concur with the Directors' view that such amount is not excessive or unreasonable.

For 2017, the Directors expect that the anticipated funds required for its new lending to automobile consumers being in the range of RMB2,640 million to RMB3,472 million. After considering the cash resources available from the additional committed deposits of RMB50 million from CNHTC (as compared to the committed amount in 2016) under the deposit services available to CNHTC as HOWO Auto Finance Company's shareholder and the additional loans proposed to be borrowed under the 2018 HOWO Loan Agreement at the maximum amount of RMB1,200 million (as compared to the maximum amount of RMB1,150 million in 2016), HOWO Auto Finance Company still requires additional funds in the amount of RMB1,390 million to

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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RMB2,222 million (the “**2017 Shortfall**”) which are proposed to be satisfied in the following manners: (i) the repayment of the loans principals to be granted in 2016 (which remain outstanding in 2017) and 2017, (ii) interest income to be received from the borrowers under the loans granted in 2016 (which remain outstanding in 2017) and 2017, and (iii) the cash security from guarantors of the automobile purchasers for the loans to be granted in 2017. Similar to the situation in 2016, after taking into account the aforementioned sources of capital set out in (i), (ii) and (iii) of this paragraph, the 2017 Shortfall is proposed to be satisfied by the deposits to be received under the 2018 Sinotruk Deposit Agreement at the additional maximum principal amount of RMB250 million (as compared to the maximum amount in 2016), bringing the proposed maximum day-end deposit balance in 2017 to RMB400 million. The additional deposit of RMB250 million accounts for approximately 33.8% of the total deposits of RMB739 million placed by the wholly-owned PRC subsidiaries of the Company with third party commercial banks as at 31 December 2015. Given such additional maximum amount of RMB250 million proposed to be obtained under the 2018 Sinotruk Deposit Agreement only accounts for approximately 11.3% to 18.0% of the 2017 Shortfall, we concur with the Directors’ view that such amount is not excessive or unreasonable.

The proposed maximum day-end deposit balance in 2017 of RMB400 million represents an increase of RMB250 million or 166.7% as compared to the proposed maximum day-end deposit balance of 2016. As discussed with the management of the Company, such large increase in the proposed maximum day-end deposit balance is partly due to the increase in the anticipated funding required by HOWO Auto Finance Company in 2017 to support its lending business (from the range of RMB1,946 million to RMB2,779 million in 2016 to RMB2,640 million to RMB3,472 million in 2017) and partly because only a relatively small portion of cash is generated from the repayment of loan principals in the second year of operation of HOWO Auto Finance Company since the cash collection period was usually 24 months according to the statistics provided by the Company (over 65% of the automobile financing loans were repaid by 24 months installment over the past two years). In respect of the increase in anticipated funding required by HOWO Auto Finance Company in 2017 as compared to 2016, we have reviewed the target financial budgets to the Group and noted that the number of trucks sold with financing to be made by the Group are targeted to be approximately 8,000 units for the first half of 2017 as compared to 2,600 units for the same period during 2016 which is attributable to the committed expansion of the business operation of HOWO Auto Finance Company.

For 2018, the Directors expect that the anticipated funds required for its new lending to automobile consumers being in the range of RMB3,193 million to RMB4,025 million. After considering the cash resources available from the additional committed deposits of RMB50 million from CNHTC (as compared to the committed amount in 2017) under the deposit services available to CNHTC as HOWO Auto Finance Company’s shareholder and the additional loans proposed to be borrowed under the 2018 HOWO Loan Agreement at the maximum amount of RMB500 million (as compared to the maximum amount of RMB2,350 in 2017), HOWO Auto Finance Company still requires additional funds in the amount of RMB2,643 million to RMB3,475 million (the “**2018 Shortfall**”) which are proposed to be satisfied in the following manners: (i) the repayment of the loan principals to be granted in 2016 and 2017 (which remain outstanding in 2018) and 2018, (ii) interest income to be received from the borrowers under the loans granted in 2016 and 2017 (which remain outstanding in 2018) and 2018, and (iii) the cash

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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security from guarantors of the automobile purchasers for loans to be granted in 2018. Similar to the situations in 2016 and 2017, after taking into account the aforementioned sources of capital set out in (i), (ii) and (iii) of this paragraph, the 2018 Shortfall is proposed to be satisfied by the deposits to be received under the 2018 Sinotruk Deposit Agreement at the additional maximum principal amount of RMB50 million (as compared to the maximum amount in 2017), bringing the proposed maximum day-end deposit balance in 2018 to RMB450 million. The additional deposit of RMB50 million accounts for approximately 6.8% of the total deposits of RMB739 million placed by the wholly-owned PRC subsidiaries of the Company with third party commercial banks as at 31 December 2015. Given such additional maximum amount of RMB50 million proposed to be obtained under the 2018 Sinotruk Deposit Agreement only accounts for approximately 1.4% to 1.9% of the 2018 Shortfall, we concur with the Directors that such amount is not excessive or unreasonable. The maximum day-end deposit balance in 2018 of RMB450 million represents an increase of RMB50 million or 12.5% as compared to the proposed maximum day-end deposit balance of 2017. Such increase is small compared to the increase in 2017 because a relatively large portion of cash is generated from the repayment of loan principals in the third year of operation of HOWO Auto Finance Company.

Having considered the above analysis for the (i) historical deposits record placed by the wholly-owned PRC subsidiaries of the Company; (ii) expected funding requirement of HOWO Auto Finance Company in its lending to automobile financing customers; and (iii) the shortfall of funding for the three years ending 31 December 2018, we are of the view that the proposed annual caps of the maximum day-end balances are not excessive and fair and reasonable, and are in the interest of the Company and Shareholders as a whole.

### (2) Proposed annual caps of the maximum interest income

In arriving at the proposed annual caps of the maximum interest income, the following factors have been considered by the Directors:

- (a) the expected maximum day-end balance of the fixed-term deposits to be placed by the Group with HOWO Auto Finance Company; and
- (b) the base interest rate published by the PBOC on its website from time to time, subject to the maximum interest rate limit set (currently at 35%) by the relevant industry association or similar organization (primarily, the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制)) applicable to the deposits.

Assuming the proposed maximum day-end balance of 2018 Sinotruk Deposit Agreement are fully utilized for each of the three years ending 31 December 2018, the proposed annual caps of such interest income represent an annual interest rate of 2.97%, which is the maximum interest rate limit set by the relevant industry association or similar organization (primarily, the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制)).



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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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To assess the fairness and reasonableness of the proposed annual caps of maximum interest income, we have reviewed the benchmark deposits interest rates by the PBOC in the PRC published since 1 January 2014 as follows:

	<b>PBOC reference annual base rates</b>						
	<b>with effective from (Note)</b>						
	<b>6/7/2012</b>	<b>22/11/2014</b>	<b>1/3/2015</b>	<b>11/5/2015</b>	<b>28/6/2015</b>	<b>26/8/2015</b>	<b>24/10/2015</b>
Demand deposits	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Time deposits							
3 months	2.60%	2.35%	2.10%	1.85%	1.60%	1.35%	1.10%
6 months	2.80%	2.55%	2.30%	2.05%	1.80%	1.55%	1.30%
1 year	3.00%	2.75%	2.50%	2.25%	2.00%	1.75%	1.50%
2 years	3.75%	3.35%	3.10%	2.85%	2.60%	2.35%	2.10%
3 years	4.25%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%

*Note:* Being the date of annual base rate adjustment announced by PBOC

Based on the above table, the average PBOC reference annual base rates for different terms of maturity from 1 January 2014 to 31 March 2016 are as follows:

<b>Average PBOC reference annual base rates from</b>	
<b>1 January 2014 to 31 March 2016</b>	
Demand deposits	0.35%
Time deposits	
3 months	1.80%
6 months	2.00%
1 year	2.20%
2 years	2.85%
3 years	3.45%

We have reviewed the record of historical deposit made by the Group with other independent commercial banks in the PRC and Sinotruk Finance Company provided by the Company respectively since 1 January 2014 and noticed that terms of the deposits mostly ranged from 3-month to 1 year with an interest rate ranged from 1.95% to 4.10%. In addition, we have reviewed the most recent interest rates of the deposits made by the Group with other independent commercial banks in the PRC after the adjustment of interest rate by PBOC in October 2015. The historical interest rates for deposits ranged from 3 months to 1 year are ranged from 1.95% to 2.40%.

We have also reviewed the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制), which is a self-disciplinary mechanism for financial institutions to adjust the interest rate in a way to coordinate and stabilise the market. According to the

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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announcement of the Shandong Market Interest Rate Self-Disciplinary System published in October 2015, the maximum interest rate limit for time deposits ranged from 3 months to 1 year set by the relevant institutions must be within 1.35 times of the base interest rate.

As such, the deposits taking interest rates with reference to the PBOC and the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制) (“**Reference Annual Rate**”) are ranged from 2.43% (1.80% x 1.35) and 2.97% (2.20% x 1.35).

Having considered that (i) the proposed annual caps of the interest expenses were determined with reference to the PBOC rates and the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制), which are normal market practice; and (ii) the annual interest rate of proposed annual caps of the interest income falls within the range of the Reference Annual Rate, we concur with the view of the Directors that the proposed annual caps of the interest income of 2018 Sinotruk Deposit Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(iv) *Internal control procedures*

Based on the business and financial needs of HOWO Auto Finance Company, where necessary, HOWO Auto Finance Company will formulate a deposit proposal for the Group’s consideration. The deposits received by HOWO Auto Finance Company will provide a source of working capital to support its operation as mentioned previously in this Circular. The Group’s funds management team will consider the deposit proposal and make resolutions as to the depositing entity, amount of deposit, term of deposit and interest rate. The resolutions will then be approved in accordance with the Group’s capital management policy and issued to the relevant units for implementation. Each single deposit in the amount of RMB300 million or below will be resolved and approved by the Group’s funds management team, signed by the general manager of the Group’s finance department, and approved by the Group’s finance Director. Each single deposit in the amount beyond RMB300 million has to be further approved by the president of the Company or the chairman of the Board.

HOWO Auto Finance Company has in place a pricing management policy (《山東豪沃汽車金融有限公司價格管理辦法》) under which its pricing committee will determine the interest rate for the deposits placed with it by making references to the base interest rates published by the PBOC on its website from time to time for similar deposits of compatible principal amounts and terms. Such interest rates as finally determined will not be higher than the maximum interest rate limit set by the relevant industry association or similar organization for similar types of deposits.

Upon receipt of each sum of deposit, HOWO Auto Finance Company’s operation management staff will make a record of the relevant information concerning such deposit in accordance with the relevant procedures and requirements, including the name of the depositor, amount of deposit, term of deposit and interest rate. The operation manager in charge will then approve the deposit and issue a fixed deposit certificate to the depositor.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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The Company has formulated procedures to monitor its continuing connected transactions, and various departments in the Group will be responsible for implementing, and monitoring and approving such procedures. In particular, HOWO Auto Finance Company will inspect the balance of the total outstanding principal amount of all the deposits on a daily basis and make a report to the finance department of the Group on a monthly basis in order to monitor the highest daily balance amounts. The Group's chief auditor is responsible for managing the Group's continuing connected transactions and will hold monthly meetings with various departments to ensure that the transactions do not exceed the relevant caps. Further, the internal audit department of HOWO Auto Finance Company will conduct a quarterly audit to ensure that the relevant transactions have been carried out in accordance with the prescribed procedures and requirements. In addition, the Company will also engage its external auditors to review its continuing connected transactions on an annual basis.

In assessing the internal control procedures in place for the 2018 Sinotruk Deposit Agreement, we have obtained and reviewed the Manual which set out the procedures and parameters for Group companies including HOWO Auto Finance Company to follow when they have any deposit request. Since the Manual also applies to Sinotruk Finance Company which has been providing deposit taking services to the Group, we have obtained and reviewed, on sample basis, a set of the historical sample and supporting documents of the Group in relation to the following procedures: (i) deposit request for deposits with single amount below RMB300 million and above RMB300 million made by other Group companies to Sinotruk Finance Company; (ii) resolutions to approve the deposits requests with signature of the general manager of the Group's finance department or the Group's finance Director; and (iii) the fixed deposit certificate to the depositor.

In addition, we have reviewed the pricing management policy under which its funds management team will determine the interest rate for the deposits placed with it by making references to the base interest rates published by the PBOC on its website from time to time for similar deposits of compatible principal amounts and terms and subject to the maximum interest rate limit set by the Shandong Market Interest Rate Self-Disciplinary System (山東省市場利率定價自律機制) applicable to the deposits. We also noted that the pricing committee comprised members from various departments including credit approval department, finance department, business team and internal audit team so as to ensure the fairness of determination of the interest rates.

Further, we are advised by the management of the Company that the Group's chief auditor and HOWO Auto Finance Company's finance department will keep track of the day end balance of the total outstanding principal amount of all the deposits from the Group in order to ensure the transactions between the wholly-owned PRC subsidiaries of the Company and HOWO Auto Finance Company do not exceed the relevant annual caps set out in the 2018 Sinotruk Deposit Agreement. In addition, the Company will also engage its external auditors to review its continuing connected transactions on an annual basis.

Having considered the above review works and based on condition that the internal procedures continue to be implemented effectively, we concur with the view of the Directors that the respective internal control procedures can ensure the transaction contemplated under the 2018 Sinotruk Deposit Agreement to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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### (C) *Revision of Annual Caps pursuant to the 2018 Products Sales Agreement*

#### (i) *Background for the revision of Annual Caps*

Due to the increase in the demand for the Relevant Products of CNHTC, which are set out in details under the paragraph headed “**Reasons for the revision of Annual Caps**” below, the Board expects that the Existing Products Sales Annual Caps are to be exceeded. Accordingly, on 31 March 2016, the Company and CNHTC signed the Confirmation pursuant to which Existing Products Sales Annual Caps will be revised as follows:

<i>(RMB million)</i>	<b>For the year ending 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Existing Products Sales Annual Caps	530	611	695
Revised Products Sales Annual Caps	810	980	1,115

#### (ii) *Industry overview of automobiles industry*

According to the CAAM, the production and sales of automobiles witnessed a slight growth in 2015 despite the sales of heavy duty trucks in China dropped in 2015. Below table summarized the annual production and sales amount of automobiles in the PRC for period 2013 to 2015:

	<b>Year</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Production (‘000 units)	22,117	23,723	24,503
Year-to-Year growth	14.8%	7.3%	3.3%
Sales (‘000 units)	21,984	23,492	24,598
Year-to-Year growth	13.9%	6.9%	4.7%

It was noted from CAAM that, the sales and production continued to pick up and set a new high in November 2015, the production and sales of automobiles in China reached 2,544,200 and 2,508,800 units respectively, up 16.2% and 12.9% than that of October 2015, and up 17.7% and 20% year on year. CAAM expected that despite the annual growth of production and sales declined year by year from 2013 to 2015, there will be a growth rate of 6% for China’s 2016 domestic automobile market in view of China’s preferential policies which will make it more promising for China’s domestic automobile market consumers’ rigid demands for vehicles.

In addition, according to the Directors, the development strategy proposed by China named “One Belt, One Road” also boosted the demand and sales of trucks in and around China. Since the implementation of the “One Belt, One Road” strategy, countries mainly around Central Asia are expected to launch many infrastructure construction projects. As a result of these projects, the demand of Chinese heavy duty trucks is expected to increase.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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On the other hand, according to the 13th five-year plan promulgated in the PRC for the period of 2016 to 2020, the PRC central government has encouraged urbanization and improvement to the urban infrastructures, landscaping and environmental hygiene, all of these will lead to an increase in demand for trucks by local governments.

(iii) *Principal terms of the Confirmation and the 2018 Products Sales Agreement*

In considering whether the Revised Products Sales Annual Caps are on normal commercial terms, conducted in the ordinary and usual course of business and in the interest of the Shareholders and the Company as a whole, we have assessed the principal terms of the Confirmation and the 2018 Products Sales Agreement (in particular the Revised Products Sales Annual Caps and the detailed pricing mechanism related to the 2018 Products Sales Agreement), as well as other material terms of the 2018 Products Sales Agreement which remain valid and applicable to the conduct of the transactions contemplated under the 2018 Products Sales Agreement. Our assessment of the fairness and reasonableness of the Revised Products Sales Annual Caps is set out as follows:

(a) *Reasons of the revision of Annual Caps*

CNHTC Group had been purchasing trucks, chassis, semi-tractor trucks, etc, from the Group and refitting the trucks purchased from the Group into other types of vehicles to satisfy its orders. CNHTC Group has its own sales channel for its heavy duty trucks and medium-heavy duty trucks which in turn stimulates the demand of trucks from the Group. Set out below are the historical transaction amount under the 2015 Products Sales Agreement and the 2018 Products Sales Agreement for the three months ended 31 March 2015 and 2016 as well as for the year ended 31 December 2015, and the respective utilized rate of the Existing Products Sales Annual Cap:

<i>(RMB million)</i>	<b>Historical transaction amount</b>	<b>Historical/ Existing Products Sales Annual Caps</b>	<b>% of the annual caps used (%)</b>
For the three months ended 31 March 2015	88	1,012	8.70%
For the year ended 31 December 2015	652	1,012	64.43%
For the three months ended 31 March 2016	118	530	22.23%

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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With reference to 2015 AGM Circular, the Company would not fully utilize the historical annual cap of 2015 under the 2015 Products Sales Agreement due to the slow pace of growth in demand of automobiles in the PRC due to economic downturn. As a result, the annual caps were determined as RMB530 million, RMB611 million and RMB695 million for each of the three financial years ending 31 December 2016, 2017 and 2018 respectively.

Having said that, due to the increase in the demand for the Relevant Products by CNHTC Group for the year ended 31 December 2015, the actual transaction amount of the Group's sales to the CNHTC Group was approximately RMB652 million in for the year ended 31 December 2015, which exceeded the 2016 Existing Products Sales Annual Cap and even the 2017 Existing Products Sales Annual Cap. It was noted from the above table that the actual transaction for the three months ended 31 March 2016 represented approximately 22.23% of the Existing Products Sales Annual Cap in 2016, compared to only 8.70% for the same period in 2015. In addition, the historical transaction amount for the three months ended 31 March 2016 increased by approximately 34.58% or RMB30 million compared to the same period in 2015. The Directors expect that the Group will supply more Relevant Products to the CNHTC Group and hence, the Existing Products Sales Annual Caps under the 2018 Products Sales Agreement will not be sufficient for the expected sales of the Group for the financial year ending 31 December 2016, 2017 and 2018. The Company therefore proposes to revise the Existing Products Sales Annual Caps to the Revised Products Sales Annual Caps.

(b) Pricing Mechanism

Pursuant to the Confirmation, the Group will continue to supply products including trucks, chassis, semi-tractor trucks, etc. to CNHTC Group. According to the Confirmation, the pricing policy would remain the same as under the 2018 Products Sales Agreement which the Group and the CNHTC Group have agreed that, among other things, the price of the Products to be sold to the CNHTC Group by the Group (the "**Selling Price**") shall be determined through good faith negotiations by reference to the same price list which is applicable to sales of products to both of the CNHTC Group and independent third parties (the "**Price List**"), and the terms of the sales offered by the Group to the CNHTC Group shall be no less favourable than those made available to the independent third parties.

The management of the Group and the CNHTC Group will keep track of the market conditions and review the Price List quarterly. When the Group sells products to CNHTC Group, an officer of the business department of the Group will confirm whether such selling prices match with the Price List. Another officer or supervisor will verify the sales orders. Finance department will cross check the sales order before issuing the sales invoices to CNHTC Group.

In view of the above pricing mechanism, we have performed the following independent works:

- (i) reviewed the pricing terms of the 2018 Products Sales Agreement;

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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- (ii) discussed with the Directors that there is no material changes to the pricing mechanism and internal control procedures in view of the Revised Products Sales Annual Caps;
- (iii) reviewed the Price List and cross checked the actual selling prices of those products against the price list; and
- (iv) obtained on sample basis and reviewed the sales invoices for products sales to the CNHTC Group and other independent third parties for comparison of price terms.

Having considered the above the Group has implemented procedures to ensure the prices and terms of the Group's products and competitive and comparable to the market condition, we concur with the view of the Directors that the Confirmation is on normal commercial terms and are fair and reasonable.

(iv) *Revised Products Sales Annual Caps and our assessment*

Pursuant to the Confirmation, the Revised Products Sales Annual Caps are set out as follows:

<i>(RMB million)</i>	<b>For the year ending</b>		
	<b>31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Existing Products Sales Annual Caps	530	611	695
Revised Products Sales Annual Caps	810	980	1,115

As noted from the above table, the Revised Products Sales Annual Caps is RMB810 million for 2016 (representing an increase of approximately 24.3% as compared to the actual amount of sales of the Relevant Products by the Group to CNHTC Group for the year ended 31 December 2015), RMB980 million for 2017 (representing an increase of approximately 21.0% as compared to year 2016) and RMB1,115 million for 2018 (representing an increase of approximately 13.8% as compared to year 2017). The growth of the Revised Products Sales Annual Caps was average about 17.3% annually for the year ending 31 December 2018.

As stated in the Letter from the Board, the Proposed Revised Products Sales Annual Caps are determined in accordance with the following bases:

- i. the historical sales made by the Group to CNHTC Group;
- ii. the Existing Products Sales Annual Caps;

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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- iii. the revised anticipated demand for the Relevant Products;
- iv. the actual sales amount of the Relevant Products in 2015 and the first three months of 2016 sold by the Group to CNHTC Group; and
- v. the 5% allowance for any unexpected increase in demand and selling prices during the term of the 2018 Products Sales Agreement.

As mentioned in the Letter from the Board, in early 2015, the Company determined the Existing Products Sales Annual Caps with reference to the re-estimated sales amount at RMB452,000,000 of the Relevant Products by the Group to CNHTC Group for 2015, with annual growth of 17.3%, 15.3% and 13.7% for years 2016, 2017 and 2018, respectively. However, the actual amount of sales of the Relevant Products by the Group to CNHTC Group for the year ended 31 December 2015 was RMB651,736,000 which represents an increase of approximately 66.4% as compared to actual sales amount at RMB391,644,000 for 2014 and 44.2% as compared to the re-estimated sales amount for 2015. In addition, the actual amount already exceeds the caps of RMB530,000,000 and RMB611,000,000 previously approved for the years ending 31 December 2016 and 2017, respectively, under the Existing Products Sales Annual Caps. As advised by the management of the Company, we noted that the CNHTC Group had experienced significant increase in demand for sales to the Cuban market and therefore increase the purchase of the Relevant Products last year. In light of that, we have obtained the sales statistics from the Company and noted that the number of the Relevant Products sold to CNHTC Group during 2015 was increased by approximately 69% as compared to 2014. We also noted that the sales made by the CNHTC Group of the Relevant Products to the Cuban market has accounted for approximately 46% of the total sales of the Relevant Products by the Group to the CNHTC Group in 2015 as compared to 39% in 2014.

In addition, we have discussed with the Directors and summarized the historical growth of sales of the Relevant Products to CNHTC Group as follows:

<i>(RMB million)</i>	<b>Historical Transaction Amounts</b>			<b>Revised Products Sales Annual Caps</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Products sales to the CNHTC Group — The 2018 Products Sales Agreement	158	392	652	810	980	1,115
Growth rate		148.1%	66.3%	24.2%	21.0%	13.8%

As noted from the above table, it was noted that the growth rate of the historical transaction amounts for the year ended 31 December 2014 and 2015 exceeded the increment of the Revised Products Sales Annual Caps for the three years ending 31 December 2018. The Directors believe that the relatively prudent anticipated growth rate reflects the increasing demand of CNHTC Group for the Relevant Products of the Group while such increment has considered the expected growth in the automobile industry, as stated in the section headed “**Industry overview of automobiles industry**” above.



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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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As stated in the Letter from the Board, the Group has also received the revised budget purchase plan from CNHTC Group which projected the sales to each of the corresponding member of the CNHTC Group. According to the revised budget purchase plan, the revised anticipated growth in demand for the Relevant Products for 2016, 2017 and 2018 exceeds the Existing Products Sales Annual Caps by over 50% each year. We have discussed with the Company and noted that the CNHTC Group has advised that (i) it has achieved remarkable results in developing and expanding its sales to the Cuban market and its sales of trucks to the Cuban market has significantly increased and accounted for a significant proportion of the total sales of the Relevant Products by the Group to the CNHTC Group since 2013; (ii) the demand for truck and chassis used for the urban infrastructures, landscaping and environmental hygiene by local governments has also significantly increased in 2015; and (iii) its significant increase in sales to the Cuban market and the increase in demand for truck and chassis used for the urban infrastructures, landscaping and environmental hygiene by local governments are the key factors to increase the Existing Products Sales. As the economic and operational environment of Cuba improves due to factors such as the enhancement of the international relationship between the country and the other world economies, particularly the United States, we concur with the Directors' view that there will be an increasing mid-to-long-term drive for Cuba to improve its infrastructural and logistical frameworks to facilitate tourism and import/export, as well as to explore the exploitation of its natural resources, which in turn may stimulate the demand of trucks. For the analysis of market demand of trucks, please refer to the section headed "**Industry overview of automobiles industry**". In addition, we have reviewed the revised budget purchase plan from CNHTC Group and noted that the expected growth in number of the Relevant Products sales are approximately 21.8%, 15.2% and 13.7% for the years ending 2016, 2017 and 2018 respectively. Amongst the sales of Relevant Products made by the Group to the CNHTC Group, we also noted that the expected sales made by the CNHTC Group of the Relevant Products used for the urban infrastructures, landscaping and environmental hygiene by local governments was expected to be increased by approximately 43.0%, 18.4% and 10.8% while expected sales made by the CNHTC Group of the Relevant Products which are directly purchased from the Group to Cuban market was expected to be increased by approximately 30.3%, 12.0% and 13.0% for the year ending 2016, 2017 and 2018 respectively.

Further, the actual products sales amount for the first three months of 2016 was approximately RMB118,008,000 and, comparing with the same period of 2015, the sales of the Relevant Products sold by the Group to CNHTC Group has increased by approximately 34.6%. The Group expects that the trend of the positive growth in the sales to CNHTC Group will maintain for the remainder of 2016, 2017 and 2018. We have reviewed the actual products sales amount for the first three months of 2016 and noted that the sales of trucks used for the urban infrastructures, landscaping and environmental hygiene, which are also trucks and chassis directly purchased from the Group and the sales of trucks directly purchased from the Group to the Cuban market have been increased by approximately 77.4% and 45.1% respectively, which is in line with the expected increase in sales to CNHTC Group and the Revised Products Sales Annual Caps for the year ending 2016. As stated in the Letter from the Board, the annual growth rate of the Revised Products Sales Annual Caps is 24.3% (compared with actual sales in 2015), 21.0% and 13.8%, respectively, which are all below the actual growth rate for the first three months of 2016.

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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In addition, we have also compared the estimated sales amount for the year ending 31 December 2016 based on the historical proportion of the actual purchase amount for the three months ended 31 March 2015 to that for the full year ended 31 December 2015 as follows:

<i>(RMB million)</i>	<b>2015</b>	<b>2016</b>
Actual sales amount for the three months ended 31 March (“ <b>3-month Sales Amount</b> ”)	88	118
Actual/estimated sales amount for the full year ended 31 December (“ <b>FY Sales Amount</b> ”)	652	874 (Note)
% ratio of the 3-month sales amount to the FY Sales Amount (the “ <b>Ratio</b> ”)	13.50%	13.50%
Existing Products Sales Annual Caps	1,012	530
Revised Products Sales Annual Caps	Not applicable	810

*Note:* the amount represents the sales amount of the Relevant Products from the Group to the CNHTC Group estimated by applying the Ratio, rather than an actual one.

As noted from the above, if applying the Ratio, the 2016 estimated sales amount would be RMB874 million, which exceeded the Existing Products Sales Annual Caps under 2018 Products Sales Agreement (i.e. RMB530 million) and is 7.9% higher than the Revised Products Sales Annual Caps in 2016. We have discussed with the management of the Group in this regard and understand that the Company has taken into account the purchase orders received from the CNHTC Group by the Group and the historical growth rate of sales of the Relevant Products in the past three years, which represents a prudent and reasonable basis.

In respect of the 5% allowance for the buffer for unexpected change in demand and selling prices during the term of the 2018 Products Sales Agreement, we have reviewed the historical sales of the Relevant Products to the CNHTC and noted that the average annual growth rate of the selling prices of the Relevant Products was approximately 4.4%, which is close to the 5% allowance buffer set by the Company.

To conclude, having considered that (i) the historical sales made by the Group to CNHTC Group exceeded the Existing Products Sales Annual Caps; (ii) the CNHTC Group has achieved remarkable results in developing and expanding its sales to the Cuban market which is anticipated to maintain for remainder of 2016, 2017 and 2018; (iii) the expected increase in demand for truck and chassis used for the urban infrastructures, landscaping and environmental hygiene by local governments is expected to maintain after the 13th five-year plan promulgated in the PRC; (iv) the actual sales amount of the Relevant Products for the first three months of 2016 sold by the Group to CNHTC Group has increased significantly as compared to the same period in 2015; and (v) the 5% allowance for any unexpected increase in demand and selling prices during the term of the 2018 Products Sales Agreement was justified by the historical prices growth from 2013 to 2015, we are of the view that

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## LETTER FROM GUOTAI JUNAN CAPITAL LIMITED

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the Confirmation is entered into by the Company for the ordinary and usual course of business of the Company, the Revised Products Sales Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

The management of the Company and the Group have taken and will continue to take sufficient measures to monitor the Proposed Non-exempt Continuing Connected Transactions and the transactions contemplated under the 2018 Products Sales Agreement and will ensure the amount of transactions contemplated will comply with the proposed annual caps for the abovementioned Proposed Non-exempt Continuing Connected Transactions and the 2018 Products Sales Agreement. Nonetheless, the Company also notes that they will need to take corresponding procedures and seek approvals from Independent Shareholders according to the Listing Rules in the event that the actual amount of transactions contemplated thereunder exceed the proposed annual caps.

Meanwhile, the Shareholders should note that as the proposed annual caps under the Proposed Non-exempt Continuing Connected Transactions are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period under the Proposed Non-exempt Continuing Connected Transactions, they do not represent forecasts of revenue to be generated from the operations of the Group. Consequently, we express no opinion as to how closely the actual amounts to be reached by the Group will correspond with the proposed annual caps.

### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we consider that (i) the entering into of the Proposed Non-exempt Continuing Connected Transactions Agreements and the Revised Products Sales Annual Caps Confirmation are in the ordinary and usual course of business of the Group; (ii) the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps are on normal and commercial terms; and (iii) the terms of the Proposed Non-exempt Continuing Connected Transactions Agreements and the Revised Products Sales Annual Caps Confirmation are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, as we also advise, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the Proposed Non-exempt Continuing Connected Transactions Agreements and the Revised Products Sales Annual Caps Confirmation, and the Proposed Non-exempt Continuing Connected Transactions and the Revised Products Sales Annual Caps.

Yours faithfully,  
**For and on behalf of**  
**Guotai Junan Capital Limited**  
**Iris Leung**  
*Managing Director*

*Ms. Iris Leung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Guotai Junan Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.*

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## APPENDIX I                      BIOGRAPHICAL DETAILS OF RETIRING DIRECTORS PROPOSED TO BE RE-ELECTED

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Below are the biographical details of the retiring Directors proposed to be re-elected at the AGM:

### **Mr. Cai Dong**

Mr. Cai Dong (蔡東先生), aged 52, is an executive Director and president of the Company since 12 February 2007. Mr. Cai is a senior engineer with a bachelor's degree in engineering from Jiangsu Polytechnic University (江蘇工學院), the PRC and an executive MBA degree from Nankai University (南開大學), the PRC. He received an "Outstanding National Entrepreneur" award conferred jointly by the China United Enterprises Association (中國企業聯合會), China Entrepreneurs Association (中國企業家協會) and China Enterprise Management Science Foundation (中國企業管理科學基金會) in April 2006 and Ji'nan City Preeminent Science and Technology Award in February 2013. He joined Ji'nan Auto Manufacturing Factory in 1983 and led its research and development, production and marketing. Mr. Cai was previously a director of the technology center of CNHTC. Mr. Cai was a director, chief engineer and the general manager of CNHTC from 2001 to 2007.

Mr. Cai has entered into a service agreement with the Company for a term of three years commenced from 31 October 2013 and such service agreement may be terminated by either party giving not less than three months' prior notice in writing. Pursuant to the service agreement, Mr. Cai is entitled to receive to a monthly basic salary and a year-end bonus after review and evaluation of the Board according to his performance and contribution to the Company. Mr. Cai will also be entitled to reimbursement of all reasonable out-of-pocket expenses and medical expenses. Under the service agreement, the approximate aggregate remuneration payable to Mr. Cai is RMB853,800 per annum, subject to the Board's review and evaluation. His remuneration was determined by the Board after considering the recommendation of the remuneration committee of the Company, which was made taking into salaries paid by comparable companies, time commitment, his duties and responsibilities at the Company, the Company's performance, its remuneration policy and account of the average remuneration of all other executive Directors. Mr. Cai has received a total emolument of RMB599,000 (including the director's fee, salary, bonuses, employer's contribution to pension scheme and other benefits) for the year ended 31 December 2015.

### **Mr. Andreas Hermann Renschler**

Mr. Andreas Hermann Renschler, aged 58, is a non-executive Director since 1 October 2015. He has extensive experience in the vehicle industry. Mr. Renschler received his diploma in business engineering at the Technical College in Esslingen, Germany in 1984 and his diploma in business administration at the University of Tübingen, Germany in 1987. From April 1993 to December 1998, Mr. Renschler took charge of the Mercedes-Benz M-Class unit and was responsible for planning and implementation of the company's first US plant in Tuscaloosa, Alabama, where he later served as the chief executive officer of Mercedes-Benz U.S.I., which is principally engaged in M-Class production. From January 1999 to September 1999, he served as the senior vice president of DaimlerChrysler AG, which is principally engaged in the passenger vehicle and commercial vehicle business, where he was responsible for personnel development. From October 1999 to October 2004, Mr. Renschler served as the chairman of the board of management of smart GmbH, which is principally engaged in small passenger car business. From October 2004 to March 2013, Mr. Renschler served as a member of the board of management of Daimler AG, which is principally engaged in the passenger vehicle and

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## **APPENDIX I                      BIOGRAPHICAL DETAILS OF RETIRING DIRECTORS PROPOSED TO BE RE-ELECTED**

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commercial vehicle business, where he was responsible for managing Daimler Trucks and Daimler Buses. From April 2013 to January 2014, he was in charge of the production and procurement for Mercedes-Benz Cars and Mercedes-Benz Vans. In February 2015, he joined Volkswagen AG. He is a member of the board of management of Volkswagen AG, responsible for the commercial vehicle group, and is chief executive officer of Volkswagen Truck & Bus GmbH. Volkswagen AG and Volkswagen Truck & Bus GmbH are the indirectly non-wholly owned subsidiaries of Ferdinand Porsche.

Mr. Renschler has entered into a service agreement with the Company for a term of three years commencing on 1 October 2015 and such service agreement may be terminated by either party giving not less than three months' prior notice in writing. Pursuant to the service agreement, Mr. Renschler is entitled to receive emoluments of RMB180,000 per annum. His remuneration was determined by the Board after considering the recommendation of the remuneration committee of the Company, which was made taking into salaries paid by comparable companies, time commitment, his duties and responsibilities at the Company, its remuneration policy and account of the average remuneration of all other non-executive Directors. Mr. Renschler has received a total emolument of RMB45,000 (including the director's fee, salary, bonuses, employer's contribution to pension scheme and other benefits) for the year ended 31 December 2015.

### **Mr. Joachim Gerhard Drees**

Mr. Joachim Gerhard Drees, aged 51, is a non-executive Director since 1 October 2015. He has extensive experience in the vehicle industry. Mr. Drees received his master's degree in business administration at the University of Stuttgart, Germany in April 1991. He received his master's degree in business administration from the Portland State University, the United States in June 1989. Mr. Drees served in various management positions at DaimlerChrysler AG, which is principally engaged in the passenger vehicle and commercial vehicle businesses, among others, as the commercial head of the transmission business unit in Gaggenau as well as head of commercial vehicles controlling of Daimler Truck Group in Stuttgart from April 1996 to July 2006. He served as a partner at HgCapital LLP, a British investment company, where he was responsible for investment portfolio management from July 2006 to August 2012. He served as the chief financial officer and head of the divisions of finance and controlling, merger and acquisitions, human resources, administration and globalisation support at Drees & Sommer AG, which is principally engaged in project management and real estate consulting from September 2012 to September 2014. Mr. Drees has been the chief executive officer of MAN Truck & Bus AG as well as a member of the executive board of Volkswagen Truck & Bus GmbH since April 2015 and the chief executive officer of MAN SE since October 2015. Volkswagen Truck & Bus GmbH, MAN SE and MAN Truck & Bus AG are the indirectly non-wholly owned subsidiaries of Ferdinand Porsche.

Mr. Drees has entered into a service agreement with the Company for a term of three years commencing on 1 October 2015 and such service agreement may be terminated by either party giving not less than three months' prior notice in writing. Pursuant to the service agreement, Mr. Drees is entitled to receive emoluments of RMB180,000 per annum. His remuneration was determined by the Board after considering the recommendation of the remuneration committee of the Company, which was made taking into salaries paid by comparable companies, time commitment, his duties and

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## APPENDIX I                      BIOGRAPHICAL DETAILS OF RETIRING DIRECTORS PROPOSED TO BE RE-ELECTED

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responsibilities at the Company, its remuneration policy and account of the average remuneration of all other non-executive Directors. Mr. Drees has received a total emolument of RMB45,000 (including the director's fee, salary, bonuses, employer's contribution to pension scheme and other benefits) for the year ended 31 December 2015.

### **Dr. Lin Zhijun**

Dr. Lin Zhijun (林志軍博士), aged 61, is an independent non-executive Director since 26 July 2007. Dr. Lin is an experienced accounting educator and researcher. Dr. Lin graduated from Xiamen University (廈門大學), the PRC in 1982 with a master's degree in economics and later received a Ph.D. degree in Economics (Accounting) from Xiamen University in 1985. Dr. Lin also received a master's degree (MSc in Accounting) from University of Saskatchewan, Canada in 1991. He is a member of the American Institute of Certified Public Accountants (AICPA), the Chinese Institute of Certified Public Accountants (CICPA) and the Certified Management Accountants of Australia (CMA). He is a member of various educational accounting associations, including the American Accounting Association, the International Association for Accounting Education and Research and the Hong Kong Association for Academic Accounting. He is currently the dean of School of Business of Macau University of Science and Technology. Dr. Lin was previously an auditing staff at an international accounting firm (Touche Ross International, now known as "Deloitte Touche Tohmatsu") in Toronto, Canada. He has been teaching at Xiamen University in China, The University Lethbridge in Canada, The University of Hong Kong and Hong Kong Baptist University since 1983. Dr. Lin is also an author of a series of professional articles and books. Dr. Lin currently is also an independent non-executive director of three companies which securities are listed on the Stock Exchange, including China Everbright Limited (stock code: 0165), Springland International Limited (stock code: 1700) and Dali Foods Group Company Limited (stock code: 3799).

Dr. Lin has entered into a service agreement with the Company for a term of three years commencing on 26 July 2013 and such service agreement may be terminated by either party giving not less than three months' prior notice in writing. Pursuant to the service agreement, Dr. Lin is entitled to receive emoluments of RMB180,000 per annum. His remuneration was determined by the Board after considering the recommendation of the remuneration committee of the Company, which was made taking into salaries paid by comparable companies, time commitment, his duties and responsibilities at the Company, its remuneration policy and account of the average remuneration of all other non-executive Directors. Dr. Lin has received a total emolument of RMB180,000 (including the director's fee, salary, bonuses, employer's contribution to pension scheme and other benefits) for the year ended 31 December 2015.

### **Dr. Wang Dengfeng**

Dr. Wang Dengfeng (王登峰博士), aged 53, is an independent non-executive Director since 9 March 2016. Dr. Wang is currently a professor and doctoral tutor of the Department of Automobiles at the School of Automotive Engineering of Jilin University (吉林大學), the PRC. Dr. Wang is also the chairman of the panelist committee of the China Automotive Lightweight Technology Innovation Strategic Alliance (中國汽車輕量化技術創新戰略聯盟), a council member of the executive committee of the Society of Automotive Engineers of China (中國汽車工程學會), the deputy chairman of the Safety Technology Committee of the Society of Automotive Engineers of China (中國汽車工程學會

汽車安全技術分會) and the deputy chairman of the Vehicle Noise and Vibration Committee of the Society of Automotive Engineers of China (中國汽車工程學會汽車振動噪聲分會). Dr. Wang completed his bachelor, master and doctorate degrees in engineering at Jilin University of Technology (吉林工業大學), the PRC. After his graduation from Jilin University of Technology in 1990, he remained at Jilin University of Technology as a lecturer, where he was subsequently promoted to the positions of associate professor, professor, deputy head and then head of the Automotive and Tractor Faculty. Between August 1997 and July 1998, Dr. Wang attended at the University of Birmingham, the United Kingdom as a visiting professor, after which he returned to Jilin University of Technology and continued to serve as a professor, doctoral tutor and head of the Faculty of Automotive and Tractor until May 2000. In June 2000, Jilin University of Technology merged with Jilin University and from December 2000 to December 2008, Dr. Wang served as a professor, doctoral tutor and associate dean of the School of Automotive Engineering of Jilin University. Since January 2009, he has been serving as a professor and doctoral tutor of the Department of Automobiles at the School of Automotive Engineering of Jilin University. Dr. Wang was conferred with the title of “Excellent National Teacher” by the Ministry of Education of PRC in 2007. Among other awards he has received in the past, Dr. Wang was awarded the “GM-MOE Innovative Talent Achievement Awards” jointly awarded by the Technology Development Centre of the Ministry of Education of PRC and General Motors (“通用汽車中國高校汽車領域創新人才獎”) in 2010 and the “Outstanding Contribution Award” of the 50th Anniversary of the Establishment of the Society of Automotive Engineers of China (中國汽車工程學會建會50周年“突出貢獻獎”) in 2012.

Dr. Wang has entered into a service agreement with the Company for a term of three years commencing on 9 March 2016 and such service agreement may be terminated by either party giving not less than three months’ prior notice in writing. Pursuant to the service agreement, Dr. Wang is entitled to receive emoluments of RMB180,000 per annum. His remuneration was determined by the Board after considering the recommendation of the remuneration committee of the Company, which was made taking into salaries paid by comparable companies, time commitment, his duties and responsibilities at the Company, its remuneration policy and account of the average remuneration of all other non-executive Directors. Dr. Wang has not received any emolument for the year ended 31 December 2015.

#### **Mr. Zhao Hang**

Mr. Zhao Hang (趙航先生), aged 60, is an independent non-executive Director since 11 April 2016. Mr. Zhao is a director of Zhejiang Wanfeng Auto Wheel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002085.SZ) since 29 November 2013. Mr. Zhao is also a doctoral tutor at Wuhan University of Technology, the PRC (中國武漢理工大學), and an instructor and adjunct professor at Tongji University, the PRC (中國同濟大學), Jilin University, the PRC (中國吉林大學), Jiangsu University, the PRC (中國江蘇大學) and Chongqing Jiaotong University, PRC (中國重慶交通大學) (which is previously known as Chongqing Vocational College of Transportation (重慶交通學院)). In addition, Mr. Zhao was the deputy chairman and chief secretary of the National Technical Committee of Auto Standardization (全國汽車標準化技術委員會), the president of the China Automobile Human Resources Association (中國汽車人力資源協會), the deputy chairman of the executive committee of the Society of Automotive Engineers of China (中國汽車工程學會), the vice-president of the China Association of Automobile Manufacturers (中國汽車工業協會), the deputy chairman of the China Intelligent Transportation Systems Association (中國智能交通協會), the council member of the China Machinery Industry Federation (中國機械工業聯合會), a member of the steering committee of the National 863 Electric Vehicle Key Project (國家863電動汽車重大專項領導

小組), a member of the steering committee of the National Clean Energy Automotive Action (國家清潔汽車行動領導小組) and a member of the steering committee of the Tianjin Clean Energy Automotive Action (天津市清潔汽車行動領導小組). Mr. Zhao is a research-grade senior engineer and obtained his bachelor degree in engineering from Jilin University of Technology, the PRC (中國吉林工業大學) in July 1982. In October 2003, he obtained a degree in executive master of business administration from China Europe International Business School (中歐國際工商學院). After his graduation from Jilin University of Technology in 1982, Mr. Zhao joined the Transportation Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍運輸工程學院) as an instructor until October 1987. After that, he was employed by the China Automotive Technology & Research Center (中國汽車技術研究中心), and had since then until November 2015 held various positions therewith including the center deputy chairman, center deputy secretary of the party committee and center secretary of the party committee and center chairman. Among the awards and recognitions he has received in the past, Mr. Zhao was conferred with the title of Young Technology Specialist in the Machinery Industry (中國機械工業青年科技專家) in the PRC in 1995 and received the 2004 China Automobile Manufacturing Outstanding Technology Talent Award (2004年中國汽車工業優秀科技人才獎).

Mr. Zhao has entered into a service agreement with the Company for a term of three years commencing on 11 April 2016 and such service agreement may be terminated by either party giving not less than three months' prior notice in writing. Pursuant to the service agreement, Mr. Zhao is entitled to receive emoluments of RMB180,000 per annum. His remuneration was determined by the Board after considering the recommendation of the remuneration committee of the Company, which was made taking into salaries paid by comparable companies, time commitment, his duties and responsibilities at the Company, its remuneration policy and account of the average remuneration of all other non-executive Directors. Mr. Zhao has not received any emolument for the year ended 31 December 2015.



### 1. RESPONSIBILITY STATEMENT

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

### 2. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY OR ITS ASSOCIATED COMPANIES

As at the Latest Practicable Date, the Directors and chief executive of the Company had the following interests in the shares and underlying shares of the Company and 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules adopted by the Company, to be notified to the Company and the Stock Exchange.

*Interest in the shares of an associated corporation — Sinotruk Ji'nan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司), a non-wholly owned subsidiary of the Company*

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of shareholding
Mr. Ma Chunji	Beneficial interest (Long position)	150,125	0.0224%
Mr. Cai Dong	Family interest (Long position)	34,000	0.0051%
Mr. Tong Jingen	Beneficial interest (Long position)	120,000	0.0179%
Mr. Wang Shanpo	Beneficial interest (Long position)	52,800	0.0079%
Mr. Kong Xiangquan	Beneficial interest (Long position)	98,944	0.0147%
Mr. Liu Wei	Beneficial interest (Long position)	98,880	0.0147%
Mr. Liu Peimin	Beneficial interest (Long position)	128,000	0.0191%

### 3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the

following person (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(a) **The Company**

<b>Name of Shareholder</b>	<b>Nature of interests</b>	<b>Note</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
CNHTC	Corporate interests (Long position)	(a)	1,408,106,603	51%
Sinotruk (BVI) Limited	Beneficial interest (Long position)		1,408,106,603	51%
Ferdinand Porsche	Corporate interests (Long position)	(b)	690,248,336	25%
Ferdinand Porsche Familien-Holding GmbH	Corporate interests (Long position)	(c)	690,248,336	25%
Ferdinand Alexander Porsche GmbH	Corporate interests (Long position)	(d)	690,248,336	25%
Familie Porsche Beteiligung GmbH	Corporate interests (Long position)	(e)	690,248,336	25%
Porsche Automobil Holding SE	Corporate interests (Long position)	(f)	690,248,336	25%
Volkswagen AG	Corporate interests (Long position)	(g)	690,248,336	25%
Volkswagen Truck & Bus GmbH	Corporate interests (Long position)	(h)	690,248,336	25%
MAN SE	Corporate interests (Long position)	(i)	690,248,336	25%
MAN Finance and Holding S.A.	Beneficial interest (Long position)		690,248,336	25%

*Notes:*

- (a) CNHTC holds the entire issued share capital of Sinotruk (BVI) Limited. CNHTC is deemed to have interest in all the Shares held (or deemed to be held) by Sinotruk (BVI) Limited under the SFO.
- (b) Ferdinand Porsche holds 90% interest in Ferdinand Porsche Familien-Holding GmbH. Ferdinand Porsche is deemed to have interest in all the Shares held (or deemed to be held) by Ferdinand Porsche Familien-Holding GmbH under the SFO.
- (c) Ferdinand Porsche Familien-Holding GmbH holds 73.85% interest in Ferdinand Alexander Porsche GmbH. Ferdinand Porsche Familien-Holding GmbH is deemed to have interest in all the Shares held (or deemed to be held) by Ferdinand Alexander Porsche GmbH under the SFO.
- (d) Ferdinand Alexander Porsche GmbH holds 100% interest in Familie Porsche Beteiligung GmbH. Ferdinand Alexander Porsche GmbH is deemed to have interest in all the Shares held (or deemed to be held) by Familie Porsche Beteiligung GmbH under the SFO.
- (e) Familie Porsche Beteiligung GmbH holds 51.69% interests in Porsche Automobil Holding SE. Familie Porsche Beteiligung GmbH is deemed to have interest in all the Shares held (or deemed to be held) by Porsche Automobil Holding SE.
- (f) Porsche Automobil Holding SE holds 50.73% interest in Volkswagen AG. Porsche Automobil Holding SE is deemed to have interest in all the Shares held (or deemed to be held) by Volkswagen AG.
- (g) Volkswagen AG holds 100% interest in Volkswagen Truck & Bus GmbH. Volkswagen AG is deemed to have interest in all the Shares held (or deemed to be held) by Volkswagen Truck & Bus GmbH.
- (h) Volkswagen Truck & Bus GmbH holds 75.28% interest in MAN SE. Volkswagen Truck & Bus GmbH is deemed to have interest in all the Shares held (or deemed to be held) by MAN SE.
- (i) MAN SE holds 100% interest in MAN Finance and Holding S.A., which is formerly known as “MAN Finance and Holding S.A.R.L.”. MAN SE is deemed to have interest in all the Shares held (or deemed to be held) by MAN Finance and Holding S.A. under the SFO.

## (b) Members of the Group

Name of equity holder	Nature of interests	Name of the member of the Group	Percentage of equity interest held
Liuzhou Yunli Assets Investment and Guarantee Co., Ltd.	Beneficial owner (Long position)	Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd.	40%
Yongan Fudi Investment Co., Ltd.	Beneficial owner (Long position)	Sinotruk Fujian Haixi Vehicles Co., Ltd.	20%
Chengdu Dachenggong Mechanics Co., Ltd.	Beneficial owner (Long position)	Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd.	20%
Suizhou Huawei Investment Holdings Co., Ltd.	Beneficial owner (Long position)	Sinotruk Hubei Huawei Special Vehicle Co., Ltd.	40%
Shandong International Equity Trust	Beneficial owner (Long position)	HOWO Auto Finance Company	30%
CNHTC	Beneficial owner (Long position)	HOWO Auto Finance Company	20%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

**5. DIRECTORS' COMPETING INTERESTS**

As at the Latest Practicable Date, Mr. Ma Chunji was the chairman of CNHTC; Mr. Andreas Hermann Renschler was a member of the board of management of Volkswagen AG, responsible for the commercial vehicle group, and was the chief executive officer of Volkswagen Truck & Bus GmbH; Mr. Joachim Gerhard Drees was a member of the executive board of Volkswagen Truck & Bus GmbH, and was also the chief executive officer of MAN SE and MAN Truck & Bus AG; and Mr. Franz Neundlinger was employed by MAN Truck & Bus Österreich AG. Volkswagen AG, Volkswagen Truck & Bus GmbH, MAN SE, MAN Truck & Bus AG and MAN Truck & Bus Österreich AG were non-wholly owned subsidiaries of Ferdinand Porsche. Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates had any interests in a business, apart from the interest in the Group's business, which competes or may compete with the business of the Group.

**6. DIRECTORS' INTERESTS**

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.
- (b) As at the Latest Practicable Date, save for business transactions including sales and purchases of trucks, engines, parts of components of trucks, financing services as well as sales and purchases of fixed assets between the Group and the CNHTC Group and business transactions including sales and purchase of trucks, engines, parts of components of trucks between the Group and the Ferdinand Porsche Group, 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. MATERIAL ADVERSE CHANGE**

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up.

**8. QUALIFICATION OF EXPERTS AND CONSENTS**

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Guotai Junan Capital Limited	A licensed corporation under the SFO which engages in Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Guotai Junan Capital Limited had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, Guotai Junan Capital Limited had no direct or indirect interest in any asset which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Guotai Junan Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein a copy of its advice and references to its name, in the form and context in which they respectively appear.

**9. MISCELLANEOUS**

The circular has been prepared in both English and Chinese. In case of any discrepancy, the English text shall prevail.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of the Company at Units 2102-2103, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday up to and including Monday, 27 June 2016:

- (a) the 2018 HOWO Loan Agreement;
- (b) the 2018 Sinotruk Deposit Agreement;
- (c) the 2018 Products Sales Agreement;
- (d) Revised Products Sales Annual Caps Confirmation;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 34 to 35 of this circular;

- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 36 to 81 of this circular;
- (g) the written consent of Guotai Junan Capital Limited referred to in paragraph 8 of this Appendix;
- (h) the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015;
- (i) the articles of associations of the Company; and
- (j) this circular.

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## NOTICE OF ANNUAL GENERAL MEETING

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### SINOTRUK (HONG KONG) LIMITED

中國重汽(香港)有限公司

*(incorporated in Hong Kong with limited liability)*

(Stock Code: 3808)

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting (the “AGM”) of Sinotruk (Hong Kong) Limited (the “**Company**”) will be held at 10:00a.m. on Monday, 27 June 2016 at Gloucester Rooms, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong for the following purposes:

#### ORDINARY RESOLUTIONS

To consider and, if thought fit, pass (with or without modification) the following resolutions as ordinary resolutions of the Company:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and its subsidiaries, the report of the directors of the Company (the “**Director**”) and the report of the independent auditor of the Company (the “**Auditor**”) for the year ended 31 December 2015.
2. To declare a final dividend of HK\$0.03 per share of the Company for the year ended 31 December 2015.
3.
  - A. To re-elect Mr. Cai Dong, a retiring Director, as an executive Director;
  - B. To re-elect Mr. Andreas Hermann Renschler, a retiring Director, as a non-executive Director;
  - C. To re-elect Mr. Joachim Gerhard Drees, a retiring Director, as a non-executive Director;
  - D. To re-elect Dr. Lin Zhijun, a retiring Director, as an independent non-executive Director;
  - E. To re-elect Dr. Wang Dengfeng, a retiring Director, as an independent non-executive Director;
  - F. To re-elect Mr. Zhao Hang, a retiring Director, as an independent non-executive Director; and
  - G. To authorise the board of Directors to fix the remunerations of the Directors.



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## NOTICE OF ANNUAL GENERAL MEETING

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4. To re-appoint PricewaterhouseCoopers as the Auditor and to authorise the board of Directors to fix its remuneration.
  
5. **THAT:**
  - A. the execution of the 2018 HOWO Loan Agreement (as defined in the circular of the Company dated 26 May 2016 (the “**Circular**”)) be and is hereby ratified, confirmed and approved;
  
  - B. all transactions contemplated under the 2018 HOWO Loan Agreement and the proposed annual caps therefor for the three years ending 31 December 2018 as set out in the Circular be and are hereby approved; and
  
  - C. any Director be and is hereby authorised to do all acts and execute and deliver (whether under seal) all such documents for and on behalf of the Company as they consider necessary or desirable in connection with the 2018 HOWO Loan Agreement, the transactions thereunder and the proposed annual caps therefor for the three years ending 31 December 2018.
  
6. **THAT:**
  - A. the execution of the 2018 Sinotruk Deposit Agreement (as defined in the Circular) be and is hereby ratified, confirmed and approved;
  
  - B. all transactions contemplated under the 2018 Sinotruk Deposit Agreement and the proposed annual caps therefor for the three years ending 31 December 2018 as set out in the Circular be and are hereby approved; and
  
  - C. any Director be and is hereby authorised to do all acts and execute and deliver (whether under seal) all such documents for and on behalf of the Company as they consider necessary or desirable in connection with the 2018 Sinotruk Deposit Agreement, the transactions thereunder and the proposed annual caps therefor for the three years ending 31 December 2018.
  
7. **THAT:**
  - A. the Revised Products Sales Annual Caps Confirmation (as defined in the Circular) be and is hereby ratified, confirmed and approved; and
  
  - B. any Director be and is hereby authorised to do all acts and execute and deliver (whether under seal) all such documents for and on behalf of the Company as they consider necessary or desirable in connection with the Revised Products Sales Annual Caps.

By order of the board of the Directors  
**Sinotruk (Hong Kong) Limited**  
**Ma Chunji**  
*Chairman*

Ji'nan, PRC, 26 May 2016

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## NOTICE OF ANNUAL GENERAL MEETING

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*As at the date of this notice, the eight executive Directors are Mr. Ma Chunji, Mr. Cai Dong, Mr. Tong Jingen, Mr. Wang Shanpo, Mr. Kong Xiangquan, Mr. Liu Wei, Mr. Liu Peimin and Mr. Franz Neundlinger; the two non-executive Directors are Mr. Andreas Hermann Renschler and Mr. Joachim Gerhard Drees; and the five independent non-executive Directors are Dr. Lin Zhijun, Mr. Chen Zheng, Mr. Yang Weicheng, Dr. Wang Dengfeng and Mr. Zhao Hang.*

*Notes:*

1. A member entitled to attend and vote at the meeting of the Company is entitled to appoint one or more proxies to attend and on a poll vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form and the power of attorney or other authorisation (if any) under which it is signed, or a notarially certified copy of such power of attorney or authorisation, must be deposited at the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the meeting or any adjourned meeting should he/she so wishes.
3. The AGM of the Company will be held on Monday, 27 June 2016 and the register of members of the Company will be closed from Thursday, 23 June 2016 to Monday, 27 June 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote in the AGM, holders of the Company's shares must lodge their share certificates together with the relevant share transfer documents with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 June 2016.
4. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The final dividend of HK\$0.03 per Share for the year ended 31 December 2015, if approved at the AGM, will be distributed on or about Wednesday, 27 July 2016 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 8 July 2016. The period of closure of the register of members of the Company for the purpose of determining the entitlements to the proposed final dividend for the year ended 31 December 2015 is from Thursday, 7 July 2016 to Friday, 8 July 2016 (both days inclusive), during such period, no transfer of Shares will be registered. In order to qualify to receive the proposed final dividend to be approved at the AGM, holders of the Shares must lodge their share certificates together with the relevant share transfer documents with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 6 July 2016.